

BOYD GAMING CORP

Form 10-Q

November 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2011

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

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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

(Address of principal executive offices) (Zip Code)

(702) 792-7200

(Registrant's telephone number, including area code)

88-0242733

(I.R.S. Employer

Identification No.)

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 October 31,  
2011

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|                                |            |
|--------------------------------|------------|
| Common stock, \$0.01 par value | 86,317,735 |
|--------------------------------|------------|

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Table of Contents

BOYD GAMING CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED SEPTEMBER 30, 2011  
TABLE OF CONTENTS

|                                                                                                                                  | Page<br>No. |
|----------------------------------------------------------------------------------------------------------------------------------|-------------|
| <u>PART I. FINANCIAL INFORMATION</u>                                                                                             |             |
| <u>Item 1.</u> <u>Financial Statements (Unaudited)</u>                                                                           | <u>3</u>    |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>                                      | <u>4</u>    |
| <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>           | <u>5</u>    |
| <u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2011 and 2010</u> | <u>6</u>    |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>                     | <u>7</u>    |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                                      | <u>9</u>    |
| <u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                      | <u>59</u>   |
| <u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                                 | <u>89</u>   |
| <u>Item 4.</u> <u>Controls and Procedures</u>                                                                                    | <u>89</u>   |
| <u>PART II. OTHER INFORMATION</u>                                                                                                |             |
| <u>Item 1.</u> <u>Legal Proceedings</u>                                                                                          | <u>90</u>   |
| <u>Item 1A.</u> <u>Risk Factors</u>                                                                                              | <u>90</u>   |
| <u>Item 6.</u> <u>Exhibits</u>                                                                                                   | <u>106</u>  |
| <u>Signature Page</u>                                                                                                            | <u>107</u>  |

---

Table of Contents

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, 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 and cash flows for the interim periods presented herein are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods.

When we filed our Annual Report on Form 10-K for the year ended December 31, 2010 with the Securities and Exchange Commission ("SEC") on March 15, 2011, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 with the SEC on October 27, 2010 (the "Provisional Form 10-K" or "Provisional Form 10-Q", respectively, or collectively, the "Provisional Forms"), the initial acquisition method accounting for the effective change in control of Borgata Hotel Casino and Spa ("Borgata") was incomplete. The application of acquisition method accounting, required in accordance with the authoritative accounting guidance for business combinations, initially had the following effects on our unaudited condensed consolidated financial statements: (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 provisional fair value of the identifiable assets and liabilities in accordance with promulgated valuation recognition and measurement provisions; and (iii) we recorded the provisional fair value of the noncontrolling interest held in trust as a separate component of our stockholders' equity.

Since the filing of the Provisional Forms, we have made adjustments to the provisional fair value amounts recognized at the date of effective change in control, or March 24, 2010, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. These adjustments, referred to herein as "measurement period adjustments" materially shifted the value of certain tangible and intangible assets. We have applied the measurement period adjustments retrospectively to the condensed consolidated balance sheet reported as of December 31, 2010, as previously reported in the Provisional Form 10-K; however, the impact on the accompanying condensed consolidated statement of operations for the three and nine months ended September 30, 2010, as retrospectively adjusted to the statement as reported in the Provisional Form 10-Q was not material, and was therefore not adjusted for any measurement period adjustments.

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, 2010. The Provisional Form 10-K, as originally filed with the SEC on March 15, 2011, was subsequently revised on a Form 8-K filed on September 2, 2011 (the "Retrospective Form 8-K"). This Retrospective Form 8-K updated the audited consolidated financial statements and certain other items of the Provisional Form 10-K, specifically and primarily related to the recasting of the consolidated balance sheet as of December 31, 2010, and related notes thereto. The updated historical financial statements, and other conforming changes to the Provisional Form 10-K are filed as Exhibit 99.1 to the Retrospective Form 8-K and have been updated, solely to include the retrospective measurement period adjustments and new footnote disclosure. All other information provided in the Provisional Form 10-K, unless otherwise provided, remain unchanged and the Retrospective Form 8-K does not modify or update such other disclosures in the Provisional Form 10-K in any other way.



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share and per share data)

|                                                                                                             | September 30,<br>2011 | December 31,<br>2010 |
|-------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                               |                       |                      |
| Current assets                                                                                              |                       |                      |
| Cash and cash equivalents                                                                                   | \$187,118             | \$145,623            |
| Restricted cash                                                                                             | 22,692                | 19,494               |
| Accounts receivable, net                                                                                    | 47,145                | 47,942               |
| Inventories                                                                                                 | 14,321                | 16,029               |
| Prepaid expenses and other current assets                                                                   | 53,151                | 37,153               |
| Income taxes receivable                                                                                     | —                     | 5,249                |
| Deferred income taxes                                                                                       | 9,113                 | 8,149                |
| Total current assets                                                                                        | 333,540               | 279,639              |
| Property and equipment, net                                                                                 | 3,296,396             | 3,383,371            |
| Assets held for development                                                                                 | 1,119,845             | 1,119,403            |
| Debt financing costs, net                                                                                   | 30,322                | 34,993               |
| Restricted investments                                                                                      | 20,984                | 48,168               |
| Other assets, net                                                                                           | 77,084                | 70,425               |
| Intangible assets, net                                                                                      | 547,075               | 539,714              |
| Goodwill, net                                                                                               | 213,576               | 213,576              |
| Total assets                                                                                                | \$5,638,822           | \$5,689,289          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                 |                       |                      |
| Current liabilities                                                                                         |                       |                      |
| Current maturities of long-term debt                                                                        | \$363,598             | \$25,690             |
| Non-recourse obligations of variable interest entity                                                        | 221,912               | 243,059              |
| Accounts payable                                                                                            | 55,227                | 57,183               |
| Income taxes payable                                                                                        | 3,122                 | 6,504                |
| Accrued liabilities                                                                                         | 305,450               | 278,469              |
| Total current liabilities                                                                                   | 949,309               | 610,905              |
| Long-term debt, net of current maturities                                                                   | 2,802,075             | 3,193,065            |
| Deferred income taxes                                                                                       | 364,295               | 362,174              |
| Other long-term tax liabilities                                                                             | 46,882                | 44,813               |
| Other liabilities                                                                                           | 72,369                | 83,589               |
| Commitments and contingencies (Note 10)                                                                     |                       |                      |
| Stockholders' equity                                                                                        |                       |                      |
| Preferred stock, \$0.01 par value, 5,000,000 shares authorized                                              | —                     | —                    |
| Common stock, \$0.01 par value, 200,000,000 shares authorized; 86,290,986 and 86,244,978 shares outstanding | 863                   | 862                  |
| Additional paid-in capital                                                                                  | 642,243               | 635,028              |
| Retained earnings                                                                                           | 557,546               | 560,909              |
| Accumulated other comprehensive loss, net                                                                   | —                     | (7,594)              |
| Total Boyd Gaming Corporation stockholders' equity                                                          | 1,200,652             | 1,189,205            |
| Noncontrolling interest                                                                                     | 203,240               | 205,538              |
| Total stockholders' equity                                                                                  | 1,403,892             | 1,394,743            |
| Total liabilities and stockholders' equity                                                                  | \$5,638,822           | \$5,689,289          |

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<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
|                                                           | 2011                                | 2010      | 2011                               | 2010        |
| <b>REVENUES</b>                                           |                                     |           |                                    |             |
| Operating revenues:                                       |                                     |           |                                    |             |
| Gaming                                                    | \$500,824                           | \$503,746 | \$1,469,316                        | \$1,344,283 |
| Food and beverage                                         | 99,221                              | 101,164   | 285,883                            | 255,166     |
| Room                                                      | 64,831                              | 64,142    | 181,881                            | 154,247     |
| Other                                                     | 34,105                              | 33,960    | 100,412                            | 91,595      |
| Gross revenues                                            | 698,981                             | 703,012   | 2,037,492                          | 1,845,291   |
| Less promotional allowances                               | 108,766                             | 107,634   | 307,928                            | 256,332     |
| Net revenues                                              | 590,215                             | 595,378   | 1,729,564                          | 1,588,959   |
| <b>COST AND EXPENSES</b>                                  |                                     |           |                                    |             |
| Operating costs and expenses:                             |                                     |           |                                    |             |
| Gaming                                                    | 230,675                             | 237,601   | 680,457                            | 635,461     |
| Food and beverage                                         | 50,868                              | 50,690    | 148,516                            | 132,481     |
| Room                                                      | 13,586                              | 13,661    | 39,921                             | 36,767      |
| Other                                                     | 28,617                              | 28,089    | 82,191                             | 74,333      |
| Selling, general and administrative                       | 96,301                              | 100,697   | 288,872                            | 270,641     |
| Maintenance and utilities                                 | 40,925                              | 42,661    | 115,113                            | 104,770     |
| Depreciation and amortization                             | 46,034                              | 52,451    | 145,106                            | 147,905     |
| Corporate expense                                         | 11,025                              | 11,021    | 36,569                             | 36,636      |
| Preopening expenses                                       | 1,720                               | 2,684     | 5,292                              | 4,990       |
| Write-downs and other items, net                          | 2,300                               | 1,340     | 9,269                              | 4,932       |
| Total operating costs and expenses                        | 522,051                             | 540,895   | 1,551,306                          | 1,448,916   |
| Operating income from Borgata                             | —                                   | —         | —                                  | 8,146       |
| Operating income                                          | 68,164                              | 54,483    | 178,258                            | 148,189     |
| Other expense (income):                                   |                                     |           |                                    |             |
| Interest income                                           | (15                                 | ) —       | (40                                | ) (4        |
| Interest expense                                          | 60,083                              | 45,781    | 184,068                            | 109,438     |
| Fair value adjustment of derivative instruments           | —                                   | —         | 265                                | —           |
| Gain on early retirements of debt                         | (54                                 | ) —       | (34                                | ) (3,949    |
| Gain on distribution from Borgata                         | —                                   | (2,535    | ) —                                | (2,535      |
| Other income                                              | (1,000                              | ) (10,000 | ) (1,000                           | ) (10,000   |
| Other non-operating expenses from Borgata, net            | —                                   | —         | —                                  | 3,133       |
| Total other expense, net                                  | 59,014                              | 33,246    | 183,259                            | 96,083      |
| Income (loss) before income taxes                         | 9,150                               | 21,237    | (5,001                             | ) 52,106    |
| Income tax (expense) benefit                              | (2,170                              | ) (6,371  | ) 28                               | (15,532     |
| Net income (loss)                                         | 6,980                               | 14,866    | (4,973                             | ) 36,574    |
| Net (income) loss attributable to noncontrolling interest | (3,871                              | ) (9,275  | ) 1,610                            | (19,166     |
| Net income (loss) attributable to Boyd Gaming Corporation | \$3,109                             | \$5,591   | \$(3,363                           | ) \$17,408  |
| Basic net income (loss) per common share:                 | \$0.04                              | \$0.06    | \$(0.04                            | ) \$0.20    |
| Weighted average basic shares outstanding                 | 87,256                              | 86,582    | 87,206                             | 86,508      |
| Diluted net income (loss) per common share:               | \$0.04                              | \$0.06    | \$(0.04                            | ) \$0.20    |

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|                                             |        |        |        |        |
|---------------------------------------------|--------|--------|--------|--------|
| Weighted average diluted shares outstanding | 87,432 | 86,684 | 87,206 | 86,724 |
|---------------------------------------------|--------|--------|--------|--------|

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

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
Nine Months Ended September 30, 2011  
(Unaudited and in thousands)

| Boyd Gaming Corporation Stockholders' Equity                                      |                                            |                        |        |                                  |                      |                                                    |                            |                                  |
|-----------------------------------------------------------------------------------|--------------------------------------------|------------------------|--------|----------------------------------|----------------------|----------------------------------------------------|----------------------------|----------------------------------|
|                                                                                   | Other<br>Comprehensive<br>Income<br>(loss) | Common Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss, Net | Noncontrolling<br>Interest | Total<br>Stockholders'<br>Equity |
| Balances,<br>January 1, 2011                                                      |                                            | 86,244,978             | \$ 862 | \$ 635,028                       | \$ 560,909           | \$ (7,594 )                                        | \$ 205,538                 | \$ 1,394,743                     |
| Net loss                                                                          | \$ (3,363 )                                | —                      | —      | —                                | (3,363 )             | —                                                  | —                          | (3,363 )                         |
| Derivative<br>instruments fair<br>value adjustment,<br>net of taxes of<br>\$4,230 | 7,594                                      | —                      | —      | —                                | —                    | 7,594                                              | —                          | 7,594                            |
| Comprehensive<br>income                                                           | 4,231                                      |                        |        |                                  |                      |                                                    |                            |                                  |
| Comprehensive<br>loss attributable to<br>noncontrolling<br>interest               | (688 )                                     | —                      | —      | —                                | —                    | —                                                  | (688 )                     | (688 )                           |
| Comprehensive<br>income<br>attributable to<br>Boyd Gaming<br>Corporation          | \$ 3,543                                   |                        |        |                                  |                      |                                                    |                            |                                  |
| Stock options<br>exercised                                                        |                                            | 46,008                 | 1      | 275                              | —                    | —                                                  | —                          | 276                              |
| Tax effect from<br>share-based<br>compensation<br>arrangements                    |                                            | —                      | —      | (800 )                           | —                    | —                                                  | —                          | (800 )                           |
| Share-based<br>compensation<br>costs                                              |                                            | —                      | —      | 7,740                            | —                    | —                                                  | —                          | 7,740                            |
| Change in<br>noncontrolling<br>interest in Borgata<br>and LVE                     |                                            | —                      | —      | —                                | —                    | —                                                  | (1,610 )                   | (1,610 )                         |
| Balances,<br>September 30,<br>2011                                                |                                            | 86,290,986             | \$ 863 | \$ 642,243                       | \$ 557,546           | \$ —                                               | \$ 203,240                 | \$ 1,403,892                     |

Nine Months Ended September 30, 2010  
(Unaudited and in thousands)

## Boyd Gaming Corporation Stockholders' Equity

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|                                                                                   | Other<br>Comprehensive<br>Income<br>(loss) | Common Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss, Net | Noncontrolling<br>Interest | Total<br>Stockholders'<br>Equity |
|-----------------------------------------------------------------------------------|--------------------------------------------|------------------------|--------|----------------------------------|----------------------|----------------------------------------------------|----------------------------|----------------------------------|
| Balances,<br>January 1, 2010                                                      |                                            | 86,130,454             | \$ 861 | \$ 623,035                       | \$ 550,599           | \$ (18,126 )                                       | \$ —                       | \$ 1,156,369                     |
| Net income                                                                        | \$ 17,408                                  | —                      | —      | —                                | 17,408               | —                                                  | —                          | 17,408                           |
| Derivative<br>instruments fair<br>value adjustment,<br>net of taxes of<br>\$3,756 | 6,842                                      | —                      | —      | —                                | —                    | 6,842                                              | —                          | 6,842                            |
| Comprehensive<br>income attributable<br>to Boyd Gaming<br>Corporation             | \$ 24,250                                  | —                      | —      | —                                | —                    | —                                                  | —                          | —                                |
| Stock options<br>exercised                                                        |                                            | 100,186                | 1      | 622                              | —                    | —                                                  | —                          | 623                              |
| Tax effect from<br>share-based<br>compensation<br>arrangements                    |                                            | —                      | —      | (22 )                            | —                    | —                                                  | —                          | (22 )                            |
| Share-based<br>compensation costs                                                 |                                            | —                      | —      | 8,124                            | —                    | —                                                  | —                          | 8,124                            |
| Change in<br>noncontrolling<br>interest in Borgata                                |                                            | —                      | —      | —                                | —                    | —                                                  | 236,080                    | 236,080                          |
| Balances,<br>September 30, 2010                                                   |                                            | 86,230,640             | \$ 862 | \$ 631,759                       | \$ 568,007           | \$ (11,284 )                                       | \$ 236,080                 | \$ 1,425,424                     |

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

Table of Contents

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

|                                                                                          | Nine Months Ended<br>September 30, |            |   |
|------------------------------------------------------------------------------------------|------------------------------------|------------|---|
|                                                                                          | 2011                               | 2010       |   |
| Cash Flows from Operating Activities                                                     |                                    |            |   |
| Net income (loss)                                                                        | \$(4,973                           | ) \$36,574 |   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                    |            |   |
| Depreciation and amortization                                                            | 145,106                            | 147,905    |   |
| Amortization of debt financing costs                                                     | 6,673                              | 6,149      |   |
| Amortization of discounts on senior secured notes                                        | 2,507                              | 484        |   |
| Share-based compensation expense                                                         | 7,740                              | 8,124      |   |
| Deferred income taxes                                                                    | (3,074                             | ) 14,814   |   |
| Operating and non-operating income from Borgata                                          | —                                  | (5,013     | ) |
| Distributions of earnings received from Borgata                                          | —                                  | 1,910      |   |
| Gain on equity distributions                                                             | —                                  | (2,535     | ) |
| Noncash asset write-downs                                                                | 6,052                              | —          |   |
| Gain on early retirements of debt                                                        | (34                                | ) (3,949   | ) |
| Other operating activities                                                               | 2,575                              | 1,983      |   |
| Changes in operating assets and liabilities:                                             |                                    |            |   |
| Restricted cash                                                                          | (3,198                             | ) (4,734   | ) |
| Accounts receivable, net                                                                 | (4,375                             | ) 1,382    |   |
| Inventories                                                                              | 1,710                              | 439        |   |
| Prepaid expenses and other current assets                                                | (5,997                             | ) (7,250   | ) |
| Income taxes receivable                                                                  | 5,264                              | 9,961      |   |
| Other assets, net                                                                        | 430                                | 236        |   |
| Accounts payable and accrued liabilities                                                 | 28,770                             | 30,697     |   |
| Income taxes payable                                                                     | (3,382                             | ) —        |   |
| Other long-term tax liabilities                                                          | 2,069                              | 1,519      |   |
| Other liabilities                                                                        | (947                               | ) 2,265    |   |
| Net cash provided by operating activities                                                | 182,916                            | 240,961    |   |
| Cash Flows from Investing Activities                                                     |                                    |            |   |
| Capital expenditures                                                                     | (55,491                            | ) (64,069  | ) |
| Acquisition of assets                                                                    | (34,495                            | ) —        |   |
| Decrease in restricted investments                                                       | 27,184                             | —          |   |
| Net cash effect upon change in controlling interest of Borgata                           | —                                  | 26,025     |   |
| Other investing activities                                                               | —                                  | (731       | ) |
| Net cash used in investing activities                                                    | (62,802                            | ) (38,775  | ) |
| Cash Flows from Financing Activities                                                     |                                    |            |   |
| Payments on retirements of long-term debt                                                | (8,198                             | ) (28,861  | ) |
| Borrowings under bank credit facility                                                    | 109,650                            | 525,700    |   |
| Payments under bank credit facility                                                      | (111,503                           | ) (714,800 | ) |
| Borrowings under Borgata bank credit facility                                            | 574,700                            | 369,773    |   |
| Payments under Borgata bank credit facility                                              | (620,600                           | ) (954,962 | ) |
| Proceeds from issuance of Borgata senior secured notes                                   | —                                  | 773,176    |   |
| Debt financing costs, net                                                                | (1,283                             | ) —        |   |
| Payments under note payable                                                              | —                                  | (46,875    | ) |

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|                                                      |           |              |
|------------------------------------------------------|-----------|--------------|
| Payments on obligations of variable interest entity  | (27,000   | ) —          |
| Distributions to noncontrolling interests in Borgata | —         | (120,176 )   |
| Other financing activities                           | 5,615     | (5,688 )     |
| Net cash used in financing activities                | (78,619   | ) (202,713 ) |
| Increase in cash and cash equivalents                | 41,495    | (527 )       |
| Cash and cash equivalents, beginning of period       | 145,623   | 93,202       |
| Cash and cash equivalents, end of period             | \$187,118 | \$92,675     |

Table of Contents

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

|                                                                                                                       | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                                                                       | 2011                               | 2010        |
| Supplemental Disclosure of Cash Flow Information                                                                      |                                    |             |
| Cash paid for interest                                                                                                | \$220,971                          | \$97,366    |
| Cash paid (received) for income taxes, net                                                                            | 1,221                              | (9,143 )    |
| Supplemental Schedule of Noncash Investing and Financing Activities                                                   |                                    |             |
| Payables incurred for capital expenditures                                                                            | \$4,871                            | \$4,409     |
| Fair value adjustment on derivative instruments                                                                       | 11,931                             | 11,777      |
| Extinguishment of previous Borgata credit facility with advance from new Borgata credit facility                      | —                                  | 73,010      |
| Assets and Liabilities Recorded at Fair Value (net of Cash Received) 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       |
| Intangibles                                                                                                           | —                                  | —           |
| Indefinite lived intangibles                                                                                          | —                                  | —           |
| Other assets, net                                                                                                     | —                                  | 34,964      |
| Fair 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 long-term liabilities                                                                                           | —                                  | 16,418      |
| Fair value of liabilities                                                                                             | \$—                                | \$757,401   |

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

Table of Contents

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Boyd Gaming Corporation (and together with its subsidiaries, the “Company,” “Boyd Gaming,” “we” or “us”) was incorporated in the state of Nevada in 1988 and has been operating since 1973. The Company's common stock is traded on the New York Stock Exchange under the symbol “BYD”.

We are a diversified operator of 15 wholly-owned gaming entertainment properties and one controlling interest in a limited liability company. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey, which we aggregate in order to present the following four reportable segments:

Las Vegas Locals

|                                    |                   |
|------------------------------------|-------------------|
| Gold Coast Hotel and Casino        | Las Vegas, Nevada |
| The Orleans Hotel and Casino       | Las Vegas, Nevada |
| Sam's Town Hotel and Gambling Hall | Las Vegas, Nevada |
| Suncoast Hotel and Casino          | Las Vegas, Nevada |
| Eldorado Casino                    | Henderson, Nevada |
| Jokers Wild Casino                 | Henderson, Nevada |

Downtown Las Vegas

|                                               |                   |
|-----------------------------------------------|-------------------|
| California Hotel and Casino                   | Las Vegas, Nevada |
| Fremont Hotel and Casino                      | Las Vegas, Nevada |
| Main Street Station Casino, Brewery and Hotel | Las Vegas, Nevada |

Midwest and South

|                                      |                        |
|--------------------------------------|------------------------|
| Sam's Town Hotel and Gambling Hall   | Tunica, Mississippi    |
| Par-A-Dice Hotel Casino              | East Peoria, Illinois  |
| Blue Chip Casino, Hotel & Spa        | Michigan City, Indiana |
| Treasure Chest Casino                | Kenner, Louisiana      |
| Delta Downs Racetrack Casino & Hotel | Vinton, Louisiana      |
| Sam's Town Hotel and Casino          | Shreveport, Louisiana  |

Atlantic City

|                            |                           |
|----------------------------|---------------------------|
| Borgata Hotel Casino & Spa | Atlantic City, New Jersey |
|----------------------------|---------------------------|

Hawaiian Operations

In addition to these properties, we own and operate a travel agency in Hawaii, and a captive insurance company, also in Hawaii, that underwrites travel-related insurance. Results for our travel agency and our captive insurance company are included in our Downtown Las Vegas segment, as our Downtown Las Vegas properties concentrate their marketing efforts on gaming customers from Hawaii.

Dania Jai-Alai

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. On April 29, 2011, we and Dania Entertainment Center, LLC (the “Buyer”) entered into an Asset Purchase Agreement (the “Agreement”) for the sale of certain assets and liabilities of the Dania Jai-Alai Business (as defined below).

Pursuant to the terms of the Agreement, we agreed to sell and transfer, and the Buyer agreed to purchase and assume, certain assets and liabilities (“Assets and Liabilities”) related to our Dania Jai-Alai pari-mutuel facility, located in Dania Beach, Broward County, Florida at which jai-alai and related gaming operations are conducted, including poker and inter-track wagering (the “Dania Jai-Alai Business”), for a purchase price of \$80.0 million (the “Purchase Price”).

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The closing of the transactions contemplated by the Agreement is subject to certain closing conditions.

On September 15, 2011, the Buyer elected to extend the closing date of the pending acquisition of Dania Jai-Alai Business. The terms of the extension provide that sale will close on or before November 28, 2011; however, we have no assurance that the Buyer can or will be in a position to close on such date. As permitted under the terms of the definitive sale agreement, the Buyer made an additional, non-refundable payment of \$2 million to us in exchange for the extension of the closing date. Of the \$2 million payment, \$1 million will be applied to the \$80 million purchase price. We previously received a \$5 million non-refundable deposit upon execution of the definitive agreement.

**Echelon Development**

Additionally, we own 85 acres of land on the Las Vegas Strip, where our multibillion dollar Echelon development project ("Echelon") is located. On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of Echelon. As we do not believe that a significant level of economic recovery has occurred along the Las Vegas Strip, or that financing for a development project like Echelon is currently available on terms satisfactory to us, we do not expect to resume construction of Echelon for three to five years.

**IP Casino Resort Spa**

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, for a purchase price of \$278 million in cash. Following the closing of the transaction, we also made a charitable contribution to the Engelstad Family Foundation equal to an aggregate of \$10 million, which funds are intended to be distributed on behalf of, and in the name of, Boyd Gaming over five years to charitable organizations to be designated by Boyd Gaming. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP Casino Resort Spa with costs estimated to be \$44 million.

We will apply acquisition method accounting to this business combination at the transaction date, which requires acquired assets and assumed liabilities to be recorded at their respective fair values. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. Prospectively, however, the acquired assets and liabilities will be recorded in our consolidated balance sheet at fair value as of the closing date; the results of operations of the IP will be included in our consolidated statements of operations and cash flows beginning in the fourth quarter of 2011; and all other disclosures pursuant to the guidance for business combinations will be provided in our Annual Report on Form 10-K for the year ended December 31, 2011. The IP Casino Resort Spa will be reported in our Midwest and South business segment.

**Basis of Presentation**

**Interim Condensed Consolidated Financial Statements**

As permitted by the rules and regulations of the 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 the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. Our Form 10-K, as originally filed with the SEC on March 15, 2011, (the "Provisional Form 10-K") was subsequently revised on a Form 8-K filed on September 2, 2011 (the "Retrospective Form 8-K"). This Retrospective Form 8-K updated the audited consolidated financial statements and certain other items of the Provisional Form 10-K, specifically and primarily related to the recasting of the consolidated balance sheet as of December 31, 2010, and related notes thereto. The updated historical

financial statements, and other conforming changes to the Provisional Form 10-K are filed as Exhibit 99.1 to the Retrospective Form 8-K and have been updated, solely to include the retrospective measurement period adjustments and new footnote disclosure. All other information provided in the Provisional Form 10-K, unless otherwise provided, remain unchanged and the Retrospective Form 8-K does not modify or update such other disclosures in the Provisional Form 10-K in any other way.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present our financial position as of September 30, 2011 and December 31, 2010, the results of our operations for the three and nine months ended September 30, 2011 and 2010, and the results of our cash flows for the nine months ended September 30, 2011 and 2010. The condensed consolidated balance sheet as of September 30, 2011 is unaudited; however the condensed consolidated balance sheet presented as of December 31, 2011 has been derived from our audited financial statements as of such date. Our operating results for the three and nine months ended September 30, 2011 and 2010, and our cash flows for the nine months ended September 30, 2011 and 2010, are unaudited, and are not necessarily indicative of the results that would be achieved for the full year or future periods.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Effective Control of Borgata

On March 24, 2010, as a result of the amendment to our operating agreement with MGM Resorts International ("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 2, Consolidation of Certain Interests. This resulting change in control required acquisition method accounting in accordance with the authoritative accounting guidance for business combinations. As a result, we measured our previously held equity interest at a provisional fair value as of March 24, 2010, the date we effectively obtained control.

The financial position of Borgata is presented in our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010; its results of operations for the three months ended September 30, 2011 and 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2011 and 2010; its results of operations for the nine months ended September 30, 2011 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2011; and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010.

Consolidation of Variable Interest Entity

LVE Energy Partners, LLC ("LVE") is a joint venture between Marina Energy LLC and DCO ECH Energy, LLC. Through our wholly-owned subsidiary, Echelon Resorts LLC ("Echelon Resorts"), we have entered into an Energy Sales Agreement ("ESA") with LVE to design, build, own (other than the underlying real property which is leased from Echelon Resorts) and operate a central energy center and related distribution system for our planned Echelon resort development. In April 2007, we entered into an ESA with LVE to provide chilled and hot water, electricity and emergency electricity generation to Echelon and potentially other joint venture entities associated with the Echelon development project or other third parties.

LVE began construction of the facility in 2007 and expected to provide full energy services to Echelon in 2010, when we originally expected to open. However, LVE suspended construction in January 2009, after our announcement of the delay of Echelon. On April 3, 2009, LVE notified us that, in its view, Echelon Resorts would be in breach of the ESA unless it recommenced and proceeded with construction of the Echelon development project by May 6, 2009. We believe that LVE's position is without merit; however, in the event of litigation, we cannot state with certainty the eventual outcome nor estimate the possible loss or range of loss, if any, associated with this matter.

On March 7, 2011, Echelon Resorts and LVE entered into both a purchase option agreement (the "Purchase Option Agreement") and a periodic fee agreement (the "Periodic Fee Agreement"). LVE has agreed not to initiate any litigation with respect to its April 3, 2009 claim of an alleged breach of the ESA and both Echelon Resorts and LVE have mutually agreed that neither LVE nor Echelon Resorts would give notice of, file or otherwise initiate any claim or cause of action, in or before any court, administrative agency, arbitrator, mediator or other tribunal, that arises under the ESA, subject to certain exceptions, and that any statute of limitations or limitation periods for defenses, claims, causes of actions and counterclaims shall be tolled while the Periodic Fee Agreement is in effect. Under the Periodic Fee Agreement, Echelon Resorts has agreed to pay LVE, beginning March 4, 2011, a monthly periodic fee (the "Periodic Fee") and an operation and maintenance fee until Echelon Resorts either (i) resumes construction of the project or (ii) exercises its option to purchase LVE's assets pursuant to the terms of the Purchase Option Agreement.

The amount of the Periodic Fee is fixed at \$11.9 million annually through November 2013. Thereafter, the amount of the Periodic Fee is estimated to be approximately \$10.8 million annually. The operation and maintenance fee cannot exceed \$0.6 million per annum without Echelon Resorts' prior approval.

Under the Purchase Option Agreement, Echelon Resorts has the right, at its sole discretion, upon written notice to LVE, to purchase the assets of LVE including the central energy center and the related distribution system for a price of \$195.1 million, subject to certain possible adjustments. The ESA will be terminated concurrent with the purchase of the LVE assets.

New consolidation guidance regarding the variable interest model became effective on January 1, 2010. Under this new qualitative model, the primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the variable interest entity that most significantly impacts the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Upon adoption, this guidance required us to consolidate LVE for financial statement purposes, as we determined that we are presently the primary beneficiary of the executory contract, the ESA, giving rise to the variable interest.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 sheets as of September 30, 2011 and December 31, 2010; its results of operations for the three and nine months ended September 30, 2011 are included in our condensed consolidated statements of operations for the three and nine months ended September 30, 2011; its results of operations for the period from July 1 through September 30, 2010 are included in our condensed consolidated statements of operations for the three months ended September 30, 2010; and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010. At September 30, 2011 and December 31, 2010, approximately \$1.42 billion and \$1.45 billion, respectively, of our consolidated total assets are related to Borgata.

Additionally, the financial position of LVE is consolidated in our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, and its results of operations for the three and nine months ended September 30, 2011 are included in our condensed consolidated statements of operations and cash flows during such periods. At September 30, 2011, approximately \$220.4 million of our consolidated total assets related to LVE, however, certain of these assets, approximating \$196.1 million, are pledged as security on LVE's outstanding construction loan advances, and an additional \$21.0 million of such assets are held in restricted escrow funds in accordance with the underlying terms of LVE's tax-exempt bond financing. At December 31, 2010, approximately \$249.7 million of our consolidated total assets related to LVE, however, certain of these assets, approximating \$196.4 million, were pledged as security on LVE's outstanding construction loan advances, and an additional \$48.2 million of such assets were held in restricted escrow funds in accordance with the underlying terms of LVE's tax-exempt bond financing.

All material intercompany accounts and transactions have been eliminated in consolidation.

Investments in unconsolidated affiliates, which are less than 50% owned and do not meet the consolidation criteria of the authoritative accounting guidance for voting interest, controlling interest or variable interest entities, are accounted for under the equity method. See Note 2, Consolidation of Certain Interests.

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.

The estimated useful lives of our major components of property and equipment are:

|                           |                     |
|---------------------------|---------------------|
| Building and improvements | 10 through 40 years |
| Riverboats and barges     | 10 through 40 years |
| Furniture and equipment   | 3 through 10 years  |

Gains or losses on disposals of assets are recognized as incurred, using the specific identification method. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

#### Assets Held for Development

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

#### Debt Financing Costs

Debt financing costs, which include legal, and other direct costs related to the issuance of our outstanding debt, are deferred and amortized to interest expense over the contractual term of the underlying long-term debt using the effective interest method. In the event that our debt is modified, repurchased or otherwise reduced prior to its original maturity date, we ratably reduce the unamortized debt financing costs.

#### Restricted Investments

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In accordance with the terms of the tax-exempt loan agreements, which are the obligations of LVE, unused proceeds are required to be held in escrow pending approval of construction expenditures. These investments are held in an interest-bearing account.

**Intangible Assets**

Intangible assets include customer relationships, favorable lease rates, gaming license rights and trademarks.

**Amortizing intangible assets:** Customer relationships represent the value of repeat business associated with our customer loyalty programs. These intangible assets are being amortized on an accelerated method over their approximate useful life. Favorable lease rates represent the amount by which acquired lease rental rates are favorable to market terms. These favorable lease values are amortized over the remaining lease term, primarily on leasehold land interests, ranging in remaining duration from 41 to 52 years. Development agreements are contracts between two parties establishing an agreement for development of a product or service. These agreements are amortized over the respective cash flow period of the related agreement.

**Indefinite lived intangible assets:** Trademarks are based on the value of our brand, which reflects the level of service and quality we provide and from which we generate repeat business. Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which is subject to highly extensive regulatory oversight, and a limitation on the number of licenses available for issuance with these certain jurisdictions. These assets, considered indefinite-lived intangible assets, are not subject to amortization, but instead are subject to an annual impairment test, performed in the second quarter of each year, and between annual test dates in certain circumstances. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference. License rights are tested for impairment using a discounted cash flow approach, and trademarks are tested for impairment using the relief-from-royalty method.

**Long-Term Debt, Net**

Long-term debt is reported at amortized cost. The discount on the senior secured notes and the transaction costs paid to the initial purchasers upon issuance of the senior and senior secured notes are recorded as an adjustment to the face amount of our outstanding debt. This resulting difference between the net proceeds upon issuance of the senior and senior secured notes and the face amount of the senior and senior secured notes is accreted to interest expense using the effective interest method.

**Noncontrolling Interest**

Noncontrolling interest is the portion of the ownership in Borgata not directly attributable to Boyd Gaming Corporation, as well as the ownership of LVE, none of which is attributable to Boyd Gaming Corporation, and is reported as a separate component of our stockholders' equity in our condensed consolidated financial statements. Our consolidated net income is reported at amounts that include the amounts attributable to both us and the noncontrolling interest. At September 30, 2011 and December 31, 2010, there was a noncontrolling interest of \$220.9 million and \$219.3 million, respectively, associated with the portion of ownership in Borgata that is not attributable to the stockholders of Boyd Gaming Corporation. As discussed above, we effectively obtained control of Borgata on March 24, 2010 and began consolidating its financial statements at that date. At September 30, 2011 and December 31, 2010, there was a deficit in the noncontrolling interest of LVE of \$17.7 million and \$13.7 million, respectively, associated with the entire ownership in LVE that is not attributable to the stockholders of Boyd Gaming Corporation.

#### Revenue Recognition

Gaming revenue represents the net win from gaming activities, which is the aggregate difference between gaming wins and losses. The majority of our gaming revenue is counted in the form of cash and chips and therefore is not subject to any significant or complex estimation procedures. Cash discounts, commissions and other cash incentives to customers related to gaming play are recorded as a reduction of gross gaming revenues.

Room revenue recognition criteria are met at the time of occupancy.

Food and beverage revenue recognition criteria are met at the time of service.

#### Promotional Allowances

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. Promotional allowances also include incentives such as cash, goods and services (such as complimentary rooms and food and beverages) earned in our slot bonus point program. We reward customers, through the use of bonus programs, with points based on amounts wagered that can be redeemed for a specified period of time, principally for cash, and to a lesser extent for goods or services, depending upon the property. We record the estimated retail value of these goods and services as revenue and then deduct them as promotional allowances

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The amounts included in promotional allowances for the three and nine months ended September 30, 2011 and 2010 are as follows:

|                              | Three Months Ended<br>September 30,<br>2011 |           | Nine Months Ended<br>September 30,<br>2011 |           |
|------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                              | 2010                                        |           | 2010                                       |           |
|                              | (In thousands)                              |           |                                            |           |
| Rooms                        | \$33,989                                    | \$35,775  | \$94,811                                   | \$82,387  |
| Food and beverage            | 44,464                                      | 45,477    | 128,028                                    | 118,191   |
| Other                        | 30,313                                      | 26,382    | 85,089                                     | 55,754    |
| Total promotional allowances | \$108,766                                   | \$107,634 | \$307,928                                  | \$256,332 |

The estimated costs of providing such promotional allowances for the three and nine months ended September 30, 2011 and 2010 are as follows:

|                                      | Three Months Ended<br>September 30,<br>2011 |          | Nine Months Ended<br>September 30,<br>2011 |           |
|--------------------------------------|---------------------------------------------|----------|--------------------------------------------|-----------|
|                                      | 2010                                        |          | 2010                                       |           |
|                                      | (In thousands)                              |          |                                            |           |
| Rooms                                | \$14,192                                    | \$14,287 | \$40,309                                   | \$40,483  |
| Food and beverage                    | 40,591                                      | 41,852   | 116,828                                    | 119,915   |
| Other                                | 4,870                                       | 4,807    | 12,856                                     | 12,792    |
| Total cost of promotional allowances | \$59,653                                    | \$60,946 | \$169,993                                  | \$173,190 |

**Gaming Taxes**

We are subject to taxes based on gross gaming revenues in the jurisdictions in which we operate. These gaming taxes are an assessment of our gaming revenues and are recorded as a gaming expense on the condensed consolidated statements of operations. These taxes totaled approximately \$65.3 million and \$66.2 million for the three months ended September 30, 2011 and 2010, respectively, and totaled approximately \$192.6 million and \$195.9 million for the nine months ended September 30, 2011 and 2010, respectively.

