BOYD GAMING CORP
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number: 1-12882

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

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

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

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

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

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

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

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

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

Class	Outstanding as of October 31, 2011

Common stock, $0.01 par value	86,317,735

Table of Contents

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

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, 2011	December 31, 2010
ASSETS		
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
LIABILITIES AND STOCKHOLDERS' EQUITY		
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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
REVENUES				
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
COST AND EXPENSES				
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

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 Comprehensive Income (loss)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Noncontrolling Interest	Total Stockholders' Equity
Balances, 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 instruments fair value adjustment, net of taxes of $4,230	7,594		—	—	—	7,594	—	7,594
Comprehensive income	4,231							
Comprehensive loss attributable to noncontrolling interest	(688)	—	—	—	—	—	(688)	(688)
Comprehensive income attributable to Boyd Gaming Corporation	$ 3,543							
Stock options exercised		46,008	1	275	—	—	—	276
Tax effect from share-based compensation arrangements		—	—	(800)	—	—	—	(800)
Share-based compensation costs		—	—	7,740	—	—	—	7,740
Change in noncontrolling interest in Borgata and LVE		—	—	—	—	—	(1,610)	(1,610)
Balances, September 30, 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

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

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

Table of Contents

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

	Nine Months Ended 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)

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 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”).

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 Resport 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.

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.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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 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.

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 “NJDGE”). 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 NJDGE 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.

	December 31, 2010		
	As Originally Reported	Acquisition Method Accounting Adjustments	As Retrospectively Adjusted
	(In thousands)		
ASSETS			
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

Total assets	$5,702,546	$(13,257)	$5,689,289
LIABILITIES AND STOCKHOLDERS' EQUITY			
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

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 Purchase Gain (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 Ended September 30, 2010 (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 As Reported (In thousands)	Borgata Stub Period	Adjustments	Boyd Gaming Corp Pro Forma
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			
	Boyd Gaming Corporation (as historically presented) (In thousands)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
ASSETS				
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
LIABILITIES				
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
STOCKHOLDERS' EQUITY				
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 Boyd Gaming Corporation (as historically presented) (In thousands)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
ASSETS				
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
LIABILITIES				
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
STOCKHOLDERS' EQUITY				
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)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
	(In thousands)			
REVENUES				
Other revenue	$34,105	$2,724	$(2,724)	$34,105
COSTS AND EXPENSES				
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)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
	(In thousands)			
REVENUES				
Other revenue	$100,412	$8,134	$(8,134)	$100,412
COSTS AND EXPENSES				
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, 2011 (in thousands)
Assets acquired:	
Intangible value of Development Agreement	$21,373
Note receivable from Tribe (at present value)	3,127
Purchase price	$24,500

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, 2011	December 31, 2010
	(In thousands)	
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, 2011	December 31, 2010
	(In thousands)	
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

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:

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

	September 30, 2011				
	Weighted Average Original Life	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
	(In thousands)				
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 Average Original Life	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible 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 Relationships (In thousands)	Favorable Lease Rates	Trademarks	Development Agreements	Gaming License Rights	Intangible Assets, Net
Nine Months Ended 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					