**Earnings per Share**

Basic earnings per share is computed by dividing net income applicable to Boyd Gaming Corporation stockholders, excluding net income attributable to noncontrolling interests, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the additional dilution for all potentially-dilutive securities, such as stock options.

The weighted average number of common and common share equivalent shares used in the calculations of basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010, consisted of the following amounts:

|                                             | Three Months Ended<br>September 30,<br>2011 |        | Nine Months Ended<br>September 30,<br>2011 |        |
|---------------------------------------------|---------------------------------------------|--------|--------------------------------------------|--------|
|                                             | 2010                                        |        | 2010                                       |        |
|                                             | (In thousands)                              |        |                                            |        |
| Earnings per share:                         |                                             |        |                                            |        |
| Basic weighted average shares outstanding   | 87,256                                      | 86,582 | 87,206                                     | 86,508 |
| Potential dilutive effect                   | 176                                         | 102    | —                                          | 216    |
| Diluted weighted average shares outstanding | 87,432                                      | 86,684 | 87,206                                     | 86,724 |

Due to the net loss for the nine months ended September 30, 2011, the effect of all potential common shares was anti-dilutive, and therefore was not included in the computation of diluted earnings per share. Anti-dilutive options totaling 9.0 million and 8.1 million have been excluded from the computation of diluted earnings per share for the three months ended September 30, 2011, and 2010, respectively. Anti-dilutive options totaling 7.8 million and 8.1 million have been excluded from the computation of

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

diluted earnings per share for the nine months ended September 30, 2011 and 2010, respectively.

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, the estimated useful lives for depreciable and amortizable assets, recoverability of assets held for development, measurement of the fair value of our controlling interest and the noncontrolling interest in Borgata, fair values of acquired assets and liabilities, estimated cash flows in assessing the recoverability of long-lived assets and assumptions relative to the valuation and impairment of goodwill and intangible assets, estimated valuation allowances for deferred tax assets, slot bonus point programs, certain tax liabilities and uncertain tax positions, self-insured liability reserves, 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.

Recently Issued Accounting Pronouncements

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.

Accounting Standards Update 2011-08 Intangibles, Goodwill and Other ("Update 2011-08")

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-08 Intangible, Goodwill and Other, which is an amendment to Topic 350 of the Accounting Standards Codification ("ASC").

The objective of Update 2011-08 is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic ASC 350. (the more-likely-than-not threshold is defined as having a likelihood of more than 50 percent). Previous guidance under Topic ASC 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in Update 2011-08, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount.

The amendment will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012, although early adoption is permitted. Update 2011-08 will not have a material impact on the computation of the impairment of goodwill or other intangibles.

Accounting Standards Update 2011-05 Presentation of Comprehensive Income ("Update 2011-05")

In June 2011, the FASB issued Accounting Standards Update 2011-05 Presentation of Comprehensive Income, which is an amendment to Topic ASC 220.

The objective of Update 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Update 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Update 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does Update 2011-05 affect how earnings per share is calculated or presented. Update 2011-05 should be applied retrospectively and will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-05 will not have a material impact on the computation of comprehensive income, but will require a revised presentation thereof.

Accounting Standards Update 2011-04 Fair Value Measurement ("Update 2011-04")

In May 2011, the FASB issued Accounting Standards Update 2011-04 Fair Value Measurement, which is an amendment to Topic ASC 820.

The objective of Update 2011-04 is to more clearly explain how to measure fair value to allow for better comparability between GAAP and International Financial Reporting Standards ("IFRS"). It is not intended to result in a change in the application of the requirements in Topic ASC 820, but instead is intended to amend a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

Update 2011-04 does not change the items that must be reported as fair value measurements under Topic ASC 820 but simply how to measure these items and how they should be disclosed. Update 2011-04 should be applied prospectively. Early adoption is not permitted. Update 2011-04 will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-04 will not have a material impact on our financial statements.

NOTE 2. CONSOLIDATION OF CERTAIN INTERESTS

Controlling Interest

Borgata Hotel Casino and Spa

Overview

The Company 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.

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 in the Holding Company ("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 New Jersey Department of Gaming Enforcement (the "NJDE"). Pursuant to the terms of the amended operating agreement, in connection with the refinancing of the Borgata bank credit facility on August 6, 2010, the Holding Company made a \$135.4 million one-time distribution to us, of which \$30.8 million was a priority distribution equal to the excess prior capital contributions made by us.

On March 17, 2010, MGM announced that its settlement agreement with the NJDE had been approved by the New Jersey Casino Control Commission ("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.

MGM has subsequently announced that it has entered into an amendment with respect to its settlement agreement with the NJDGE, as approved by the NJCCC. The amendment provides that the mandated sale of the MGM Interest be increased by an additional 18 months to a total of 48 months. During the first 36 months (or until March 24, 2013), MGM has the right to direct the Divestiture Trust to sell the MGM Interest. If a sale is not concluded by that time, the Divestiture Trust will be responsible for selling MGM's Interest during the following 12-month period.

#### Effective Change in Control

In connection with the amendments to the operating agreements MGM relinquished all of its specific participating rights under the operating agreement, and we retained all authority to manage the day-to-day operations of Borgata. MGM's relinquishment of its participating rights effectively provided us with direct control of Borgata. This resulting change in control required acquisition method accounting in accordance with the authoritative accounting guidance for business combinations.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Acquisition Method Accounting

The application of the acquisition method accounting guidance had the following effects on our condensed consolidated financial statements: (i) our previously held equity interest was measured at a provisional fair value at the date control was obtained; (ii) we recognized and measured the identifiable assets and liabilities in accordance with promulgated valuation recognition and measurement provisions; and (iii) we recorded the noncontrolling interest held in trust for the economic benefit of MGM as a separate component of our stockholders' equity. The provisional fair value measurements and estimates of these items were estimated as of the date we effectively obtained control.

The provisional fair value measurements and estimates of these items have been subsequently refined. We had provisionally recorded these fair values using an earnings valuation multiple model, because, at the time of the preliminary estimate, we had not completed our procedures with respect to the independent valuation of the business enterprise and Borgata's tangible and intangible assets. Our subsequent valuation procedures have necessitated a revision of the valuation of the provisional assets and liabilities. Thus, upon finalization of our valuation, certain measurement adjustments were identified and retrospectively recorded in the condensed consolidated balance sheet as of December 31, 2010, and certain disclosures were updated to reflect the measurement period adjustments, as reflected herein.

## Retrospective Adjustment to Condensed Consolidated Balance Sheet

We have retrospectively adjusted the provisional values to reflect the fair valuation, and therefore, the condensed consolidated balance sheet as of December 31, 2010 presented herein reflects the adjustments above.

|                                           | As Originally<br>Reported | December 31,<br>2010<br>Acquisition<br>Method<br>Accounting<br>Adjustments | As<br>Retrospectively<br>Adjusted |
|-------------------------------------------|---------------------------|----------------------------------------------------------------------------|-----------------------------------|
|                                           | (In thousands)            |                                                                            |                                   |
| <b>ASSETS</b>                             |                           |                                                                            |                                   |
| Current assets                            |                           |                                                                            |                                   |
| Cash and cash equivalents                 | \$ 145,623                | \$—                                                                        | \$ 145,623                        |
| Restricted cash                           | 19,494                    | —                                                                          | 19,494                            |
| Accounts receivable, net                  | 47,942                    | —                                                                          | 47,942                            |
| Inventories                               | 16,029                    | —                                                                          | 16,029                            |
| Prepaid expenses and other current assets | 37,390                    | (237                                                                       | ) 37,153                          |
| Income taxes receivable                   | 5,249                     | —                                                                          | 5,249                             |
| Deferred income taxes                     | 8,149                     | —                                                                          | 8,149                             |
| Total current assets                      | 279,876                   | (237                                                                       | ) 279,639                         |
| Property and equipment, net               | 3,471,933                 | (88,562                                                                    | ) 3,383,371                       |
| Assets held for development               | 1,119,403                 | —                                                                          | 1,119,403                         |
| Debt financing costs, net                 | 38,451                    | (3,458                                                                     | ) 34,993                          |
| Restricted investments                    | 48,168                    | —                                                                          | 48,168                            |
| Other assets, net                         | 70,425                    | —                                                                          | 70,425                            |
| Intangible assets, net                    | 460,714                   | 79,000                                                                     | 539,714                           |
| Goodwill, net                             | 213,576                   | —                                                                          | 213,576                           |

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|                                                      |             |           |               |
|------------------------------------------------------|-------------|-----------|---------------|
| Total assets                                         | \$5,702,546 | \$(13,257 | ) \$5,689,289 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>          |             |           |               |
| Current liabilities                                  |             |           |               |
| Current maturities of long-term debt                 | \$25,690    | \$—       | \$25,690      |
| Non-recourse obligations of variable interest entity | 243,059     | —         | 243,059       |
| Accounts payable                                     | 57,183      | —         | 57,183        |
| Income taxes payable                                 | 6,504       | —         | 6,504         |

17

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Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                    |             |           |   |             |   |
|----------------------------------------------------|-------------|-----------|---|-------------|---|
| Accrued liabilities                                | 279,779     | (1,310    | ) | 278,469     |   |
| Total current liabilities                          | 612,215     | (1,310    | ) | 610,905     |   |
| Long-term debt, net of current maturities          | 3,193,065   | —         |   | 3,193,065   |   |
| Deferred income taxes                              | 360,342     | 1,832     |   | 362,174     |   |
| Other long-term tax liabilities                    | 44,813      | —         |   | 44,813      |   |
| Other liabilities                                  | 85,859      | (2,270    | ) | 83,589      |   |
| Stockholders' equity                               |             |           |   |             |   |
| Preferred stock                                    | —           | —         |   | —           |   |
| Common stock                                       | 862         | —         |   | 862         |   |
| Additional paid-in-capital                         | 635,028     | —         |   | 635,028     |   |
| Retained earnings                                  | 560,909     | —         |   | 560,909     |   |
| Accumulated other comprehensive loss, net          | (7,594      | )         | — | (7,594      | ) |
| Total Boyd Gaming Corporation stockholders' equity | 1,189,205   | —         |   | 1,189,205   |   |
| Noncontrolling interest                            | 217,047     | (11,509   | ) | 205,538     |   |
| Total stockholders' equity                         | 1,406,252   | (11,509   | ) | 1,394,743   |   |
| Total liabilities and stockholders' equity         | \$5,702,546 | \$(13,257 | ) | \$5,689,289 |   |

**Bargain Purchase Gain**

The fair valuation resulted in the recording of a bargain purchase gain, due to the excess fair value of Borgata over the historical basis of our equity interest in Borgata. Recorded in write-downs and other items, net on the condensed consolidated statement of operations, this gain was recorded as a cumulative adjustment during the nine months ended September 30, 2011.

The gain was computed as follows:

|                                                |                                            |
|------------------------------------------------|--------------------------------------------|
|                                                | Bargain<br>Purchase Gain<br>(In thousands) |
| Fair value of controlling equity interest      | \$397,931                                  |
| Carrying value of equity investment in Borgata | 397,622                                    |
| Bargain purchase gain                          | \$309                                      |

The fair value of our controlling interest included a \$72.4 million control premium, which is reflected in the fair value of the enterprise, and included in the calculation of the bargain purchase gain. A control premium of 10% was applied to the enterprise value members' equity, excluding interest bearing debt, to calculate an indicated value of equity on a controlling basis. While the value of control is somewhat below prevailing market rates, we believe the control premium reflects the value of our influence, mitigated by only a 50% interest and return.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Results of Operations of Borgata

(for the period from March 24, 2010 through September 30, 2010)

reflecting amounts included on a consolidated basis

The results of Borgata, as included in the accompanying condensed consolidated statements of operations from the date we effectively obtained control, March 24, 2010, (specifically, for the period from March 24 through September 30, 2010) for the nine months ended September 30, 2010) are presented below. These results of operations do not reflect the retrospective impact from the measurement period adjustments discussed above, as such amounts were not material to either the three and nine months ended September 30, 2010.

|                                     | Nine Months<br>Ended<br>September 30,<br>2010<br>(In thousands) |
|-------------------------------------|-----------------------------------------------------------------|
| REVENUES                            |                                                                 |
| Operating revenues:                 |                                                                 |
| Gaming                              | \$357,314                                                       |
| Food and beverage                   | 82,372                                                          |
| Room                                | 64,042                                                          |
| Other                               | 24,047                                                          |
| Gross revenues                      | 527,775                                                         |
| Less promotional allowances         | 116,420                                                         |
| Net revenues                        | 411,355                                                         |
| COSTS AND EXPENSES                  |                                                                 |
| Operating costs and expenses:       |                                                                 |
| Gaming                              | 141,649                                                         |
| Food and beverage                   | 39,593                                                          |
| Room                                | 8,593                                                           |
| Other                               | 19,528                                                          |
| Selling, general and administrative | 64,473                                                          |
| Maintenance and utilities           | 35,337                                                          |
| Depreciation and amortization       | 36,313                                                          |
| Write-downs and other items, net    | 8                                                               |
| Total operating costs and expenses  | 345,494                                                         |
| Operating income                    | 65,861                                                          |
| Other expense                       |                                                                 |
| Interest expense                    | 23,347                                                          |
| Total other expense, net            | 23,347                                                          |
| Income before income taxes          | 42,514                                                          |
| Income taxes                        | (4,183)                                                         |
| Net income                          | \$38,331                                                        |



Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Supplemental Pro Forma Information

Pro Forma Condensed Consolidated Statement of Operations

for the nine months ended September 30, 2010

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

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                    | Nine Months Ended September 30, 2010 |             |             |                  |   |
|----------------------------------------------------|--------------------------------------|-------------|-------------|------------------|---|
|                                                    | Boyd Gaming Corp                     | Borgata     |             | Boyd Gaming Corp |   |
|                                                    | As Reported                          | Stub Period | Adjustments | Pro Forma        |   |
|                                                    | (In thousands)                       |             |             |                  |   |
| Revenues                                           |                                      |             |             |                  |   |
| Gaming                                             | \$ 1,344,283                         | \$ 137,831  | \$ —        | \$ 1,482,114     |   |
| Food and beverage                                  | 255,166                              | 31,217      | —           | 286,383          |   |
| Room                                               | 154,247                              | 24,154      | —           | 178,401          |   |
| Other                                              | 91,595                               | 9,179       | —           | 100,774          |   |
| Gross revenues                                     | 1,845,291                            | 202,381     | —           | 2,047,672        |   |
| Less promotional allowances                        | 256,332                              | 44,091      | —           | 300,423          |   |
| Net revenues                                       | 1,588,959                            | 158,290     | —           | 1,747,249        |   |
| Costs and expenses                                 |                                      |             |             |                  |   |
| Gaming                                             | 635,461                              | 59,861      | —           | 695,322          |   |
| Food and beverage                                  | 132,481                              | 13,500      | —           | 145,981          |   |
| Room                                               | 36,767                               | 2,185       | —           | 38,952           |   |
| Other                                              | 74,333                               | 7,127       | —           | 81,460           |   |
| Selling, general and administrative                | 270,641                              | 28,981      | —           | 299,622          |   |
| Maintenance and utilities                          | 104,770                              | 13,522      | —           | 118,292          |   |
| Depreciation and amortization                      | 147,905                              | 16,754      | —           | 164,659          |   |
| Corporate expense                                  | 36,636                               | —           | —           | 36,636           |   |
| Preopening expenses                                | 4,990                                | —           | —           | 4,990            |   |
| Write-downs and other items, net                   | 4,932                                | 68          | —           | 5,000            |   |
| Total costs and expenses                           | 1,448,916                            | 141,998     | —           | 1,590,914        |   |
| Operating income from Borgata                      | 8,146                                | —           | (8,146      | ) —              |   |
| Operating income                                   | 148,189                              | 16,292      | (8,146      | ) 156,335        |   |
| Other expense (income)                             |                                      |             |             |                  |   |
| Interest income                                    | (4                                   | ) —         | —           | (4               | ) |
| Interest expense, net                              | 109,438                              | 5,060       | —           | 114,498          |   |
| Other income                                       | (10,000                              | ) —         | —           | (10,000          | ) |
| Gain on early retirements of debt                  | (3,949                               | ) —         | —           | (3,949           | ) |
| Gain on equity distribution                        | (2,535                               | ) —         | —           | (2,535           | ) |
| Other non-operating expenses from Borgata, net     | 3,133                                | —           | (3,133      | ) —              |   |
| Total other expense, net                           | 96,083                               | 5,060       | (3,133      | ) 98,010         |   |
| Income (loss) before income taxes                  | 52,106                               | 11,232      | (5,013      | ) 58,325         |   |
| Income taxes                                       | (15,532                              | ) (1,207    | ) —         | (16,739          | ) |
| Net income (loss)                                  | 36,574                               | 10,025      | (5,013      | ) 41,586         |   |
| Net loss attributable to noncontrolling interest   | (19,166                              | ) —         | (5,012      | ) (24,178        | ) |
| Net income attributable to Boyd Gaming Corporation | \$ 17,408                            | \$ 10,025   | \$(10,025   | ) \$ 17,408      |   |

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 statement of operations between the Boyd wholly-owned entities and Borgata which would require elimination during the nine months ended September 30, 2010.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Variable Interest

## LVE Energy Partners, LLC

The effects of the consolidation of LVE on our financial position as of September 30, 2011 and December 31, 2010, and its impact on our results of operations for the three and nine months ended September 30, 2011 are reconciled by respective line items to amounts as reported in our condensed consolidated balance sheets and condensed consolidated statements of operations are presented below.

The primary impact on our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010 was as follows:

|                                                      | September 30, 2011<br>Boyd Gaming<br>Corporation (as<br>historically<br>presented)<br>(In thousands) | LVE, LLC  | Eliminations | Boyd Gaming<br>Corporation (as<br>consolidated) |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------|--------------|-------------------------------------------------|
| <b>ASSETS</b>                                        |                                                                                                      |           |              |                                                 |
| Current assets                                       | \$334,501                                                                                            | \$1,185   | \$(2,146)    | ) \$333,540                                     |
| Property and equipment, net                          | 3,296,396                                                                                            | —         | —            | 3,296,396                                       |
| Assets held for development                          | 923,793                                                                                              | 196,052   | —            | 1,119,845                                       |
| Debt financing costs, net                            | 30,322                                                                                               | —         | —            | 30,322                                          |
| Restricted investments                               | —                                                                                                    | 20,984    | —            | 20,984                                          |
| Other assets                                         | 72,733                                                                                               | 4,351     | —            | 77,084                                          |
| Intangible assets, net                               | 547,075                                                                                              | —         | —            | 547,075                                         |
| Goodwill, net                                        | 213,576                                                                                              | —         | —            | 213,576                                         |
| Total Assets                                         | \$5,418,396                                                                                          | \$222,572 | \$(2,146)    | ) \$5,638,822                                   |
| <b>LIABILITIES</b>                                   |                                                                                                      |           |              |                                                 |
| Current maturities of long-term debt                 | \$363,598                                                                                            | \$—       | \$—          | \$363,598                                       |
| Non-recourse obligations of variable interest entity | —                                                                                                    | 221,912   | —            | 221,912                                         |
| Accounts payable                                     | 55,192                                                                                               | 35        | —            | 55,227                                          |
| Accrued and other liabilities                        | 304,579                                                                                              | 871       | —            | 305,450                                         |
| Long-term debt, net of current maturities            | 2,802,075                                                                                            | —         | —            | 2,802,075                                       |
| Deferred income taxes                                | 364,295                                                                                              | —         | —            | 364,295                                         |
| Other liabilities                                    | 107,096                                                                                              | 17,423    | (2,146)      | ) 122,373                                       |
| <b>STOCKHOLDERS' EQUITY</b>                          |                                                                                                      |           |              |                                                 |
| Common stock                                         | \$863                                                                                                | \$—       | \$—          | \$863                                           |
| Additional paid-in capital                           | 642,243                                                                                              | —         | —            | 642,243                                         |
| Retained earnings                                    | 557,546                                                                                              | —         | —            | 557,546                                         |
| Noncontrolling interest                              | 220,909                                                                                              | (17,669)  | ) —          | 203,240                                         |
| Total Liabilities and Stockholders' Equity           | \$5,418,396                                                                                          | \$222,572 | \$(2,146)    | ) \$5,638,822                                   |



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                      | December 31, 2010<br>Boyd Gaming<br>Corporation (as<br>historically<br>presented)<br>(In thousands) | LVE, LLC  | Eliminations | Boyd Gaming<br>Corporation (as<br>consolidated) |
|------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------|--------------|-------------------------------------------------|
| <b>ASSETS</b>                                        |                                                                                                     |           |              |                                                 |
| Current assets                                       | \$278,902                                                                                           | \$737     | \$—          | \$279,639                                       |
| Property and equipment, net                          | 3,383,371                                                                                           | —         | —            | 3,383,371                                       |
| Assets held for development                          | 923,038                                                                                             | 196,365   | —            | 1,119,403                                       |
| Debt financing costs, net                            | 34,993                                                                                              | —         | —            | 34,993                                          |
| Restricted investments                               | —                                                                                                   | 48,168    | —            | 48,168                                          |
| Other assets                                         | 65,963                                                                                              | 4,462     | —            | 70,425                                          |
| Intangible assets, net                               | 539,714                                                                                             | —         | —            | 539,714                                         |
| Goodwill, net                                        | 213,576                                                                                             | —         | —            | 213,576                                         |
| Total Assets                                         | \$5,439,557                                                                                         | \$249,732 | \$—          | \$5,689,289                                     |
| <b>LIABILITIES</b>                                   |                                                                                                     |           |              |                                                 |
| Current maturities of long-term debt                 | \$25,690                                                                                            | \$—       | \$—          | \$25,690                                        |
| Non-recourse obligations of variable interest entity | —                                                                                                   | 243,059   | —            | 243,059                                         |
| Accounts payable                                     | 56,790                                                                                              | 393       | —            | 57,183                                          |
| Accrued and other liabilities                        | 277,429                                                                                             | 1,040     | —            | 278,469                                         |
| Long-term debt, net of current maturities            | 3,193,065                                                                                           | —         | —            | 3,193,065                                       |
| Deferred income taxes                                | 362,174                                                                                             | —         | —            | 362,174                                         |
| Other liabilities                                    | 115,948                                                                                             | 18,958    | —            | 134,906                                         |
| <b>STOCKHOLDERS' EQUITY</b>                          |                                                                                                     |           |              |                                                 |
| Common stock                                         | 862                                                                                                 | —         | —            | 862                                             |
| Additional paid-in capital                           | 635,028                                                                                             | —         | —            | 635,028                                         |
| Retained earnings                                    | 560,909                                                                                             | —         | —            | 560,909                                         |
| Accumulated other comprehensive loss, net            | (7,594)                                                                                             | —         | —            | (7,594)                                         |
| Noncontrolling interest                              | 219,256                                                                                             | (13,718)  | —            | 205,538                                         |
| Total Liabilities and Stockholders' Equity           | \$5,439,557                                                                                         | \$249,732 | \$—          | \$5,689,289                                     |

The reduction in accounts receivable, net and other liabilities reflects the elimination of the Periodic Fee booked as a receivable by LVE, which mirrors the payable recorded on Boyd's general ledger. Both the receivable and payable are eliminated in consolidation completely, thereby having no impact on our consolidated balance sheet.

The impact on our condensed consolidated statement of operations for the three months ended September 30, 2011 was as follows:



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                           | Three Months Ended September 30, 2011                                 |           |              |                                           |
|-----------------------------------------------------------|-----------------------------------------------------------------------|-----------|--------------|-------------------------------------------|
|                                                           | Boyd Gaming Corporation (as historically presented)<br>(In thousands) | LVE, LLC  | Eliminations | Boyd Gaming Corporation (as consolidated) |
| <b>REVENUES</b>                                           |                                                                       |           |              |                                           |
| Other revenue                                             | \$34,105                                                              | \$2,724   | \$(2,724)    | ) \$34,105                                |
| <b>COSTS AND EXPENSES</b>                                 |                                                                       |           |              |                                           |
| Maintenance and utilities                                 | \$40,906                                                              | \$19      | \$—          | \$40,925                                  |
| Preopening expenses                                       | 4,444                                                                 | —         | (2,724)      | ) 1,720                                   |
| Operating income                                          | \$65,459                                                              | \$2,705   | \$—          | \$68,164                                  |
| Other expense                                             |                                                                       |           |              |                                           |
| Interest expense, net                                     | \$55,081                                                              | \$5,002   | \$—          | \$60,083                                  |
| Income before income taxes                                | \$11,447                                                              | \$(2,297) | ) \$—        | \$9,150                                   |
| Income taxes                                              | (2,170)                                                               | ) —       | —            | (2,170)                                   |
| Net income                                                | 9,277                                                                 | (2,297)   | ) —          | 6,980                                     |
| Net (income) loss attributable to noncontrolling interest | (6,168)                                                               | ) 2,297   | —            | (3,871)                                   |
| Net income attributable to Boyd Gaming Corporation        | \$3,109                                                               | \$—       | \$—          | \$3,109                                   |

The impact on our condensed consolidated statement of operations for the nine months ended September 30, 2011 was as follows:

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                           | Nine Months Ended September 30, 2011                                  |             |              |                                           |
|-----------------------------------------------------------|-----------------------------------------------------------------------|-------------|--------------|-------------------------------------------|
|                                                           | Boyd Gaming Corporation (as historically presented)<br>(In thousands) | LVE, LLC    | Eliminations | Boyd Gaming Corporation (as consolidated) |
| <b>REVENUES</b>                                           |                                                                       |             |              |                                           |
| Other revenue                                             | \$ 100,412                                                            | \$ 8,134    | \$ (8,134 )  | \$ 100,412                                |
| <b>COSTS AND EXPENSES</b>                                 |                                                                       |             |              |                                           |
| Maintenance and utilities                                 | \$ 114,163                                                            | \$ 950      | \$ —         | \$ 115,113                                |
| Preopening expenses                                       | 13,426                                                                | —           | (8,134 )     | 5,292                                     |
| Operating income                                          | \$ 171,074                                                            | \$ 7,184    | \$ —         | \$ 178,258                                |
| Other expense                                             |                                                                       |             |              |                                           |
| Interest expense, net                                     | \$ 173,632                                                            | \$ 10,436   | \$ —         | \$ 184,068                                |
| Loss before income taxes                                  | \$ (1,749 )                                                           | \$ (3,252 ) | \$ —         | \$ (5,001 )                               |
| Income tax benefit                                        | 28                                                                    | —           | —            | 28                                        |
| Net loss                                                  | (1,721 )                                                              | (3,252 )    | —            | (4,973 )                                  |
| Net (income) loss attributable to noncontrolling interest | (1,642 )                                                              | 3,252       | —            | 1,610                                     |
| Net loss attributable to Boyd Gaming Corporation          | \$ (3,363 )                                                           | \$ —        | \$ —         | \$ (3,363 )                               |

The reduction in other revenue and preopening expenses reflects the elimination of the Periodic Fee paid by Boyd Gaming to LVE. Such fee is recognized as revenue by LVE, but eliminated in consolidation completely, thereby having no impact on our consolidated other revenues. Although this Periodic Fee is eliminated in this consolidation, it is actually paid to LVE directly on a monthly basis.

**NOTE 3. ASSET ACQUISITIONS**

We account for the acquisition of assets in business combination transactions in accordance with the accounting standards, which require that the assets acquired and liabilities assumed be recorded at their estimated fair values.

In September 2011, the Company acquired the membership interests of a limited liability company (the "LLC") for a purchase price of \$24.5 million. The primary asset of the LLC is a previously executed development agreement (the "Development Agreement") with a Native American Tribe (the "Tribe"). The Development Agreement establishes the terms between the LLC and the Tribe under which a gaming facility will be developed on the Tribe's land. The Development Agreement provides a fee of 5% of gross revenues of the gaming operations, (subject to a maximum percentage capped by Indian Gaming Regulation), upon completion of development, and for a subsequent period of seven years.

The fair value of the assets of the LLC was allocated in our consolidated financial statements as follows:

|                                               | September 30,<br>2011<br>(in thousands) |
|-----------------------------------------------|-----------------------------------------|
| Assets acquired:                              |                                         |
| Intangible value of Development Agreement     | \$21,373                                |
| Note receivable from Tribe (at present value) | 3,127                                   |
| Purchase price                                | \$24,500                                |

Table of Contents

Other than the obligation under the Development Agreement to develop the gaming facility, there were no liabilities assumed in connection with the acquisition of the LLC. In addition to approximately \$4.5 million expended by the prior owners of the LLC related to pre-development efforts, we are obligated to fund certain pre-development costs, which are estimated to be approximately \$1 million to \$2 million annually, for the next several years. These costs are reimbursable to us with future cash flows from the operations of the gaming facility and are evidenced by a note receivable from the Tribe.

**NOTE 4. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consists of the following:

|                               | September 30,<br>2011<br>(In thousands) | December 31,<br>2010 |
|-------------------------------|-----------------------------------------|----------------------|
| Land                          | \$579,267                               | \$576,947            |
| Buildings and improvements    | 3,312,773                               | 3,309,506            |
| Furniture and equipment       | 1,154,962                               | 1,131,837            |
| Riverboats and barges         | 167,549                                 | 167,420              |
| Other                         | 28,286                                  | 25,423               |
| Total property and equipment  | 5,242,837                               | 5,211,133            |
| Less accumulated depreciation | 1,946,441                               | 1,827,762            |
| Property and equipment, net   | \$3,296,396                             | \$3,383,371          |

Depreciation expense for the three months ended September 30, 2011 and 2010 was \$46.2 million and \$52.5 million, respectively. Depreciation expense for the nine months ended September 30, 2011 and 2010 was \$138.4 million and \$147.9 million, respectively. The amounts recorded during the nine months ended September 30, 2011 include the effect of certain measurement period adjustments.

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

We test certain of these property and equipment assets for recoverability if a recent operating or cash flow loss, combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses, is associated with the use of a long-lived asset. Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment shall be based on the carrying amount of the asset at the date it is tested for recoverability. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

**NOTE 5. ASSETS HELD FOR DEVELOPMENT**

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

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                    | September 30,<br>2011<br>(In thousands) | December 31,<br>2010 |
|------------------------------------|-----------------------------------------|----------------------|
| Echelon Project Infrastructure     |                                         |                      |
| Land                               | \$213,649                               | \$213,649            |
| Construction and development costs | 500,887                                 | 500,132              |
| Project management and other costs | 115,712                                 | 115,712              |
| Professional and design fees       | 93,545                                  | 93,545               |
| Central Energy Facility            |                                         |                      |
| Construction and development costs | 196,052                                 | 196,365              |
| Total assets held for development  | \$1,119,845                             | \$1,119,403          |

## Echelon Project Infrastructure

At September 30, 2011 and December 31, 2010, the capitalized costs related to the Echelon project included land and construction in progress. The construction and development costs consist primarily of site preparation work, underground utility installation and infrastructure and common area development. Professional and design fees include architectural design, development and permitting fees, inspections, consulting and legal fees. We expect to additionally incur approximately \$0.3 million to \$3.0 million of capitalized costs annually, principally related to such items as transportation of stored offsite steel as well as offsite improvements.

In addition, we expect annual recurring project costs, consisting primarily of monthly charges related to construction of the central energy center, site security, property taxes, rent and insurance, of approximately \$15.0 million to \$17.0 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, including commitments and contingencies with respect to the ESA entered into between Echelon Resorts and LVE.

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

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

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

Another scenario is the full development of the project, as designed, at a later date. The cash inflows related to this option represent the revenue projections for the individual components associated with each planned construction element (casino, hotel, food and beverage, retail, convention and other), based upon the estimated respective dates of completion and particular graduated supply absorption rates. These projections are offset by outflows for incurred and estimated costs to complete the development. For costs already incurred, and to compensate for potential losses due to the delay, we adjusted for (i) physical deterioration; (ii) functional obsolescence; and (iii) economic obsolescence. Physical deterioration is impairment to the condition of the asset brought about by “wear and tear,” disintegration, and/or the action of the elements. Functional obsolescence is the impairment in the efficiency of the asset brought about by such factors as inadequacy or change in technology that affect the asset. Economic obsolescence is

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

the impairment in the desirability of the asset arising from external economic forces, building code enhancements or changes in supply and demand relationships. For estimated costs to complete, we applied selected construction expense growth rates to our present cost analysis. In addition to these hard and soft construction costs, we estimated outflows for preservation costs that are intended and required to maintain the development site and the existing structures as well as development materials for future use. These net outflows were incrementally added to our estimated operating and ongoing maintenance costs, to establish the undiscounted net cash flow of the project.

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

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

Central Energy Facility

The capitalized construction costs of the central energy facility include labor, materials, construction overhead and capitalized interest, all of which has been directly incurred by LVE. Depreciation is generally recorded on a straight line basis over useful lives of property ranging from 5 to 50 years, but has not commenced on the components of the facility, as it has not been placed in service. The costs of repairs and maintenance, including planned major maintenance activities and minor replacements of property are charged to maintenance expense as incurred.

These assets are tested for recoverability whenever events or changes in circumstances indicate that such amounts may not be recoverable. Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment shall be based on the carrying amount of the asset at the date it is tested for recoverability. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

The assets of the central energy facility are pledged as collateral to the outstanding debt obligations of LVE, as further discussed in Note 7, Non-recourse Obligations of Variable Interest Entity below.

NOTE 6. INTANGIBLE ASSETS

Intangible assets consist of the following:

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                     | September 30, 2011                                     |                            |                            |                                    |                           |
|-------------------------------------|--------------------------------------------------------|----------------------------|----------------------------|------------------------------------|---------------------------|
|                                     | Weighted<br>Average<br>Original Life<br>(In thousands) | Gross<br>Carrying<br>Value | Cumulative<br>Amortization | Cumulative<br>Impairment<br>Losses | Intangible<br>Assets, Net |
| Amortizing intangibles:             |                                                        |                            |                            |                                    |                           |
| Customer relationships              | 3.9 years                                              | \$14,400                   | \$(8,630 )                 | \$—                                | \$5,770                   |
| Favorable lease rates               | 43.8 years                                             | 45,370                     | (7,564 )                   | —                                  | 37,806                    |
| Development agreement               | 10.0 years                                             | 21,373                     | —                          | —                                  | 21,373                    |
|                                     |                                                        | 81,143                     | (16,194 )                  | —                                  | 64,949                    |
| Indefinite lived intangible assets: |                                                        |                            |                            |                                    |                           |
| Trademarks                          | Indefinite                                             | 115,700                    | —                          | (5,000 )                           | 110,700                   |
| Gaming license rights               | Indefinite                                             | 567,886                    | (33,960 )                  | (162,500 )                         | 371,426                   |
|                                     |                                                        | 683,586                    | (33,960 )                  | (167,500 )                         | 482,126                   |
|                                     |                                                        | \$764,729                  | \$(50,154 )                | \$(167,500 )                       | \$547,075                 |
|                                     | December 31, 2010                                      |                            |                            |                                    |                           |
|                                     | Weighted<br>Average<br>Original Life                   | Gross<br>Carrying<br>Value | Cumulative<br>Amortization | Cumulative<br>Impairment<br>Losses | Intangible<br>Assets, Net |
|                                     |                                                        | (In thousands)             |                            |                                    |                           |
| Amortizing intangibles:             |                                                        |                            |                            |                                    |                           |
| Customer relationships              | 5 years                                                | \$14,400                   | \$(400 )                   | \$—                                | 14,000                    |
| Favorable lease rates               | 43.8 years                                             | 45,370                     | (6,782 )                   | —                                  | 38,588                    |
|                                     |                                                        | 59,770                     | (7,182 )                   | —                                  | 52,588                    |
| Indefinite lived intangible assets: |                                                        |                            |                            |                                    |                           |
| Trademarks                          | Indefinite                                             | 115,700                    | —                          | —                                  | 115,700                   |
| Gaming license rights               | Indefinite                                             | 567,886                    | (33,960 )                  | (162,500 )                         | 371,426                   |
|                                     |                                                        | 683,586                    | (33,960 )                  | (162,500 )                         | 487,126                   |
| December 31, 2010                   |                                                        | \$743,356                  | \$(41,142 )                | \$(162,500 )                       | \$539,714                 |

## Amortizing Intangible Assets

## Customer Relationships

Customer relationships represent the value of repeat business associated with our customer loyalty programs. The value of customer relationships is determined using a multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable only to these customers, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: revenue of our rated customers, based on expected level of play; promotional allowances provided to these existing customers; attrition rate related to these customers; operating expenses; general and administrative expenses; trademark expense; discount rate; and the present value of tax benefit.

## Favorable Lease Rates

Favorable lease rates represent the rental rates for assumed land leases that are favorable to comparable market rates. The fair value is determined on a technique whereby the difference between the lease rate and the then current market rate for the remaining contractual term is discounted to present value. The assumptions underlying this computation include the actual lease rates, the expected remaining lease term, including renewal options, based on the existing lease; current rates of rent for leases on comparable properties with similar terms obtained from market data and analysis; and an assumed discount rate. The estimates underlying the result covered a term of 41 to 52 years.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Development Agreements

Development agreements are contracts between two parties establishing an agreement for development of a product or service. The value of development agreements is determined using a multi-period excess earnings method, which is a specific discounted cash flow model. The fair value of the development agreement is determined at an amount equal to the present value of the incremental cash flows attributable only to future development revenue, discounted to the present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant assumptions: future development revenues; general and administrative expenses; and discount rate. The projections are modeled for a ten year period, representing the cash flow earnings period pursuant to the development agreement.

## Indefinite Lived Intangible Assets

## Trademarks

Trademarks are based on the value of our brand, which reflects the level of service and quality we provide and from which we generate repeat business. Trademarks are valued using the relief from royalty method, which presumes that without ownership of such trademark, we would have to make a stream of payments to a brand or franchise owner in return for the right to use their name. By virtue of this asset, we avoid any such payments and record the related intangible value of our ownership of the Borgata name. We used the following significant projections and assumptions to determine value under the relief from royalty method: revenue from gaming and hotel activities; royalty rate; general and administrative expenses; tax expense; terminal growth rate; discount rate; and the present value of tax benefit. The projections underlying this discounted cash flow model were forecasted for fifteen years.

## Gaming License Rights

Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which is subject to highly extensive regulatory oversight, and a limitation on the number of licenses available for issuance therein. The value of gaming licenses is determined using a multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable only to future gaming revenue, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: gaming revenues; gaming operating expenses; general and administrative expenses; tax expense; terminal value; and discount rate. These projections are modeled for a five year period.

## Activity For the Nine Months Ended September 30, 2011 and 2010

The following table sets forth the changes in these intangible assets during the nine months ended September 30, 2011 and 2010:

|                                         | Customer<br>Relationships<br>(In thousands) | Favorable<br>Lease Rates | Trademarks | Development<br>Agreements | Gaming<br>License Rights | Intangible<br>Assets, Net |
|-----------------------------------------|---------------------------------------------|--------------------------|------------|---------------------------|--------------------------|---------------------------|
| Nine Months Ended<br>September 30, 2011 |                                             |                          |            |                           |                          |                           |
| Balance December 31, 2010               | \$14,000                                    | \$38,588                 | \$115,700  | \$—                       | \$371,426                | \$539,714                 |
| Additions                               | —                                           | —                        | —          | 21,373                    | —                        | 21,373                    |
| Impairments                             | —                                           | —                        | (5,000 )   | —                         | —                        | (5,000 )                  |
| Amortization                            | (8,230 )                                    | (782 )                   | —          | —                         | —                        | (9,012 )                  |
| Balance September 30, 2011              | \$5,770                                     | \$37,806                 | \$110,700  | \$21,373                  | \$371,426                | \$547,075                 |

Nine Months Ended  
September 30, 2010

|                            |          |          |           |     |           |           |
|----------------------------|----------|----------|-----------|-----|-----------|-----------|
| Balance December 31, 2009  | \$—      | \$39,632 | \$50,700  | \$— | \$371,426 | \$461,758 |
| Additions                  | 14,000   | —        | 65,000    | —   | —         | 79,000    |
| Amortization               | —        | (785     | ) —       | —   | —         | (785 )    |
| Balance September 30, 2010 | \$14,000 | \$38,847 | \$115,700 | \$— | \$371,426 | \$539,973 |

#### Future Amortization

Customer relationships are being amortized on an accelerated basis over an approximate four-year period. Favorable lease rates are being amortized on a straight-line basis over a weighted-average useful life of 43.8 years. Future amortization is as follows:

30

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Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

| For the Year Ending December 31, | Customer Relationships<br>(In thousands) | Favorable Lease Rates | Development Agreement | Total    |
|----------------------------------|------------------------------------------|-----------------------|-----------------------|----------|
| 2011 (remainder)                 | \$1,032                                  | \$261                 | —                     | \$1,293  |
| 2012                             | 3,174                                    | 1,043                 | —                     | 4,217    |
| 2013                             | 1,564                                    | 1,043                 | —                     | 2,607    |
| 2014                             | —                                        | 1,043                 | 1,053                 | 2,096    |
| 2015                             | —                                        | 1,043                 | 2,401                 | 3,444    |
| Thereafter                       | —                                        | 33,373                | 17,919                | 51,292   |
|                                  | \$5,770                                  | \$37,806              | 21,373                | \$64,949 |

Trademarks and gaming license rights are not subject to amortization, as we have determined that they have an indefinite useful life, however these assets are subject to an annual impairment test.

**Impairment Testing**

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. 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 results of our annual scheduled impairment test of indefinite-lived intangible assets, performed during the second quarter of 2011, did not require us to record an impairment charge; however, if our estimates of projected cash flows related to these assets are not achieved, or if any other significant assumptions are changed, we may be subject to an interim impairment test prior to our next annual scheduled impairment test. Such test could result in a future a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

During the first quarter of 2011, we performed an interim impairment test over the trademark we recorded in connection with the valuation of Borgata due to our consideration of certain facts and circumstances surrounding an adverse change in the business climate in Atlantic City. We believe our actual results have been adversely impacted by increased regional competition, and that in addition, our projected future results will be further impacted by cannibalization of our business upon the opening of a new property in Atlantic City, which was announced in February 2011. We also believe the refinancing of Borgata's debt and recapitalization of its member equity contributed to the results of this impairment test.

Our analysis consisted of a valuation of the trademark, using the relief from royalty method, as discussed above. The only significant change in our assumptions from the initial fair valuation were revised revenue and profitability projections, reflecting the impact of the changed present and forecasted circumstances. The impairment test shall consist of a comparison of the fair value of trademark with its carrying amount. As a result, we recorded a \$5.0 million impairment to the trademark, representing the amount by which the carrying amount exceeded its fair value.

NOTE 7. NON-RECOURSE OBLIGATIONS OF VARIABLE INTEREST ENTITY

The non-recourse obligations of variable interest entity represent the outstanding debt of LVE, all of which is classified as current, and is comprised of the following:

31

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Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                      | September 30,<br>2011 | December 31,<br>2010 |
|------------------------------------------------------|-----------------------|----------------------|
|                                                      | (In thousands)        |                      |
| Construction and term loan facility                  | \$120,155             | \$120,572            |
| Tax-exempt variable rate bonds                       | 73,000                | 100,000              |
| Notes payable to members of variable interest entity | 28,757                | 22,487               |
|                                                      | \$221,912             | \$243,059            |

Assets serving as collateral for these debt obligations had a carrying value of \$217.4 million and \$244.5 million at September 30, 2011 and December 31, 2010, respectively, and primarily consist of certain assets held for development and restricted investments. The condensed consolidated statements of operations for the three and nine months ended September 30, 2011 includes \$0.7 million and \$3.3 million of loss, respectively, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2011 includes \$6.8 million of net operating cash outflows related to this consolidated variable interest entity; however, none of the offsetting consolidated income or operating cash inflows are available to service this debt, which is non-recourse and non-guaranteed by Boyd.

**Construction and Term Loan Facility**

In December 2007, LVE entered into a construction and term loan facility with two commercial banks with a committed amount of up to \$143.5 million, of which \$120.2 million was outstanding at September 30, 2011. Proceeds from the construction loan were used to finance the construction of the central energy center and district energy system. The loan is secured by the assets of LVE and does not contain financial covenants. Although LVE's loan is presently in default, and classified as current, the original loan maturities are as follows: \$4.2 million in 2011; \$83.1 million in 2012 and the remainder in 2013.

The construction loan bears interest at a variable rate based on the London InterBank Offered Rate ("LIBOR"). LVE entered into an interest rate swap with scheduled increases in the notional amount designed to fix the LIBOR portion of the interest rate on this debt until its maturity in November 2013, which was hedged against the outstanding debt. However, due to the construction delays, the outstanding amount of debt did not increase as fast as the contractual increases in notional amount of the swap, which rendered a portion of the swap ineffective, and as a result the swap was de-designated in July 2011.

**Tax-exempt Variable Rate Bonds**

In December 2007, LVE issued \$100.0 million of tax-exempt variable rate bonds through the State of Nevada Department of Business and Industry, which mature in October 2035. Unused proceeds from the tax-exempt, variable rate bonds are required to be escrowed pending approved construction expenditures. Such unused funds are reported as restricted investments on our consolidated balance sheet.

The tax-exempt variable rate bonds bear interest at rates that are determined by a remarketing agent on a weekly basis. LVE entered into an interest rate swap with a total notional amount of \$100.0 million that effectively fixes the underlying interest rate index on these bonds until November 2013. Investors in these bonds receive liquidity and credit support provided by a letter of credit from a commercial bank. This letter of credit expires in November 2013, but can be accelerated by the bank in the event of a default under the construction and term loan facility.

#### Events of Default

The central energy center and district energy system are being financed by LVE with debt that is non-recourse to us. The outstanding balance of LVE's bank debt is approximately \$193.2 million as of September 30, 2011, consisting of borrowing under the construction and term loan facility of \$120.2 million and outstanding tax-exempt bonds of \$73.0 million. In September 2009, LVE reached an agreement with the banks that are financing the energy facilities to address defaults under the financing agreements. These LVE defaults were caused by construction delay and the termination of an energy services agreement by a hotel operator associated with the project. As a result of these defaults, the banks had previously stopped funding the project. The terms of the September 2009 agreement required the LVE joint venture partners to guarantee the payment of future interest costs by LVE through December 2010. In addition, the LVE joint venture partners had each committed to provide approximately \$8.9 million of additional capital as of September 2009 to cover costs related to the termination of the energy services agreement by a hotel operator and interest costs incurred since August 2008 when construction of Echelon was suspended. In turn, the banks waived all existing defaults under the financing agreements and were relieved of their commitment to provide additional funding.

As a result of the ongoing construction delay, the central energy center and district energy system was not completed by the end

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

of 2010 as originally expected. Consequently, the full amount of LVE's debt became due and payable in December 2010. LVE intends to seek additional financing to complete the facility once construction of the resort resumes; however, as of September 30, 2011, LVE was in default under the financing agreements with the banks, and all its debt has been presented as currently due.

## NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

|                                        | September 30,<br>2011<br>(In thousands) | December 31,<br>2010 |
|----------------------------------------|-----------------------------------------|----------------------|
| Payroll and related expenses           | \$75,899                                | \$73,054             |
| Interest                               | 48,520                                  | 51,347               |
| Gaming liabilities                     | 73,025                                  | 70,908               |
| Accrued expenses and other liabilities | 108,006                                 | 83,160               |
| Total accrued liabilities              | \$305,450                               | \$278,469            |

## NOTE 9. LONG-TERM DEBT

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

|                                           | September 30, 2011       |                         |                                    |                        |
|-------------------------------------------|--------------------------|-------------------------|------------------------------------|------------------------|
|                                           | Outstanding<br>Principal | Unamortized<br>Discount | Unamortized<br>Origination<br>Fees | Long-Term<br>Debt, Net |
|                                           | (In thousands)           |                         |                                    |                        |
| Boyd Gaming Long-Term Debt:               |                          |                         |                                    |                        |
| Bank credit facility                      | \$1,423,147              | \$—                     | \$—                                | \$1,423,147            |
| 9.125% senior notes due 2018              | 500,000                  | —                       | (8,866)                            | ) 491,134              |
| 6.75% senior subordinated notes due 2014  | 215,668                  | —                       | —                                  | 215,668                |
| 7.125% senior subordinated notes due 2016 | 240,750                  | —                       | —                                  | 240,750                |
| Other                                     | 11,248                   | —                       | —                                  | 11,248                 |
|                                           | \$2,390,813              | \$—                     | \$(8,866)                          | ) \$2,381,947          |
| Borgata Debt:                             |                          |                         |                                    |                        |
| Bank credit facility                      | 15,000                   | —                       | —                                  | 15,000                 |
| 9.50% senior secured notes due 2015       | 398,000                  | (3,449)                 | (8,099)                            | ) 386,452              |
| 9.875% senior secured notes due 2018      | 393,500                  | (2,429)                 | (8,797)                            | ) 382,274              |
|                                           | \$806,500                | \$(5,878)               | \$(16,896)                         | ) \$783,726            |
| Less current maturities                   | 363,598                  | —                       | —                                  | 363,598                |
| Long-term debt, net                       | \$2,833,715              | \$(5,878)               | \$(25,762)                         | ) \$2,802,075          |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                           | December 31, 2010        |                         |                                    |                        |
|-------------------------------------------|--------------------------|-------------------------|------------------------------------|------------------------|
|                                           | Outstanding<br>Principal | Unamortized<br>Discount | Unamortized<br>Origination<br>Fees | Long-Term<br>Debt, Net |
|                                           | (In thousands)           |                         |                                    |                        |
| Boyd Gaming Long-Term Debt:               |                          |                         |                                    |                        |
| Bank credit facility                      | \$1,425,000              | \$—                     | \$—                                | \$1,425,000            |
| 9.125% senior notes due 2018              | 500,000                  | —                       | (9,794 )                           | 490,206                |
| 6.75% senior subordinated notes due 2014  | 215,668                  | —                       | —                                  | 215,668                |
| 7.125% senior subordinated notes due 2016 | 240,750                  | —                       | —                                  | 240,750                |
| Other                                     | 11,761                   | —                       | —                                  | 11,761                 |
|                                           | \$2,393,179              | \$—                     | \$(9,794 )                         | \$2,383,385            |
| <br>Borgata Debt:                         |                          |                         |                                    |                        |
| Bank credit facility                      | 60,900                   | —                       | —                                  | 60,900                 |
| 9.50% senior secured notes due 2015       | 400,000                  | (3,969 )                | (9,319 )                           | 386,712                |
| 9.875% senior secured notes due 2018      | 400,000                  | (2,648 )                | (9,594 )                           | 387,758                |
|                                           | \$860,900                | \$(6,617 )              | \$(18,913 )                        | \$835,370              |
| Less current maturities                   | 25,690                   | —                       | —                                  | 25,690                 |
| Long-term debt, net                       | \$3,228,389              | \$(6,617 )              | \$(28,707 )                        | \$3,193,065            |

## Bank Credit Facility

## Significant Terms

On December 3, 2010, we entered into an Amendment and Restatement Agreement among certain financial institutions (each a “Lender”), Bank of America, N.A., as administrative agent and letter of credit issuer and Wells Fargo Bank, National Association, as swing line lender (the “Amendment and Restatement Agreement”). Pursuant to the terms of the Amendment and Restatement Agreement, our First Amended and Restated Credit Agreement, dated as of May 24, 2007, as amended by the First Amendment and Consent to First Amended Credit Agreement, dated as of December 21, 2009 (as amended, the “Amended Credit Facility”), was amended and restated to, among other things, (i) reduce the aggregate commitments under the former credit facility and (ii) permit consenting Lenders to extend the maturity date of their commitments, new Lenders to issue revolving commitments and term loans and existing Lenders to increase their commitments (each, an “Extending Lender”) in each case with a maturity date five years from the restatement effective date.

Each of the Extending Lenders permanently reduced their commitments under the former credit facility by up to 50% of the amount thereof. As a result, the aggregate commitments under the Amended Credit Facility were reduced from \$3 billion to approximately \$1.5 billion (including \$500 million of term loans, and excluding \$548.8 million in non-extending amounts), which commitments may be increased from time to time by up to \$500 million (instead of \$1 billion in commitment increases provided for under the former credit facility) through additional revolving credit or term loans under the Amended Credit Facility.

Pursuant to the terms of the Amended Credit Facility, the term loans amortize in an annual amount equal to 5% of the original principal amount thereof, which commenced on March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to revolving and term loans under the Amended Credit Facility is based upon, at the option

of the Company, LIBOR or the “base rate,” plus an applicable margin in either case. The applicable margin under the Amended Credit Facility is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio. The applicable margin on the outstanding balance on the Extended Revolving Facility (as defined in our Amended Credit Facility) ranges from 2.50% to 3.50% (if using LIBOR), and from 1.50% to 2.50% (if using the base rate). The applicable margin on the outstanding balance of the loans and commitments of the non-extending lenders continues to range from 0.625% to 1.625% (if using LIBOR), and from 0.0% to 0.375% (if using the base rate). A fee of a percentage per annum (which ranges from 0.250% to 0.500%) determined by the level of the total leverage ratio is payable on the unused portions of the Amended Credit Facility.

The “base rate” under the Amended Credit Facility is the highest of (x) Bank of America's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the Eurodollar rate for a one month period plus 1.00%.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Subject to certain conditions, amounts outstanding under the Amended Credit Facility may be prepaid without premium or penalty, and the unutilized portion of any of the commitments may be terminated without penalty.

The blended interest rate for outstanding borrowings under our Amended Credit Facility was 3.3% at both September 30, 2011 and December 31, 2010. At September 30, 2011, approximately \$1.42 billion was outstanding under our Amended Credit Facility, with \$15.5 million allocated to support various letters of credit, leaving remaining contractual availability of approximately \$564.5 million.

Guarantees

The Company's obligations under the Amended Credit Facility, subject to certain exceptions, are guaranteed by certain of the Company's subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, the Company and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of their real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Amended Credit Facility.

Financial and Other Covenants

The Amended Credit Facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio of 2.00 to 1.00, (ii) establishing a maximum permitted consolidated total leverage ratio (discussed below), (iii) establishing a maximum permitted secured leverage ratio (discussed below), (iv) imposing limitations on the incurrence of indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Amended Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.

The minimum consolidated Interest Coverage Ratio (all capitalized terms in this section are defined in the Amended Credit Facility) is calculated as (a) twelve-month trailing Consolidated EBITDA to (b) consolidated interest expense.

The maximum permitted consolidated Total Leverage Ratio is calculated as Consolidated Funded Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through December 31, 2011, our maximum Total Leverage Ratio is set at 7.75 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 5.50 to 1.00 at March 15, 2015 through the duration of the term.

The maximum permitted Secured Leverage Ratio is calculated as Secured Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through March 31, 2012, our maximum Secured Leverage Ratio is set at 4.50 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 3.25 to 1.00 at June 30, 2014 through the duration of the term.

Compliance with Financial Covenants

We believe that, at September 30, 2011, we were in compliance with the Amended Credit Facility covenants, including the minimum consolidated Interest Coverage Ratio, the maximum permitted consolidated Total Leverage Ratio and the maximum permitted Secured Leverage Ratio, which, as of that date, were 2.26 to 1.00, 7.15 to 1.00 and 4.25 to 1.00, respectively.

#### Debt Financing Costs

In conjunction with the Amendment and Restatement Agreement, we incurred approximately \$20.6 million in incremental debt financing costs, which have been deferred and are being amortized over the remaining term of the Amended Credit Facility.

#### Senior Notes

9.125% Senior Notes due December 2018.

#### Significant Terms

On November 10, 2010, we issued, through a private placement, \$500 million aggregate principal amount of 9.125% senior notes due December 2018. The notes require semi-annual interest payments on December 1 and June 1 of each year, which commenced on June 1, 2011. The notes will mature on December 1, 2018 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

believe that we are in compliance with these covenants at September 30, 2011. In addition, upon the occurrence of a change of control (as defined in the indenture governing the notes), we will be required, unless certain conditions are met, to offer to repurchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchase. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the notes. At any time prior to December 1, 2013, we may redeem up to 35% of the aggregate principal amount of the notes at a redemption price equal to 109.125% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, with the net cash proceeds that we raise in one or more equity offerings. In addition, prior to December 1, 2014, we may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. Subsequent to December 1, 2014, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 104.563% in 2014 to 100% in 2016 and thereafter, plus accrued and unpaid interest.

Registration Rights Agreement

Pursuant to the registration rights agreement entered into with the initial purchasers of these senior notes at the time of the private placement, on September 15, 2011, the Company commenced an offer to exchange all of the outstanding \$500.0 million aggregate principal amount of the notes that have been registered under the Securities Act of 1933. On October 18, 2011, the expiration date of the exchange offer, 100% of the notes were validly tendered and accepted for exchange.

Senior Subordinated Notes

6.75% Senior Subordinated Notes due April 2014.

Significant Terms

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 September 30, 2011. 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.

Senior Subordinated Notes

7.125% Senior Subordinated Notes due February 2016.

Significant Terms

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 September 30, 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.

#### Repurchases of Senior Subordinated Notes

We did not repurchase any of our senior subordinated or senior notes during the three months ended September 30, 2011 or 2010. During the nine months ended September 30, 2011 we did not repurchase any of our senior subordinated notes. During the nine months ended September 30, 2010, we purchased and retired \$33.0 million, principal amount of our senior subordinated notes. The total purchase price of the notes was \$28.9 million, resulting in a gain of \$3.9 million, net of associated deferred financing fees, which is recorded on our condensed consolidated statement of operations for the respective period. The transactions were funded by availability under our former bank credit facility.

#### Indentures

The indentures governing the senior and senior subordinated notes each include permitted investment clauses, the most restrictive of which limits the amount of permitted investments to a basket of \$150 million, increased by a calculated amount including 50% of net income, as defined in the indentures, and net of previous permitted investments. Also, the indentures allow for the incurrence of additional indebtedness, if after giving effect to such incurrence, our coverage ratio (as defined in the indentures, essentially a

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

ratio of consolidated EBITDA to fixed charges, including interest) for a trailing four quarter period on a pro forma basis would be at least 2.0 to 1.0. Such pro forma coverage ratio was above 2.0 to 1.0 at the dates in which these respective tranches of senior and senior subordinated notes were issued; and, at September 30, 2011, after giving effect to the repayment of certain indebtedness, as defined in the indentures, our coverage ratio was above 2.0 to 1.0.

Borgata Bank Credit Facility

Significant Terms

In August 2010, Marina District Finance Company, Inc. ("MDFC") closed a \$950 million debt financing, consisting of the establishment of a \$150.0 million new payment priority secured revolving credit facility (the "Borgata bank credit facility") and the issuance of \$800 million of aggregate principal amount of notes. MDFC is a wholly-owned subsidiary of MDDC, which develops and owns Borgata, and which is the guarantor of both the Borgata bank credit facility and the notes. The proceeds from the financing were used to (i) pay fees and expenses related to the financing; (ii) repay the former credit facility; and (iii) make a one-time distribution to Borgata's joint venture owners.

The Borgata bank credit facility provides for a \$150.0 million payment priority secured revolving credit facility and matures in August 2014. The Borgata bank credit facility is guaranteed on a senior secured basis by MDDC and any future subsidiaries of MDDC and is secured by a first priority lien on substantially all of the assets of the assets of MDFC, MDDC and any future subsidiaries of MDDC, subject to certain exceptions. The obligations under the Borgata bank credit facility will have priority in payment to payment of the notes.

Neither Boyd Gaming nor any of its wholly-owned subsidiaries is a guarantor of Borgata's bank credit facility or senior secured notes.

Outstanding borrowings under the Borgata bank credit facility accrue interest at a selected rate based upon either: (i) the highest of (a) the agent bank's quoted prime rate, (b) the one-month Eurodollar rate plus 1.00%, and (c) the daily federal funds rate plus 1.50%, and in any event not less than 1.50% (such highest rate, the "base rate"), or (ii) the Eurodollar rate, plus with respect to each of clause (i) and (ii) an applicable margin as provided in the Borgata bank credit facility. In addition, a commitment fee is incurred on the unused portion of the Borgata bank credit facility ranging from 0.50% per annum to 1.00% per annum.

At September 30, 2011, the outstanding balance under the Borgata bank credit facility was \$15.0 million, leaving contractual availability of \$135.0 million. The interest rate on the outstanding borrowings at September 30, 2011 was 4.4%.

Financial and Other Covenants

The Borgata bank credit facility contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of \$150 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) establishing a minimum liquidity (as defined in the Borgata bank credit facility) of \$30 million as of the end of each calendar quarter; (iii) imposing limitations on MDFC's ability to incur additional debt; and (iv) imposing restrictions on Borgata's ability to pay dividends and make other distributions, make certain restricted payments, create liens, enter into transactions with affiliates, merge or consolidate, and engage in unrelated business activities.

Compliance with Financial Covenants

We believe that MDFC was in compliance with the Borgata bank credit facility covenants, including minimum consolidated EBITDA and minimum liquidity, which, at September 30, 2011, were \$155.4 million and \$135.0 million, respectively.

Borgata Senior Secured Notes

9.5% Senior Secured Notes Due 2015.

Significant Terms

In August 2010, MDFC issued, through a private placement, \$400 million principal amount of 9.5% senior secured notes due October 2015, at an issue price of 98.943%, resulting in a discount at issuance of \$4.2 million. The notes require semi-annual interest payments on April 15 and October 15, which commenced on April 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

At any time prior to October 15, 2013, the notes may be redeemed at 100% of the principal amount thereof, plus a "make-whole

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

premium” and accrued and unpaid interest. In addition, until October 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.50% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to October 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after October 15, 2013, MDFC shall have the option to redeem the 2015 Notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.75% beginning on October 15, 2013 to 102.375% beginning on October 15, 2014, plus accrued and unpaid interest to the applicable redemption date.

9.875% Senior Secured Notes Due 2018.

Significant Terms

In August 2010, MDFC issued, through a private placement, \$400 million principal amount of 9.875% senior secured notes due August 2018, at an issue price of 99.315%, resulting in an original issue discount of \$2.7 million. The notes require semi-annual interest payments on February 15 and August 15, which commenced on February 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

At any time prior to August 15, 2014, the notes may be redeemed at 100% of the principal amount thereof, plus a “make-whole premium” and accrued and unpaid interest. In addition, until August 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to August 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after August 15, 2013, MDFC shall have the option to redeem the 2018 Notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.938% beginning on August 15, 2014, to 102.469% beginning on August 15, 2015, to 100% beginning on August 15, 2016 and thereafter, plus accrued and unpaid interest, to the applicable redemption date.

The original issue discount has been recorded as an offset to the principal amount of these notes and is being accreted to interest expense over the term of the notes using the effective interest method. The effective interest rate on the 9.50% notes due 2015 notes is 10.2% and on the 9.875% notes due 2018 is 10.3%.

Repurchase of Senior Secured Notes

During the three and nine months ended September 30, 2011, Borgata repurchased and retired \$8.5 million, principal amount, in total, of their senior secured notes, which included \$2.0 million of the 9.5% notes and \$6.5 million of the 9.875% notes. The total purchase price of the notes was \$8.4 million, resulting in a gain of \$0.1 million, net of associated deferred financing fees, which is recorded on Borgata's condensed consolidated statement of operations for the respective periods.

Registration Rights Agreement

Pursuant to the registration rights agreement entered into with the initial purchasers of these senior secured notes at the time of the private placement, on May 27, 2011, MDFC commenced an offer to exchange all of the outstanding \$400.0 million aggregate principal amount of 9.5% senior secured notes and \$400.0 million aggregate principal amount of 9.875% senior secured notes for new 9.5% senior secured notes due 2015 and 9.875% senior secured notes due 2018, respectively, that have been registered under the Securities Act of 1933. On June 28, 2011, the expiration date of the exchange offer, \$396.4 million of the 9.5% senior secured notes due 2015 and \$400.0 million of the 9.875% senior secured notes due 2018 were validly tendered and accepted for exchange. This amount represents approximately 99.1% of the 9.5% senior secured notes and 100% of the 9.875% senior secured notes, respectively.

#### NOTE 10. DERIVATIVE INSTRUMENTS

We utilize derivative instruments to manage interest rate risk.

Derivatives that are not designated as hedges for accounting purposes must be adjusted to fair value through income. We designated current interest rate swaps as cash flow hedges through September 30, 2010, and measured their effectiveness using the long-haul

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

**Interest Rate Swap Agreements**

The Company previously entered into floating-to-fixed interest rate swap arrangements in order to manage interest rate risk relating to its Amended Credit Facility, which matured on June 30, 2011. We were a party to certain floating-to-fixed interest rate swap agreements with an aggregate notional amount of \$500 million, whereby we received payments based upon the three-month LIBOR and made payments based upon a stipulated fixed rate. These interest rate swap agreements modified the Company's exposure to interest rate risk by synthetically converting a portion of the Company's floating rate debt to a fixed rate. The following presents the activity related to our accounting for the interest rate swaps during the periods in which they were outstanding.

The following table presents the historical fair value of the interest rate swaps recorded in the accompanying condensed consolidated balance sheets as of December 31, 2010, the balance of which are included in other long-term liabilities.

| Effective Date     | December 31, 2010 |            |   |           | Maturity Date |
|--------------------|-------------------|------------|---|-----------|---------------|
|                    | Notional Amount   | Fixed Rate |   | Liability |               |
| September 28, 2007 | \$100,000         | 5.13       | % | \$2,374   | June 30, 2011 |
| September 28, 2007 | 200,000           | 5.14       | % | 4,751     | June 30, 2011 |
| June 30, 2008      | 200,000           | 5.13       | % | 4,746     | June 30, 2011 |
| Totals             | \$500,000         |            |   | \$11,871  |               |

**Hedge Accounting**

These derivative instruments were accounted for as cash flow hedges through September 30, 2010. Accounting for cash flow hedging requires determining a division of hedge results deemed effective and deemed ineffective. However, most of the Company's hedges were designed in such a way so as to perfectly offset specifically-defined interest payments, such that no ineffectiveness has occurred, nor would any ineffectiveness occur, as long as the forecasted cash flows of the designated hedged items and the associated swap contracts remain unchanged.

However, on October 1, 2010, in anticipation of the refinancing of our former bank credit facility, we de-designated all of our interest rate swap agreements as cash flow hedges. Concurrent with the de-designation of the hedging relationship, hedge accounting was suspended and the amount remaining in accumulated other comprehensive loss associated with this cash flow hedging relationship was frozen. This amount was amortized into interest expense over the respective remaining term of the associated debt.

**Fair Value**

Fair value approximates the amount we would pay if these contracts were settled at the respective valuation dates. Fair value is estimated based upon current, and predictions of future, interest rate levels along a yield curve, the remaining duration of the instruments and other market conditions, and therefore, is subject to significant estimation and a high

degree of variability and fluctuation between periods. The fair value is adjusted, to reflect the impact of credit ratings of the counterparties or the Company, as applicable. These adjustments resulted in a reduction in the fair values as compared to their settlement values during the period of dedesignation.

Credit risk relating to derivative counterparties is mitigated by using multiple, highly rated counterparties, and the credit quality of each is monitored on an ongoing basis.

The fair values of our derivative instruments at December 31, 2010 included approximately \$0.2 million 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.

#### Classification of Changes in Fair Value

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The effect of derivative instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 was as follows (in thousands):

| Derivatives in a Cash Flow Hedging Relationship - Interest Rate Swap Contracts   | Gain Recognized in OCI on Derivative (Effective Portion) | Location of Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion) | Gain (Loss) Reclassified from AOCI into Income (Ineffective Portion) |
|----------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Three Months Ended                                                               |                                                          |                                                                                  |                                                                      |
| September 30, 2011                                                               | \$—                                                      | Interest expense                                                                 | \$—                                                                  |
| September 30, 2010                                                               | —                                                        | Interest expense                                                                 | 5,764                                                                |
| Nine Months Ended                                                                |                                                          |                                                                                  |                                                                      |
| September 30, 2011                                                               | —                                                        | Interest expense                                                                 | (11,824)                                                             |
| September 30, 2010                                                               | —                                                        | Interest expense                                                                 | 16,921                                                               |
| Derivatives Not Designated as Hedging Instruments - Interest Rate Swap Contracts |                                                          | Location of Loss Recognized in Income on Derivative (Ineffective Portion)        | Loss Recognized in Income on Derivative (Ineffective Portion)        |
| Three Months Ended September 30, 2011                                            |                                                          | Fair value adjustment of derivative instruments                                  | \$—                                                                  |
| Nine Months Ended September 30, 2011                                             |                                                          | Fair value adjustment of derivative instruments                                  | \$265                                                                |

Due to the maturity of the floating-to-fixed interest rate swaps in June 2011, there was no interest expense recorded during the three months ended September 30, 2011. The net effect of our floating-to-fixed interest rate swaps resulted in an increase in interest expense of \$5.8 million for the three months ended September 30, 2010. We recorded an increase in interest expense of \$11.8 million and \$16.9 million for the nine months ended September 30, 2011 and 2010, respectively, as compared to the contractual rate of the underlying hedged debt, for these periods.

Due to the de-designation of the floating-to-fixed interest rate swaps in 2010, we recognized \$0.3 million loss on the change in fair value of these swap for the nine months ended September 30, 2011. In addition, the Company accreted \$5.8 million for the three months ended September 30, 2010, and amortized \$11.8 million and accreted \$16.9 million during the nine months ended September 30, 2011 and 2010, respectively in OCI related to these, and other derivatives that were previously de-designated as hedging instruments.

## NOTE 11. COMMITMENTS AND CONTINGENCIES

## Commitments

There have been no material changes to our commitments described under Note 12, Commitments and Contingencies, in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 15, 2011.

Contingencies

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

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

and estimate the refund to be in the range of \$17.5 million to \$19.9 million, including interest. In late 2009, the Department audited and denied our refund claim and subsequently issued a \$12.3 million sales tax deficiency assessment, plus interest of \$7.5 million. We appealed both the denial of the refund claim as well as the deficiency assessment in a hearing before the Nevada Administrative Law Judge ("Judge") in September 2010. In April 2011, the judge issued a split decision, granting a refund on employee meals and applying a sales tax measure on complimentary meals; however, the ruling barred retroactive application of the sales tax measure to all years included in the refund claim period, effectively overturning the Department's 2009 deficiency assessment. Both we and the Department appealed the decision, with the exception of the portion related to the deficiency assessment, to the Nevada State Tax Commission (the "Commission"). The Department did not appeal the Judge's decision overturning the 2009 deficiency assessment and therefore, the ruling on the deficiency assessment is final and non-appealable. On August 8, 2011, the Commission remanded the case back to the Judge. The administrative hearing was held on September 26, 2011, at which time we introduced additional supporting documentation. The Judge issued a decision on November 8, 2011, reversing her position on the employee meal refund claim. Such decision also affirmed the denial of the complimentary meal refund, as well as the denial of a retroactive application of the sales tax measure to both employee and complimentary meals. We intend to appeal the decision to the Commission. Due to uncertainty surrounding the ultimate resolution of an appeal to the Commission, as well as subsequent appeals to higher levels of the state judicial system, we will not record any gain until both we and the Department have exhausted all appeal options and a final, non-appealable decision has been rendered. For periods subsequent to May 2008, we have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as we do not believe it is probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

**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's 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 provisional bills received in 2007 through 2011, all of which were based on the 2006 valuation notice. In March 2011, we reached a settlement with the assessor, reducing the valuation by an additional \$96.0 million and \$74.0 million for the 2006 and 2007 tax years, respectively. As a result of the agreement reached on the 2006 and 2007 valuations, we have revised our accrual for years 2008 through 2011 to reflect the expected carryforward effect of the reductions received in the prior year settlements. In October 2011, we reached an agreement with the assessor on valuations for tax years 2008 and 2009. As a result, we further reduced our property tax liability and previously accrued property tax expense by an additional \$3.7 million during the three months ended September 30, 2011, which aggregated to a reduction of \$9.7 million during the nine months ended September 30, 2011. Although we have not received valuation notices for years 2010 through 2011, or final tax rates for the years 2007 through 2011, we believe the assessment for the period from January 1, 2008 through September 30, 2011 could result in a property tax assessment ranging between \$10.0 million and \$15.0 million. We have accrued, net of the payments discussed above, approximately \$14.6 million of property tax liability as of September 30, 2011, 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 tax assessment notices for the period January 1, 2007 through January 1, 2011, which have not been received as of September 30, 2011, could result in further adjustment to our estimated property tax liability at Blue Chip.

#### 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

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 issued a ruling denying the exceptions on August 9, 2010. Copeland's counsel indicated a desire to move forward with the litigation and requested that the parties respond to outstanding discovery. Subsequently, on August 11, 2010, Robert J. Guidry, the co-defendant, filed a third party demand against the U.S. Attorney's Office seeking enforcement of Guidry's plea agreement which would limit Guidry's exposure in the case. On September 9, 2010, the U.S. Attorney's Office removed the suit to the U.S. District Court, Middle District of Louisiana. Pending before the District Court are a motion to dismiss for failing to state a cause of action filed by Guidry, asserting the same arguments he tried in state court, which the Company joined, and a motion to dismiss for lack of subject matter jurisdiction filed by the U.S. Attorney, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19<sup>th</sup> Judicial District Court, East Baton Rouge Parish, State of Louisiana. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

We are 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 12. STOCKHOLDERS' EQUITY AND STOCK INCENTIVE PLANS

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. 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.

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. 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.

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.

During the nine months ended September 30, 2011 or 2010, we did not repurchase any shares of our common stock. We are currently authorized to repurchase up to an additional \$92.1 million in shares of our common stock under the share repurchase program.

#### Dividends

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

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

nine months ended September 30, 2011 or 2010.

**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<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|----------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                        | 2011                                | 2010    | 2011                               | 2010    |
|                                        | (In thousands)                      |         |                                    |         |
| Gaming                                 | \$53                                | \$57    | \$157                              | \$205   |
| Food and beverage                      | 10                                  | 10      | 30                                 | 38      |
| Room                                   | 5                                   | 5       | 14                                 | 18      |
| Selling, general and administrative    | 265                                 | 447     | 796                                | 1,292   |
| Corporate expense                      | 1,454                               | 1,877   | 6,743                              | 6,571   |
| Total share-based compensation expense | \$1,787                             | \$2,396 | \$7,740                            | \$8,124 |

**NOTE 13. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Comprehensive income includes net income and all other non-stockholder changes in equity, or other comprehensive income. Components of the Company's comprehensive income are reported in the accompanying condensed consolidated statements of stockholders' equity. The cumulative balance of other comprehensive income consists solely of fair value adjustments related to hedged derivative instruments.

A portion of the net derivative instruments market adjustment included in accumulated other comprehensive loss, net, at September 30, 2011 relates to certain derivative instruments that we de-designated as cash flow hedges.

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

|                                                             | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                             | 2011                                | 2010    | 2011                               | 2010     |
|                                                             | (In thousands)                      |         |                                    |          |
| Fair value adjustment of derivative instruments             | \$—                                 | \$3,780 | \$11,824                           | \$10,598 |
| Tax effect                                                  | —                                   | (1,348) | (4,230)                            | (3,756)  |
| Fair value adjustment of derivative instruments, net of tax | \$—                                 | \$2,432 | \$7,594                            | \$6,842  |

**NOTE 14. NONCONTROLLING INTEREST**

Noncontrolling interest represents: (i) the 50% interest in Borgata, held by the Divestiture Trust for the economic benefit of MGM, which was initially recorded at fair value at the date of the effective change in control, on March 24,

2010; and (ii) all 100% of the members' equity interest in LVE, the variable interest entity which was consolidated in our financial statements effective January 1, 2010, but in which we hold no equity interest. Pursuant to the authoritative accounting guidance for noncontrolling interests, a noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance, as is the case with LVE, as presented below.

Changes in the noncontrolling interest during the nine months ended September 30, 2011 are as follows:

43

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Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                      | Borgata<br>(In thousands) | LVE         | Total     |
|--------------------------------------|---------------------------|-------------|-----------|
| Nine Months Ended September 30, 2011 |                           |             |           |
| Beginning balance, January 1, 2011   | \$219,256                 | \$(13,718 ) | \$205,538 |
| Attributable net loss                | 1,642                     | (3,252 )    | (1,610 )  |
| Comprehensive loss                   | —                         | (688 )      | (688 )    |
| Ending Balance, September 30, 2011   | \$220,898                 | \$(17,658 ) | \$203,240 |

## LVE

## Comprehensive Income

LVE has entered into interest rate derivative contracts in order to hedge exposure to increasing interest rates, and the impact of those rates on the cash flows of its variable-rate debt. LVE's active interest rate swaps are as follows (notional amount in thousands):

| Effective Date                                     | Notional<br>Amount | Fixed Rate | Maturity Date      |
|----------------------------------------------------|--------------------|------------|--------------------|
| Derivatives Designated as Hedging Instruments:     |                    |            |                    |
| December 21, 2007                                  | \$131,986          | 4.59       | % November 1, 2013 |
| Derivatives Not Designated as Hedging Instruments: |                    |            |                    |
| December 21, 2007                                  | 100,000            | 3.42       | % November 1, 2013 |
| Totals                                             | \$231,986          |            |                    |

These derivatives were de-designated in July 2011.

At inception, these interest rate derivatives were designated as cash flow hedges and determined to be highly effective. The differential to be paid or received as a result of these swaps is accrued as interest rates change and is recognized as an adjustment to interest expense. The change in fair value of the effective portion of these derivative has been recorded in accumulated other comprehensive loss. During the three and nine months ended September 30, 2011, LVE recognized a gain of \$0.1 million and a loss of \$0.7 million, respectively, in comprehensive income related to the changes in the fair value of the effective portion of these hedges.

Prior to January 1, 2010, the date LVE is first reflected in our financial condition and results of operations, hedge accounting was discontinued on the interest rate swap related to the taxable debt because it was no longer expected to be highly effective in hedging the exposure to increased interest rates and the impact of those rates on cash flows. The ineffective portion of the swap caused the variable-rate debt to increase at a slower pace than the contractual increases in notional amount of the swap.

## NOTE 15. 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 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 — (Continued)

(Unaudited)

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 tables show the fair values of certain of our financial instruments.

|                           | September 30, 2011 |                           |           |         |
|---------------------------|--------------------|---------------------------|-----------|---------|
|                           | Balance            | Level 1<br>(In thousands) | Level 2   | Level 3 |
| Assets                    |                    |                           |           |         |
| Cash and cash equivalents | \$ 187,118         | \$ 187,118                | \$—       | \$—     |
|                           |                    |                           |           |         |
|                           | December 31, 2010  |                           |           |         |
|                           | Balance            | Level 1<br>(In thousands) | Level 2   | Level 3 |
| Assets                    |                    |                           |           |         |
| Cash and cash equivalents | \$ 145,623         | \$ 145,623                | \$—       | \$—     |
|                           |                    |                           |           |         |
| Liabilities               |                    |                           |           |         |
| Derivative instruments    | \$ 11,871          | \$—                       | \$ 11,871 | \$—     |

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 September 30, 2011 and December 31, 2010.

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. See Note 10, Derivative Instruments for further discussion regarding the fair valuation of our interest rate swaps.

## Balances Disclosed at Fair Value

The following table provides the fair value measurement information about our long-term debt at September 30, 2011 and December 31, 2010.

|                                           | September 30, 2011                        |                | Estimated Fair Value | Fair Value Hierarchy |
|-------------------------------------------|-------------------------------------------|----------------|----------------------|----------------------|
|                                           | Outstanding Face Amount<br>(In thousands) | Carrying Value |                      |                      |
| Bank credit facility                      | \$ 1,423,147                              | \$ 1,423,147   | \$ 1,328,998         | Level 2              |
| 9.125% Senior Notes due 2018              | 500,000                                   | 491,134        | 424,585              | Level 1              |
| 6.75% Senior Subordinated Notes due 2014  | 215,668                                   | 215,668        | 198,173              | Level 1              |
| 7.125% Senior Subordinated Notes due 2016 | 240,750                                   | 240,750        | 181,526              | Level 1              |
| Borgata bank credit facility              | 15,000                                    | 15,000         | 15,000               | Level 2              |

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|                                                    |             |             |             |         |
|----------------------------------------------------|-------------|-------------|-------------|---------|
| Borgata 9.50% Senior Secured Notes due 2015        | 398,000     | 386,452     | 364,170     | Level 1 |
| Borgata 9.875% Senior Secured Notes due 2018       | 393,500     | 382,274     | 348,248     | Level 1 |
| Other                                              | 11,248      | 11,248      | 10,686      | Level 3 |
| Total long-term debt, including current maturities | \$3,197,313 | \$3,165,673 | \$2,871,386 |         |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                    | December 31, 2010                            |                |                         |                         |
|----------------------------------------------------|----------------------------------------------|----------------|-------------------------|-------------------------|
|                                                    | Outstanding<br>Face Amount<br>(In thousands) | Carrying Value | Estimated Fair<br>Value | Fair Value<br>Hierarchy |
| Bank credit facility                               | \$1,425,000                                  | \$1,425,000    | \$1,346,625             | Level 2                 |
| 9.125% Senior Notes due 2018                       | 500,000                                      | 490,206        | 487,755                 | Level 1                 |
| 6.75% Senior Subordinated Notes due 2014           | 215,668                                      | 215,668        | 212,163                 | Level 1                 |
| 7.125% Senior Subordinated Notes due 2016          | 240,750                                      | 240,750        | 217,879                 | Level 1                 |
| Borgata bank credit facility                       | 60,900                                       | 60,900         | 60,900                  | Level 2                 |
| Borgata 9.50% Senior Secured Notes due 2015        | 400,000                                      | 386,712        | 375,111                 | Level 1                 |
| Borgata 9.875% Senior Secured Notes due 2018       | 400,000                                      | 387,758        | 379,518                 | Level 1                 |
| Other                                              | 11,761                                       | 11,761         | 11,173                  | Level 3                 |
| Total long-term debt, including current maturities | \$3,254,079                                  | \$3,218,755    | \$3,091,124             |                         |

The estimated fair value of the Amended Credit Facility is based on a relative value analysis performed on or about September 30, 2011 and December 31, 2010, respectively. The estimated fair value of Borgata's bank credit facility at September 30, 2011 and December 31, 2010 approximates its carrying value due to the short-term nature and variable repricing of the underlying Eurodollar loans comprising the Borgata bank credit facility. The estimated fair values of our senior subordinated and senior notes and Borgata's senior secured notes are based on quoted market prices as of September 30, 2011 and December 31, 2010, 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 nine months ended September 30, 2011 or the year ended December 31, 2010.

## Fair Value of Non-Recourse Obligations of Variable Interest Entity

At September 30, 2011 and December 31, 2010, the carrying value of LVE's long-term debt approximates its fair value due to the prevailing interest rates on the debt, which are comparable to market.

## NOTE 16. WRITE-DOWNS AND OTHER ITEMS, NET

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

|                                | Three Months Ended<br>September 30,<br>2011 |       | Nine Months Ended<br>September 30,<br>2011 |       |
|--------------------------------|---------------------------------------------|-------|--------------------------------------------|-------|
|                                | 2010                                        |       | 2010                                       |       |
|                                | In thousands                                |       |                                            |       |
| Impairment of trademark        | \$—                                         | \$—   | \$5,000                                    | \$—   |
| Measurement period adjustments | —                                           | —     | (473                                       | ) —   |
| Asset write-downs              | (3                                          | ) 262 | 926                                        | 274   |
| Acquisition related expenses   | 1,874                                       | 1,078 | 2,244                                      | 4,658 |

|                                          |         |         |         |         |
|------------------------------------------|---------|---------|---------|---------|
| Tunica flood expenses, net of recoveries | 429     | —       | 1,572   | —       |
| Total write-downs and other items, net   | \$2,300 | \$1,340 | \$9,269 | \$4,932 |

#### Impairment of Trademark

As discussed in Note 5, Intangible Assets, during the nine months ended September 30, 2011, we recorded a \$5.0 million impairment to the trademark, based upon the performance of an interim impairment test in connection with the valuation of Borgata.

#### Measurement Period Adjustments

In connection with the valuation procedures we performed on Borgata, we recorded measurement adjustments of \$0.5 million during the nine months ended September 30, 2011, which were primarily comprised of a \$0.3 million bargain purchase gain.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Asset Write-Downs

During the three months ended September 30, 2010, we recognized a loss of \$0.3 million in connection with the disposal of certain property and equipment in the ordinary course of business. During the nine months ended September 30, 2011 and 2010, we recognized losses of \$0.9 million and \$0.3 million, respectively, in connection with the disposal of certain property and equipment in the ordinary course of business.

Acquisition Related Expenses

During the three months ended September 30, 2011 and 2010, we recorded \$1.9 million and \$1.1 million of expenses related to evaluating various acquisition possibilities and other business development activities. During the nine months ended September 30, 2011 and 2010, we recorded \$2.2 million and \$4.7 million of expenses related to evaluating various acquisition possibilities and other business development activities.

Tunica Flood Expenses, Net of Recoveries

Due to flooding of the Mississippi River and temporary closure of the property in May 2011, during the three and nine months ended September 30, 2011, we recorded \$0.4 million and \$1.6 million of Tunica flood expenses, net of recoveries.

NOTE 17. 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. The table below lists the classification of each of our properties.

Las Vegas Locals

|                                    |                   |
|------------------------------------|-------------------|
| Gold Coast Hotel and Casino        | Las Vegas, Nevada |
| The Orleans Hotel and Casino       | Las Vegas, Nevada |
| Sam's Town Hotel and Gambling Hall | Las Vegas, Nevada |
| Suncoast Hotel and Casino          | Las Vegas, Nevada |
| Eldorado Casino                    | Henderson, Nevada |
| Jokers Wild Casino                 | Henderson, Nevada |

Downtown Las Vegas

|                                               |                   |
|-----------------------------------------------|-------------------|
| California Hotel and Casino                   | Las Vegas, Nevada |
| Fremont Hotel and Casino                      | Las Vegas, Nevada |
| Main Street Station Casino, Brewery and Hotel | Las Vegas, Nevada |

Midwest and South

|                                      |                        |
|--------------------------------------|------------------------|
| Sam's Town Hotel and Gambling Hall   | Tunica, Mississippi    |
| Par-A-Dice Hotel Casino              | East Peoria, Illinois  |
| Blue Chip Casino, Hotel & Spa        | Michigan City, Indiana |
| Treasure Chest Casino                | Kenner, Louisiana      |
| Delta Downs Racetrack Casino & Hotel | Vinton, Louisiana      |
| Sam's Town Hotel and Casino          | Shreveport, Louisiana  |

Atlantic City  
Borgata Hotel Casino & Spa

Atlantic City, New Jersey

Results of Operations - Adjusted EBITDA

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 compensation expense, deferred rent, change in value of derivative instruments, and gain/loss on early retirements of debt, 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, and Midwest and South segments, and also includes our share of Borgata's

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

operating income before net amortization, preopening and other items.

Results for Downtown Las Vegas include the results of our travel agency and captive insurance company. Effective April 1, 2008, we reclassified the reporting of our Midwest and South segment to exclude the results of Dania Jai-Alai, our pari-mutuel jai-alai facility, since it does not share similar economic characteristics with our other Midwest and South operations; therefore, the results of Dania Jai-Alai are included as part of the “Other” category on the accompanying table.

We reclassify the reporting of corporate expense on the accompanying table in order to exclude it from our subtotal for Reportable Segment Adjusted EBITDA and include it as part of total other operating costs and expenses. Furthermore, corporate expense is now presented to include its portion of share-based compensation expense. Corporate expense represents unallocated payroll, professional fees, aircraft expenses and various other expenses not directly related to our casino and hotel operations, in addition to the corporate portion of share-based compensation expense. Other operating costs and expenses include Property EBITDA from Dania Jai-Alai, deferred rent, and share-based compensation expense charged to our Reportable Segments. Interest expense is net of interest income and amounts capitalized.

The following table sets forth, for the periods indicated, certain operating data for our Reportable Segments, and reconciles Adjusted EBITDA to operating income (loss), as reported in our accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010.

|                                         | Three Months Ended<br>September 30,<br>2011 |           | Nine Months Ended<br>September 30,<br>2011 |             |
|-----------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-------------|
|                                         | 2010                                        |           | 2010                                       |             |
|                                         | (In thousands)                              |           |                                            |             |
| Net Revenues                            |                                             |           |                                            |             |
| Las Vegas Locals                        | \$145,915                                   | \$145,593 | \$452,270                                  | \$455,243   |
| Downtown Las Vegas                      | 53,327                                      | 51,898    | 165,578                                    | 161,088     |
| Midwest and South                       | 187,906                                     | 188,695   | 553,787                                    | 556,221     |
| Atlantic City                           | 202,018                                     | 207,687   | 553,864                                    | 411,355     |
| Reportable Segment Net Revenues         | 589,166                                     | 593,873   | 1,725,499                                  | 1,583,907   |
| Other                                   | 1,049                                       | 1,505     | 4,065                                      | 5,052       |
| Net revenues                            | \$590,215                                   | \$595,378 | \$1,729,564                                | \$1,588,959 |
| Reportable Segment Adjusted EBITDA      |                                             |           |                                            |             |
| Las Vegas Locals                        | \$30,793                                    | \$26,116  | \$109,006                                  | \$103,339   |
| Downtown Las Vegas                      | 6,005                                       | 5,679     | 24,375                                     | 23,361      |
| Midwest and South                       | 44,524                                      | 38,407    | 128,011                                    | 113,276     |
| Atlantic City                           | 50,287                                      | 54,319    | 120,626                                    | 102,182     |
| Our share of Borgata's operating income |                                             |           |                                            | 8,180       |
| Reportable Segment Adjusted EBITDA      | \$131,609                                   | \$124,521 | \$382,018                                  | \$350,338   |
| Other operating costs and expenses      |                                             |           |                                            |             |
| Depreciation and amortization           | \$46,034                                    | \$52,451  | \$145,106                                  | \$147,905   |
| Corporate expense                       | 11,025                                      | 11,021    | 36,569                                     | 36,636      |

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|                                                         |          |          |           |           |
|---------------------------------------------------------|----------|----------|-----------|-----------|
| Preopening expenses                                     | 1,720    | 2,684    | 5,292     | 4,990     |
| Our share of Borgata's other items and write-downs, net | —        | —        | —         | 34        |
| Write-downs and other items, net                        | 2,300    | 1,340    | 9,269     | 4,932     |
| Other                                                   | 2,366    | 2,542    | 7,524     | 7,652     |
| Total other operating costs and expenses                | 63,445   | 70,038   | 203,760   | 202,149   |
| Operating income                                        | \$68,164 | \$54,483 | \$178,258 | \$148,189 |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Operating Income from Borgata

The following table reconciles our operating income from Borgata, as reported in our condensed consolidated statements of operations, to the Atlantic City Reportable Segment Adjusted EBITDA, as reported above:

|                                                                                             | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |         |
|---------------------------------------------------------------------------------------------|-------------------------------------|------|------------------------------------|---------|
|                                                                                             | 2011                                | 2010 | 2011                               | 2010    |
|                                                                                             | In thousands                        |      |                                    |         |
| Operating income from Borgata                                                               | \$—                                 | \$—  | \$—                                | \$8,146 |
| Our share of Borgata's write-downs and other items, net                                     | —                                   | —    | —                                  | 34      |
| Our share of Borgata's operating income before net amortization, preopening and other items | \$—                                 | \$—  | \$—                                | \$8,180 |

As discussed above, Borgata's results of operations for the three and nine months ended September 30, 2011 and for the period from July 1, 2010 through September 30, 2010 and March 24 through September 30, 2010 are included in our condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, respectively.

## Total Assets

The Company's total assets, by Reportable Segment, consisted of the following amounts at September 30, 2011 and December 31, 2010:

|                                 | September 30,<br>2011 | December 31,<br>2010 |
|---------------------------------|-----------------------|----------------------|
|                                 | (In thousands)        |                      |
| Assets                          |                       |                      |
| Las Vegas Locals                | \$1,250,101           | \$1,284,160          |
| Downtown Las Vegas              | 131,832               | 136,868              |
| Midwest and South               | 1,088,407             | 1,117,959            |
| Atlantic City                   | 1,421,326             | 1,433,265            |
| Total Reportable Segment assets | 3,891,666             | 3,972,252            |
| Corporate                       | 1,488,640             | 1,428,763            |
| Other                           | 258,516               | 288,274              |
| Total assets                    | \$5,638,822           | \$5,689,289          |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## NOTE 18. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Separate condensed consolidating financial information for our subsidiary guarantors and non-guarantors of our 9.125% senior notes due 2018 is presented below. The non-guarantors primarily represent special purpose entities, tax holding companies, our less significant operating subsidiaries and our less than wholly-owned subsidiaries.

The tables below present the condensed consolidating balance sheets as of September 30, 2011 and December 31, 2010 and the condensed consolidating statements of operations for the three and nine month periods ended September 30, 2011 and 2010 and the condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010.

## Condensed Consolidating Balance Sheets

|                                      | September 30, 2011 |                        | Non-Guarantor Non-Guarantor                 |                               |                |         |              |
|--------------------------------------|--------------------|------------------------|---------------------------------------------|-------------------------------|----------------|---------|--------------|
|                                      | Parent             | Guarantor Subsidiaries | Subsidiaries (100% Owned)<br>(In thousands) | Subsidiaries (Not 100% Owned) | Eliminations   |         | Consolidated |
| Assets                               |                    |                        |                                             |                               |                |         |              |
| Cash and cash equivalents            | \$75,603           | \$76,185               | \$3,145                                     | \$ 32,185                     | \$—            |         | \$187,118    |
| Other current assets                 | 15,570             | 67,686                 | 16,951                                      | 46,215                        | —              |         | 146,422      |
| Property and equipment, net          | 109,909            | 1,882,468              | 72,562                                      | 1,231,457                     | —              |         | 3,296,396    |
| Assets held for development          | —                  | 923,793                | —                                           | 196,052                       | —              |         | 1,119,845    |
| Investments in subsidiaries          | 3,721,284          | 262,357                | 32                                          | 4,175                         | (3,987,848 )   |         | —            |
| Intercompany receivable              | —                  | 634,230                | —                                           | —                             | (634,230 )     |         | —            |
| Other assets, net                    | 78,833             | (21,388 )              | 2,898                                       | 68,047                        | —              |         | 128,390      |
| Intangible assets, net               | 21,373             | 459,933                | —                                           | 65,769                        | —              |         | 547,075      |
| Goodwill, net                        | —                  | 212,794                | 782                                         | —                             | —              |         | 213,576      |
| Total assets                         | \$4,022,572        | \$4,498,058            | \$96,370                                    | \$ 1,643,900                  | \$(4,622,078 ) |         | \$5,638,822  |
| Liabilities and Stockholders' Equity |                    |                        |                                             |                               |                |         |              |
| Current maturities of long-term debt | \$362,878          | \$720                  | \$—                                         | \$—                           | \$—            | —       | \$363,598    |
| Non-recourse obligations             | —                  | —                      | —                                           | 221,912                       | —              | 243,059 | 221,912      |
| Current liabilities                  | 51,861             | 182,205                | 14,899                                      | 114,834                       | —              |         | 363,799      |

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|                                                              |             |             |            |              |                |             |
|--------------------------------------------------------------|-------------|-------------|------------|--------------|----------------|-------------|
| Intercompany payable                                         | 378,661     | —           | 192,900    | —            | (571,561 )     | —           |
| Long-term debt, net of current maturities                    | 2,007,821   | 10,528      | —          | 783,726      | —              | 2,802,075   |
| Other long-term liabilities                                  | 20,699      | 403,686     | 1,401      | 57,760       | —              | 483,546     |
| Preferred stock                                              | —           | —           | —          | —            | —              | —           |
| Common stock                                                 | 863         | 31,128      | 32         | —            | (31,160 )      | 863         |
| Additional paid-in capital                                   | 642,243     | 2,914,250   | 41,724     | 476,733      | (3,432,707 )   | 642,243     |
| Retained earnings (deficit)                                  | 557,546     | 955,541     | (154,586 ) | (11,065 )    | (789,890 )     | 557,546     |
| Total Boyd Gaming Corporation stockholders' equity (deficit) | 1,200,652   | 3,900,919   | (112,830 ) | 465,668      | (4,253,757 )   | 1,200,652   |
| Noncontrolling interest                                      | —           | —           | —          | —            | 203,240        | 203,240     |
| Total stockholders' equity (deficit)                         | 1,200,652   | 3,900,919   | (112,830 ) | 465,668      | (4,050,517 )   | 1,403,892   |
| Total liabilities and stockholders' equity                   | \$4,022,572 | \$4,498,058 | \$96,370   | \$ 1,643,900 | \$(4,622,078 ) | \$5,638,822 |
| Condensed Consolidating Balance Sheets, continued            |             |             |            |              |                |             |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

|                                                                     | December 31, 2010 |                           | Non-Guarantor                                     | Non-Guarantor                       |                |              |
|---------------------------------------------------------------------|-------------------|---------------------------|---------------------------------------------------|-------------------------------------|----------------|--------------|
|                                                                     | Parent            | Guarantor<br>Subsidiaries | Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Subsidiaries<br>(Not 100%<br>Owned) | Eliminations   | Consolidated |
| <b>Assets</b>                                                       |                   |                           |                                                   |                                     |                |              |
| Cash and cash equivalents                                           | \$11,231          | \$88,282                  | \$3,679                                           | \$ 42,431                           | \$—            | \$145,623    |
| Other current assets                                                | 10,395            | 61,829                    | 15,246                                            | 46,546                              | —              | 134,016      |
| Property and equipment, net                                         | 111,921           | 1,939,834                 | 77,949                                            | 1,253,667                           | —              | 3,383,371    |
| Assets held for development                                         | —                 | 923,038                   | —                                                 | 196,365                             | —              | 1,119,403    |
| Investments in subsidiaries                                         | 3,373,486         | 424,707                   | —                                                 | 5,185                               | (3,803,378 )   | —            |
| Intercompany receivable                                             | 50,824            | —                         | 69,931                                            | —                                   | (120,755 )     | —            |
| Other assets, net                                                   | 73,420            | 46,885                    | 2,979                                             | 89,836                              | (59,534 )      | 153,586      |
| Intangible assets, net                                              | —                 | 460,714                   | —                                                 | 79,000                              | —              | 539,714      |
| Goodwill, net                                                       | —                 | 212,794                   | 782                                               | —                                   | —              | 213,576      |
| Total assets                                                        | \$3,631,277       | \$4,158,083               | \$170,566                                         | \$ 1,713,030                        | \$(3,983,667 ) | \$5,689,289  |
| <b>Liabilities and Stockholders' Equity</b>                         |                   |                           |                                                   |                                     |                |              |
| <b>Current maturities of long-term debt</b>                         |                   |                           |                                                   |                                     |                |              |
| Current maturities of long-term debt                                | \$25,000          | \$690                     | \$—                                               | \$ —                                | \$—            | \$25,690     |
| <b>Non-recourse obligations</b>                                     |                   |                           |                                                   |                                     |                |              |
| Non-recourse obligations                                            | —                 | —                         | —                                                 | 243,059                             | —              | 243,059      |
| <b>Current liabilities</b>                                          |                   |                           |                                                   |                                     |                |              |
| Current liabilities                                                 | 39,663            | 175,870                   | 17,462                                            | 109,161                             | —              | 342,156      |
| <b>Intercompany payable</b>                                         |                   |                           |                                                   |                                     |                |              |
| Intercompany payable                                                | —                 | 472,794                   | 246,144                                           | —                                   | (718,938 )     | —            |
| <b>Long-term debt, net of current maturities</b>                    |                   |                           |                                                   |                                     |                |              |
| Long-term debt, net of current maturities                           | 2,346,623         | 11,072                    | —                                                 | 835,370                             | —              | 3,193,065    |
| <b>Other long-term liabilities</b>                                  |                   |                           |                                                   |                                     |                |              |
| Other long-term liabilities                                         | 30,786            | 399,148                   | 1,538                                             | 59,104                              | —              | 490,576      |
| <b>Preferred stock</b>                                              |                   |                           |                                                   |                                     |                |              |
| Preferred stock                                                     | —                 | —                         | —                                                 | —                                   | —              | —            |
| <b>Common stock</b>                                                 |                   |                           |                                                   |                                     |                |              |
| Common stock                                                        | 862               | 30,298                    | 32                                                | —                                   | (30,330 )      | 862          |
| <b>Additional paid-in capital</b>                                   |                   |                           |                                                   |                                     |                |              |
| Additional paid-in capital                                          | 635,028           | 2,320,477                 | 41,724                                            | 421,472                             | (2,783,673 )   | 635,028      |
| <b>Retained earnings (deficit)</b>                                  |                   |                           |                                                   |                                     |                |              |
| Retained earnings (deficit)                                         | 560,909           | 747,734                   | (136,334 )                                        | 44,864                              | (656,264 )     | 560,909      |
| <b>Accumulated other comprehensive loss</b>                         |                   |                           |                                                   |                                     |                |              |
| Accumulated other comprehensive loss                                | (7,594 )          | —                         | —                                                 | —                                   | —              | (7,594 )     |
| <b>Total Boyd Gaming Corporation stockholders' equity (deficit)</b> |                   |                           |                                                   |                                     |                |              |
| Total Boyd Gaming Corporation stockholders' equity (deficit)        | 1,189,205         | 3,098,509                 | (94,578 )                                         | 466,336                             | (3,470,267 )   | 1,189,205    |
| <b>Noncontrolling interest</b>                                      |                   |                           |                                                   |                                     |                |              |
| Noncontrolling interest                                             | —                 | —                         | —                                                 | —                                   | 205,538        | 205,538      |
| <b>Total stockholders' equity (deficit)</b>                         |                   |                           |                                                   |                                     |                |              |
| Total stockholders' equity (deficit)                                | 1,189,205         | 3,098,509                 | (94,578 )                                         | 466,336                             | (3,264,729 )   | 1,394,743    |
| <b>Total liabilities and stockholders' equity</b>                   |                   |                           |                                                   |                                     |                |              |
| Total liabilities and stockholders' equity                          | \$3,631,277       | \$4,158,083               | \$170,566                                         | \$ 1,713,030                        | \$(3,983,667 ) | \$5,689,289  |



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Operations

|                                                              | Three months ended September 30, 2011 |                           |                                                                    |                                                      |              |              |
|--------------------------------------------------------------|---------------------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|--------------|--------------|
|                                                              | Parent                                | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) | Eliminations | Consolidated |
| Net revenues                                                 | \$39,028                              | \$374,328                 | \$13,869                                                           | \$204,742                                            | \$(41,752)   | ) \$590,215  |
| Costs and expenses                                           |                                       |                           |                                                                    |                                                      |              |              |
| Operating                                                    | —                                     | 207,138                   | 14,033                                                             | 102,575                                              | —            | 323,746      |
| Selling, general and<br>administrative                       | —                                     | 61,739                    | 1,703                                                              | 32,859                                               | —            | 96,301       |
| Maintenance and utilities                                    | —                                     | 23,067                    | 1,182                                                              | 16,676                                               | —            | 40,925       |
| Depreciation and amortization                                | 2,158                                 | 27,943                    | 770                                                                | 15,163                                               | —            | 46,034       |
| Corporate expense                                            | 23,160                                | 76,993                    | 1,157                                                              | —                                                    | (90,285)     | ) 11,025     |
| Preopening expenses                                          | 229                                   | 1,176                     | 4,039                                                              | —                                                    | (3,724)      | ) 1,720      |
| Write-downs and other items,<br>net                          | 1,875                                 | 428                       | 4                                                                  | (7                                                   | ) —          | 2,300        |
| Total costs and expenses                                     | 27,422                                | 398,484                   | 22,888                                                             | 167,266                                              | (94,009)     | ) 522,051    |
| Equity in earnings of<br>subsidiaries                        | 16,322                                | 24,950                    | —                                                                  | —                                                    | (41,272)     | ) —          |
| Operating income                                             | 27,928                                | 794                       | (9,019)                                                            | ) 37,476                                             | 10,985       | 68,164       |
| Other expense (income)                                       |                                       |                           |                                                                    |                                                      |              |              |
| Interest expense, net                                        | 33,902                                | 170                       | —                                                                  | 25,996                                               | —            | 60,068       |
| Other income                                                 | (1,000)                               | ) —                       | —                                                                  | —                                                    | —            | (1,000)      |
| Gain on early retirement of<br>debt                          | —                                     | —                         | —                                                                  | (54                                                  | ) —          | (54)         |
| Total other expense, net                                     | 32,902                                | 170                       | —                                                                  | 25,942                                               | —            | 59,014       |
| Income (loss) before income<br>taxes                         | (4,974)                               | ) 624                     | (9,019)                                                            | ) 11,534                                             | 10,985       | 9,150        |
| Income taxes                                                 | 8,083                                 | (15,244)                  | ) 6,458                                                            | (1,467)                                              | ) —          | (2,170)      |
| Net income (loss)                                            | 3,109                                 | (14,620)                  | ) (2,561)                                                          | ) 10,067                                             | 10,985       | 6,980        |
| Net loss attributable to<br>controlling interest             | —                                     | —                         | —                                                                  | —                                                    | (3,871)      | ) (3,871)    |
| Net income (loss) attributable<br>to Boyd Gaming Corporation | \$3,109                               | \$(14,620)                | ) \$(2,561)                                                        | ) \$10,067                                           | \$7,114      | \$3,109      |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Operations, continued

|                                                              | Three months ended September 30, 2010 |                           |                                                                    |                                                      |              |              |
|--------------------------------------------------------------|---------------------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|--------------|--------------|
|                                                              | Parent                                | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) | Eliminations | Consolidated |
| Net revenues                                                 | \$33,574                              | \$375,916                 | \$12,506                                                           | \$ 207,688                                           | \$(34,306 )  | \$595,378    |
| Costs and expenses                                           |                                       |                           |                                                                    |                                                      |              |              |
| Operating                                                    | —                                     | 211,371                   | 13,689                                                             | 104,981                                              | —            | 330,041      |
| Selling, general and<br>administrative                       | —                                     | 67,337                    | 2,187                                                              | 31,173                                               | —            | 100,697      |
| Maintenance and utilities                                    | —                                     | 24,174                    | 1,272                                                              | 17,215                                               | —            | 42,661       |
| Depreciation and amortization                                | 2,914                                 | 32,893                    | 191                                                                | 16,453                                               | —            | 52,451       |
| Corporate expense                                            | 12,513                                | 72,071                    | 2,131                                                              | —                                                    | (75,694 )    | 11,021       |
| Preopening expenses                                          | 553                                   | 4,355                     | (2,224 )                                                           | —                                                    | —            | 2,684        |
| Write-downs and other items,<br>net                          | 1,078                                 | 69                        | 197                                                                | (4 )                                                 | —            | 1,340        |
| Total costs and expenses                                     | 17,058                                | 412,270                   | 17,443                                                             | 169,818                                              | (75,694 )    | 540,895      |
| Equity in earnings of<br>subsidiaries                        | 14,600                                | 4,160                     | —                                                                  | —                                                    | (18,760 )    | —            |
| Operating income                                             | 31,116                                | (32,194 )                 | (4,937 )                                                           | 37,870                                               | 22,628       | 54,483       |
| Other expense (income)                                       |                                       |                           |                                                                    |                                                      |              |              |
| Interest expense, net                                        | 28,326                                | (1,635 )                  | 1,815                                                              | 17,275                                               | —            | 45,781       |
| Other income                                                 | —                                     | (12,535 )                 | —                                                                  | —                                                    | —            | (12,535 )    |
| Total other expense, net                                     | 28,326                                | (14,170 )                 | 1,815                                                              | 17,275                                               | —            | 33,246       |
| Income (loss) before income<br>taxes                         | 2,790                                 | (18,024 )                 | (6,752 )                                                           | 20,595                                               | 22,628       | 21,237       |
| Income taxes                                                 | 2,801                                 | (11,377 )                 | 4,251                                                              | (2,046 )                                             | —            | (6,371 )     |
| Net income (loss)                                            | 5,591                                 | (29,401 )                 | (2,501 )                                                           | 18,549                                               | 22,628       | 14,866       |
| Net loss attributable to<br>noncontrolling interest          | —                                     | —                         | —                                                                  | —                                                    | (9,275 )     | (9,275 )     |
| Net income (loss) attributable<br>to Boyd Gaming Corporation | \$5,591                               | \$(29,401 )               | \$(2,501 )                                                         | \$ 18,549                                            | \$13,353     | \$5,591      |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Operations, continued

|                                                           | Nine months ended September 30, 2011 |                           |                                                                    |                                                      |              |              |
|-----------------------------------------------------------|--------------------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|--------------|--------------|
|                                                           | Parent                               | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) | Eliminations | Consolidated |
| Net revenues                                              | \$ 115,728                           | \$ 1,133,248              | \$42,452                                                           | \$ 561,998                                           | \$(123,862 ) | \$ 1,729,564 |
| Costs and expenses                                        |                                      |                           |                                                                    |                                                      |              |              |
| Operating                                                 | —                                    | 618,299                   | 43,086                                                             | 289,700                                              | —            | 951,085      |
| Selling, general and administrative                       | —                                    | 186,489                   | 5,978                                                              | 96,405                                               | —            | 288,872      |
| Maintenance and utilities                                 | —                                    | 63,551                    | 3,119                                                              | 48,443                                               | —            | 115,113      |
| Depreciation and amortization                             | 6,186                                | 86,140                    | 2,203                                                              | 50,577                                               | —            | 145,106      |
| Corporate expense                                         | 71,814                               | 78,405                    | 2,078                                                              | —                                                    | (115,728 )   | 36,569       |
| Preopening expenses                                       | 724                                  | 12,610                    | —                                                                  | 92                                                   | (8,134 )     | 5,292        |
| Write-downs and other items, net                          | 2,244                                | 1,263                     | 4                                                                  | 5,758                                                | —            | 9,269        |
| Total costs and expenses                                  | 80,968                               | 1,046,757                 | 56,468                                                             | 490,975                                              | (123,862 )   | 1,551,306    |
| Equity in earnings of subsidiaries                        | 46,471                               | 19,716                    | —                                                                  | —                                                    | (66,187 )    | —            |
| Operating income                                          | 81,231                               | 106,207                   | (14,016 )                                                          | 71,023                                               | (66,187 )    | 178,258      |
| Other expense (income)                                    |                                      |                           |                                                                    |                                                      |              |              |
| Interest expense, net                                     | 113,472                              | 514                       | —                                                                  | 70,042                                               | —            | 184,028      |
| Fair value adjustment of derivative instruments           | 265                                  | —                         | —                                                                  | —                                                    | —            | 265          |
| Other income                                              | (1,000 )                             | —                         | —                                                                  | —                                                    | —            | (1,000 )     |
| (Gain) loss on early retirements of debt                  | 20                                   | —                         | —                                                                  | (54 )                                                | —            | (34 )        |
| Total other expense, net                                  | 112,757                              | 514                       | —                                                                  | 69,988                                               | —            | 183,259      |
| Income (loss) before income taxes                         | (31,526 )                            | 105,693                   | (14,016 )                                                          | 1,035                                                | (66,187 )    | (5,001 )     |
| Income taxes                                              | 28,163                               | (32,064 )                 | 4,904                                                              | (975 )                                               | —            | 28           |
| Net income (loss)                                         | (3,363 )                             | 73,629                    | (9,112 )                                                           | 60                                                   | (66,187 )    | (4,973 )     |
| Net loss attributable to noncontrolling interest          | —                                    | —                         | —                                                                  | —                                                    | 1,610        | 1,610        |
| Net income (loss) attributable to Boyd Gaming Corporation | \$(3,363 )                           | \$ 73,629                 | \$(9,112 )                                                         | \$ 60                                                | \$(64,577 )  | \$(3,363 )   |



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Operations, continued

|                                                           | Nine months ended September 30, 2010 |                           |                                                                    |                                                      |              |              |
|-----------------------------------------------------------|--------------------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|--------------|--------------|
|                                                           | Parent                               | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) | Eliminations | Consolidated |
| Net revenues                                              | \$103,400                            | \$1,131,724               | \$46,611                                                           | \$ 411,356                                           | \$(104,132 ) | \$1,588,959  |
| Costs and expenses                                        |                                      |                           |                                                                    |                                                      |              |              |
| Operating                                                 | —                                    | 627,911                   | 41,767                                                             | 209,364                                              | —            | 879,042      |
| Selling, general and administrative                       | —                                    | 199,487                   | 6,681                                                              | 64,473                                               | —            | 270,641      |
| Maintenance and utilities                                 | —                                    | 66,075                    | 3,358                                                              | 35,337                                               | —            | 104,770      |
| Depreciation and amortization                             | 9,330                                | 99,704                    | 2,557                                                              | 36,314                                               | —            | 147,905      |
| Corporate expense                                         | 59,781                               | 72,071                    | 8,916                                                              | —                                                    | (104,132 )   | 36,636       |
| Preopening expenses                                       | 709                                  | 4,281                     | —                                                                  | —                                                    | —            | 4,990        |
| Write-downs and other items, net                          | 4,658                                | 69                        | 197                                                                | 8                                                    | —            | 4,932        |
| Total costs and expenses                                  | 74,478                               | 1,069,598                 | 63,476                                                             | 345,496                                              | (104,132 )   | 1,448,916    |
| Equity in earnings of subsidiaries                        | 52,297                               | 18,325                    | —                                                                  | —                                                    | (62,476 )    | 8,146        |
| Operating income                                          | 81,219                               | 80,451                    | (16,865 )                                                          | 65,860                                               | (62,476 )    | 148,189      |
| Other expense (income)                                    |                                      |                           |                                                                    |                                                      |              |              |
| Interest expense, net                                     | 85,539                               | (1,267 )                  | 1,815                                                              | 23,347                                               | —            | 109,434      |
| Gain on early retirements of debt                         | (3,949 )                             | —                         | —                                                                  | —                                                    | —            | (3,949 )     |
| Other income                                              | —                                    | (12,535 )                 | —                                                                  | —                                                    | —            | (12,535 )    |
| Other non-operating expenses, net                         | —                                    | 3,133                     | —                                                                  | —                                                    | —            | 3,133        |
| Total other expense, net                                  | 81,590                               | (10,669 )                 | 1,815                                                              | 23,347                                               | —            | 96,083       |
| Income (loss) before income taxes                         | (371 )                               | 91,120                    | (18,680 )                                                          | 42,513                                               | (62,476 )    | 52,106       |
| Income taxes                                              | 17,779                               | (35,393 )                 | 6,265                                                              | (4,183 )                                             | —            | (15,532 )    |
| Net income (loss)                                         | 17,408                               | 55,727                    | (12,415 )                                                          | 38,330                                               | (62,476 )    | 36,574       |
| Noncontrolling interest                                   | —                                    | —                         | —                                                                  | —                                                    | (19,166 )    | (19,166 )    |
| Net income (loss) attributable to Boyd Gaming Corporation | \$17,408                             | \$55,727                  | \$(12,415 )                                                        | \$ 38,330                                            | \$(81,642 )  | \$17,408     |



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Cash Flows

|                                                | Nine months ended September 30, 2011 |                           |                                                                    |                                                      |     | Eliminations | Consolidated |
|------------------------------------------------|--------------------------------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|-----|--------------|--------------|
|                                                | Parent                               | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) |     |              |              |
| Cash flows from operating activities           |                                      |                           |                                                                    |                                                      |     |              |              |
| Net cash from operating activities             | \$ 108,892                           | \$ 10,671                 | \$ (317                                                            | ) \$ 63,670                                          | \$— |              | \$ 182,916   |
| Cash flows from investing activities           |                                      |                           |                                                                    |                                                      |     |              |              |
| Capital expenditures                           | (13,441                              | ) (22,768                 | ) (217                                                             | ) (19,065                                            | ) — |              | (55,491 )    |
| Acquisitions of assets                         | (34,495                              | ) —                       | —                                                                  | —                                                    | —   |              | (34,495 )    |
| Decrease in restricted investment              | —                                    | —                         | —                                                                  | 27,184                                               | —   |              | 27,184       |
| Net cash from investing activities             | (47,936                              | ) (22,768                 | ) (217                                                             | ) 8,119                                              | —   |              | (62,802 )    |
| Cash flows from financing activities           |                                      |                           |                                                                    |                                                      |     |              |              |
| Borrowings under bank credit facility          | 109,650                              | —                         | —                                                                  | 574,700                                              | —   |              | 684,350      |
| Payments under bank credit facility            | (111,503                             | ) —                       | —                                                                  | (620,600                                             | ) — |              | (732,103 )   |
| Payments on long-term debt                     | —                                    | —                         | —                                                                  | (8,198                                               | ) — |              | (8,198 )     |
| Debt financing costs, net                      | —                                    | —                         | —                                                                  | (27,000                                              | ) — |              | (27,000 )    |
| Other financing activities                     | 5,269                                | —                         | —                                                                  | (937                                                 | ) — |              | 4,332        |
| Net cash from financing activities             | 3,416                                | —                         | —                                                                  | (82,035                                              | ) — |              | (78,619 )    |
| Net change in cash and cash equivalents        | 64,372                               | (12,097                   | ) (534                                                             | ) (10,246                                            | ) — |              | 41,495       |
| Cash and cash equivalents, beginning of period | 11,231                               | 88,282                    | 3,679                                                              | 42,431                                               | —   |              | 145,623      |
| Cash and cash equivalents, end of period       | \$ 75,603                            | \$ 76,185                 | \$ 3,145                                                           | \$ 32,185                                            | \$— |              | \$ 187,118   |

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statements of Cash Flows

Nine months ended September 30, 2010

|                                                | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(100%<br>Owned)<br>(In thousands) | Non-Guarantor<br>Subsidiaries<br>(Not 100%<br>Owned) | Eliminations | Consolidated |
|------------------------------------------------|------------|---------------------------|--------------------------------------------------------------------|------------------------------------------------------|--------------|--------------|
| Cash flows from operating activities           |            |                           |                                                                    |                                                      |              |              |
| Net cash from operating activities             | \$ 229,108 | \$ 28,372                 | \$ 45,355                                                          | \$ 89,109                                            | \$(150,983 ) | \$ 240,961   |
| Cash flows from investing activities           |            |                           |                                                                    |                                                      |              |              |
| Capital expenditures                           | (12,082 )  | (42,240 )                 | (129 )                                                             | (9,618 )                                             | —            | (64,069 )    |
| Net cash upon change in control of Borgata     | —          | —                         | —                                                                  | 26,025                                               | —            | 26,025       |
| Other investing activities                     | 54         | —                         | —                                                                  | (785 )                                               | —            | (731 )       |
| Net cash from investing activities             | (12,028 )  | (42,240 )                 | (129 )                                                             | 15,622                                               | —            | (38,775 )    |
| Cash flows from financing activities           |            |                           |                                                                    |                                                      |              |              |
| Borrowings under bank credit facility          | 525,700    | —                         | —                                                                  | 369,773                                              | —            | 895,473      |
| Payments under bank credit facility            | (714,800 ) | —                         | —                                                                  | (954,962 )                                           | —            | (1,669,762 ) |
| Payments under note payable                    | —          | —                         | (46,875 )                                                          | —                                                    | —            | (46,875 )    |
| Distributions to noncontrolling interest       | —          | —                         | —                                                                  | (271,159 )                                           | 150,983      | (120,176 )   |
| Proceeds from stock options exercised          | —          | —                         | —                                                                  | 773,176                                              | —            | 773,176      |
| Payments on long-term debt                     | (28,181 )  | (680 )                    | —                                                                  | —                                                    | —            | (28,861 )    |
| Other financing activities                     | 237        | —                         | —                                                                  | (5,925 )                                             | —            | (5,688 )     |
| Net cash from financing activities             | (217,044 ) | (680 )                    | (46,875 )                                                          | (89,097 )                                            | 150,983      | (202,713 )   |
| Net change in cash and cash equivalents        | 36         | (14,548 )                 | (1,649 )                                                           | 15,634                                               | —            | (527 )       |
| Cash and cash equivalents, beginning of period | 363        | 88,071                    | 4,768                                                              | —                                                    | —            | 93,202       |
| Cash and cash equivalents, end of period       | \$ 399     | \$ 73,523                 | \$ 3,119                                                           | \$ 15,634                                            | \$ —         | \$ 92,675    |

NOTE 19. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after September 30, 2011. During this period, the following material subsequent events occurred.

Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, (the "IP") for a purchase price of \$278 million in cash. Following the closing of the transaction, we also made a charitable contribution to the Engelstad Family Foundation equal to an aggregate of \$10 million, which funds are intended to be distributed on behalf of, and in the name of, the Company, over five years to local and regional Biloxi charitable organizations to be designated by the Company. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP with costs estimated to be \$44 million.

We will apply acquisition method accounting to this business combination at the transaction date, which requires acquired assets and assumed liabilities to be recorded at their respective fair values. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. Prospectively, however, the acquired assets and liabilities will be recorded in our consolidated balance sheet at fair value as of the closing date; the results of operations of the IP will be included in our consolidated statements of operations and cash flows beginning in the fourth quarter of 2011; and all other disclosures pursuant to the guidance for business combinations will be provided in our Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Agreement with bwin.party

On October 31, 2011, we announced that we had entered into an agreement with bwin.party digital entertainment plc, the world's largest publicly traded online gaming company. Should Congress legalize online poker in the United States (the "U.S."), and subject to regulatory approvals, we would acquire a 10% stake in a new company that would offer online poker to U.S.-based players under bwin.party's brands, including PartyPoker. Separately, we entered into a 15-year agreement to use bwin.party's technology platform and associated services to offer online poker to U.S. players under a brand we develop, assuming Congress passes enabling legislation.

Entry into Lender Joinder Agreement

On November 2, 2011, we entered into a Lender Joinder Agreement (the "Lender Joinder Agreement") among the Company, Bank of America, N.A. ("Bank of America"), as the Administrative Agent, and the Increasing Lender. The Lender Joinder Agreement increases the Term Loan Commitments under the Second Amended and Restated Credit Agreement dated as of December 17, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Facility") among the Company, certain financial institutions as lenders, Bank of America, as the Administrative Agent and as letter of credit issuer, and Wells Fargo Bank, National Association, as syndication agent and swing line lender, by an aggregate amount of \$350 million (the "Increased Term Loan").

The Lender Joinder Agreement provides that subject only to continued satisfaction of the representations, warranties and covenants under the Credit Facility, the Increased Term Loan will be funded on November 10, 2011. Proceeds from the Increased Term Loan will be used to repay the outstanding portion of our existing credit facility which otherwise matures in May 2012.

## Table of Contents

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

#### Executive Overview

Boyd Gaming Corporation (the "Company," "Boyd Gaming," "we" or "us") is a multi-jurisdictional gaming company that has been operating for approximately 35 years.

We are a diversified operator of 15 wholly-owned gaming entertainment properties and one controlling interest in a limited liability company. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey, which we aggregate in order to present the following four reportable segments:

#### Las Vegas Locals

|                                    |                   |
|------------------------------------|-------------------|
| Gold Coast Hotel and Casino        | Las Vegas, Nevada |
| The Orleans Hotel and Casino       | Las Vegas, Nevada |
| Sam's Town Hotel and Gambling Hall | Las Vegas, Nevada |
| Suncoast Hotel and Casino          | Las Vegas, Nevada |
| Eldorado Casino                    | Henderson, Nevada |
| Jokers Wild Casino                 | Henderson, Nevada |

#### Downtown Las Vegas

|                                               |                   |
|-----------------------------------------------|-------------------|
| California Hotel and Casino                   | Las Vegas, Nevada |
| Fremont Hotel and Casino                      | Las Vegas, Nevada |
| Main Street Station Casino, Brewery and Hotel | Las Vegas, Nevada |

#### Midwest and South

|                                      |                        |
|--------------------------------------|------------------------|
| Sam's Town Hotel and Gambling Hall   | Tunica, Mississippi    |
| Par-A-Dice Hotel Casino              | East Peoria, Illinois  |
| Blue Chip Casino, Hotel & Spa        | Michigan City, Indiana |
| Treasure Chest Casino                | Kenner, Louisiana      |
| Delta Downs Racetrack Casino & Hotel | Vinton, Louisiana      |
| Sam's Town Hotel and Casino          | Shreveport, Louisiana  |

#### Atlantic City

|                            |                           |
|----------------------------|---------------------------|
| Borgata Hotel Casino & Spa | Atlantic City, New Jersey |
|----------------------------|---------------------------|

#### Hawaiian Operations

In addition to these properties, we own and operate a travel agency in Hawaii, and a captive insurance company, also in Hawaii, that underwrites travel-related insurance. Results for our travel agency and our captive insurance company are included in our Downtown Las Vegas segment, as our Downtown Las Vegas properties concentrate their marketing efforts on gaming customers from Hawaii.

#### Dania Jai-Alai

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. As discussed under "Other Items Affecting Liquidity", on April 29, 2011, we and Dania Entertainment Center, LLC entered into an asset purchase agreement for the sale of certain assets and liabilities of Dania Jai-Alai.

#### Echelon Development

Additionally, we own 85 acres of land on the Las Vegas Strip, where our multibillion dollar Echelon development project ("Echelon") is located. On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of Echelon. As we do not believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we do not expect to resume construction of Echelon for three to five years, as previously disclosed. We also do not believe that financing for a development project like

Echelon is currently available on terms satisfactory to us.

IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, (the "IP") for a purchase price of \$278 million in cash. Following the closing of the transaction, we also made a

59

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## Table of Contents

charitable contribution to the Engelstad Family Foundation equal to an aggregate of \$10 million, which funds are intended to be distributed on behalf of, and in the name of, the Company, over five years to charitable organizations to be designated by the Company. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP with costs estimated to be \$44 million.

We will apply acquisition method accounting to this business combination at the transaction date, which requires acquired assets and assumed liabilities to be recorded at their respective fair values. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. Prospectively, however, the acquired assets and liabilities will be recorded in our consolidated balance sheet at fair value as of the closing date; the results of operations of the IP will be included in our consolidated statements of operations and cash flows beginning in the fourth quarter of 2011; and all other disclosures pursuant to the guidance for business combinations will be provided in our Annual Report on Form 10-K for the year ended December 31, 2011. The IP will be reported in our Midwest and South business segment.

### Our Properties

We operate gaming entertainment properties, most of which also include hotel, dining, retail and other amenities. Our main business emphasis is on slot revenues, which are highly dependent upon the volume and spending levels of customers at our properties, which affects our operating results.

Our properties have historically generated significant operating cash flow, with the majority of our revenue being cash-based. While we do provide casino credit, subject to certain gaming regulations and jurisdictions, most of our customers wager with cash and pay for non-gaming services by cash or credit card.

Our industry is capital intensive; we rely heavily on the ability of our properties to generate operating cash flow in order to fund maintenance capital expenditures, fund acquisitions, provide excess cash for future development, repay debt financing and associated interest costs, purchase our debt or equity securities, pay income taxes and pay dividends.

### Our Strategy

Our overriding strategy is to increase shareholder value. We follow several strategic initiatives on which we are focused to improve and grow our business.

**Strengthening our Balance Sheet:** We remain committed to finding opportunities to strengthen our balance sheet. We took an important step in this direction when we reached an agreement in April 2011 to sell Dania Jai-Alai for \$80 million. This asset is not consistent with our current growth strategy, and if this sale closes, we will raise a significant amount of capital from the consideration in the transaction that can be used to repay debt.

**Operating Efficiently:** We also remain committed to operating more efficiently. We will endeavor to prevent unneeded expense from returning to the business. The efficiencies of our business model position us to flow a substantial portion of revenue gains directly to the bottom line. Margin improvements will remain a driver of profit growth for the Company going forward.

**Evaluating Acquisition Opportunities:** Another key component of our strategy could be acquisitions. We will evaluate potential transactions in a way that is strategic, deliberate, and disciplined. Our intention is to pursue opportunities that are a good fit for our business, deliver a solid return for shareholders, and are available at the right price.

**Maintaining our Brand:** Finally, the ability of our employees to deliver great customer service remains a key differentiator for our Company and our brands. Our employees are a big reason that our customers continue to choose our properties over the competition across the country.

#### Our Focus

Our focus has been, and will continue to remain on: (i) ensuring our existing operations are managed as efficiently as possible and remain positioned for growth; (ii) our capital structure and strengthening our balance sheet, not just by paying down debt, but also by strengthening our operations and diversifying our asset base; and (iii) our growth strategy, which is built on finding those assets that are a good strategic fit and provide an appropriate return to our shareholders.

#### Overall Outlook

We believe that our key operating results for each of the three and nine months ended September 30, 2011 have begun to show positive trends. Although over the course of the past several years, the severe economic recession has had a profound effect on consumer confidence, and has shifted spending away from discretionary items, such as leisure, hospitality, gaming and entertainment activities, these recent quarterly results indicate that we have realized some stabilizing trends in our business. Generally, the tourism industry is recovering, as evidenced by increased visitation, hotel room rates and convention business.

## Table of Contents

We continually work to position our Company for greater success by strengthening our existing operations and growing through capital investment and other strategic initiatives. We have established a nationwide branding initiative and loyalty program. Previously, players were able to use their “Club Coast” or “B Connected” cards to earn and redeem points at nearly all of our wholly-owned Boyd Gaming properties in Nevada, Illinois, Indiana, Louisiana and Mississippi. In June 2010, we launched an enhanced, multi-property player loyalty program under the “B Connected” brand, which replaced the “Club Coast” program. Customers under the “Club Coast” program were able to keep all earned benefits and club points they had previously earned under the program. The new “B Connected” club, among other benefits, extends the time period over which players may qualify for promotion and increases the credits awarded to reel slot and table games players.

In addition to the “B Connected” player loyalty program, we launched the “B Connected Mobile” program in July 2010. “B Connected Mobile,” the first multi-property, loyalty program-based iPhone application of its kind in the gaming industry, is a personalized mobile application that delivers customized offers and information directly to a customer's iPhone, iPod Touch or iPad. The application further expands the benefits of the “B Connected” program. “B Connected Mobile,” a GPS powered feature, provides real-time personalized information when a customer visits a Boyd property, including: hotel, dining and gaming offers, such as “Best Rates Available” on hotel rooms for “B Connected” members, instant access to event information, schedules and special offers at all Boyd Gaming properties using “B Connected,” a search engine that allows customers to find Boyd Gaming casinos that have their favorite machines and displays the games' locations on a casino floor map, the ability to track “B Connected” point balances in real time, and the ability to make immediate hotel or restaurant reservations.

Over the last several years, we have worked to strengthen B Connected with a robust online and mobile presence. We have further expanded the power of B Connected with the launch of dedicated mobile applications for the iPhone, iPad and Android, making B Connected Mobile the first application of its kind available on multiple platforms. B Connected Online and B Connected Mobile give our guests highly personalized and constantly updated information and offers that generate better customer experiences and greater loyalty to our brands. These tools help customers get the greatest value out of their B Connected membership, and ensure that our marketing is as effective as possible.

### Development Activities

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. As we do not believe that a significant level of economic recovery has occurred along the Las Vegas Strip, or that financing for a development project like Echelon is currently available on terms satisfactory to us, we do not expect to resume construction of Echelon for three to five years.

Nonetheless, we remain committed to having a significant presence on the Las Vegas Strip. During the suspension period, we continue to consider alternative development options for Echelon, which may include developing the project in phases, alternative capital structures for the project, scope modifications to the project, or additional strategic partnerships, among others. We can provide no assurances as to when, or if, construction will resume on the project, or if we will be able to obtain alternative sources of financing for the project. As we develop and explore the viability of alternatives for the project, we will monitor these assets for recoverability. If we are subject to a non-cash write-down of these assets, it could have a material adverse impact on our consolidated financial statements.

LVE Energy Partners, LLC (“LVE”) is a joint venture between Marina Energy LLC and DCO ECH Energy, LLC. Through our wholly-owned subsidiary, Echelon Resorts LLC (“Echelon Resorts”), we have entered into an Energy Sales Agreement (“ESA”) with LVE, to design, build, own (other than the underlying real property which is leased from Echelon Resorts) and operate a central energy center and related distribution system for our planned Echelon resort development. Pursuant to the ESA, LVE will provide chilled and hot water, electricity and emergency

electricity generation to Echelon and potentially other joint venture entities associated with the Echelon development project or other third parties. The term of the ESA is 25 years, beginning when Echelon commences commercial operations. Assuming the central energy center is completed and functions as planned, we will pay a monthly service fee, which is comprised of a fixed capacity charge, an escalating operations and maintenance charge, and an energy charge. The aggregate of our monthly fixed capacity charge portion of the service fee will be \$23.4 million per annum (the "Annual Fixed Capacity Charge"). The Annual Fixed Capacity Charge, which will be payable for a 25-year period, was to commence in November 2010. However, LVE has suspended construction of the central energy center and the obligation to pay the Fixed Capacity Charge has not commenced.

On April 3, 2009, LVE notified us that, in its view, Echelon Resorts would be in breach of the ESA unless it recommenced and proceeded with construction of the Echelon development project by May 6, 2009. We believe that LVE's position is without merit; however, in the event of litigation, we cannot state with certainty the eventual outcome nor estimate the possible loss or range of loss, if any, associated with this matter.

## Table of Contents

On March 7, 2011, Echelon Resorts and LVE entered into both a purchase option agreement (the "Purchase Option Agreement") and a periodic fee agreement (the "Periodic Fee Agreement"). LVE has agreed not to initiate any litigation with respect to its April 3, 2009 claim of an alleged breach of the ESA and both Echelon Resorts and LVE have mutually agreed that neither LVE nor Echelon Resorts would give notice of, file or otherwise initiate any claim or cause of action, in or before any court, administrative agency, arbitrator, mediator or other tribunal, that arises under the ESA, subject to certain exceptions, and that any statute of limitations or limitation periods for defenses, claims, causes of actions and counterclaims shall be tolled while the Periodic Fee Agreement is in effect. Under the Periodic Fee Agreement, Echelon Resorts agreed to pay LVE, beginning on March 4, 2011, a monthly periodic fee (the "Periodic Fee") and an operation and maintenance fee until Echelon Resorts either (i) resumes construction of the project or (ii) exercises its option to purchase LVE's assets pursuant to the terms of the Purchase Option Agreement. The amount of the Periodic Fee is fixed at \$11.9 million annually through November 2013. Thereafter, the amount of the Periodic Fee is estimated to be approximately \$10.8 million annually. The operation and maintenance fee cannot exceed \$0.6 million per annum without Echelon Resorts' prior approval. We have posted a letter of credit in the amount of \$6.0 million to secure Echelon Resorts' obligation to pay the Periodic Fee and the operation and maintenance fee.

Under the Purchase Option Agreement, Echelon Resorts has the right, at its sole discretion, upon written notice to LVE, to purchase the assets of LVE including the central energy center and the related distribution system for a price of \$195.1 million, subject to certain possible adjustments. The ESA will be terminated concurrent with the purchase of the LVE assets.

As of September 30, 2011, we have incurred approximately \$924.0 million in capitalized costs related to the Echelon project, including land, and not including approximately \$196.1 million associated with the construction costs of the central energy facility. As part of the delay of the project, we expect to additionally incur approximately \$0.3 million to \$3.0 million of capitalized costs annually, principally related to such items as offsite fabrication of a skylight and curtain wall as well as offsite improvements. In addition, we expect annual recurring project costs, consisting primarily of monthly charges related to construction of the central energy center, site security, property taxes, rent and insurance, of approximately \$15.0 million to \$17.0 million that will be charged to preopening or other expense as incurred during the project's suspension period.

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

## Other Events

### Effective Control of Borgata

On March 24, 2010, as a result of the amendment to our operating agreement with MGM Resorts International ("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 above, due to our controlling interest in Borgata, we measured our previously held equity interest at a provisional fair value. Additionally, the financial position of Borgata is presented in our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010; its results of operations for the three months ended September 30, 2011 are included in our condensed consolidated statement of operations for the three months ended September 30, 2011; its results of operations for the nine months ended September 30, 2011 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2011; its results of operations for the three months ended September 30, 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2010; and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010.

At the date we obtained effective control, and applied the acquisition method of accounting, we were required to make significant estimates and assumptions regarding the provisional fair values of Borgata's assets and liabilities. This method also allowed us to refine these estimates over a one-year measurement period to reflect new information obtained about facts and circumstances that existed as of the date of effective control, which, if known, would have affected the measurement of the amounts recognized as of that date. Any changes to the provisional valuation during this one-year period are referred to as "measurement period adjustments". We recorded certain measurement period adjustments and retrospectively included the effects of those adjustments in the condensed consolidated balance sheet as of December 31, 2010 included herein.

## RESULTS OF OPERATIONS

### Summary

Three and Nine Months Ended September 30, 2011 and 2010

Table of Contents

Throughout the discussion in this section, our results of operations for the nine months ended September 30, 2010 are presented considering the pro forma effect of the consolidation of Borgata as if such had occurred on January 1, 2010, rather than March 24, 2010. This presentation is for the purposes of comparability, and all such results reflecting this pro forma adjustment are identified as such.

We believe that our key operating results for each of the three and nine months ended September 30, 2011 continue to show positive trends. Although over the course of the past several years, the severe economic recession has had a profound effect on consumer confidence, and has shifted spending away from discretionary items, such as leisure, hospitality, gaming and entertainment activities, these recent quarterly results indicate that we have realized some stabilizing trends in our business. Generally, the job market is strengthening, as the national unemployment rate has continued to decline throughout 2011. As the job market recovers and expands, we believe that consumer confidence will strengthen further. These and other positive trends reflect recoveries in our wholly-owned businesses.

Specifically, in our Las Vegas Locals region, visitor counts, room rates and convention sales have been increasing or stable over the past eighteen months. Our Downtown Las Vegas segment is benefiting from successful marketing efforts to our Hawaiian customers, and the strength of the local Hawaiian economy. The economy in the Midwest and South region has been slightly more resilient than the national and certainly the Las Vegas economies, where certain of our properties reported margin improvements and record month growth during the quarter. Although we have gained increased market share and non-gaming revenues in Atlantic City, the entire market continues to experience a difficult period, due to increased local and regional competition.

**Overview of Key Operating Results**

Three and Nine Months Ended September 30, 2011 and 2010

The following provides a summary of certain key operating results:

|                                                           | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |                |                   |
|-----------------------------------------------------------|-------------------------------------|-----------|------------------------------------|----------------|-------------------|
|                                                           | 2011                                | 2010      | 2011                               | 2010<br>Actual | 2010<br>Pro Forma |
|                                                           | (In thousands)                      |           |                                    |                |                   |
| Net revenues                                              | \$590,215                           | \$595,378 | \$1,729,564                        | \$1,588,959    | \$1,747,249       |
| Operating Income                                          | 68,164                              | 54,483    | 178,258                            | 148,189        | 156,335           |
| Net income (loss) attributable to Boyd Gaming Corporation | 3,109                               | 5,591     | (3,363)                            | ) 17,408       | 17,408            |

**Net revenues**

Net revenues were \$590.2 million for the three months ended September 30, 2011, compared to \$595.4 million for the comparable period in the prior year. The decline was relatively flat, as most regions of our business continue to stabilize. As discussed below, we saw growth in our Las Vegas Locals and Downtown regions, which were slightly offset by a decline in our Midwest and South segment, and more significantly by a decrease in Atlantic City.

Giving consideration to the pro forma effect of the consolidation of Borgata, net revenues were \$1.73 billion compared to \$1.75 billion for the nine months ended September 30, 2011 and 2010, respectively, a slight decline, which was primarily driven by results in Atlantic City, which were competitively impacted during the first nine months of the year, and adversely effected by the forced closure of the property in August due to Hurricane Irene.

**Operating income**

Operating income increased by 25.1% to \$68.2 million during the three months ended September 30, 2011 compared to the corresponding period of the prior year primarily due to improved operating margins, our ongoing cost

containment efforts and lower depreciation and amortization expense, as discussed below.

For largely the same reasons, operating income increased by 14.0% to \$178.3 million during the nine months ended September 30, 2011 as compared to \$156.3 million in the comparable period of the prior year, as adjusted to reflect the pro forma consolidation of Borgata during such entire period. These improved results during the nine month period ended September 30, 2011 were offset by an increase in write-down and other charges, net, related to acquisition related expenses and a write-down of the trademark value at Borgata.

Net income (loss) attributable to Boyd Gaming Corporation

Table of Contents

Net income attributable to Boyd Gaming was \$3.1 million for the three months ended September 30, 2011, compared to \$5.6 million for the corresponding period of the prior year, due primarily to a decline in pre-tax income related to increased interest expense on higher average outstanding debt balances and interest rates related to our refinancing activities in 2010 and non-recurring fee income recorded during the prior quarter.

Net loss attributable to Boyd Gaming was \$3.4 million for the nine months ended September 30, 2011 compared to net income of \$17.4 million for the nine months ended September 30, 2010. The decrease in this period is also due to significantly higher interest costs, non-recurring fee income and gains on retirement of debt recorded in the prior period.

**Operating Revenues**

Three and Nine Months Ended September 30, 2011 and 2010

The following analysis discusses our operating revenues, on a consolidated basis, which is further supplemented by operating segment detail below.

We derive the majority of our gross revenues from our gaming operations, which produced approximately 72% of gross revenues for each of the three months ended September 30, 2011 and 2010, and 72% and 73% of gross revenues for the nine months ended September 30, 2011 and 2010, respectively. Food and beverage gross revenues, which produced approximately 14% of gross revenues for each of the three and nine months ended September 30, 2011 and 2010, respectively, represent the next most significant revenue source, followed by room and other, both of which separately contributed less than 10% of gross revenues during these respective periods.

|                    | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |                |                   |   |
|--------------------|-------------------------------------|------------|------------------------------------|----------------|-------------------|---|
|                    | 2011                                | 2010       | 2011                               | 2010<br>Actual | 2010<br>Pro Forma |   |
|                    | (In thousands)                      |            |                                    |                |                   |   |
| REVENUES           |                                     |            |                                    |                |                   |   |
| Gaming             | \$ 500,824                          | \$ 503,746 | \$ 1,469,316                       | \$ 1,344,283   | \$ 1,482,114      |   |
| Food and beverage  | 99,221                              | 101,164    | 285,883                            | 255,166        | 286,383           |   |
| Room               | 64,831                              | 64,142     | 181,881                            | 154,247        | 178,401           |   |
| Other              | 34,105                              | 33,960     | 100,412                            | 91,595         | 100,774           |   |
|                    | \$ 698,981                          | \$ 703,012 | \$ 2,037,492                       | \$ 1,845,291   | \$ 2,047,672      |   |
| COSTS AND EXPENSES |                                     |            |                                    |                |                   |   |
| Gaming             | \$ 230,675                          | \$ 237,601 | \$ 680,457                         | \$ 635,461     | \$ 695,322        |   |
| Food and beverage  | 50,868                              | 50,690     | 148,516                            | 132,481        | 145,981           |   |
| Room               | 13,586                              | 13,661     | 39,921                             | 36,767         | 38,952            |   |
| Other              | 28,617                              | 28,089     | 82,191                             | 74,333         | 81,460            |   |
|                    | \$ 323,746                          | \$ 330,041 | \$ 951,085                         | \$ 879,042     | \$ 961,715        |   |
| MARGINS            |                                     |            |                                    |                |                   |   |
| Gaming             | 53.9                                | % 52.8     | % 53.7                             | % 52.7         | % 53.1            | % |
| Food and beverage  | 48.7                                | % 49.9     | % 48.1                             | % 48.1         | % 49.0            | % |
| Room               | 79.0                                | % 78.7     | % 78.1                             | % 76.2         | % 78.2            | % |
| Other              | 16.1                                | % 17.3     | % 18.2                             | % 18.9         | % 19.2            | % |

Three Months Ended September 30, 2011 and 2010

Gaming

Gaming revenues are significantly comprised of the net win from our slot machine operations and table games. The \$2.9 million, or 0.6% decrease in gaming revenues during the three months ended September 30, 2011 as compared to the corresponding period of the prior year was due primarily to a 1.0% decrease in slot win, on a 0.6% decrease in slot handle, offset by a 5.3% increase in table game win on a 1.1% increase in table game drop. Our gaming revenues were also unfavorably impacted by losses on sports

## Table of Contents

book results during the quarter. The decrease in gaming costs of \$6.9 million or 2.9% is due to improved margins on the related revenue base, attributable to cost containment initiatives and targeted marketing spend.

### Food and Beverage

Food and beverage revenues decreased \$1.9 million and 1.9% during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to a 1.5% decrease in the number of guests served offset by a 2.1 % increase in the value of the average guest check. The slight increase in food and beverage cost is due to a 3.0% increase in cost per guest served.

### Room

Room revenues increased by \$0.7 million, or 1.1% during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to increased ADR of 3.0% and increased occupancy of 1.9% driven largely by destination and convention business. The decrease in room costs and expenses is due to efficiencies generated by higher occupancy.

### Other

Other revenues have increased slightly during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to the increases in patronage pf differing amenities at our properties, including entertainment and nightclub revenues, retail sales, theater tickets and other venues.

## Nine Months Ended September 30, 2011 and 2010

### Gaming

Gaming revenues decreased by \$12.8 million, or 0.9%, during the nine months ended September 30, 2011 as compared to the corresponding pro forma amount from the prior year period, due primarily to a 0.1% decrease in slot win, on a 0.9% decrease in slot coin-in, coupled with a 0.6% decrease in table game win on a 1.0% decrease in table game drop. Gaming related costs have correspondingly decreased by \$14.9 million, or 2.1% based on lower revenues and enhanced cost containment measures.

### Food and Beverage

Food and beverage revenues decreased by \$0.5 million, or 0.2% during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, due to a 1.6% increase in average guest check, which more than offset a 1.4% decrease in the number of guests served. The increase in food and beverage cost of \$2.5 million, or 1.7%, is due to a 2.9% increase in cost per guest served.

### Room

Room revenues increased by \$3.5 million, or 2.0% during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, primarily due to increased ADR of 1.4% and increased occupancy of 2.1% driven by destination and convention business. The increase in room costs and expenses is due to the increased occupancy coupled with a 0.2% increase in cost per room.

### Other

Other revenues have decreased slightly during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, primarily due to a decline in differing amenities at our properties, including entertainment and nightclub revenues, retail sales, theater tickets and other venues.

## Revenues and Adjusted EBITDA by Reportable Segment

We determine each of our properties' profitability based upon Adjusted EBITDA, which represents earnings before interest expense, income taxes, depreciation and amortization, deferred rent, preopening expenses, share-based compensation expense, and write-downs and other items, as applicable. Reportable Segment Adjusted EBITDA is the

aggregate sum of the Adjusted EBITDA for each of the properties comprising 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.

The following table presents our net revenues and Adjusted EBITDA, by Reportable Segment, for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

|                                       | Three Months Ended<br>September 30,<br>2011 |           | Nine Months Ended<br>September 30,<br>2011 |             |
|---------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-------------|
|                                       | 2010                                        |           | 2010                                       |             |
|                                       | (In thousands)                              |           |                                            |             |
| Net revenues                          |                                             |           |                                            |             |
| Las Vegas Locals                      | \$145,915                                   | \$145,593 | \$452,270                                  | \$455,243   |
| Downtown Las Vegas                    | 53,327                                      | 51,898    | 165,578                                    | 161,088     |
| Midwest and South                     | 187,906                                     | 188,695   | 553,787                                    | 556,221     |
| Atlantic City                         | 202,018                                     | 207,687   | 553,864                                    | 411,355     |
| Reportable Segment Net Revenues       | 589,166                                     | 593,873   | 1,725,499                                  | 1,583,907   |
| Other                                 | 1,049                                       | 1,505     | 4,065                                      | 5,052       |
| Net revenues                          | \$590,215                                   | \$595,378 | \$1,729,564                                | \$1,588,959 |
| Adjusted EBITDA                       |                                             |           |                                            |             |
| Las Vegas Locals                      | \$30,793                                    | \$26,116  | \$109,006                                  | \$103,339   |
| Downtown Las Vegas                    | 6,005                                       | 5,679     | 24,375                                     | 23,361      |
| Midwest and South                     | 44,524                                      | 38,407    | 128,011                                    | 113,276     |
| Wholly-owned Adjusted Property EBITDA | 81,322                                      | 70,202    | 261,392                                    | 239,976     |
| Corporate expense                     | (9,570)                                     | (9,144)   | (29,826)                                   | (30,065)    |
| Wholly-owned Adjusted EBITDA          | 71,752                                      | 61,058    | 231,566                                    | 209,911     |
| Atlantic City                         | 50,287                                      | 54,319    | 120,626                                    | 102,182     |
| Adjusted EBITDA                       | \$122,039                                   | \$115,377 | \$352,192                                  | \$312,093   |

Significant factors that affected our Reportable Segment Net Revenues and Adjusted EBITDA for the three and nine months ended September 30, 2011, as compared to the corresponding period of the prior year, are listed below:

#### Three Months Ended September 30, 2011 and 2010

##### Las Vegas Locals

Net revenues increased slightly by 0.2% while Adjusted EBITDA increased 17.9% during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, which reflect improved operating performance and a margin increase of 320 basis points. The significant growth in Adjusted EBITDA represents flow through as a result of our refined cost structure. Three of our four major properties in this segment experienced growth in Adjusted EBITDA, despite an elevated promotional environment. The performance in this region was the result of continued focus on maximizing returns on marketing spend, and creating further efficiencies throughout the business.

##### Downtown Las Vegas

Net revenues and Adjusted EBITDA increased 2.8% and 5.7% respectively, during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, due primarily to successful marketing initiatives which generated growth in both visitation and play from our Hawaiian customers, which represent approximately 57% of our business in this segment. These gains were partially offset by significantly higher fuel costs related to the operation of our Hawaiian charter operation.

##### Midwest and South

Net revenues declined slightly during the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, while Adjusted EBITDA increased by 15.9% during the same respective period. Results were positively impacted by strong performances at our Southern Louisiana properties. Four of our six properties in this region posted positive growth during this period, reflecting improved margins in Adjusted EBITDA. Such improvements were guided by effective marketing initiatives and tight cost control.

Atlantic City

Borgata's net revenues declined by 2.7% during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010, and Adjusted EBITDA declined 7.4% during the same respective periods. The net revenue and Adjusted

## Table of Contents

EBITDA results were negatively impact by the forced closure of the property for three days during Hurricane Irene. Table games hold rate was normalized at 13%, in line with our long-term expectations, and Borgata lead the Atlantic City market with a 24% share of table game drop.

### Nine Months Ended September 30, 2011 and 2010

#### Las Vegas Locals

Net revenues declined by a slight 0.7% while Adjusted EBITDA increased by 5.5% to \$109.0 million, during the nine months ended September 30, 2011, as compared to the corresponding period of the prior year, reflecting improved overall operating performance, generated by successful cost initiatives. The local competition has created an elevated promotional environment; however, through strategic marketing, the region has increased margins by 140 basis points on a year to date basis through September 30, 2011 as compared to the same period in the prior year. The segment also generated growth in hotel occupancy and average daily rates due to increased convention business in the Las Vegas market generally.

#### Downtown Las Vegas

Net revenues and Adjusted EBITDA increased 2.8% and 4.3% respectively, during the nine months ended September 30, 2011, as compared to the corresponding period of the prior year, due primarily to growth in all primary operating revenues: gaming, food and beverage and room, generated largely from our Hawaiian customers. Greater efficiencies in our operations contributed to strong flow-through in our results, which were also partially offset by significantly higher fuel costs at our Hawaiian charter operation. Jet fuel prices have risen sharply during the period, and while our ability to increase fares is limited by competition, we recently introduced a new aircraft on the charter service that will increase capacity and improve costs.

#### Midwest and South

Net revenues declined slightly to \$553.8 million during the nine months ended September 30, 2011, from \$556.2 million in corresponding period of the prior year, while Adjusted EBITDA increased by 13.0% to \$128.0 million from \$113.3 million during the same periods, respectively. Our business continues to grow across this region, most particularly resulting from economic strength in southern Louisiana. Margin improvements of 280 basis points have resulted from tight cost control, including disciplined marketing spend.

#### Atlantic City

Results were not consolidated fully during the nine months ended September 30, 2010, however, on a comparable pro forma basis, net revenues declined 2.8% to \$553.9 million from \$569.6 million and Adjusted EBITDA declined 10.8% to \$120.6 million from \$135.3 million during the nine months ended September 30, 2011 and 2010, respectively. Overall, results during the current nine months were negatively impacted by the closure of the property during Hurricane Irene, which cost the property three days of business volume during a relatively busy summer month. Also, throughout the year, Borgata has been adversely impacted by promotional spend, which increased to 23.6% of gross gaming revenue for the nine months ended September 30, 2011 from 22.0% for the nine months ended September 30, 2010. This spend represents increased promotional incentives in response to the competitive environment in the Atlantic City and Eastern Pennsylvania gaming markets.

#### Other Costs and Expenses

##### Three and Nine Months Ended September 30, 2011 and 2010

The following costs and expenses, as presented in our condensed consolidated statements of operations, are further discussed below:

| Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |        |           |
|-------------------------------------|------|------------------------------------|--------|-----------|
| 2011                                | 2010 | 2011                               | 2010   | 2010      |
|                                     |      |                                    | Actual | Pro Forma |

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|                                     | (In thousands) |           |           |         |         |
|-------------------------------------|----------------|-----------|-----------|---------|---------|
| Selling, general and administrative | \$96,301       | \$100,697 | \$288,872 | 270,641 | 299,622 |
| Maintenance and utilities           | 40,925         | 42,661    | 115,113   | 104,770 | 118,292 |
| Depreciation and amortization       | 46,034         | 52,451    | 145,106   | 147,905 | 164,659 |
| Corporate expense                   | 11,025         | 11,021    | 36,569    | 36,636  | 36,636  |
| Preopening expenses                 | 1,720          | 2,684     | 5,292     | 4,990   | 4,990   |
| Write-downs and other items, net    | 2,300          | 1,340     | 9,269     | 4,932   | 5,000   |

The results for the three and nine months ended September 30, 2011 and for the three months ended September 30, 2010, as

## Table of Contents

reported above, reflect the consolidation of Borgata for the entire periods while the results for the nine months ended September 30, 2010 reflect the consolidation of Borgata for the period from March 24, 2010 through September 30, 2010. The "Pro Forma" column in the nine months ended September 30, 2010 column above reflects the results of operations as if Borgata had been consolidated for such entire period, and thus, for purposes of comparability, will be the basis for the nine month analytical discussions below.

### Selling, general and administrative

Selling, general and administrative expenses, as a percentage of gross revenues, declined to 13.8% during the three months ended September 30, 2011 from 14.3% during the three months ended September 30, 2010, and 14.2% of gross revenues compared to 14.6% for the nine months ended September 30, 2011 and 2010, respectively. These costs primarily include marketing, technology, compliance and risk, surveillance and security. These costs have generally been reduced in the periods presented due to disciplined and targeted marketing spend, and our ongoing cost containment efforts.

### Maintenance and Utilities

Maintenance and utilities expenses, as a percentage of gross revenues, decreased to 5.9% and 6.1% during the three months ended September 30, 2011 and 2010, respectively, and 5.6% and 5.8% during the nine months ended September 30, 2011 and 2010, respectively. The decreases in each period are due primarily to the fact that no major maintenance projects were undertaken in either period, coupled with cost reductions associated with the Company's conscious energy savings initiatives.

### Depreciation and Amortization

Depreciation and amortization expense, as a percentage of gross revenues, declined during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, representing 6.6% and 7.5%, respectively, and during the nine month periods to 7.1% from 8.0%, respectively, as certain property and equipment became fully depreciated and there were no significant expansion capital expenditures placed into service during these periods.

### Corporate Expense

Corporate expense represents unallocated payroll, professional fees, rent and various other administrative expenses that are not directly related to our casino and/or hotel operations, in addition to the corporate portion of share-based compensation expense. The levels of corporate expense, as a percentage of gross revenues of 1.6% during each of the three months ended September 30, 2011 and 2010, and 1.8% during each of the nine month periods ended September 30, 2011 and 2010 reflect the ongoing efforts to contain costs across the business.

### Preopening Expenses

We expense certain costs of start-up activities as incurred. During the three and nine months ended September 30, 2011 and 2010, we recorded preopening expenses related to our Echelon development project, expenses related to our efforts to develop gaming activities in other jurisdictions and expenses related to other business development activities. Additionally, the Period Fees, as discussed above, are included in the expenses related to our Echelon development project during the three and nine months ended September 30, 2011; however, such amounts were eliminated upon the consolidation of LVE and not reflected in total preopening expenses.

### Write-downs and Other Items, Net

Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and costs associated with property damage from natural disasters. Specifically during the three months ended September 30, 2011 and 2010, these costs were primarily related to acquisition related expenses, which were \$1.9 million and \$1.1 million during these respective periods. During the nine months ended September 30, 2011, these costs included an impairment charge related to the Borgata trademark of \$5 million; the

insurance deductible and related costs for the closure of Sam's Town Tunica during the month of May due to the flooding of the Mississippi river of \$1.6 million, with the remaining costs incurred in relation to acquisition activities. During the nine months ended September 30, 2010, these costs were primarily acquisition related.

Operating Income from Borgata

Nine Months Ended September 30, 2010

Our share of Borgata's operating income represents the amounts recorded in our consolidated financial statements under the equity method, which is partially reflected in the nine months ended September 30, 2010, as part of that period was prior to our consolidation of the operating results of Borgata .

Other Expense (Income)

Interest Expense

Table of Contents

Three and Nine Months Ended September 30, 2011 and 2010

The following table presents our interest expense for the three and nine months ended September 30, 2011 and 2010.

|                                 | Three Months Ended<br>September 30,<br>2011 |   | September 30,<br>2010 |   | Nine Months Ended<br>September 30,<br>2011 |   | 2010<br>Actual |   | 2010<br>Pro Forma |   |
|---------------------------------|---------------------------------------------|---|-----------------------|---|--------------------------------------------|---|----------------|---|-------------------|---|
|                                 | (In thousands)                              |   |                       |   |                                            |   |                |   |                   |   |
| Interest Expense                |                                             |   |                       |   |                                            |   |                |   |                   |   |
| Boyd Gaming Corporation         | \$ 34,086                                   |   | \$ 28,506             |   | \$ 114,026                                 |   | \$ 86,091      |   | \$ 86,081         |   |
| Borgata                         | 20,995                                      |   | 17,275                |   | 59,606                                     |   | 23,347         |   | 28,407            |   |
| Variable Interest Entity        | 5,002                                       |   | —                     |   | 10,436                                     |   | —              |   |                   |   |
|                                 | \$ 60,083                                   |   | \$ 45,781             |   | \$ 184,068                                 |   | \$ 109,438     |   | \$ 114,488        |   |
| Average Long-Term Debt Balance  |                                             |   |                       |   |                                            |   |                |   |                   |   |
| Boyd Gaming Corporation         | \$ 2,391,826                                |   | \$ 2,460,410          |   | \$ 2,391,996                               |   | \$ 2,555,253   |   | \$ 2,555,253      |   |
| Borgata                         | \$ 813,250                                  |   | \$ 731,700            |   | \$ 833,700                                 |   | \$ 680,284     |   | \$ 680,284        |   |
| Weighted Average Interest Rates |                                             |   |                       |   |                                            |   |                |   |                   |   |
| Boyd Gaming Corporation         | 5.2                                         | % | 4.5                   | % | 5.2                                        | % | 4.5            | % | 4.5               | % |
| Borgata                         | 9.5                                         | % | 6.4                   | % | 9.6                                        | % | 4.6            | % | 4.6               | % |

The increases in interest expense during the three and nine months ended September 30, 2011 and 2010 as compared to corresponding periods in the prior year were due to higher average interest rates on higher average outstanding debt balances. The increase of \$3.7 million, or 21.5% during the three months ended September 30, 2011, which reflects the full quarter effect of the refinancing, which closed in during the three months ended September 30, 2010. Interest expense doubled during the nine months ended September 30, 2011 as compared to the corresponding prior periods, on a pro forma basis, due entirely to the refinancing impact, the full effect of which was realized in the current quarter.

## Table of Contents

### Fair Value Adjustment of Derivative Instruments

Three and Nine Months Ended September 30, 2011 and 2010

During the fourth quarter of 2010, in anticipation of the execution of our Amended Credit Facility, we de-designated all of our interest rate swap agreements as cash flow hedges. Concurrent with the de-designation of the hedging relationship, hedge accounting was suspended and the amount remaining in accumulated other comprehensive loss associated with this cash flow hedging relationship was frozen. This amount is being amortized into interest expense over the respective remaining term of the associated underlying contract. Prospectively, from such date, and through June 30, 2011, the date all of these interest rate swap agreements matured, all changes in the fair value of these interest rate swaps were recognized immediately in earnings. This mark-to-market adjustment resulted in a realized loss of \$0.3 million during the nine months ended September 30, 2011.

### Gain on Early Retirements of Debt

Three and Nine Months Ended September 30, 2011 and 2010

During the three months ended September 30, 2011, Borgata purchased and retired a principal amount of \$8.5 million of its senior secured notes for a purchase price of \$8.2 million, resulting in a gain of less than \$0.1 million. During the nine months ended September 30, 2010, Boyd Gaming purchased and retired \$33.0 million, respectively, principal amount of its senior subordinated notes. The total purchase price of the notes was \$28.9 million, respectively, resulting in a gain of \$3.9 million, net. The gains are computed net of original issue discount, deferred financing and underwriting fees.

### Income Taxes

Three and Nine Months Ended September 30, 2011 and 2010

The effective tax rates during the three months ended September 30, 2011 and 2010 were 23.7% and 30.0% , respectively, while the effective tax rates during the nine months ended September 30, 2011 and 2010 were 0.5% and 29.8%, respectively. Our tax provisions and benefits were both favorably and unfavorably impacted by permanent adjustments related to our consolidation of Borgata and LVE. We consolidate Borgata's income and LVE's loss for financial statement purposes; however, under federal income tax statutes, we are subject to income tax on our fifty percent interest in Borgata and exclude LVE's loss in its entirety. In 2011, our tax benefit was adversely impacted by certain recurring permanent adjustments that are unaffected by our loss from continuing operations. Additionally, in 2011, and to a lesser extent in 2010, our state tax provision was adversely impacted by a statutory change in state income tax rates, changes in apportionment and the geographic mix of our income.

### Adjusted Earnings (Loss) and Adjusted EPS

Three and Nine Months Ended September 30, 2011 and 2010

We believe that Adjusted Earnings (Loss) and Adjusted Earnings Per Share ("EPS") are important supplemental measures of operating performance to investors, and management believes that Adjusted Earnings (Loss) and Adjusted EPS are widely used measures of performance in the gaming industry. We use Adjusted Earnings (Loss) and Adjusted EPS in this Quarterly Report on Form 10-Q because we believe they are useful to investors in allowing greater transparency related to significant measures used by management in its financial and operational decision-making. Management believes it is appropriate to adjust net income (loss) attributable to Boyd Gaming Corporation for certain adjustments, which are eliminated from net income (loss) in order to enable investors to isolate the core operating results of the Company.

Adjusted Earnings (Loss) is net income (loss) before preopening expenses, adjustments to property tax accruals, net, change in value of derivative instruments, write-downs and other items, net, gain on early retirements of debt, other

non-recurring items and our share of Borgata's other items and write-downs, net.

The following tables present our Adjusted Earnings (Loss) and Adjusted Earnings per Share for the three and nine months ended September 30, 2011 and 2010.

70

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Table of Contents

|                                                           | Three Months Ended<br>September 30,<br>2011 |   | September 30,<br>2010 |   | Nine Months Ended<br>September 30,<br>2011 |   | 2010     |   |
|-----------------------------------------------------------|---------------------------------------------|---|-----------------------|---|--------------------------------------------|---|----------|---|
|                                                           | (In thousands)                              |   |                       |   |                                            |   |          |   |
| Net income (loss) attributable to Boyd Gaming Corporation | \$3,109                                     |   | \$5,591               |   | \$(3,363)                                  | ) | \$17,408 |   |
| Adjustments related to Boyd Gaming:                       |                                             |   |                       |   |                                            |   |          |   |
| Preopening expenses, excluding impact of LVE              | 4,444                                       |   | 2,684                 |   | 13,334                                     |   | 4,990    |   |
| Adjustments to property tax accruals, net                 | (3,926)                                     | ) | —                     |   | (7,464)                                    | ) | —        |   |
| Write-downs and other items, net                          | 2,280                                       |   | 1,344                 |   | 3,484                                      |   | 4,924    |   |
| Change in fair value of derivative instruments            | —                                           |   | —                     |   | 265                                        |   | —        |   |
| (Gain) loss on early retirements of debt, net             | —                                           |   | —                     |   | 20                                         |   | (3,949)  | ) |
| Other income                                              | (1,000)                                     | ) | (10,000)              | ) | (1,000)                                    | ) | (10,000) | ) |
| Gain on equity distribution                               | —                                           |   | (2,535)               | ) | —                                          |   | (2,535)  | ) |
| Adjustments related to Borgata:                           |                                             |   |                       |   |                                            |   |          |   |
| Preopening expenses                                       | —                                           |   | —                     |   | 92                                         |   | —        |   |
| Write-downs and other items, net                          | 20                                          |   | (4)                   | ) | 5,785                                      |   | 8        |   |
| Accelerated amortization on deferred loan fees            | —                                           |   | 2,012                 |   | —                                          |   | 2,012    |   |
| Valuation adjustments related to consolidation, net       | 649                                         |   | —                     |   | 322                                        |   | —        |   |
| Gain on early retirements of debt, net                    | (54)                                        | ) | —                     |   | (54)                                       | ) | —        |   |
| Our share of Borgata's write-downs and other items, net   | —                                           |   | —                     |   | —                                          |   | 34       |   |
| Total adjustments                                         | 2,413                                       |   | (6,499)               | ) | 14,784                                     |   | (4,516)  | ) |
| Income tax effect for above adjustments                   | (587)                                       | ) | 3,322                 |   | (4,332)                                    | ) | 2,620    |   |
| Impact on noncontrolling interest                         | (308)                                       | ) | (1,004)               | ) | (3,073)                                    | ) | (1,010)  | ) |
| Adjusted earnings (loss)                                  | \$4,627                                     |   | \$1,410               |   | \$4,016                                    |   | \$14,502 |   |

Table of Contents

|                                                         | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                         | 2011                                | 2010     | 2011                               | 2010     |
| Basic net income (loss) per common share                | \$0.04                              | \$0.06   | \$(0.04)                           | ) \$0.20 |
| Adjustments related to Boyd Gaming:                     |                                     |          |                                    |          |
| Preopening expenses, excluding impact of LVE            | 0.05                                | 0.03     | 0.15                               | 0.06     |
| Adjustments to property tax accruals, net               | (0.05)                              | ) —      | (0.09)                             | ) —      |
| Write-downs and other items, net                        | 0.02                                | 0.03     | 0.04                               | 0.07     |
| Change in fair value of derivative instruments          | —                                   | —        | —                                  | —        |
| (Gain) loss on early retirements of debt, net           | —                                   | —        | —                                  | (0.05)   |
| Other income                                            | (0.01)                              | ) (0.12) | ) (0.01)                           | ) (0.12) |
| Gain on equity distribution                             | —                                   | (0.03)   | ) —                                | (0.03)   |
| Adjustments related to Borgata:                         |                                     |          |                                    |          |
| Preopening expenses                                     | —                                   | —        | —                                  | —        |
| Write-downs and other items, net                        | —                                   | —        | —                                  | —        |
| Accelerated amortization on deferred loan fees          | —                                   | 0.02     | 0.08                               | 0.02     |
| Valuation adjustments related to consolidation, net     | 0.01                                | —        | —                                  | —        |
| Gain on early retirements of debt, net                  | —                                   | —        | —                                  | —        |
| Our share of Borgata's write-downs and other items, net | —                                   | —        | —                                  | —        |
| Total adjustments                                       | \$0.02                              | \$(0.07) | ) \$0.17                           | \$(0.05) |
| Income tax effect for above adjustments                 | (0.01)                              | ) 0.04   | (0.05)                             | ) 0.03   |
| Impact on noncontrolling interest                       | —                                   | (0.01)   | ) (0.03)                           | ) (0.01) |
| Adjusted earnings (loss) per share                      | \$0.05                              | \$0.02   | \$0.05                             | \$0.17   |

Adjusted earnings per share for the nine months ended September 30, 2011 were computed using our diluted weighted average shares outstanding, although the presentation on our condensed consolidated statement of operations for such period does not consider the effect of common stock equivalents, as such were anti-dilutive to the net loss, as reported. However, as such net loss has been adjusted to an earnings per share amount, the dilutive effect is considered in the per share calculation above.

During the three and nine months ended September 30, 2011 and 2010, the following items were included in the calculation of Adjusted Earnings and Adjusted EPS (as stated in the above table):

#### Adjustments Related to Boyd Gaming Corporation

##### Preopening Expenses, Excluding Impact of Consolidation of LVE

Preopening expenses are comprised of costs primarily related to maintenance of our Echelon development project and expenditures for the exploration of new business development initiatives.

##### Adjustments to Property Tax Accruals

Property tax accruals have been adjusted based on assessments from the relevant taxing authorities and changes in our estimate of past liabilities related to such assessments.

##### Write-Downs and Other Items, net

Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and costs associated with property damage from natural disasters.

##### Change in Fair Value of Derivative Instruments

Change in fair value of derivative instruments is comprised of the charge to earnings for the change in fair value of our interest rate swaps that were de-designated as cash flow hedges during 2010.

(Gain) Loss on Early Retirements of Debt

72

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## Table of Contents

(Gain) loss on early retirements of debt represents the difference between the principal amount of our senior subordinated notes repurchased and the purchase price of such notes.

### Other Income

Other income represents the non-refundable \$1 million fee received in connection with our agreement to extend the closing of Dania Jai-Alai, reflected in the three and nine months ended September 30, 2011. Other income represents the consent fee received in connection with our agreement to modify the Borgata operating agreement, received in August 2010, and reported in the three and nine months ended September 30, 2010.

### Gain on Equity Distribution

This gain represents the difference between the total distribution received from Borgata for our unilateral capital contribution and its carrying value.

### Adjustments Related to Borgata

#### Preopening Expenses

Preopening expenses at Borgata related to costs incurred to open a new retail outlet during the quarter.

### Write -Downs and Other Items, net

Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and insurance costs associated with property damage from natural disasters.

### Accelerated Amortization of Deferred Loan Fees

This amortization represents the remaining unamortized balance of deferred loan fees associated with the prior credit facility, which were accelerated and written off upon the refinancing of all Borgata's debt in August 2010.

### Valuation Adjustments Related to Consolidation, net

These adjustments represent the aggregate impact of the measurement activity associated with the changes from historical value to fair value of Borgata, upon consolidation, primarily representing depreciation and amortization expense resulting from the recordation of certain tangible and intangible assets.

### Gain on Early Retirements of Debt

Gain on early retirements of debt represents the difference between the principal amount of our senior subordinated notes repurchased and the purchase price of such notes.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

#### Current Maturities of Our Indebtedness

We classified certain non-extending balances due under our Amended Credit Facility as a current maturity, as such amounts come due within the next twelve months. As discussed below, we signed a Lender Joinder Agreement, which increases the term loan commitments under our Amended Credit Facility by an aggregate amount of \$350 million. We anticipate that these commitments will be funded on November 10, 2011, the proceeds of which shall be used to repay the current portion of our Amended Credit Facility. While we anticipate this borrowing, as well as remaining availability under our Amended Credit Facility will provide the short term liquidity required to fund our existing debt obligations, if for any unforeseen reason the Lender Joinder Agreement is not funded, management will reengage other plans to aggressively pursue the repayment of all debt as currently due.

Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, the Company consummated the acquisition of IP Casino Resort Spa in Biloxi, Mississippi for a purchase price of \$288 million. The purchase was financed with cash on hand and a borrowing under our Amended Credit Facility of approximately \$200 million. Subsequent to the acquisition, Boyd has approximately \$2.6 billion of long-term debt outstanding with approximately \$415 million outstanding on the non-extended portion of the Amended Credit Facility that matures in May 2012, with a remaining \$215 million of availability under the extended portion of the Amended Credit Facility that matures in December 2015.

Consolidation of Variable Interest Entity

At September 30, 2011, we reported LVE's total assets and total liabilities of \$249.7 million and \$265.1 million, respectively in

## Table of Contents

our condensed consolidated balance sheet. However, LVE's financial position, including its working capital and indebtedness, are not discussed herein as such indebtedness is non-recourse to us and will not require our working capital or free cash flows in order to service such. Therefore, the assets and liabilities of LVE are completely disregarded from the discussion below, due to the irrelevance to our overall liquidity and capital resources.

### Working Capital

Historically, we have operated with minimal or negative levels of working capital in order to minimize borrowings and related interest costs under our Amended Credit Facility. As of September 30, 2011 and December 31, 2010, we had balances of cash and cash equivalents of \$187.1 million and \$145.6 million, respectively. However, we had working capital deficits of \$387.3 million and \$87.5 million as of September 30, 2011 and December 31, 2010, respectively. The increase in this deficit is due to the current classification of certain of our debt obligations becoming due in May 2012.

We and Borgata separately manage our working capital positions, including our cash and indebtedness levels. Our respective bank credit facilities generally provide any necessary funds for our day-to-day operations, interest and tax payments, as well as capital expenditures. On a daily basis, we evaluate our cash position and adjust the balance under our respective bank credit facilities as necessary, by either borrowing or paying it down with excess cash. We also plan the timing and the amounts of our capital expenditures. We each believe that our borrowing capacity under our respective bank credit facilities, subject to restrictive covenants, and cash flows from operating activities will be sufficient to meet our projected operating and maintenance capital expenditures for at least the next twelve months. The source of funds for the repayment of our debt or our development projects is derived primarily from cash flows from operations and availability under our respective bank credit facilities, to the extent availability exists after we meet our respective working capital needs, and subject to restrictive covenants.

We or Borgata could also seek to secure additional working capital, repay our respective current debt maturities, or fund our respective development projects, in whole or in part, through incremental bank financing and additional debt or equity offerings. If availability does not exist under our respective bank credit facilities, or we are not otherwise able to draw funds on our respective bank credit facilities, additional financing may not be available to either us or Borgata, and if available, may not be on terms favorable to either us or Borgata.

### Indebtedness

Our indebtedness primarily consists of amounts outstanding under our \$1.5 billion Amended Credit Facility (including \$500 million of term loans, and excluding the non-extending amounts of \$331.0 million) and \$956.4 million aggregate principal amount of our senior and senior subordinated notes, which are the obligations of Boyd, and a \$150 million bank credit facility and \$791.5 million aggregate principal amount of senior secured notes, all of which are the obligations of Borgata.

### Bank Credit Facility

#### Significant Terms

On December 3, 2010, we entered into an Amendment and Restatement Agreement with certain financial institutions (each a "Lender"), including Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender (the "Amendment and Restatement Agreement"). Pursuant to the terms of the Amendment and Restatement Agreement, our First Amended and Restated Credit Agreement, dated as of May 24, 2007, as amended by the First Amendment and Consent to First Amended Credit Agreement, dated as of December 21, 2009 (as amended, the "Amended Credit Facility"), was amended and restated to, among other things, (i) reduce the aggregate commitments under the former credit facility and (ii) permit consenting Lenders to extend the maturity date of their commitments, new Lenders to issue revolving commitments and term loans and existing Lenders to increase their commitments (each, an "Extending Lender") in each case with a maturity date five years from the restatement effective date.

Each of the Extending Lenders permanently reduced their commitments under the Amended Credit Facility by up to 50% of the amount thereof. As a result, the aggregate commitments under the Amended Credit Facility were reduced from \$3 billion to approximately \$1.5 billion (including \$500 million of term loans, and excluding \$331.0 million in non-extending amounts), which commitments may be increased from time to time by up to \$500 million (instead of \$1 billion commitment increases provided for under the former credit facility) through additional revolving credit or term loans under the Amended Credit Facility.

Pursuant to the terms of the Amended Credit Facility, the term loans amortize in an annual amount equal to 5% of the original principal amount thereof, which commenced on March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to revolving and term loans under the Amended Credit Facility are based upon, at our option, LIBOR or the “base rate,” plus an applicable margin in either case. The applicable margin under the Amended Credit Facility is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio. The applicable margin on the outstanding balance on the Extended Revolving Facility ranges from 2.50% to 3.50% (if using LIBOR), and from 1.50% to 2.50% (if using the base rate). The applicable margin on the outstanding balance of the loans and commitments of the non-extending lenders continues to range

## Table of Contents

from 0.625% to 1.625% (if using LIBOR), and from 0.0% to 0.375% (if using the base rate). A fee of a percentage per annum (which ranges from 0.250% to 0.500%) determined by the level of the total leverage ratio is payable on the unused portions of the Amended Credit Facility.

The “base rate” under the Amended Credit Facility is the highest of (x) Bank of America's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the Eurodollar rate for a one month period plus 1.00%.

The letter of credit fees under the Amended Credit Facility remain the same as those under the Credit Facility; however, the margins payable to Extending Lenders are based on the margins applicable to the Extended Revolving Facility.

Subject to certain conditions, amounts outstanding under the Amended Credit Facility may be prepaid without premium or penalty, and the unutilized portion of any of the commitments may be terminated without penalty.

The blended interest rates for outstanding borrowings under our Amended Credit Facility were 3.3% at September 30, 2011 and December 31, 2010. At September 30, 2011, approximately \$1.42 billion was outstanding under our Amended Credit Facility, with \$15.5 million allocated to support various letters of credit, leaving remaining contractual availability of approximately \$564.5 million.

### Guarantees

Our obligations under the Amended Credit Facility, subject to certain exceptions, are guaranteed by certain of our subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, we and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of our real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Amended Credit Facility.

### Financial and Other Covenants

The Amended Credit Facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio of 2.00 to 1.00, (ii) establishing a maximum permitted consolidated total leverage ratio (discussed below), (iii) establishing a maximum permitted secured leverage ratio (discussed below), (iv) imposing limitations on the incurrence of indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, we may be required to repay the amounts outstanding under the Amended Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.

The minimum consolidated Interest Coverage Ratio (all capitalized terms are defined in the Amended Credit Facility) is calculated as (a) twelve-month trailing Consolidated EBITDA to (b) consolidated interest expense.

The maximum permitted consolidated Total Leverage Ratio (as defined in our Amended Credit Facility) is calculated as Consolidated Funded Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through December 31, 2011, our maximum Total Leverage Ratio is set at 7.75 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 5.50 to 1.00 at March 15, 2015 through the duration of the term.

The maximum permitted Secured Leverage Ratio is calculated as Secured Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through March 31, 2012, our maximum Secured Leverage Ratio is set at 4.50 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 3.25 to 1.00 at June 30, 2014 through the duration of the term.

### Compliance with Financial Covenants

We believe that we were in compliance with the Amended Credit Facility covenants, including the minimum consolidated Interest Coverage Ratio, the maximum permitted consolidated Total Leverage Ratio and the maximum

permitted Secured Leverage Ratio, which, at September 30, 2011, were 2.26 to 1.00, 7.15 to 1.00 and 4.25 to 1.00, respectively.

At September 30, 2011, assuming our twelve-month trailing Consolidated EBITDA remains constant, we estimate that we could draw an additional \$202 million of the availability under our Amended Credit Facility and maintain compliance with our Total Leverage Ratio.

#### Debt Financing Costs

In conjunction with the Amendment and Restatement Agreement, we incurred approximately \$20.6 million in incremental debt financing costs, which have been deferred and are being amortized over the remaining term of the Amended Credit Facility.

## Table of Contents

### Senior Notes

#### 9.125% Senior Notes due December 2018

##### Significant Terms

On November 10, 2010, we issued, through a private placement, \$500 million aggregate principal amount of 9.125% senior notes due December 2018. The notes require semi-annual interest payments on December 1 and June 1 of each year, which commenced on June 1, 2011. The notes will mature on December 1, 2018 and are fully and unconditionally guaranteed, in a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we are in compliance with these covenants at September 30, 2011. In addition, upon the occurrence of a change of control (as defined in the indenture governing the notes), we will be required, unless certain conditions are met, to offer to repurchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including, the date of purchases. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the notes. At any time prior to December 1, 2013, we may redeem up to 35% of the aggregate principal amount of the notes at a redemption price equal to 109.125% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, with the net cash proceeds that we raise in one or more equity offerings. In addition, prior to December 1, 2014, we may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. Subsequent to December 1, 2014, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 104.563% in 2014 to 100% in 2016 and thereafter, plus accrued and unpaid interest.

### Registration Rights Agreement

Pursuant to the registration rights agreement entered into with the initial purchasers of these senior notes at the time of the private placement, on September 15, 2011, Boyd Gaming commenced an offer to exchange all of the outstanding \$500.0 million aggregate principal amount of 9.125% Senior Notes due 2018, that have been registered under the Securities Act of 1933. On October 18, 2011, the expiration date of the exchange offer, 100% of the 9.125% Senior Notes due 2018 were validly tendered and accepted for exchange.

### Senior Subordinated Notes

#### 6.75% Senior Subordinated Notes due April 2014

##### Significant Terms

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 of the notes, 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 September 30, 2011. 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.

#### 7.125% Senior Subordinated Notes due February 2016

##### Significant Terms

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 September 30, 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.

#### Repurchases of Senior Subordinated Notes

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

Indentures

## Table of Contents

The indentures governing the senior and senior subordinated notes each include permitted investment clauses, the most restrictive of which limits the amount of permitted investments to a basket of \$150 million, increased by a calculated amount including 50% of net income, as defined in the indentures, and net of previous permitted investments. Also, the indentures allow for the incurrence of additional indebtedness, if after giving effect to such incurrence, our coverage ratio (as defined in the indentures, essentially a ratio of consolidated EBITDA to fixed charges, including interest) for a trailing four quarter period on a pro forma basis would be at least 2.0 to 1.0. Such pro forma coverage ratio was above 2.0 to 1.0 at the dates in which these respective tranches of senior and senior subordinated notes were issued; and, at September 30, 2011, after giving effect to the repayment of certain indebtedness, as defined in the indentures, our coverage ratio was above 2.0 to 1.0.

### Borgata Bank Credit Facility

#### Significant Terms

In August 2010, Marina District Finance Company, Inc. ("MDFC") closed a \$950 million debt financing, consisting of the establishment of a \$150.0 million new payment priority secured revolving credit facility (the "Borgata bank credit facility") and the issuance of \$800 million of aggregate principal amount of notes. MDFC is a wholly-owned subsidiary of MDDC, which develops and owns Borgata, and which is the guarantor of both the Borgata bank credit facility and the notes. The proceeds from the financing were used to (i) pay fees and expenses related to the financing; (ii) repay the former credit facility; and (iii) make a one-time distribution to Borgata's joint venture owners.

The Borgata bank credit facility provides for a \$150.0 million payment priority secured revolving credit facility and matures in August 2014. The Borgata bank credit facility is guaranteed on a senior secured basis by MDDC and any future subsidiaries of MDDC and is secured by a first priority lien on substantially all of the assets of MDFC, MDDC and any future subsidiaries of MDDC, subject to certain exceptions. The obligations under the Borgata bank credit facility have priority in payment to payment of the notes.

Neither Boyd Gaming nor any of its wholly-owned subsidiaries is a guarantor of Borgata's new bank credit facility. Outstanding borrowings under the Borgata bank credit facility accrue interest at a selected rate based upon either: (i) the highest of (a) the agent bank's quoted prime rate, (b) the one-month Eurodollar rate plus 1.00%, and (c) the daily federal funds rate plus 1.50%, and in any event not less than 1.50% (such highest rate, the "base rate"), or (ii) the Eurodollar rate, plus with respect to each of clause (i) and (ii) an applicable margin as provided in the Borgata bank credit facility. In addition, a commitment fee is incurred on the unused portion of the Borgata bank credit facility ranging from 0.50% per annum to 1.00% per annum.

At September 30, 2011, the outstanding balance under the Borgata bank credit facility was \$15.0 million, leaving contractual availability of \$135.0 million. The interest rate on the outstanding borrowings at September 30, 2011 was 4.4%.

#### Financial and Other Covenants

The Borgata bank credit facility contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of \$150 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) establishing a minimum liquidity (as defined in the Borgata bank credit facility) of \$30 million as of the end of each calendar quarter; (iii) imposing limitations on MDFC's ability to incur additional debt; and (iv) imposing restrictions on Borgata's ability to pay dividends and make other distributions, make certain restricted payments, create liens, enter into transactions with affiliates, merge or consolidate, and engage in unrelated business activities.

#### Compliance with Financial Covenants

We believe that MDFC was in compliance with the Borgata bank credit facility covenants, including minimum consolidated EBITDA and minimum liquidity, which, at September 30, 2011, were \$155.4 million and \$135.0 million, respectively.

Borgata Senior Secured Notes

9.5% Senior Secured Notes Due 2015

Significant Terms

In August 2010, MDFC issued, through a private placement, \$400 million principal amount of 9.5% senior secured notes due October 2015, at an issue price of 98.943%, resulting in a discount at issuance of \$4.2 million. The notes require semi-annual interest payments on April 15 and October 15, and commenced on April 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

At any time prior to October 15, 2013, the notes may be redeemed at 100% of the principal amount thereof, plus a "make-whole

## Table of Contents

premium” and accrued and unpaid interest. In addition, until October 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.50% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to October 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after October 15, 2013, MDFC shall have the option to redeem the 2015 Notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.75% beginning on October 15, 2013 to 102.375% beginning on October 15, 2014, plus accrued and unpaid interest to the applicable redemption date.

### 9.875% Senior Secured Notes Due 2018

#### Significant Terms

In August 2010, MDFC issued, through a private placement, \$400 million principal amount of 9.875% senior secured notes due August 2018, at an issue price of 99.315%, resulting in an original issue discount of \$2.7 million. The notes require semi-annual interest payments on February 15 and August 15, and commenced on February 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

At any time prior to August 15, 2014, the notes may be redeemed at 100% of the principal amount thereof, plus a “make-whole premium” and accrued and unpaid interest. In addition, until August 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to August 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after August 15, 2013, MDFC shall have the option to redeem the 2018 Notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.938% beginning on August 15, 2014, to 102.469% beginning on August 15, 2015, to 100% beginning on August 15, 2016 and thereafter, plus accrued and unpaid interest, to the applicable redemption date.

The original issue discount has been recorded as an offset to the principal amount of these notes and is being accreted to interest expense over the term of the notes using the effective interest method. The effective interest rate on the 9.5% notes due 2015 is 10.2% and on the 9.875% notes due 2018 is 10.3%.

#### Repurchase of Senior Secured Notes

During the three and nine months ended September 30, 2011, Borgata repurchased and retired \$8.5 million, principal amount, in total, of their senior secured notes, which included \$2.0 million of the 9.5% notes and \$6.5 million of the 9.875% notes. The total purchase price of the notes was \$8.4 million, resulting in a gain of \$0.1 million, net of associated deferred financing fees, which is recorded on Borgata's condensed consolidated statement of operations for the respective periods.

#### Registration Rights Agreement

Pursuant to the registration rights agreement entered into with the initial purchasers of these senior secured notes at the time of the private placement, on May 27, 2011, MDFC commenced an offer to exchange all of the outstanding \$400.0 million aggregate principal amount of 9.5% Senior Secured Notes due 2015 and \$400.0 million aggregate principal amount of 9.875% Senior Secured Notes due 2018 for new 9.5% Senior Secured Notes due 2015 and 9.875% Senior Secured Notes due 2018, respectively, that have been registered under the Securities Act of 1933. On June 28, 2011, the expiration date of the exchange offer, \$396.4 million of the 9.5% Senior Secured Notes due 2015

and \$400.0 of the 9.875% Senior Secured Notes due 2018 were validly tendered and accepted for exchange. This amount represents approximately 99.1% of the 9.5% Senior Secured Notes due 2015 and 100% of the 9.875% Senior Secured Notes due 2018, respectively.

Cash Flows Summary

Nine Months ended September 30, 2011 and 2010

Table of Contents

|                                                                              | Nine Months Ended<br>September 30, |           |
|------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                              | 2011                               | 2010      |
|                                                                              | (In thousands)                     |           |
| Net cash provided by operating activities                                    | \$182,916                          | \$240,961 |
| Cash flows from investing activities:                                        |                                    |           |
| Capital expenditures                                                         | (55,491)                           | (64,069)  |
| Acquisition of assets                                                        | (34,495)                           | —         |
| Decrease in restricted investments                                           | 27,184                             | —         |
| Net cash effect upon change in controlling interest of Borgata               | —                                  | 26,025    |
| Other investing activities                                                   | —                                  | (731)     |
| Net cash used in investing activities                                        | (62,802)                           | (38,775)  |
| Cash flows from financing activities:                                        |                                    |           |
| Net payments under bank credit facility                                      | (1,853)                            | (189,100) |
| Net payments under Borgata bank credit facility                              | (45,900)                           | (585,189) |
| Proceeds from issuance of Borgata senior secured notes                       | —                                  | 773,176   |
| Payments on retirements of long-term debt                                    | (8,198)                            | (28,861)  |
| Deferred financing costs related to issuance of Borgata senior secured notes | (1,283)                            | —         |
| Payments on variable interest entity non-recourse obligations                | (27,000)                           | —         |
| Payments under note payable                                                  | —                                  | (46,875)  |
| Noncontrolling interest distributions by Borgata                             | —                                  | (120,176) |
| Other financing activities                                                   | 5,615                              | (5,688)   |
| Net cash used in financing activities                                        | (78,619)                           | (202,713) |
| Increase (decrease) in cash and cash equivalents                             | \$41,495                           | \$(527)   |

**Cash Flows from Operating Activities**

For the nine months ended September 30, 2011, we generated operating cash flow of \$182.9 million, compared to \$241.0 million for the nine months ended September 30, 2010, a decrease of \$58.1 million. Generally, operating cash flows dropped due to a decrease in net income, which was primarily related to increases in interest incurred and income taxes.

**Cash Flows from Investing Activities**

Our industry is capital intensive and we use cash flows for investments in maintenance capital expenditures, acquisitions and future development or business opportunities.

**Capital Expenditures**

Cash paid for capital expenditures on major projects for the nine months ended September 30, 2011 were \$55.5 million and included the Echelon development project, which included spending of approximately \$1.0 million, and maintenance capital expenditures of approximately \$29.9 million. Cash paid for capital expenditures on major projects for the nine months ended September 30, 2010 were \$64.1 million and included the Echelon development project, which included spending of approximately \$27.4 million, and maintenance capital expenditures of approximately \$36.7 million.

**Asset Acquisitions**

During the nine months ended September 30, 2011, we made an escrow deposit related to the purchase of IP Casino Resort Spa in the amount of \$10 million, which was subsequently applied against the purchase price upon the closing. Additionally, we purchased the membership interests of an LLC for \$24.5 million, and in exchange recorded assets at the same value.

Restricted Investment

During the nine months ended September 30, 2011, as a result of the consolidation of LVE as a variable interest entity, we recorded the liquidation of its restricted investment in the amount of \$27.2 million, the proceeds of which were used to repay certain of its existing indebtedness, all of which is non-recourse to us.

Cash from Borgata Consolidation

As a result of our consolidation of Borgata during the nine months ended September 30, 2010, we included its cash balance of

## Table of Contents

\$26.0 million as an investing cash flow.

### Cash Flows from Financing Activities

We rely upon our financing cash flows to provide funding for investment opportunities, repayments of obligations and ongoing operations.

### Net Payments under Credit Facility

During the nine months ended September 30, 2011, net amounts of \$1.9 million and \$45.9 million were paid under Boyd Gaming's and Borgata's respective credit facilities; the net amounts paid were \$189.1 million and \$585.2 million during the nine months ended September 30, 2010, respectively. The source of funds for the repayment of these credit facilities is derived primarily from cash flows from operations. We actively manage our cash position for purposes of managing our outstanding credit facility borrowings. Borgata repaid its previous credit facility during the nine months ended September 30, 2010 upon the consummation of a refinancing effort, which included the issuance of \$800 million in senior notes, as discussed below.

### Proceeds from Issuance of Notes

In August 2010, Borgata completed a refinancing of its existing debt structure, and thereby repaid all amounts due under its existing credit facility by issuing two tranches of senior secured notes in the aggregate principal amount of \$800 million. The net amount of the proceeds from this offering, as reduced for underwriting and other fees, of \$773.2 million was recorded during the nine months ended September 30, 2010.

### Repayments of Long-Term Debt

As market conditions provide, we may repurchase our senior notes, senior subordinated notes, and/or senior secured notes. During the nine months ended September 30, 2011 and 2010, Borgata purchased and retired principal amounts of \$8.5 million of its senior secured notes and Boyd Gaming repurchased and retired \$33.0 million of its senior subordinated notes. Repayments, net of accrued interest and related costs were \$8.2 million and \$28.9 million for these respective transactions, during these respective periods.

### Payments on Variable Interest Entity Non-Recourse Obligation

During the nine months ended September 30, 2011, LVE made a principal repayment of \$27.0 million related to its outstanding obligations, the proceeds for which were funded from the liquidation of restricted investments, as discussed above.

### Payments under Note Payable

During the nine months ended September 30, 2010, we made a final principal payment of \$46.9 million related to the promissory note to the seller of Dania Jai-Alai.

### Distributions from Borgata

We did not receive distributions from Borgata during the nine months ended September 30, 2011. During the nine months ended September 30, 2010, primarily in connection with its debt refinancing, Borgata made distribution to us of \$152.9 million. Borgata's existing bank credit facility allows for certain limited distributions to be made to its partners, and accordingly, we do not anticipate significant future distributions.

### Dividends

Dividends are declared at the discretion of our Board of Directors. 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 nine months ended September 30, 2011 or 2010.

#### 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 nine months ended September 30, 2011 and 2010, we did not repurchase any shares of our common stock. We are currently authorized to repurchase up to an additional \$92.1 million in shares of our common stock under the share repurchase

## Table of Contents

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.

### Other Items Affecting Liquidity

There have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital, with such disruptions expected to continue for the foreseeable future. Despite these disruptions, we anticipate the ability to fund our capital requirements using cash flows from operations and availability under our bank credit facility, to the extent availability exists after we meet our working capital needs for the next twelve months. Any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. The outcome of the following specific matters, including our commitments and contingencies, may also affect our liquidity.

### Agreement to Sell Dania Jai-Alai

On April 29, 2011, we and Dania Entertainment Center, LLC (the “Buyer”) entered into an Asset Purchase Agreement (the “Agreement”) for the sale of certain assets and liabilities of the Dania Jai-Alai Business (as defined below).

Pursuant to the terms of the Agreement, we agreed to sell and transfer, and the Buyer agreed to purchase and assume, certain assets and liabilities (“Assets and Liabilities”) related to our Dania Jai-Alai pari-mutuel facility, located in Dania Beach, Broward County, Florida at which jai-alai and related gaming operations are conducted, including poker and inter-track wagering (the “Dania Jai-Alai Business”), for a purchase price of \$80.0 million (the “Purchase Price”).

The closing of the transactions contemplated by the Agreement is subject to certain closing conditions.

On September 15, 2011, the Buyer elected to extend the closing date of the pending acquisition of the Dania Jai-Alai Business. The terms of the extension provide that sale will close on or before November 28, 2011; however, we have no assurance that the Buyer can or will be in a position to close on such date. As permitted under the terms of the Agreement, the Buyer made an additional, non-refundable payment of \$2 million to us in exchange for the extension of the closing date. Of the \$2 million payment, \$1 million will be applied to the \$80 million purchase price. We previously received a \$5 million non-refundable deposit upon execution of the definitive agreement.

### Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, for a purchase price of \$278 million in cash. Following the closing of the transaction, we also made a charitable contribution to the Engelstad Family Foundation equal to an aggregate of \$10 million, which funds are intended to be distributed on behalf of, and in the name of, Boyd Gaming, over five years to charitable organizations to be designated by Boyd Gaming. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP Casino Resort Spa with costs estimated to be \$44 million.

### 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, 2010 filed with the SEC on March 15, 2011.

### Contingencies

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 \$17.5 million to \$19.9 million, including interest. In late 2009, the Department audited and denied our refund claim and subsequently issued a \$12.3 million sales tax deficiency assessment, plus interest of \$7.5 million. We appealed both the denial of the refund claim as well as the deficiency assessment in a hearing before the Nevada Administrative Law Judge ("Judge") in September 2010. In April 2011, the judge issued a split decision, granting a refund on employee meals and applying a sales tax measure on complimentary meals; however, the ruling barred retroactive application of the sales tax measure to all years included in the refund claim period, effectively overturning the Department's 2009 deficiency assessment.

Table of Contents

Both we and the Department appealed the decision, with the exception of the portion related to the deficiency assessment, to the Nevada State Tax Commission (the "Commission"). The Department did not appeal the Judge's decision overturning the 2009 deficiency assessment and therefore, the ruling on the deficiency assessment is final and non-appealable. On August 8, 2011, the Commission remanded the case back to the Judge. The administrative hearing was held on September 26, 2011, at which time we introduced additional supporting documentation. The Judge issued a decision on November 8, 2011, reversing her position on the employee meal refund claim. Such decision also affirmed the denial of the complimentary meal refund, as well as the denial of a retroactive application of the sales tax measure to both employee and complimentary meals. We intend to appeal the decision to the Commission. Due to uncertainty surrounding the ultimate resolution of an appeal to the Commission, as well as subsequent appeals to higher levels of the state judicial system, we will not record any gain until both we and the Department have exhausted all appeal options and a final, non-appealable decision has been rendered. For periods subsequent to May 2008, we have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as we do not believe it is probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

**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's 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 provisional bills received in 2007 through 2011, all of which were based on the 2006 valuation notice. In March 2011, we reached a settlement with the assessor, reducing the valuation by an additional \$96.0 million and \$74.0 million for the 2006 and 2007 tax years, respectively. As a result of the agreement reached on the 2006 and 2007 valuations, we have revised our accrual for years 2008 through 2011 to reflect the expected carryforward effect of the reductions received in the prior year settlements. In October 2011, we reached an agreement with the assessor on valuations for tax years 2008 and 2009. As a result, we further reduced our property tax liability and previously accrued property tax expense by an additional \$3.7 million during the three months ended September 30, 2011, which aggregated to a reduction of \$9.7 million during the nine months ended September 30, 2011. Although we have not received valuation notices for years 2010 through 2011, or final tax rates for the years 2007 through 2011, we believe the assessment for the period from January 1, 2008 through September 30, 2011 could result in a property tax assessment ranging between \$10.0 million and \$15.0 million. We have accrued, net of the payments discussed above, approximately \$14.6 million of property tax liability as of September 30, 2011, 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 tax assessment notices for the period January 1, 2007 through June 30, 2011, which have not been received as of September 30, 2011, could result in further adjustment to our estimated property tax liability at Blue Chip.

**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

## Table of Contents

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 issued a ruling denying the exceptions on August 9, 2010. Copeland's counsel indicated a desire to move forward with the litigation and requested that the parties respond to outstanding discovery. Subsequently, on August 11, 2010, Robert J. Guidry, the co-defendant, filed a third party demand against the U.S. Attorney's Office seeking enforcement of Guidry's plea agreement which would limit Guidry's exposure in the case. On September 9, 2010, the U.S. Attorney's Office removed the suit to the U.S. District Court, Middle District of Louisiana. Pending before the District Court are a motion to dismiss for failing to state a cause of action filed by Guidry, asserting the same arguments he tried in state court, which the Company joined, and a motion to dismiss for lack of subject matter jurisdiction filed by the U.S. Attorney, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19<sup>th</sup> Judicial District Court, East Baton Rouge Parish, State of Louisiana. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

We are 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.

### Other Opportunities

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

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

Additional projects may require us to make substantial investments or may cause us to incur substantial costs related to the investigation and pursuit of such opportunities, which investments and costs we may fund through cash flow from operations or availability under our Amended Credit Facility. To the extent such sources of funds are not sufficient, we may also seek to raise such additional funds through public or private equity or debt financings or from other sources. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to us. Moreover, we can provide no assurances that any expansion opportunity will result in a completed transaction.

### Off Balance Sheet Arrangements

There have been no material changes to our off balance sheet arrangements 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, 2010 filed with the SEC on March 15, 2011.

### Critical Accounting Policies

A description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2010, as originally filed with the SEC on March 15, 2011 (the "Provisional Form 10-K"). Revisions to the Provisional Form 10-K were subsequently filed on a Form 8-K on September 2, 2011 ("Retrospective Form 8-K") to update the audited consolidated financial statements and certain other items of the Provisional Form 10-K, specifically and primarily related to the recasting of the consolidated balance sheet as of December 31, 2010, and related notes thereto.

When we filed our Provisional Form 10-K for the year ended December 31, 2010, the initial acquisition method accounting for the effective change in control of Borgata Hotel Casino and Spa ("Borgata") was not finalized. The application of acquisition method accounting, required in accordance with the authoritative accounting guidance for business combinations, initially had the following effects on our unaudited condensed consolidated financial statements: (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 provisional fair value of the identifiable assets and liabilities in accordance with promulgated valuation recognition and measurement provisions; and (iii) we recorded the provisional fair value of the noncontrolling interest held in trust as a separate component of our stockholders'

## Table of Contents

equity.

Since the filing of the Provisional Form 10-K, we have made adjustments to the provisional fair value amounts recognized at the date of effective change in control, or March 24, 2010, to reflect new information obtained about facts and circumstances that existed as of March 24, 2010 that, if known, would have affected the measurement of the amounts recognized as of that date. These adjustments, referred to herein as "measurement period adjustments" materially shifted the value of certain tangible and intangible assets. We have applied the measurement period adjustments retrospectively to the consolidated balance sheet reported as of December 31, 2010, as previously reported in the Provisional Form 10-K; however, the impact on the consolidated statement of operations for the year ended December 31, 2010, as retrospectively adjusted to the statement as reported on the Provisional Form 10-K was not material, and was therefore not adjusted for any measurement period adjustments.

The updated historical financial statements, and other conforming changes to the Provisional Form 10-K are filed as Exhibit 99.1 to the Retrospective Form 8-K and have been updated, solely to include the retrospective measurement period adjustments and new footnote disclosure. All other information provided in the Provisional Form 10-K, unless otherwise provided, remain unchanged and the Retrospective Form 8-K does not modify or update such other disclosures in the Provisional Form 10-K in any other way.

The Provisional Form 10-K, including the revisions pursuant to the Retrospective Form 8-K, as well as the Quarterly Reports on Form 10-Q filed with the SEC on May 10, 2011 and August 5, 2011 should be read in connection with the updates provided below, which summarize the material changes to our critical accounting policies during the intervening periods since those respective filings.

### Recently Issued Accounting Pronouncements

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.

### Accounting Standards Update 2011-08 Intangibles, Goodwill and Other ("Update 2011-08")

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-08 Intangible, Goodwill and Other, which is an amendment to Topic 350 of the Accounting Standards Codification ("ASC").

The objective of Update 2011-08 is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic ASC 350. (the more-likely-than-not threshold is defined as having a likelihood of more than 50 percent). Previous guidance under Topic ASC 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in Update 2011-08, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount.

The amendment will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012, although early adoption is permitted. Update 2011-08 will not have a material impact on the computation of the impairment of goodwill or other intangibles.

### Accounting Standards Update 2011-05 Presentation of Comprehensive Income ("Update 2011-05")

In June 2011, the FASB issued Accounting Standards Update 2011-05 Presentation of Comprehensive Income, which is an amendment to Topic ASC 220.

The objective of Update 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Update 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include

## Table of Contents

the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income.

Update 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does Update 2011-05 affect how earnings per share is calculated or presented. Update 2011-05 should be applied retrospectively and will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-05 will not have a material impact on the computation of comprehensive income, but will require a revised presentation thereof.

### Accounting Standards Update 2011-04 Fair Value Measurement ("Update 2011-04")

In May 2011, the FASB issued Accounting Standards Update 2011-04 Fair Value Measurement, which is an amendment to Topic ASC 820.

The objective of Update 2011-04 is to more clearly explain how to measure fair value to allow for better comparability between GAAP and International Financial Reporting Standards ("IFRS"). It is not intended to result in a change in the application of the requirements in Topic ASC 820, but instead is intended to amend a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

Update 2011-04 does not change the items that must be reported as fair value measurements under Topic ASC 820 but simply how to measure these items and how they should be disclosed. Update 2011-04 should be applied prospectively. Early adoption is not permitted. Update 2011-04 will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-04 will not have a material impact on our financial statements.

### Important Information Regarding Forward-Looking Statements

This Annual Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements contain words such as "may," "will," "might," "expect," "believe," "anticipate," "outlook," "could," "would," "estimate," "continue," "pursue," "target," "project," "intend," "plan," "seek," "estimate," "should," and "continue," or the negative thereof or comparable terminology, and may include statements regarding:

- the factors that contribute to our ongoing success and our ability to be successful in the future;

- our business model, areas of focus and strategy for realizing improved results;

- competition, including expansion of gaming into additional markets, the impact of competition on our operations, our ability to respond to such competition, and our expectations regarding continued competition in the markets in which we compete;

- expenses;

- our commitment to having a significant presence on the Las Vegas Strip;

- indebtedness, including Boyd Gaming's and Borgata's ability to refinance or pay amounts outstanding under our respective bank credit facilities and notes when they become due and our compliance with related covenants, and our expectation that we and Borgata will need to refinance all or a portion of our respective indebtedness at maturity;

- our expectations with respect to Borgata, including our responsibility and control over day-to-day operations and the managerial resources we expect to devote to effectuate the sale of the MGM Interest;

our expectation regarding the trends that will affect the gaming industry over the next few years and the impact of these trends on merger and acquisition activity in general;

our belief that consumer confidence will strengthen as the job market recovers and expands;

our expectations with respect to the valuation of Borgata's tangible and intangible assets;

the type of covenants that will be included in any future debt instruments;

Table of Contents

- our expectations with respect to continued disruptions in the global capital markets, the effect of this on consumer confidence and reduced levels of consumer spending and the impact of these trends on our financial results;
- our ability to meet our projected operating and maintenance capital expenditures and the costs associated with our expansion, renovations and development of new projects;
- our ability to pay dividends or to pay any specific rate of dividends, and our expectations with respect to the receipt of dividends from Borgata;
- our commitment to finding opportunities to strengthen our balance sheet and to operate more efficiently;
- our intention to pursue acquisition opportunities and our ability to obtain financing for and successfully take advantage of such opportunities;
- our intention to fund purchases made under our share repurchase program, if any, with existing cash resources and availability under our bank credit facility;
- our expectations regarding the closing of the sale of the Assets and Liabilities related to the Dania Jai-Alai Business in the fourth quarter of 2011;
- our expenditures for capital improvement projects with respect to IP Casino Resort and Spa;
- Adjusted EBITDA, Adjusted Earnings (Loss) and Adjusted Earnings Per Share and their usefulness as measures of operating performance or valuation;
- the impact of new accounting pronouncements on our consolidated financial statements;
- that our Amended Credit Facility and Borgata's credit facility and our respective cash flows from operating activities will be sufficient to meet our respective projected operating and maintenance capital expenditures for the next twelve months;
- our ability to fund any expansion projects using cash flows from operations and availability under the Amended Credit Facility;
- our ability to satisfy the representations, warranties and covenants in the Lender Joinder Agreement, receive funding and make repayments under the Increased Term Loan;
- our market risk exposure and efforts to minimize risk;
- the timing of the delay of construction at Echelon, when, or if, construction will recommence, the effect that such delay will have on our business, operations or financial condition, our expectations as to the costs associated with delays related to the project as well as the value of capitalized costs and recurring project costs we expect to incur in the future, and our belief that financing for a development project like Echelon continues to be unavailable;
- expansion, development, investment and renovation plans, including the scope of such plans, expected costs, financing (including sources thereof and our expectation that long-term debt will substantially increase in connection with such projects), timing and the ability to achieve market acceptance;
-

our belief that, except for the Copeland matter discussed herein, all pending claims, if adversely decided, will not have a material adverse effect on our business, financial position, or results of operations;

that margin improvements will remain a driver of profit growth for the Company going-forward;

our belief that the risks to our business associated with the United States Coast Guard, ("USCG") inspection should not change by reason of inspection by American Bureau of Shipping Consulting, ("ABSC");

development opportunities in existing or new jurisdictions and our ability to successfully take advantage of such opportunities;

## Table of Contents

regulations, including anticipated taxes, tax credits or tax refunds expected, and the ability to receive and maintain necessary approvals for our projects;

our expectation that Congress legalizes online gaming in the U.S.;

our asset impairment analyses and our intangible asset and goodwill impairment tests;

the resolution of our pending litigation, including the litigation involving Treasure Chest casino;

our relationship with LVE including, without limitation, our mutual agreement to not initiate litigation, the monthly periodic fee and our option to purchase LVE's assets;

the likelihood of interruptions to our rights in the land we lease under long term leases for certain of our hotels and casinos;

the outcome of various tax audits and assessments, including our appeals thereof, timing of resolution of such audits, our estimates as to the amount of taxes that will ultimately be owed and the impact of these audits on our consolidated financial statements;

our overall outlook, including all statements under the heading Overall Outlook in Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations;

our ability to receive insurance reimbursement and our estimates of self-insurance accruals and future liability;

that operating results for previous periods are not necessarily indicative of future performance;

that estimates and assumptions made in the preparation of financial statements in conformity with U.S. GAAP may differ from actual results;

our estimates as to the effect of any changes in our Consolidated EBITDA on our ability to remain in compliance with certain Amended Credit Facility covenants; and

expectations, plans, beliefs, hopes or intentions regarding the future.

Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include:

- The effects of intense competition that exists in the gaming industry.

- The economic downturn and its effect on consumer spending.

The fact that our expansion, development and renovation projects (including enhancements to improve property performance) are subject to many risks inherent in expansion, development or construction of a new or existing project, including:

- design, construction, regulatory, environmental and operating problems and lack of demand for our projects;
- delays and significant cost increases, shortages of materials, shortages of skilled labor or work stoppages;
-

poor performance or nonperformance of any of our partners or other third parties upon whom we are relying in connection with any of our projects;

construction scheduling, engineering, environmental, permitting, construction or geological problems, weather interference, floods, fires or other casualty losses;

failure by us, our partners, or Borgata to obtain financing on acceptable terms, or at all; and

failure to obtain necessary government or other approvals on time, or at all.

The risk that our ongoing suspension of construction at Echelon may result in adverse affects on our business, results of operations or financial condition, including with respect to our joint venture participants and other resulting liabilities;

Table of Contents

•The risk that USCG may not continue to allow in-place underwater inspections of our riverboats;

•The risk that any of our projects may not be completed, if at all, on time or within established budgets, or that any project will result in increased earnings to us;

•The risk that significant delays, cost overruns, or failures of any of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations;

•The risk that our projects may not help us compete with new or increased competition in our markets;

•The risk that new gaming licenses or jurisdictions become available (or offer different gaming regulations or taxes) that results in increased competition to us;

•The risk associated with owning real property, including environmental regulation and uncertainties with respect to environmental expenditures and liabilities;

•The risk associated with challenges to legalized gaming in existing or current markets;

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

The risk that negative industry or economic trends, including the market price of our common stock trading below its book value, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in our business, may result in significant write-downs or impairments in future periods;

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

The risk that we may not receive gaming or other necessary licenses for new projects or that regulatory authorities may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other adverse actions against any of our casino operations;

•Our inability to select the new joint venture partner for Borgata and the possibility that a new operating agreement will be entered into with the new venture partner, which could result in changes to Borgata's ongoing operations;

The risk that we may be unable to finance our expansion, development, investment and renovation projects, including cost overruns on any particular project, as well as other capital expenditures through cash flow, borrowings under our Amended Credit Facility or Borgata's bank credit facility and additional financings, which could jeopardize our expansion, development, investment and renovation efforts;

•The risk that we or Borgata may be unable to refinance our respective outstanding indebtedness as it comes due, or that if we or Borgata do refinance, the terms are not favorable to us or them;

Risks associated with our ability to comply with the Total Leverage, Secured Leverage and Interest Coverage ratios in our Amended Credit Facility, and the risks associated with Borgata's ability to comply with the minimum consolidated EBITDA and minimum liquidity covenants;

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

• The effects of the extensive governmental gaming regulation and taxation policies that we are subject to, as well as any changes in laws and regulations, including increased taxes, which could harm our business;

• The effects of extreme weather conditions or natural disasters on our facilities and the geographic areas from which we draw our customers, and our ability to recover insurance proceeds (if any);

Table of Contents

•The risks relating to mechanical failure and regulatory compliance at any of our facilities;

•The risk that the instability in the financial condition of our lenders could have a negative impact on our Amended Credit Facility and Borgata's bank credit facility;

The effects of events adversely impacting the economy or the regions from which we draw a significant percentage of our customers, including the effects of the current economic recession, war, terrorist or similar activity or disasters in, at, or around our properties;

•The effects of energy price increases on our cost of operations and our revenues;

•Financial community and rating agency perceptions of our Company, and the effect of economic, credit and capital market conditions on the economy and the gaming and hotel industry;

•The effect of the expansion of legalized gaming in the mid-Atlantic region; and

•Borgata's expected liabilities under the multiemployer pensions in which it operates.

Additional factors that could cause actual results to differ are discussed in Part II. Item 1A. Risk Factors of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 and in other current and periodic reports filed from time to time with the SEC. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2011, there were no material changes to the information previously reported under Item 7A. in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 15, 2011.

Item 4. Controls and Procedures

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## Table of Contents

### PART II. Other Information

#### Item 1. Legal Proceedings

##### 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 issued a ruling denying the exceptions on August 9, 2010. Copeland's counsel indicated a desire to move forward with the litigation and requested that the parties respond to outstanding discovery. Subsequently, on August 11, 2010, Robert J. Guidry, the co-defendant, filed a third party demand against the U.S. Attorney's Office seeking enforcement of Guidry's plea agreement which would limit Guidry's exposure in the case. On September 9, 2010, the U.S. Attorney's Office removed the suit to the U.S. District Court, Middle District of Louisiana. Pending before the District Court are a motion to dismiss for failing to state a cause of action filed by Guidry, asserting the same arguments he tried in state court, which the Company joined, and a motion to dismiss for lack of subject matter jurisdiction filed by the U.S. Attorney, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19<sup>th</sup> Judicial District Court, East Baton Rouge Parish, State of Louisiana. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

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

#### Item 1A. Risk Factors

We have revised the risk factors that relate to our business as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010. We encourage investors to review the risks and uncertainties relating to our business disclosed in that Annual Report on Form 10-K, as well as those contained in Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Important Information Regarding Forward-Looking Statements, above.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities, including our common stock, senior notes and senior subordinated notes, could decline significantly, and investors could lose all or part of their investment.

#### Risks Related to our Business

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

Consumer demand for entertainment and other amenities at casino hotel properties, such as ours, are particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. Changes in discretionary

## Table of Contents

consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of the current decline in consumer confidence in the economy, including the current housing, employment and credit crisis, the impact of high energy and food costs, the increased cost of travel, the potential for continued bank failures, decreased disposable consumer income and wealth, or fears of war and future acts of terrorism could further reduce customer demand for the amenities that we offer, thus imposing practical limits on pricing and negatively impacting our results of operations and financial condition.

For example, the year ended December 31, 2009 was one of the toughest economic periods in Las Vegas Locals history. The current housing crisis and economic slowdown in the United States has resulted in a significant decline in the amount of tourism and spending in Las Vegas. Similarly, weak economic conditions have also adversely affected tourism and spending in Atlantic City, where Borgata is located. Since our business model relies on consumer expenditures on entertainment, luxury and other discretionary items, continuation or deepening of the economic downturn will further adversely affect our results of operations and financial condition.

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

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

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. We have invested in expanding existing facilities, developing new facilities, and acquiring established facilities in existing markets. In addition, our competitors have also invested in expanding their existing facilities and developing new facilities. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors have increased competition in many markets in which we compete, and this intense competition can be expected to continue. In addition, competition may intensify if our competitors commit additional resources to aggressive pricing and promotional activities in order to attract customers. If our competitors operate more successfully than we do, if they attract customers away from us as a result of aggressive pricing and promotion, if they are more successful than us in attracting and retaining employees, if their properties are enhanced or expanded, if they operate in jurisdictions that give them operating advantages due to differences or changes in gaming regulations or taxes, or if additional hotels and casinos are established in and around the locations in which we conduct business, we may lose market share or the ability to attract or retain employees. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition and results of operations.

Also, our business may be adversely impacted by the additional gaming and room capacity in states which may be competitive in the other markets where we operate or intend to operate. Several states are also considering enabling the development and operation of casinos or casino-like operations in their jurisdictions.

For example, the expansion of casino gaming in or near the mid-Atlantic region from which Borgata attracts and expects to attract most of its customers has had an adverse effect on its business, results of operations and financial condition. In January 2010, table game legislation was signed into Pennsylvania law which allows up to 250 table games at each of the twelve largest authorized casinos and up to 50 table games at each of the remaining two smaller authorized casinos. Table games became operational at the existing casinos in the Philadelphia region in mid-July 2010. In addition, other states near New Jersey, including New York and Delaware, either have or are currently contemplating gaming legislation. In January 2010, Delaware legalized table games, which became operational in June 2010 at all three Delaware casinos. Convenience may be a more important factor than amenities for some

customers, especially mid-week and repeat customers. These customers may prefer the convenience of a closer drive to a nearby casino rather than dealing with a longer drive to enjoy the amenities that Borgata has to offer. Expansion of gaming facilities in Pennsylvania and other nearby states therefore has resulted in fewer customer visits to Borgata, which has adversely impacted Borgata's business, results of operations and financial condition.

We also compete with legalized gaming from casinos located on Native American tribal lands. Expansion of Native American gaming in areas located near our properties, or in areas in or near those from which we draw our customers, could have an adverse effect on our operating results. For example, increased competition from federally recognized Native American tribes near Blue Chip and Sam's Town Shreveport has had a negative impact on our results. Native American gaming facilities typically have a

Table of Contents

significant operating advantage over our properties due to lower gaming taxes, allowing those facilities to market more aggressively and to expand or update their facilities at an accelerated rate. Although we have expanded our facility at Blue Chip in an effort to be more competitive in this market, these competing Native American properties could continue to have an adverse impact on the operations of Blue Chip and Sam's Town Shreveport.

The global financial crisis and decline in consumer spending may have an effect on our business and financial condition in ways that we currently cannot accurately predict.

The significant economic distress affecting financial institutions has had, and may continue to have, far-reaching adverse consequences across many industries, including the gaming industry. Volatility in the financial markets and the weakened global economy, together with the recent downgrade of the United States credit rating and ongoing European debt crisis, have contributed to the current uncertain economic climate. The ongoing credit and liquidity crisis has greatly restricted the availability of capital and has caused the cost of capital (if available) to be much higher than it has traditionally been. Therefore, we have no assurance that we will have further access to credit or capital markets at desirable times or at rates that we would consider acceptable, and the lack of such funding could have a material adverse effect on our business, results of operations and financial condition, including our ability to refinance our or Borgata's indebtedness, our flexibility to react to changing economic and business conditions and our ability or willingness to fund new development projects.

We are not able to predict the duration or severity of the economic downturns, and the resulting impact on the solvency of financial institutions, that are negatively impacted. If a large percentage of our lenders were to file for bankruptcy or otherwise default on their obligations to us, we may not have the liquidity under our Amended Credit Facility to fund our current projects. There is no certainty that our lenders will continue to remain solvent or fund their respective obligations under our Amended Credit Facility. If we were otherwise required to renegotiate or replace our Amended Credit Facility, there is no assurance that we would be able to secure terms that are as favorable to us, if at all.

We may incur impairments to goodwill, indefinite-lived intangible assets, or long-lived assets.

In accordance with the authoritative accounting guidance for goodwill and other intangible assets, we test our goodwill and indefinite-lived intangible assets for impairment annually or if a triggering event occurs. We perform the annual impairment testing for goodwill and indefinite-lived intangible assets in the second quarter of each fiscal year. The results of our annual scheduled impairment test of goodwill and indefinite-lived intangible assets did not require us to record an impairment charge during the nine months ended September 30, 2011; however, as discussed below, if our estimates of projected cash flows related to these assets are not achieved, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

In addition, in accordance with the provisions of the authoritative accounting guidance for the impairment or disposal of long-lived assets, we test long-lived assets for impairment if a triggering event occurs. During the nine months ended September 30, 2011, we performed an interim impairment test on the trademark we recorded in connection with the valuation of Borgata due to our consideration of a change in facts and circumstances surrounding an adverse change in the business climate in the Atlantic City region. As a result, we recorded a \$5.0 million impairment to the trademark.

We are entirely dependent upon our properties for future cash flows and our continued success depends on our ability to draw customers to our properties. Significant negative industry or economic trends, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in our business have resulted in significant write-downs and impairment charges during the years ended December 31, 2009 and 2008, and, if one or more of such events were to recur, additional impairment charges may be required in future periods. If we are required to record additional impairment charges, this could have a material adverse impact on our consolidated financial statements.

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. As we do not yet

believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we do not expect to resume construction for three to five years, as previously disclosed. We also do not believe that financing for a development project such as Echelon is currently available on terms satisfactory to us.

The change in circumstances implies that the carrying amounts of the assets related to Echelon may not be recoverable; therefore, we performed an impairment test of these assets during the year ended December 31, 2009. While the outcome of this evaluation resulted in no impairment of Echelon's assets, as the estimated weighted net undiscounted cash flows from the project exceeded the current carrying value of the assets of approximately \$928 million at December 31, 2009, we can provide no assurances that future evaluations will not result in impairment charges. As we further develop and explore the viability of alternatives for the project, we will continue to monitor these assets for recoverability. If we are subject to a non-cash write-down of these assets, it could have a material adverse impact on our consolidated financial statements.

## Table of Contents

Our partner in Marina District Development Holding Co., LLC (the "Holding Company"), the limited liability company that owns and operates Borgata Hotel Casino and Spa in Atlantic City, New Jersey, has divested its 50% interest and we do not have the ability to select the new partner.

We own a 50% controlling interest in the limited liability company that operates Borgata. MGM currently beneficially owns the other 50% interest. As a result of the NJDGE's investigation of MGM's relationship with its joint venture partner in Macau, MGM entered into a settlement agreement with the NJDGE and the NJCCC under which MGM placed its 50% ownership interest in Borgata into a Divestiture Trust, which was established for the purpose of selling the MGM Interest to a third party.

We are the managing member of the limited liability company that operates Borgata, and have been, and will continue to be responsible for the day-to-day operations of Borgata, including the operations and improvement of the facility and business. Additionally, we hold a right of first refusal on any sale of the MGM Interest in Borgata. However, we believe we will expend managerial resources to effectuate the eventual sale of the MGM Interest from the Divestiture Trust to a new partner, regardless of whether we exercise our right of first refusal. Other than exercising our right of first refusal, we generally do not have the ability to affect the selection of the potential new partner at Borgata.

While we believe we will retain direct control of the operations of Borgata, based on our current and amended operating agreement, a new partner may want to negotiate greater rights or different terms. If we agree to consider changes to the operating agreement, these negotiations may decrease our ability to directly control the facility and effectively manage our financial risk. Any new partner could have economic or business interests or goals that are inconsistent with our economic or business interests or goals. The ongoing operation of the facility could change if we agree to negotiate agreements with a new partner that contain terms that differ from our existing operating agreement. Borgata's bank credit facility matures in August 2014. At the time of maturity, if Borgata is unable to refinance its bank credit facility on favorable terms, additional credit support and/or capital contributions may be necessary to fund the ongoing operations of Borgata. This additional credit and/or equity may need to be contributed by us or a new partner, if any, or from both. If we are unable to obtain adequate financing in a timely manner, or at all, we may be unable to meet the operating cash flow needs of Borgata, and our investment would be at risk. Moreover, if any new partner does not have the financial resources to meet its share of the obligations, or subsequently declares bankruptcy, we could be required to fund more than our 50% share.

We face risks associated with growth and acquisitions.

As part of our business strategy, we regularly evaluate opportunities for growth through development of gaming operations in existing or new markets, through acquiring other gaming entertainment facilities or through redeveloping our existing gaming facilities. For example, in 2011, we announced the pending sale of Dania Jai Alai and the completion of the acquisition of the IP Casino Resort Spa. In February 2007, we completed the Barbary Coast exchange transaction. In January 2009, we completed the hotel construction project at Blue Chip. We may also pursue expansion opportunities, including joint ventures, in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. The expansion of our operations, whether through acquisitions, development or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. There can be no assurance that we will be able to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems. Additionally, there can be no assurance that we will receive gaming or other necessary licenses or approvals for our new projects or that gaming will be approved in jurisdictions where it is not currently approved. With respect to the pending sale of Dania Jai-Alai there can be no assurance that the transactions will close as anticipated, or at all.

Ballot measures or other voter-approved initiatives to allow gaming in jurisdictions where gaming, or certain types of gaming (such as slots), was not previously permitted could be challenged, and, if such challenges are successful, these ballot measures or initiatives could be invalidated. Furthermore, there can be no assurance that there will not be similar or other challenges to legalized gaming in existing or current markets in which we may operate or have development plans, and successful challenges to legalized gaming could require us to abandon or substantially curtail

our operations or development plans in those locations, which could have a material adverse effect on our financial condition and results of operations.

On August 1, 2008, we announced that, due to the difficult environment in both the capital markets and the economy, our Echelon project would be delayed. As previously disclosed, we do not anticipate that Echelon will resume construction for three to five years. We also believe financing for a project like Echelon continues to be unavailable. We can provide no assurances regarding the timing or effects of our delay of construction at Echelon and when, or if, construction will recommence, or the effect that such delay will have on our business, operations or financial condition. In addition, our agreements or arrangements with third parties could require additional fees or terms in connection with modifying their agreements that may be unfavorable to us, and we can provide no assurances that we will be able to reach agreement on any modified terms.

## Table of Contents

There can be no assurance that we will not face similar challenges and difficulties with respect to new development projects or expansion efforts that we may undertake, which could result in significant sunk costs that we may not be able to fully recoup or that otherwise have a material adverse effect on our financial condition and results of operations.

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

We regularly evaluate expansion, development, investment and renovation opportunities. On January 4, 2006, we announced our planned Las Vegas Strip development, Echelon, which represents the largest and most expensive development project we have undertaken to date.

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

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

The completion dates of any of our projects could differ significantly from expectations for construction-related or other reasons.

In addition, actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion. We have incurred significant incremental costs in connection with delaying construction of Echelon and anticipate that additional cost increases could continue to occur if and when we recommence development of Echelon.

Additional costs upon restarting construction of Echelon could include, without limitation, costs associated with remobilization, changes in design, increases in material, labor, or insurance costs, construction code changes during the delay period, corrosive damage risk, damage to uncompleted structures, etc. The cost of any project may vary significantly from initial budget expectations and we may have a limited amount of capital resources to fund cost overruns. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

LVE Energy Partners, LLC ("LVE") is a joint venture between Marina Energy LLC and DCO ECH Energy, LLC. Through our wholly-owned subsidiary, Echelon Resorts LLC ("Echelon Resorts"), we have entered into an Energy Sales Agreement ("ESA") with LVE, to design, build, own (other than the underlying real property which is leased from Echelon Resorts) and operate a central energy center and related distribution system for our planned Echelon resort development. Pursuant to the ESA, LVE will provide chilled and hot water, electricity and emergency electricity generation to Echelon and potentially other joint venture entities associated with the Echelon development project or other third parties. However, since we are obligated to purchase substantially all of the output of the central energy center, we are the primary beneficiary under the terms of the ESA.

LVE has suspended construction of the central energy center while the Echelon project is delayed. On April 3, 2009, LVE notified us that, in its view, Echelon Resorts would be in breach of the ESA unless it recommences and proceeds with construction of the Echelon development project by May 6, 2009. We believe that LVE's position is without

merit; however, in the event of litigation, we cannot state with certainty the eventual outcome nor estimate the possible loss or range of loss, if any, associated with this matter. On March 7, 2011, Echelon Resorts and LVE entered into both a purchase option agreement (the "Purchase Option Agreement") and a periodic fee agreement (the "Periodic Fee Agreement"). Under the Periodic Fee Agreement, Echelon Resorts and LVE have mutually agreed that neither LVE nor Echelon Resorts would give notice of, file or otherwise initiate any claim or cause of action, in or before any court, administrative agency, arbitrator, mediator or other tribunal, that arises under the ESA, subject to certain exceptions, and that any statute of limitations or limitation periods for defenses, claims, causes of actions and counterclaims shall be tolled while the Periodic Fee Agreement is in effect. The prohibition on the initiation of litigation and the tolling of the statute of limitations provided for in the Periodic Fee Agreement should be applicable to any litigation with respect to LVE's April 3, 2009 claim of an alleged breach of the ESA. Under the Periodic Fee Agreement, Echelon Resorts has agreed to

## Table of Contents

pay LVE, beginning March 4, 2011, the Periodic Fee and an operation and maintenance fee until either (i) Echelon notifies LVE that it has resumed construction of a portion of the Echelon development project that it will own in fee simple and Echelon and LVE have mutually agreed to changes to the dates in their respective construction milestones under the ESA; or (ii) Echelon exercises its option to purchase LVE's assets pursuant to the terms of the Purchase Option Agreement. The amount of the Periodic Fee is fixed at \$11.9 million annually through November 2013. Thereafter, the amount of the Periodic Fee is estimated to be approximately \$10.8 million annually. The operation and maintenance fee cannot exceed \$0.6 million per annum without Echelon Resorts' prior approval. We have posted a letter of credit in the amount of \$6.0 million to secure Echelon Resorts' obligation to pay the Periodic Fee and the operation and maintenance fee.

Under the Purchase Option Agreement, Echelon Resorts has the right, at its sole discretion, upon written notice to LVE, to purchase the assets of LVE including the central energy center and related distribution system for a price of \$195.1 million, subject to certain possible adjustments. The ESA will be terminated concurrent with the purchase of LVE's assets.

Certain permits, licenses and approvals necessary for some of our current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development, investment or renovation projects can be extensive and may include gaming approvals, state and local land-use permits and building and zoning permits.

Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. We may not obtain the necessary permits, licenses and approvals within the anticipated time frames, or at all.

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

If we are unable to finance our expansion, development, investment and renovation projects, as well as other capital expenditures, through cash flow from operations, borrowings under our Amended Credit Facility and additional financings, our expansion, development, investment and renovation efforts will be jeopardized.

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

Recently, there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that funding for any of our expansion projects would come from cash flows from operations and availability under our Amended Credit Facility (to the extent that availability exists under our Amended Credit Facility, as applicable, after we meet our working capital needs).

If availability under our Amended Credit Facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner, or at all, we may be forced to sell assets in order to raise capital for projects, limit the scope of, or defer such projects, or cancel the projects altogether. In the event that capital markets do not improve and we are unable to access capital with more favorable terms, additional equity and/or credit support may be necessary to obtain construction financing

for the remaining cost of the project.

**Risks Related to the Regulation of our Industry**

We are subject to extensive governmental regulation, as well as federal, state and local laws affecting business in general, which may harm our business.

We are subject to a variety of regulations in the jurisdictions in which we operate. Regulatory authorities at the federal, state and local levels have broad powers with respect to the licensing of casino operations and may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other actions, any one of which could have a significant adverse effect

## Table of Contents

on our business, financial condition and results of operations. A more detailed description of the governmental gaming regulations to which we are subject is included in Exhibit 99.4 to our Registration Statement on Form S-4 filed with the SEC on September 2, 2011. If additional gaming regulations are adopted in a jurisdiction in which we operate, such regulations could impose restrictions or costs that could have a significant adverse effect on us. From time to time, various proposals are introduced in the legislatures of some of the jurisdictions in which we have existing or planned operations that, if enacted, could adversely affect the tax, regulatory, operational or other aspects of the gaming industry and our company. Legislation of this type may be enacted in the future.

### Regulation of smoking

Each of New Jersey and Illinois has adopted laws that significantly restrict, or otherwise ban, smoking at our properties in those jurisdictions. The New Jersey and Illinois laws that restrict smoking at casinos, and similar legislation in other jurisdictions in which we operate, could materially impact the results of operations of our properties in those jurisdictions.

Additionally, on April 15, 2007, an ordinance in Atlantic City became effective which extended smoking restrictions under the New Jersey Smoke-Free Air Act. This ordinance mandated that casinos restrict smoking to designated areas of up to 25% of the casino floor. During April 2008, Atlantic City's City Council unanimously approved an amendment to the ordinance, banning smoking entirely on all casino gaming floors and casino simulcasting areas, but allowing smoking in separately exhausted, non-gaming, smoking lounges. The amendment to the ordinance became effective on October 15, 2008, however, on October 27, 2008, Atlantic City's City Council voted to postpone the full smoking ban for at least one year due to, among other things, the weakened economy and increased competition in adjoining states. The postponement of the full smoking ban became effective on November 16, 2008. In December 2009, Atlantic City's City Council announced that it would not consider a full smoking ban in casinos until at least the end of 2011.

### Regulation of directors, officers, key employees and partners

Our directors, officers, key employees and joint venture partners must meet approval standards of certain state regulatory authorities. If state regulatory authorities were to find a person occupying any such position or a joint venture partner unsuitable, we would be required to sever our relationship with that person or the joint venture partner may be required to dispose of their interest in the joint venture. State regulatory agencies may conduct investigations into the conduct or associations of our directors, officers, key employees or joint venture partners to ensure compliance with applicable standards.

Certain public and private issuances of securities and other transactions that we are party to also require the approval of some state regulatory authorities.

### Regulations affecting businesses in general

In addition to gaming regulations, we are also subject to various federal, state and local laws and regulations affecting businesses in general. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, smoking, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. For example, Nevada recently enacted legislation that eliminated, in most instances, and, for certain pre-existing development projects such as Echelon, reduced, property tax breaks and retroactively eliminated certain sales tax exemptions offered as incentives to companies developing projects that meet certain environmental "green" standards. As a result, we, along with other companies developing projects that meet such standards, may not realize the full tax benefits that were originally anticipated.

We are subject to extensive taxation policies, which may harm our business.

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. In addition, gaming companies are currently subject to significant state and local taxes and fees, in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time. For example, in June 2006, the Illinois legislature passed certain amendments to the Riverboat Gambling Act, which affected the tax rate at Par-A-Dice. The legislation, which imposes an incremental 5% tax on adjusted gross

gaming revenues, was retroactive to July 1, 2005. As a result of this legislation, we were required to pay additional taxes, resulting in a \$6.7 million tax assessment in June 2006. Also, In May 2007, Blue Chip received a valuation notice indicating an unanticipated increase of nearly 400% to its assessed property value as of January 1, 2006. At that time, we estimated that the increase in assessed property value could result in a property tax assessment ranging between \$4 million and \$11 million for the eighteen-month period ended June 30, 2007. We recorded an additional charge of \$3.2 million during the three months ended June 30, 2007 to increase our property tax liability to \$5.8 million at June 30, 2007 as we believed that was the most likely amount to be assessed within the range. We subsequently received a property tax bill related to our 2006 tax assessment for \$6.2 million in December 2007. As we have appealed the assessment, Indiana statutes allow for a minimum required payment of \$1.9 million, which was paid against the \$6.2 million assessment in January 2008. In February 2009, we received a notice of revaluation, which reduced the property's assessed value by \$100 million and the tax assessment by

Table of Contents

approximately \$2.2 million per year. We have subsequently paid the minimum required payment of \$1.9 million against provisional bills received in 2007 through 2011, all of which were based on the 2006 valuation notice. In March 2011, we reached a settlement with the assessor, reducing the valuation by an additional \$96.0 million and \$74.0 million for the 2006 and 2007 tax years, respectively. As a result of the agreement reached on the 2006 and 2007 valuations, we have revised our accrual for years 2008 through 2011 to reflect the expected carryforward effect of the reductions received in the prior year settlements. In October 2011, we reached an agreement with the assessor on valuations for tax years 2008 and 2009. As a result, we further reduced our property tax liability and previously accrued property tax expense by an additional \$3.7 million during the three months ended September 30, 2011, which aggregated to a reduction of \$9.7 million during the nine months ended September 30, 2011. Although we have not received valuation notices for years 2010 through 2011, or final tax rates for the years 2007 through 2011, we believe the assessment for the period from January 1, 2008 through September 30, 2011 could result in a property tax assessment ranging between \$10.0 million and \$15.0 million. We have accrued, net of the payments discussed above, approximately \$14.6 million of property tax liability as of September 30, 2011, 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 tax assessment notices for the period January 1, 2007 through June 30, 2011, which have not been received as of September 30, 2011, could result in further adjustment to our estimated property tax liability at Blue Chip.

If there is any material increase in state and local taxes and fees, our business, financial condition and results of operations could be adversely affected.

#### 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 \$17.5 million to \$19.9 million, including interest. In late 2009, the Department audited and denied our refund claim and subsequently issued a \$12.3 million sales tax deficiency assessment, plus interest of \$7.5 million. We appealed both the denial of the refund claim as well as the deficiency assessment in a hearing before the Nevada Administrative Law Judge ("Judge") in September 2010. In April 2011, the judge issued a split decision, granting a refund on employee meals and applying a sales tax measure on complimentary meals; however, the ruling barred retroactive application of the sales tax measure to all years included in the refund claim period, effectively overturning the Department's 2009 deficiency assessment. Both we and the Department appealed the decision, with the exception of the portion related to the deficiency assessment, to the Nevada State Tax Commission (the "Commission"). The Department did not appeal the Judge's decision overturning the 2009 deficiency assessment and therefore, the ruling on the deficiency assessment is final and non-appealable. On August 8, 2011, the Commission remanded the case back to the Judge. The administrative hearing was held on September 26, 2011, at which time we introduced additional supporting documentation. The Judge issued a decision on November 8, 2011, reversing her position on the employee meal refund claim. Such decision also affirmed the denial of the complimentary meal refund, as well as the denial of a retroactive application of the sales tax measure to both employee and complimentary meals. We intend to appeal the decision to the Commission. Due to uncertainty surrounding the ultimate resolution of an appeal to the Commission, as well as subsequent appeals to higher levels of the state judicial system, we will not record any gain until both we and the Department have exhausted all appeal options and a final, non-appealable decision has been rendered. For periods subsequent to May 2008, we have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as we do not believe it is probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

Atlantic City casinos, including Borgata, currently pay a 9.25% effective tax rate on gross gaming revenues. We also pay property taxes, sales and use taxes, payroll taxes, franchise taxes, room taxes, parking fees, various license fees, investigative fees and our proportionate share of regulatory costs. Our profitability depends on generating enough revenues to pay gaming taxes and other largely variable expenses, such as payroll and marketing, as well as largely fixed expenses, such as property taxes and interest expense. Borgata is treated as a partnership for federal income tax purposes and therefore federal income taxes are the responsibility of its members. Casino partnerships in New Jersey, however, are subject to state income taxes under the Casino Control Act. Therefore, Borgata is required to record New Jersey state income taxes. We cannot assure you that the State of New Jersey will not enact legislation that increases gaming tax rates.

We own real property and are subject to extensive environmental regulation, which creates uncertainty regarding future environmental expenditures and liabilities.

We may incur costs to comply with environmental requirements, such as those relating to discharges into the air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of our property affected by hazardous substances. Under

## Table of Contents

these and other environmental requirements we may be required to investigate and clean up hazardous or toxic substances or chemical releases at our property. As an owner or operator, we could also be held responsible to a governmental entity or third parties for property damage, personal injury and investigation and cleanup costs incurred by them in connection with any contamination. These laws typically impose cleanup responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. The liability under those laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of the responsibility. The costs of investigation, remediation or removal of those substances may be substantial, and the presence of those substances, or the failure to remediate a property properly, may impair our ability to use our property.

Borgata is a participant in a multiemployer pension plan, and the plan has been certified in critical status by the fund's actuary.

In connection with Borgata's collective bargaining agreement with the culinary and hotel workers union, Local 54/UNITE HERE, it participates in the UNITE HERE National Retirement Fund pension plan (the "Fund"). On March 31, 2010, as a result of the extraordinary decline in the financial markets and downturn in the economy, the Fund was certified in critical status by the Fund's actuary under the federal multiemployer plan funding laws pursuant to the Pension Protection Act of 2006 (the "PPA"). In connection with the certification, the Fund's board of trustees has adopted a rehabilitation plan effective on April 1, 2010 (the "Rehabilitation Plan") with the goal of enabling the Fund to emerge from critical status by January 1, 2023. The Rehabilitation Plan provides for certain increases in employer contributions and, in some cases, a reduction in participant benefits. On May 28, 2010, Borgata agreed upon a schedule with Local 54/UNITE HERE pursuant to which it will begin making increased monthly contributions to the Fund on October 1, 2011.

Borgata's current monthly pension contributions to the Fund range from \$0.4 million to \$0.5 million, and its unfunded vested liability to the Fund is \$47.1 million for the plan year beginning on January 1, 2010. A renewed economic decline could have a significant adverse effect on the financial condition of the Fund, which may require Borgata to make contributions in addition to those already contemplated. Any such increases in required contributions could adversely affect Borgata's results of operations.

Additionally, in connection with Borgata's collective bargaining agreements with the Local 68 Engineers Union Pension Plan and the NJ Carpenters Pension Fund, it participates in other multiemployer pension plans that have been certified in critical status under the federal multiemployer plan funding laws pursuant to the PPA. The boards of trustees of these plans have adopted rehabilitation plans and Borgata is currently in discussions with the boards regarding its level of participation in the rehabilitation plans. The impact of the rehabilitation plans is not expected to have a material adverse effect on Borgata's financial condition, results of operations or cash flows. Borgata's current monthly pension contributions to the funds associated with these plans is approximately less than \$0.1 million per month in the aggregate. Borgata's aggregate unfunded vested liability to these funds is approximately \$4.3 million.

Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while it is underfunded is subject to payment of such employer's assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can also be assessed withdrawal liability for a partial withdrawal from a multiemployer pension plan. Based on an estimate provided by the Fund in April 2010, Borgata has estimated that its pre-tax withdrawal, assuming a hypothetical immediate and complete withdrawal from the Fund, could be in excess of \$47 million. In addition, Borgata estimates the pre-tax withdrawal liability for the other funds to which it contributes to be approximately \$4.0 million. However, the exact amount of potential exposure could be higher or lower than the estimate, depending on, among other things, the nature and timing of any triggering events and the funded status of the Fund, or other funds to which it contributes, at that time.

## Risks Related to our Properties

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

Extreme weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas.

For example, due to flooding of the Mississippi River, the Mississippi Gaming Commission ordered the nine casinos located in Tunica, Mississippi to close indefinitely to ensure the safety of visitors and employees. Accordingly, effective May 1, 2011, we closed Sam's Town Hotel and Gambling Hall in Tunica. We were able to reopen on May 28, 2011; however, Sam's Town Hotel and Gambling Hall suffered minor damage, and we are still negotiating a settlement with our insurer.

In addition, certain of our properties have been forced to close due to hurricanes. In August 2008, Treasure Chest was closed for eight days over Labor Day weekend due to Hurricane Gustav. In September 2008, Treasure Chest was closed for two days as a result of Hurricane Ike and in 2005 the property was closed for 44 days as a result of Hurricane Katrina. Delta Downs was closed for six days in August 2008 due to Hurricane Gustav and seven days in September 2008 due to Hurricane Ike. In 2005, Delta Downs suffered significant property damage as a result of Hurricane Rita and closed for 42 days. In September 2011, Borgata

## Table of Contents

was closed for 3 days due to Hurricane Irene.

Moreover, Blue Chip, Par-A-Dice, Sam's Town Tunica, Sam's Town Shreveport, Treasure Chest and Borgata are each located in an area that has been identified by the director of the Federal Emergency Management Agency ("FEMA") as a special flood hazard area, which, according to the FEMA statistics, has a 1% chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year.

In addition to the risk of flooding and hurricanes, snowstorms and other adverse weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected area. For example, during January and February 2011, much of the country was impacted by some of the worst winter weather in decades, particularly in the Midwest. Although our properties at Blue Chip and Par-A-Dice were not closed as a result, these storms made it very difficult for our customers to visit, and we believe such winter weather had a material and adverse impact on the results of our operations during such time. Additionally, February 2010 was the snowiest month ever recorded in Atlantic City, which generally kept would-be gamblers from traveling to Borgata, contributing to a drop in Borgata's monthly revenues from January to February. The 2010 winter season was the worst on record, and travel throughout the entire Northeast was extremely difficult. The residual impact from these record winter storms resulted in day trip visitations to Atlantic City that were reduced or delayed as regional school calendars were extended in order to make up for prior school closures. Additionally, extreme heat and low precipitation levels in the latter half of the first six months of 2010, particularly in the month of June, had an adverse impact on visitation and spending at Borgata's property. If there is a prolonged disruption at Borgata or any of our other properties due to natural disasters, terrorist attacks or other catastrophic events, our results of operations and financial condition could be materially adversely affected.

While we maintain insurance coverage that may cover certain of the costs and loss of revenue that we incur as a result of some extreme weather conditions, our coverage is subject to deductibles and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions. If any of our properties are damaged or if their operations are disrupted as a result of extreme weather in the future, or if extreme weather adversely impacts general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, our business, financial condition and results of operations could be materially adversely affected.

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

Alvin C. Copeland, the sole shareholder (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 issued a ruling denying the exceptions on August 9, 2010. Copeland's counsel indicated a desire to move forward with the litigation and requested that the parties respond to outstanding discovery. Subsequently, on August 11, 2010, Robert J. Guidry, the co-defendant, filed a third party demand against the U.S. Attorney's Office seeking enforcement of Guidry's plea agreement which would limit Guidry's exposure in the case. On September 9, 2010, the U.S. Attorney's Office removed the suit to the U.S. District Court, Middle District of Louisiana. Pending before the District Court are a motion to dismiss for failing to state a cause of action filed by Guidry, asserting the same arguments he tried in state court, which the

## Table of Contents

Company joined, and a motion to dismiss for lack of subject matter jurisdiction filed by the U.S. Attorney, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19<sup>th</sup> Judicial District Court, East Baton Rouge Parish, State of Louisiana. 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.

Our insurance coverage may not be adequate to cover all possible losses that our properties could suffer. In addition, our insurance costs may increase and we may not be able to obtain similar insurance coverage in the future.

Although we have "all risk" property insurance coverage for our operating properties, which covers damage caused by a casualty loss (such as fire, natural disasters, acts of war, or terrorism), each policy has certain exclusions. In addition, our property insurance coverage is in an amount that may be significantly less than the expected replacement cost of rebuilding the facilities if there was a total loss. Our level of insurance coverage also may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, insect or animal damage and pollution, may not be covered at all under our policies. Therefore, certain acts could expose us to substantial uninsured losses.

We also have "builder's risk" insurance coverage for our development and expansion projects, including Echelon. Builder's risk insurance provides coverage for projects during their construction for damage caused by a casualty loss. In general, our builder's risk coverage is subject to the same exclusions, risks and deficiencies as those described above for our all risk property coverage. Our level of builder's risk insurance coverage may not be adequate to cover all losses in the event of a major casualty.

Blue Chip, Par-A-Dice, Sam's Town Tunica, Sam's Town Shreveport, Treasure Chest and Borgata are each located in an area that has been identified by the director of the FEMA as a special flood hazard area. According to the FEMA statistics, a special flood hazard area has a 1% chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year. Over a 30-year period, the risk of a 100-year flood in a special flood hazard area is 26%. At all times when we have a loan or credit facility from federally insured or regulated lender or lenders, we are required to maintain flood insurance at least equal to the lesser of (i) the outstanding principal balance of the loan; (ii) the maximum amount of coverage allowed for the type of property under the National Flood Insurance Program ("NFIP") managed by FEMA; or (iii) the full replacement cost value of the collateral. The maximum amount of NFIP insurance currently available on a commercial building is currently \$0.5 million. Our level of flood insurance coverage may not be adequate to cover all losses in the event of a major flood.

Due to flooding of the Mississippi River, Sam's Town Hotel and Gambling Hall was closed from May 1, 2011 until May 28, 2011. Sam's Town Hotel and Gambling Hall was damaged, and while we carry business interruption insurance and general liability insurance, we have not settled on our claims, and this insurance may not be adequate to cover all losses in any such event.

We renew our insurance policies (other than our builder's risk insurance) on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage.

Our debt instruments and other material agreements require us to meet certain standards related to insurance coverage. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements.

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

The California, Fremont and Main Street Station draw a substantial portion of their customers from the Hawaiian market. For the three months ended September 30, 2011, patrons from Hawaii comprised 63% of the room nights sold

at the California, 53% at Fremont and 51% at Main Street Station, For the nine months ended September 30, 2011, patrons from Hawaii comprised 66% of the room nights sold at the California, 52% at Fremont and 53% at Main Street Station. Decreases in discretionary consumer spending, as well as an increase in fuel costs or transportation prices, a decrease in airplane seat availability, or a deterioration of relations with tour and travel agents, particularly as they affect travel between the Hawaiian market and our facilities, could adversely affect our business, financial condition and results of operations.

Our Las Vegas properties also draw a substantial number of customers from certain other specific geographic areas, including the Southern California, Arizona and Las Vegas local markets. Native American casinos in California and other parts of the United States have diverted some potential visitors away from Nevada, which has had and could continue to have a negative effect on Nevada gaming markets. In addition, due to our significant concentration of properties in Nevada, any man-made or natural disasters in or around Nevada, or the areas from which we draw customers to our Las Vegas properties, could have a significant

## Table of Contents

adverse effect on our business, financial condition and results of operations. Each of our properties located outside of Nevada depends primarily on visitors from their respective surrounding regions and are subject to comparable risk. Additionally, the expansion of casino gaming in or near the mid-Atlantic region from which Borgata attracts and expects to attract most of its customers could have a significant adverse effect on its business, results of operations and financial condition. In 2010, Pennsylvania passed legislation allowing table games at certain casinos in the state, and other states near New Jersey, including New York, Delaware, Connecticut, and Maryland have or are currently contemplating gaming legislation. The expansion of gaming facilities in nearby states will further increase competition and may adversely impact our business, financial condition and results of operations.

Borgata also competes with Native American tribes in the Northeast and Mid-Atlantic region. Expansion of Native American gaming could have an adverse effect on Borgata's business, results of operations and financial condition, as Native American gaming facilities typically have a significant operating advantage over Borgata due to lower gaming taxes, allowing those facilities to market more aggressively and to expand or update their facilities at an accelerated rate.

The strength and profitability of our business depends on consumer demand for hotel casino resorts in general and for the type of amenities our properties offer. Changes in consumer preferences or discretionary consumer spending could harm our business. The terrorist attacks of September 11, 2001, other terrorist activities in the United States and elsewhere, military conflicts in Iraq, Afghanistan and in the Middle East, outbreaks of infectious disease and pandemics, adverse weather conditions and natural disasters, among other things, have had negative impacts on travel and leisure expenditures. In addition, other factors affecting travel and discretionary consumer spending, including general economic conditions, disposable consumer income, fears of further economic decline and reduced consumer confidence in the economy, may negatively impact our business. We cannot predict the extent to which similar events and conditions may continue to affect us in the future. An extended period of reduced discretionary spending and/or disruptions or declines in tourism could significantly harm our operations.

Furthermore, our facilities are subject to the risk that operations could be halted for a temporary or extended period of time, as a result of casualty, flooding, forces of nature, adverse weather conditions, mechanical failure, or extended or extraordinary maintenance, among other causes. If there is a prolonged disruption at any of our properties due to natural disasters, terrorist attacks or other catastrophic events, our results of operations and financial condition could be materially adversely affected.

The outbreak of public health threats at any of our properties or in the areas in which they are located, or the perception that such threats exist, including pandemic health threats, such as the avian influenza virus, SARS, or the H1N1 flu, among others, could have a significant adverse affect on our business, financial condition and results of operations. Likewise, adverse economic conditions that affect the national or regional economies in which we operate, whether resulting from war, terrorist activities or other geopolitical conflict, weather, general or localized economic downturns or related events or other factors, could have a significant adverse effect on our business, financial condition and results of operations.

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

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

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

Borgata has an executory contract with a wholly-owned subsidiary of a local utility company with terms that extend to June 2028, 20 years from the opening of The Water Club. 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 were estimated at approximately \$11.0 million per annum as of September 30, 2011. Borgata is also obligated to purchase a certain portion of its electricity demand at essentially a fixed rate which is estimated at approximately \$1.7 million per annum. Electricity demand in excess of the commitment is subject to market rates based on Borgata's tariff class.

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

## Table of Contents

compliance.

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

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

USCG regulations require a hull inspection for all riverboats at five-year intervals. Under certain circumstances, alternative hull inspections may be approved. The USCG may require that such hull inspections be conducted at a dry-docking facility, and if so required, the cost of travel to and from such docking facility, as well as the time required for inspections of the affected riverboats, could be significant. To date, the USCG has allowed in-place underwater inspections of our riverboats twice every five years on alternate two and three year schedules. The USCG may not continue to allow these types of inspections in the future. The loss of a dockside casino or riverboat casino from service for any period of time could adversely affect our business, financial condition and results of operations. Indiana and Louisiana have adopted alternate inspection standards for riverboats in those states. The standards require inspection by the ABSC. ABSC inspection for our riverboats at Blue Chip, Treasure Chest and Sam's Town Shreveport commenced during 2010. The Par-A-Dice riverboat will remain inspected by the USCG for the foreseeable future. ABSC imposes essentially the same design, personnel, safety, and hull inspection standards as the USCG. Therefore, the risks to our business associated with USCG inspection should not change by reason of inspection by ABSC. Failure of a vessel to meet the applicable USCG or ABSC standards would preclude its use as a casino. USCG regulations also require us to prepare and follow certain security programs. In 2004, we implemented the American Gaming Association's Alternative Security Program at our riverboat casinos and dockside facilities. The American Gaming Association's Alternative Security Program is specifically designed to address maritime security requirements at riverboat casinos and their respective dockside facilities. Only portions of those regulations will apply to our riverboats inspected by ABSC. Changes to these regulations could adversely affect our business, financial condition and results of operations.

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

We lease certain parcels of land on which The Orleans, Suncoast, Treasure Chest, Sam's Town Shreveport and Borgata's hotel and gaming facility are located. In addition, we lease other parcels of land on which portions of the Cal and the Fremont are located. As a ground lessee, we have the right to use the leased land; however, we do not retain fee ownership in the underlying land. Accordingly, with respect to the leased land, we will have no interest in the land or improvements thereon at the expiration of the ground leases. Moreover, since we do not completely control the land underlying the property, a landowner could take certain actions to disrupt our rights in the land leased under the long term leases. While such interruption is unlikely, such events are beyond our control. If the entity owning any leased land chose to disrupt our use either permanently or for a significant period of time, then the value of our assets could be impaired and our business and operations could be adversely affected. If we were to default on any one or more of these leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected land and any improvements on the land, including the hotels and casinos. This would have a significant adverse effect on our business, financial condition and results of operations as we would then be unable to operate all or portions of the affected facilities.

### Risks Related to our Indebtedness

We have a significant amount of indebtedness.

We had total consolidated long-term debt, net of current maturities, of approximately \$2.80 billion at September 30, 2011. If we pursue, or continue to pursue, any expansion, development, investment or renovation projects, we expect that our long-term debt will substantially increase in connection with related capital expenditures. This indebtedness could have important consequences, including:

- difficulty in satisfying our obligations under our current indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness,

## Table of Contents

which would reduce the availability of our cash flows to fund working capital, capital expenditures, expansion efforts and other general corporate purposes;

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a disadvantage compared to our competitors that have less debt; and
- limiting, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could have a significant adverse effect on our business, results of operations and financial condition.

Our debt instruments contain, and any future debt instruments likely will contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- incur additional debt, including providing guarantees or credit support;
- incur liens securing indebtedness or other obligations;
- dispose of assets;
- make certain acquisitions;
- pay dividends or make distributions and make other restricted payments;
- enter into sale and leaseback transactions;
- engage in any new businesses; and
- enter into transactions with our stockholders and our affiliates.

On December 3, 2010, the Amendment and Restatement Agreement pursuant to which our Amended Credit Facility was amended and restated to, among other things, (i) reduce the aggregate commitments under the Credit Facility and (ii) permit consenting Lenders to extend the maturity date of their commitments, new Lenders to issue revolving commitments and term loans and existing Lenders to increase their commitments (each, an “Extending Lender”) in each case with a maturity date five years from the restatement effective date.

Each of the Extending Lenders permanently reduced their commitments under the former credit facility by up to 50% of the amount thereof. As a result, the aggregate commitments under the Amended Credit Facility were reduced from \$3 billion to approximately \$1.5 billion (including \$500 million of term loans, and excluding \$331.0 million in non-extending amounts), which commitments may be increased from time to time by up to \$500 million (instead of \$1 billion commitment increases provided for under the former credit facility) through additional revolving credit or term loans under the Amended Credit Facility.

Our current debt service requirements on the extending amounts under the Amended Credit Facility primarily consist of interest payments on the outstanding borrowings. However, pursuant to the terms of the Amended Credit Facility, the term loans amortize in an annual amount equal to 5% of the original principal amount thereof, and commenced March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to revolving and term loans under the Amended Credit Facility is based upon, at our option, LIBOR or the “base rate,” plus an applicable margin in either case. Debt service requirements under our current outstanding senior subordinated and senior notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.75% to 9.125%) and repayment of our senior subordinated and senior notes due April 15, 2014, February 1, 2016 and December 1, 2018 for each of our 6.75% and 7.125% senior subordinated notes and our 9.125% senior notes, respectively.

The Amended Credit Facility contains certain financial and other covenants, including, without limitation, various covenants that:

- require the maintenance of a minimum consolidated interest coverage ratio;
- establish a maximum permitted consolidated total leverage ratio;
- establish a maximum permitted secured leverage ratio;
- impose limitations on the incurrence of indebtedness;
- impose limitations on transfers, sales and other dispositions; and
- impose restrictions on investments, dividends and certain other payments.

Subject to certain exceptions, we may be required to repay the amounts outstanding under the Amended Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness. In addition, our Amended Credit Facility requires us to maintain certain ratios, including a minimum Interest Coverage Ratio (as defined in the Amended Credit Facility) of 2.00 to 1.00, a Total Leverage Ratio and a Secured Leverage Ratio (both as defined in the Amended Credit Facility) that adjust over the life of our Amended Credit Facility. We believe that we were in compliance with the Amended Credit Facility covenants, including the minimum consolidated Interest Coverage Ratio, the maximum permitted consolidated Total Leverage Ratio and the maximum permitted Secured Leverage Ratio, which, at September 30, 2011, were 2.26 to 1.00, 7.15 to 1.00 and 4.25 to 1.00, respectively.

## Table of Contents

At September 30, 2011, assuming our current level of Consolidated Funded Indebtedness remains constant, we estimate that a 12.1% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to exceed our maximum permitted consolidated Total Leverage Ratio covenant for that period. In addition, at September 30, 2011, assuming our current level of Secured Indebtedness remains constant, we estimate that a 5.9% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to exceed our maximum permitted Secured Leverage Ratio covenant for that period. Additionally, at September 30, 2011, assuming our current level of interest expense remains constant, we estimate that a 7.9% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to go below our minimum consolidated Interest Coverage Ratio covenant for that period.

However, in the event that we project our Consolidated EBITDA may decline by such levels or more, we could implement certain actions in an effort to minimize the possibility of a breach of the maximum permitted consolidated Total Leverage Ratio, the maximum permitted Secured Leverage Ratio and the minimum consolidated Interest Coverage Ratio covenants. 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.

In addition, Borgata has significant indebtedness which could affect its ability to pay dividends to us. While we received a one-time distribution from Borgata of approximately \$135.4 million in August 2010 in connection with Borgata's financing, any future distribution from Borgata (other than distributions to satisfy tax liabilities relating to income of Borgata) will be subject to the limitations on dividends, distributions and certain other restricted payments under Borgata's bank credit agreement and the indenture governing Borgata's senior secured notes.

We did not receive distributions from Borgata during the nine months ended September 30, 2011. Prior to the August 2010 distribution, our distributions from Borgata were \$17.5 million during the nine months ended September 30, 2010. Other than the August 2010 distribution, the distributions from Borgata have generally declined as a result of the decline in Borgata's operating results. Borgata has significant uses for its cash flows, including maintenance capital expenditures, interest payments, state income taxes and the repayment of debt. Borgata's cash flows are primarily used for its business needs and are not generally available, except to the extent distributions are paid to us, to service our indebtedness.

In addition, Borgata's bank credit facility contains customary affirmative and negative covenants, including covenants that limit Borgata's ability to:

- incur additional debt;
- pay dividends and make other distributions;
- create liens;
- enter into transactions with affiliates;
- merge or consolidate; and
- engage in unrelated business activities.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and expansion efforts will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

It is unlikely that our business will generate sufficient cash flows from operations, or that future borrowings will be available to us under our Amended Credit Facility in amounts sufficient to enable us to pay our indebtedness, as such indebtedness matures and to fund our other liquidity needs. We believe that we will need to refinance all or a portion of our indebtedness, at maturity, and cannot provide assurances that we will be able to refinance any of our

indebtedness, including our Amended Credit Facility, on commercially reasonable terms, or at all. We may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be effected on satisfactory terms, if at all. In addition, certain states' laws contain restrictions on the ability of companies engaged in the gaming business to undertake certain financing transactions. Some restrictions may prevent us from obtaining necessary capital.

We and our subsidiaries may still be able to incur substantially more debt, which could further exacerbate the risks described above.

## Table of Contents

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indentures governing our senior subordinated and senior notes and Borgata's senior secured notes do not fully prohibit us or our subsidiaries from doing so. Approximately \$564.5 million of contractual availability was available for borrowing under our Amended Credit Facility as of September 30, 2011. If new debt is added to our, or our subsidiaries', current debt levels, the related risks that we or they now face could intensify.

Borgata may be unable to refinance its indebtedness.

In August 2010, Borgata entered into a \$150 million bank credit facility that matures in August 2014 and issued \$800 million in senior secured debt, \$400 million of which matures in October 2015 and \$400 million of which matures in August 2018. Borgata's ability to refinance its indebtedness will depend on its ability to generate future cash flow and Borgata is entirely dependent on its operations, including the Water Club, for all of its cash flow. Its ability to generate cash in the future, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

It is unlikely that Borgata's business will generate sufficient cash flows from operations in amounts sufficient to enable it to pay the principal on its indebtedness at maturity and to fund its other liquidity needs. We believe Borgata will need to refinance all or a portion of its indebtedness before maturity, and we cannot provide assurances that it will be able to repay or refinance its indebtedness on commercially reasonable terms, or at all. Borgata may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be effected on satisfactory terms, if at all. In addition, New Jersey laws and regulations contain restrictions on the ability of companies engaged in the gaming business to undertake certain financing transactions. Such restrictions may prevent Borgata from obtaining necessary capital.

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

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

Recently, there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that we will be able to fund any expansion projects using cash flows from operations and availability under the Amended Credit Facility (to the extent that availability exists after we meet our working capital needs).

If availability under the Amended Credit Facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner, or at all, we may be forced to sell assets in order to raise capital for projects, limit the scope of, or defer such projects, or cancel the projects altogether. In the event that capital markets do not improve and we are unable to access capital with more favorable terms, additional equity and/or credit support may be necessary to obtain construction financing for the remaining cost of the project.

Risks Related to our Equity Ownership

Our common stock price may fluctuate substantially, and a shareholder's investment could decline in value.

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

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

Table of Contents

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

Certain of our stockholders own large interests in our capital stock and may significantly influence our affairs. William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned 36.2% of the Company's outstanding shares of common stock as of September 30, 2011. 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.

Item 6. Exhibits  
Exhibits

31.1 Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).

31.2 Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).

32.1 Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.

32.2 Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.

101 The following materials from Boyd Gaming Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (vi) Notes to Condensed Consolidated Financial Statements.\*

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 9, 2011.

BOYD GAMING CORPORATION

By:     /S/   ELLIE J. BOWDISH  
Ellie J. Bowdish  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

Table of Contents

EXHIBIT LIST

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.2 | Agreement for Purchase and Sale, dated June 15, 2011, among the Company, Imperial Palace of Mississippi, LLC and Key Largo Holdings, LLC.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 31.1 | Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 31.2 | Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 32.1 | Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 32.2 | Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| 108  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |