BOYD GAMING CORP
Form 10-Q
November 09, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ________to _________

Commission file number: : 1-12882

Boyd Gaming Corporation

(Exact name of Registrant as Specified in its Charter)

Nevada	**88-0242733**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2950 Industrial Road
Las Vegas, Nevada 89109

(Address of Principal Executive Offices including 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 reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Shares outstanding of each of the Registrant's classes of common stock as of October 31, 2006:

Class

Outstanding

Common stock, $.01 par value

86,472,115

Note: PDF provided as a courtesy

BOYD GAMING CORPORATION

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2006

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

		September 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$	170,235
Restricted cash		19,180
Accounts receivable, net		24,831
Insurance receivable		--
Inventories		10,912
Prepaid expenses and other current assets		65,855
Assets of discontinued operations held for sale, net of cash		645,939
Income taxes receivable		21,893
Deferred income taxes		2,672
Total current assets		961,517
Property and equipment, net		2,063,582
Investment in unconsolidated joint ventures, net		393,131
Assets of discontinued operations held for sale, net of cash		--
Other assets, net		104,345
Intangible assets, net		506,770
Goodwill, net		404,206
Total assets	$	4,433,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$	20,939
Note payable to related party		111,990
Accounts payable		63,211
Construction payables		22,413
Accrued liabilities		
Payroll and related		73,074
Interest		33,821
Gaming		66,729
Accrued expenses and other		80,606
Liabilities of discontinued operations held for sale		16,031
Deferred gain from insurance proceeds		28,046
Total current liabilities		516,860
Long-term debt, net of current maturities		2,554,200
Liabilities of discontinued operations held for sale		--
Deferred income taxes and other liabilities		317,550
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.01 par value, 5,000,000 shares authorized		--
Common stock, $.01 par value, 200,000,000 shares authorized, 86,417,531 and 89,286,491 shares outstanding		864
Additional paid-in capital		540,808

Retained earnings		499,508
Accumulated other comprehensive income, net		3,761
Total stockholders' equity		1,044,941
Total liabilities and stockholders' equity	$	4,433,551

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

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

	Three Months Ended September 30,		Ni
	2006	2005	2
Revenues			
Gaming	$ 440,957	$ 429,835	$ 1,3
Food and beverage	76,520	75,549	2
Room	42,400	41,873	1
Other	33,867	35,215	1
Gross revenues	593,744	582,472	1,8
Less promotional allowances	63,058	58,993	1
Net revenues	530,686	523,479	1,6
Costs and expenses			
Gaming	208,491	193,602	6
Food and beverage	46,352	47,150	1
Room	13,936	12,457	
Other	25,905	31,976	
Selling, general and administrative	77,809	78,437	2
Maintenance and utilities	27,733	26,682	
Depreciation and amortization	47,273	41,172	1
Corporate expense	13,679	11,236	
Preopening expenses	3,235	1,616	
Write-downs and other charges, net	5,990	7,034	
Total costs and expenses	470,403	451,362	1,4
Operating income from Borgata	25,409	30,503	
Operating income	85,692	102,620	2
Other income (expense)			
Interest income	36	105	
Interest expense, net of amounts capitalized	(37,503)	(30,970)	(1
Decrease in value of derivative instruments	(1,755)	--	
Loss on early retirement of debt	--	(17,529)	
Other non-operating expenses from Borgata, net	(3,182)	(2,861)	
Total	(42,404)	(51,255)	(1
Income from continuing operations before provision for income taxes and cumulative effect of a change in accounting principle	43,288	51,365	1
Provision for income taxes	(15,212)	(17,502)	(
Income from continuing operations before cumulative effect of a change in accounting principle	28,076	33,863	1
Discontinued operations:			
Loss from discontinued operations (including a $65 million impairment loss in 2006)	(63,569)	(1,445)	(
Benefit from income taxes	22,563	530	
Loss from discontinued operations, net of taxes	(41,006)	(915)	(

Income (loss) before cumulative effect of a change in accounting principle	(12,930)	32,948	
Cumulative effect of a change in accounting for intangible assets, net of taxes of $8,984	--	--	
Net income (loss)	$ (12,930)	$ 32,948	$

BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - (continued)
(In thousands, except per share data)

	Three Months Ended September 30,		Ni
	2006	2005	2
Basic net income (loss) per common share:			
Income from continuing operations before cumulative effect of a change in accounting principle	$ 0.32	$ 0.38	$
Loss from discontinued operations, net of taxes	(0.47)	(0.01)	
Cumulative effect of a change in accounting for intangible assets, net of taxes	--	--	
Net income (loss)	$ (0.15)	$ 0.37	$
Weighted average basic shares outstanding	87,774	88,771	
Diluted net income (loss) per common share:			
Income from continuing operations before cumulative effect of a change in accounting principle	$ 0.32	$ 0.37	$
Loss from discontinued operations, net of taxes	(0.47)	(0.01)	
Cumulative effect of a change in accounting for intangible assets, net of taxes	--	--	
Net income (loss)	$ (0.15)	$ 0.36	$
Weighted average diluted shares outstanding	88,607	90,575	
Dividends declared per common share	$ 0.135	$ 0.125	$

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

BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine-month period ended September 30, 2006
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	A Co
	Shares	Amount			
Balances, January 1, 2006	89,286,491	$ 893	$ 619,852	$ 473,964	$
Net income	--	--	--	60,470	
Derivative instruments market adjustment, net of taxes of $258	--	--	--	--	
Restricted available for sale securities market adjustment, net of taxes of $1	--	--	--	--	
Stock options exercised	578,541	5	9,059	--	
Stock repurchased and retired	(3,447,501)	(34)	(111,956)	--	
Tax benefit from stock options exercised	--	--	6,304	--	
Share-based compensation costs	--	--	17,549	--	
Dividends paid on common stock	--	--	--	(34,926)	
Balances, September 30, 2006	86,417,531	$ 864	$ 540,808	$ 499,508	$

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

BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Ni… 2…
Net income (loss)	$ (12,930)	$ 32,948	$
Derivative instruments market adjustment, net of tax	(3,705)	3,059	
Restricted available for sale securities market adjustment, net of tax	40	(50)	
Comprehensive income (loss)	$ (16,595)	$ 35,957	$

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Amortization of debt issuance costs	
Deferred income taxes	
Operating and non-operating income from Borgata	
Distributions of earnings received from Borgata	
Share-based compensation expense	
Change in value of derivative intstruments	
Non-cash asset write-downs	
Tax benefit from stock options exercised	
Excess tax benefit from share-based compensation arrangements	
Cumulative effect of a change in accounting principle	
Loss on early retirement of debt	
Gain on sale of undeveloped land	
Other	
Changes in operating assets and liabilities:	
Restricted cash	
Accounts receivable, net	
Insurance receivable	
Inventories	
Prepaid expenses and other	
Other assets	
Other current liabilities	
Other liabilities	
Income taxes receivable	
Net cash provided by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	
Insurance recoveries for replacement assets	
Net proceeds from sale of undeveloped land	
Net cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on long-term debt	
Payments under bank credit facility	
Borrowings under bank credit facility	
Net proceeds from issuance of long-term debt	
Retirement of long-term debt	
Proceeds from exercise of stock options	
Excess tax benefit from share-based compensation arrangements	
Dividends paid on common stock	
Other	
Net cash provided by (used in) financing activities	
Net decrease in cash and cash equivalents	
Cash and cash equivalents, beginning of period	

Cash and cash equivalents, end of period	$

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest, net of amounts capitalized	$
Cash paid for income taxes, net of refunds	
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Payables for capital expenditures	$
Transfer of land held for sale from property and equipment, net to prepaid expenses and other current assets	
Repurchase of common stock for issuance of note payable to related party	
Restricted cash proceeds from maturities of restricted investments	
Restricted cash used to purchase restricted investments	
Restricted cash proceeds from sales of restricted investments	

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

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its wholly-owned subsidiaries. As of the date of the filing of this quarterly report, we wholly-own and operate 16 gaming entertainment facilities located in Nevada, Mississippi, Illinois, Louisiana and Indiana. We are a 50% partner in a joint venture that owns a limited liability company that operates Borgata Hotel Casino and Spa in Atlantic City, New Jersey. We are also developing Echelon Place, which will be located on the acreage that we own on the Las Vegas Strip. Investments in 50% or less owned subsidiaries over which we have the ability to exercise significant influence, including joint ventures such as Borgata, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated.

Basis of Presentation

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of our operations for the three- and nine-month periods ended September 30, 2006 and 2005 and our cash flows for the nine-month periods ended September 30, 2006 and 2005. We suggest reading this report in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. As permitted by the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles, or GAAP, have been condensed or omitted. The operating results for the three- and nine-month periods ended September 30, 2006 and 2005 and the cash flows for the nine-month periods ended September 30, 2006 and 2005 are not necessarily indicative of the results that will be achieved for the full year or future periods.

Reclassifications

Certain prior period amounts in the condensed consolidated financial statements, including the discontinued operations presentation on the condensed consolidated statements of operations and assets and liabilities held for sale related to discontinued operations on the condensed consolidated balance sheets, have been reclassified to conform to the September 30, 2006 presentation due to the sale of our South Coast Hotel and Casino on October 25, 2006, and the exchange agreement that we entered into on September 29, 2006, to exchange our Barbary Coast Hotel and Casino for certain real property that has since been purchased by Harrah's Operating Company, Inc., a subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). These reclassifications had no effect on our net income as previously reported. For further information, see Note 7, "Discontinued Operations".

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates incorporated into our condensed consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, the estimated valuation allowance for deferred tax assets, estimated cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and related intangible assets, share-based payment values, property closure costs, our self-insured liability reserves, slot bonus point programs, contingencies, and litigation, claims and assessments. Actual results could differ from those estimates.

Capitalized Interest

Interest costs associated with major construction projects are capitalized. When no debt is incurred specifically for a project, interest is capitalized on amounts expended for the project using our weighted average cost of borrowing. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. We amortize capitalized interest over the estimated useful life of the related asset. Capitalized interest for the three- and nine-month periods ended September 30, 2006 was $1.6 million and $5.8 million, respectively, and was primarily related to the South Coast expansion project, our new corporate office building and our North Las Vegas casino project. Capitalized interest for the three- and nine-month periods ended September 30, 2005 was $6.3 million and $15.2 million, respectively, and related mainly to the construction of South Coast as well as our expansion project at Blue Chip.

Preopening Expenses

We expense certain costs of start-up activities as incurred. During the three- and nine-month periods ended September 30, 2006, we expensed $3.2 million and $16.3 million, respectively, in preopening costs that primarily relate to our Las Vegas Strip redevelopment project for Echelon Place, the opening of our new gaming vessel at Blue Chip in January 2006 and casino development opportunities in other jurisdictions. During the three- and nine-month periods ended September 30, 2005, we expensed $1.6 million and $4.9 million, respectively, in preopening costs that primarily relate to expansion projects at certain existing properties and casino development opportunities in other jurisdictions.

Stock-Based Employee Compensation Plans

On January 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment,* or SFAS No. 123R, using the modified prospective method and as such, results for prior periods have not been restated. This statement requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). This cost is recognized over the period during which an employee is required to provide service in exchange for the award. Under the modified prospective method, we expense the cost of share-based compensation awards issued after January 1, 2006. Additionally, we recognize compensation cost for the portion of awards outstanding on January 1, 2006 for which the requisite service has not been rendered over the period the requisite service is being rendered after January 1, 2006. Compensation expense related to stock option awards is calculated based on the fair value of each option grant on the date of the grant using the Black-Scholes option pricing model.

For the three and nine months ended September 30, 2006, we recorded $5.5 million and $17.5 million, respectively, of compensation costs related to our share-based employee compensation plans in our condensed consolidated financial statements in the following categories (in thousands):

	Three Mont Ended Sep 2006
Gaming	$ 1
Food and beverage	
Room	
Selling, general and administrative	1,0
Corporate expense	3,6

Preopening expenses		
Total share-based compensation expense from continuing operations	$	5,0
Discontinued Operations		
Total share-based compensation expense		5,0
Capitalized share-based compensation		3
Total share-based compensation costs	$	5,4

The total income tax benefit recognized in income resulting from share-based compensation expense was $1.8 million and $6.1 million, respectively, for the three and nine months ended September 30, 2006.

The effect of the adoption of SFAS No. 123R resulted in a reduction of $0.04 and $0.12 per basic and diluted share, respectively, for the three-and nine-month periods ended September 30, 2006.

Prior to the adoption of SFAS No. 123R, we presented the benefit of all tax deductions resulting from the exercise of stock options as an operating activity in our condensed consolidated statements of cash flows. SFAS No. 123R requires the excess tax benefit from stock option exercises (tax deduction in excess of compensation costs recognized) to be reported as a financing activity on our condensed consolidated statement of cash flows. Excess tax benefits of $6.3 million recorded during the nine months ended September 30, 2006 would have been classified as an operating activity if we had not adopted SFAS No. 123R.

For more information related to our share-based employee compensation plans, including our weighted average assumptions used in estimating the fair value of each option grant, see Note 12, "*Stock Incentive Plans.*"

For periods prior to January 1, 2006, we accounted for employee stock options in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No share-based employee compensation cost was reflected in net income for those periods as all options granted under our plans had an exercise price equal to the market value of the common stock on the date of grant.

The following table illustrates the effect on our income from continuing operations before cumulative effect of a change in accounting principle and net income and the related per share amounts as if we had applied the fair value recognition provisions of SFAS No. 123R to share-based employee compensation for the three- and nine-month periods ended September 30, 2005.

(In thousands, except per share data)		**Three Mont Ended Sep**
Income from continuing operations before cumulative effect of a change in accounting principle		
As reported	$	33,8
Pro forma share-based compensation expense, net of tax		(2,8
Pro forma	$	30,9
Net income		
As reported	$	32,9

Pro forma share-based compensation expense, net of tax		(2,8
Pro forma	$	30,0
Basic income per share from continuing operations before cumulative effect of a change in accounting principle		
As reported	$	0.
Pro forma-basic		0.
Diluted income per share from continuing operations before cumulative effect of a change in accounting principle		
As reported	$	0.
Pro forma-diluted		0.
Basic net income per share		
As reported	$	0.
Pro forma-basic		0.
Diluted net income per share		
As reported	$	0.
Pro forma-diluted		0.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158. *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R)".* SFAS No. 158 requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. This Statement also requires employers to measure the funded status of a plan as of the date of its year end and is effective for publicly traded companies as of the end of the fiscal year ending after December 31, 2006. We do not expect the adoption of SFAS No. 158 to have a material effect on our consolidated financial statements as we do not currently have a defined benefit postretirement plan that meets the criteria specified under SFAS No. 158.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact that the adoption of SFAS No. 157 will have on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB No. 108"), which adds Section N to Topic 1, *"Financial Statements".* Section N provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. To provide full disclosure, registrants electing not to restate prior periods should reflect the effects of initially applying the guidance in Topic 1N in their financial statements covering the first fiscal year ending after November 15, 2006. We do not expect the adoption of SAB No. 108 to have a material effect on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *"Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109".* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and applies to all tax positions accounted for in accordance with SFAS No. 109. We are currently evaluating the impact that the adoption of FIN 48 will have on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140"*. SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to irrevocably account for the whole instrument on a fair value basis. SFAS No. 155 is effective for all financial instruments acquired or issued after December 31, 2006. We do not expect the adoption of SFAS No. 155 to have a material effect on our consolidated financial statements, as we do not currently have any financial instruments that meet the criteria specified under SFAS No. 155.

Note 2. Restricted Investments

Pursuant to our investment policy related to customer payments for advanced bookings with our Hawaiian travel agency, we invest in certain financial instruments. Hawaiian regulations require us to maintain a separate charter tour client trust account solely for the purpose of the travel agency's charter tour business. Our investment policy generally allows us to invest these restricted funds in investments with a maximum maturity of three years and with certain credit ratings as determined by specified rating agencies.

At September 30, 2006 and December 31, 2005, our restricted investments consisted primarily of fixed income bonds maturing through November 2008. We have classified these investments as available for sale. The table below sets forth certain information about our restricted investments (in thousands):

		Gross Unrealized		
	Cost	**Gains**	**Losses**	**Market Value**
September 30, 2006	$ 9,252	$ --	$ (242)	$ 9,010
December 31, 2005	$ 9,773	$ --	$ (246)	$ 9,527

We have classified the fair market value of these restricted investments on our accompanying condensed consolidated balance sheets based upon the maturities of the investments. Investments maturing in less than one year have been presented in prepaid expenses and other, while all other long-term investments have been presented in other assets. Net unrealized holding losses have been recorded in accumulated other comprehensive income, net of taxes, on the accompanying condensed consolidated balance sheets. For the three- and nine-month periods ended September 30, 2006, we recorded the increase in fair values of these restricted investments of less than $0.1 million, net of taxes, for both periods in accumulated other comprehensive income. We recorded the decrease in fair values of these restricted investments of $0.1 million for the three and nine months ended September 30, 2005 in accumulated other comprehensive income.

During the three- and nine-month periods ended September 30, 2005, we sold certain of our restricted investments and recorded proceeds of approximately $0.8 million and $3.3 million, respectively, which approximated our cost basis in these investments as determined by specific identification. There were no sales of our restricted investments during the three and nine months ended September 30, 2006.

Note 3. Intangible Assets

The balance of intangible assets as of September 30, 2006 and December 31, 2005 is presented below:

	September 30, 2006	December 31, 2005
	(in thousands)	
License rights	$ 486,064	$ 486,064
Trademarks	54,400	54,400
Customer lists	450	450
Total intangible assets	540,914	540,914
Less accumulated amortization	34,144	34,076
Intangible assets, net	$ 506,770	$ 506,838

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

Customer lists are being ratably amortized over a five-year period. For the three- and nine-month periods ended September 30, 2006 and 2005, amortization expense for the customer lists was less than $0.1 million. For each year in the period ending December 31, 2009, amortization expense related to the customer lists is expected to be approximately $0.1 million. Accumulated amortization related to the customer lists was approximately $0.2 million at September 30, 2006 and approximately $0.1 million at December 31, 2005.

Included in intangible assets, net on our condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005, is the Barbary Coast trademark with a carrying value of $3.7 million. This trademark will be excluded from the transaction pursuant to the terms of the Exchange Agreement entered into between Coast Hotels and Casinos, Inc., a subsidiary of the Company, and Harrah's, (see Note. 7 Discontinued Operations - *Barbary Coast* below for information related to the transaction); however, we currently do not have any intended future use for this trademark after the closing of the transaction. As such, the trademark is expected to be written off upon the closing of the transaction, as the underlying cash flows of the Barbary Coast would no longer support its carrying value at that time.

Note 4. Borgata

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

Summarized financial information of Borgata is as follows (in thousands):

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS INFORMATION

	Three Months Ended September 30,		Ni
	2006	2005	2
Gaming revenue	$ 215,480	$ 190,106	$ 5
Non-gaming revenue	81,344	71,963	2
Gross revenues	296,824	262,069	7
Less promotional allowances	59,339	48,545	1
Net revenues	237,485	213,524	6
Expenses	166,521	138,010	4

Depreciation and amortization	16,922	13,800	
Preopening expenses	836	--	
Loss on asset disposals	1,740	59	
Operating income	51,466	61,655	1
Interest and other expenses, net	(7,319)	(6,163)	(
Benefit from income taxes	956	440	
Total non-operating expenses	(6,363)	(5,723)	(
Net income	$ 45,103	$ 55,932	$ 1

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

	Three Months Ended September 30,		Ni
	2006	2005	2
Our share of Borgata's operating income	$ 25,733	$ 30,827	$
Net amortization expense related to our investment in Borgata	(324)	(324)	
Our share of Borgata's operating income, as reported	$ 25,409	$ 30,503	$
Our share of Borgata's non-operating expenses, net	$ (3,182)	$ (2,861)	$

Note 5. Debt

On January 30, 2006, we issued $250 million principal amount of 7.125% senior subordinated notes due February 2016. The net proceeds of this debt issuance were approximately $246 million, which were used to repay a portion of the outstanding borrowings on the revolving portion of our bank credit facility. The notes require semi-annual interest payments on February 1st and August 1st of each year beginning in August 2006. The notes mature on February 1, 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). At any time prior to February 1, 2009, we may redeem up to 35% of the aggregate principal amount of the outstanding notes with the net proceeds from one or more public equity offerings at a redemption price of 107.125% of the principal amount, plus accrued and unpaid interest, subject to certain conditions. At any time prior to February 1, 2011, we may redeem the notes, in whole or in part, pursuant to a "make-whole" call as provided in the indenture governing the notes, plus accrued and unpaid interest. On or after February 1, 2011, we may redeem all or a portion of the notes at redemption prices ranging from 103.563% in 2011 to 100% in 2014 and thereafter.

On October 25, 2006, pursuant to the terms of the Unit Purchase Agreement that we entered into to sell South Coast to Michael J. Gaughan, we received approximately $401 million, which was used to repay a portion of the outstanding balance on our revolving credit facility. See Note 7, "Discontinued Operations - *South Coast"* for more information related to the sale.

In November 2004, in connection with the acquisition of certain real estate, we assumed a mortgage with a balance of $15.8 million that was secured by the real property. The mortgage was payable in equal monthly installments of principal and interest at the rate of 8.8% per annum through May 1, 2007, when the remaining balance was to become due and payable. We paid the remaining balance of approximately $15.4 million in October 2006.

Note 6. Earnings per Share

Income from continuing operations before cumulative effect of a change in accounting principle and the weighted average number of common shares and common share equivalents used in the calculation of basic and diluted earnings per share consisted of the following:

	Three Months Ended September 30,		Ni
	2006	2005	2
		(in thousand	
Income from continuing operations before cumulative effect of a change in accounting principle	$ 28,076	$ 33,863	$ 1
Weighted average common shares outstanding	87,774	88,771	
Dilutive effect of stock options	833	1,804	
Weighted average common and potential shares outstanding	88,607	90,575	

Approximately 3.6 million of the outstanding options were anti-dilutive for the three-month period ended September 30, 2006, as the grant prices of those options were greater than the average market price of our common stock for that three-month period. By comparison, nearly all of the outstanding options were dilutive for the nine months ended September 30, 2006 and each of the three- and nine-month periods ended September 30, 2005, since the grant prices of such options were less than the average market price of our common stock during those periods.

Note 7. Discontinued Operations

South Coast

On July 25, 2006, we entered into a Unit Purchase Agreement, as amended, (the "Agreement") to sell South Coast to Michael J. Gaughan for a total purchase price of approximately $513 million. This transaction closed on October 25, 2006.

As consideration for South Coast, Mr. Gaughan:

- paid us the net proceeds from the public offering of his 12,342,504 shares of our common stock and
- applied the principal amount of the term note described below to the purchase price,

subject to adjustment pursuant to cash and working capital provisions in the Agreement, collectively referred to as the "Agreement Consideration."

A total of 12,342,504 shares of our common stock owned by Mr. Gaughan were sold to a group of underwriters in a registered public offering for $32.4844 per share, or an aggregate of approximately $401 million.

Pursuant to the terms of the Agreement, on August 7, 2006, we repurchased 3,447,501 shares of our common stock from Mr. Gaughan directly. As consideration for the repurchase, we issued a term note to Mr. Gaughan in the aggregate amount of approximately $112 million. In connection with the closing of the transaction, the term note was cancelled on October 25, 2006.

Pursuant to the terms of the Agreement, Mr. Gaughan resigned from his position as a member of our board of directors on September 6, 2006 and ceased to be a Boyd Gaming employee on October 25, 2006. In addition, on August 4, 2006, Mr. Gaughan surrendered all of his options to acquire Boyd Gaming common stock, effectively canceling his vested options to purchase 88,334 shares and forfeiting his unvested options to purchase 176,666 shares.

In connection with entering into the Agreement during the quarter ended September 30, 2006, we met all of the criteria required to classify certain of the assets and liabilities of South Coast as held for sale on our condensed consolidated balance sheets. As such, we ceased depreciation of those assets and they were measured at the lower of their carrying amount or fair value less cost to sell. This resulted in an estimated non-cash, pretax impairment charge of $65 million during the three months ended September 30, 2006, as the fair value of the assets were less than their carrying value. We will adjust this estimated charge to actual during the quarter ended December 31, 2006 upon the completion of the disposal transaction; however, we do not expect the actual impairment charge to differ significantly from the estimated charge.

Barbary Coast

On September 29, 2006, we entered into an exchange agreement (the "Exchange Agreement") with Harrah's, whereby we agreed to exchange the Barbary Coast and its related 4.2 acres of land for a total of approximately 24 acres located north of and contiguous to our Echelon Place development on the Las Vegas Strip in a nonmonetary, tax-free transaction, which is expected to close in January 2007. Harrah's purchased the 24-acre site in October 2006 from unrelated third parties for aggregate cash consideration of approximately $364 million.

In connection with entering into the Exchange Agreement during the quarter ended September 30, 2006, we met all of the criteria required to classify certain of the assets and liabilities of Barbary Coast as held for sale on our condensed consolidated balance sheets. As such, we ceased depreciation of those assets. We expect to record a non-cash, pretax gain of approximately $280 million upon the closing of the transaction. In addition, we expect to write-off the $3.7 million carrying value of the Barbary Coast trademark upon the closing of the transaction as we will retain the trademark but will no longer have underlying cash flows at that time to support its value on our condensed consolidated balance sheets.

We can provide no assurances regarding the pending transaction contemplated by the Exchange Agreement, including whether it will be completed when anticipated or at all, the amount of gain that we may recognize and the tax treatment that the real property will receive. Factors that could cause these results to differ include the satisfaction of the conditions for closing under the Exchange Agreement and satisfaction of the requirements of Section 1031 of the Internal Revenue Code.

Summary Financial Information for Discontinued Operations

The operating results of South Coast and Barbary Coast for the three and nine months ended September 30, 2006 and 2005 are presented as net loss from discontinued operations on our condensed consolidated statements of operations. The assets held for sale and liabilities related to assets held for sale for South Coast and Barbary Coast are separately presented on our condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005. Included in the loss from discontinued operations is an allocation of interest expense related to the $401 million of debt to be repaid as a result of the South Coast disposal transaction, as well as other consolidated interest based on the ratio of: (i) the net assets of our discontinued operations less the debt to be repaid as a result of the South Coast disposal transaction, to (ii) the sum of total consolidated net assets and consolidated debt of the Company, other than the debt to be repaid as a result of the disposal transaction. The amount of interest expense that was allocated to discontinued operations was $8.3 million and $23.3 million for the three and nine months ended September 30, 2006, respectively, and $0.7 million and $2.0 million for the three and nine months ended September 30, 2005, respectively.

Summary operating results for the discontinued operations are as follows:

	Three Months Ended September 30,		Ni
	2006	2005	2
		(in thousand	
Net revenues	$ 59,503	$ 13,035	$ 1
Asset impairment charge	(65,000)	--	(
Operating income (loss)	(55,250)	(712)	(
Benefit from income taxes	22,563	530	
Loss from discontinued operations	(41,006)	(915)	(

Assets held for sale, net of cash, and liabilities related to assets held for sale for the discontinued operations are as follows:

	September 30, 2006	December 31, 2005
	(in thousands)	
Accounts receivable, net	$ 2,678	$ 625
Inventories	2,197	2,697
Prepaid expenses and other	1,857	829
Property and equipment, net	636,973	608,022
Other assets and deferred charges	2,234	673
Assets of discontinued operations held for sale, net of cash	645,939	612,846
Accounts payable	7,957	--
Other current liabilities	8,074	3,925
Total liabilities of discontinued operations held for sale	16,031	3,925
Net assets of discontinued operations held for sale, net of cash	$ 629,908	$ 608,921

Note 8. Derivative Instruments and Other Comprehensive Income

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

During the three- and nine-month periods ended September 30, 2006 and 2005, we utilized derivative instruments to manage interest rate risk. The net effect of our interest rate swaps resulted in a reduction of interest expense of $0.8 million for the three months ended September 30, 2006, and an increase in interest expense of $0.2 million for the three months ended September 30, 2005. The net effect of our interest rate swaps resulted in a reduction of interest expense of $1.6 million and $0.6 million for the nine-month periods ended September 30, 2006 and 2005, respectively.

During the three months ended September 30, 2006, we entered into three forward starting interest rate swaps with a combined notional amount of $200 million. We determined that these derivative instruments did not meet the requirements for hedge accounting and have therefore recorded a $1.8 million charge for the change in fair value of derivative instruments in our condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2006.

Note 9. Insurance Coverage Related to Hurricane Impacts

On August 27, 2005, Treasure Chest Casino in Kenner, Louisiana closed as a result of Hurricane Katrina. The property suffered minor damage from the hurricane and reopened for business on October 10, 2005.

On September 22, 2005, Delta Downs Racetrack Casino & Hotel closed as a result of Hurricane Rita. Delta Downs reopened for business on November 3, 2005 with limited hours of operation and limited food and beverage outlets. Delta Downs resumed normal operating hours beginning in December 2005 and horse racing resumed in April 2006.

Through September 30, 2006, we have received insurance advances for Delta Downs totaling $44 million, and we have incurred approximately $42 million in hurricane reconstruction costs and approximately $9.0 million in post-closing expenses. The following summarizes the status of our claims at Delta Downs and Treasure Chest.

Property Damage-Delta Downs.

Our insurance policy carried on Delta Downs for the policy year ended June 30, 2006 included coverage for replacement costs related to property damage with an associated deductible of $1.0 million and certain other limitations. We have submitted insurance claims for the property damage sustained by Delta Downs from the hurricane because the damage exceeded the related insurance deductible.

At September 30, 2006, we had completed substantially all of the hurricane reconstruction work at Delta Downs and incurred approximately $42 million of capital expenditures related to this reconstruction project. As of September 30, 2006, we have received insurance advances related to property damage at Delta Downs of $33 million. We have recorded a deferred gain of $28 million on our condensed consolidated balance sheet at September 30, 2006, $26 million of which represents the amount of insurance advances related to property damage in excess of the $7.0 million net book value of assets damaged or destroyed by the hurricane. The deferred gain, and any other deferred gain that may arise from further advances from insurance recoveries related to property damage, will not be recognized on our consolidated statement of operations until final settlement with our insurance carrier. We continue to work with our insurance carrier on the scope of our property damage claim and can provide no assurance with respect to the ultimate resolution of this matter.

Business Interruption-Delta Downs.

For the policy year ended June 30, 2006, Delta Downs maintained business interruption insurance that covers lost profits and continuing normal operating expenses, up to a maximum of $1 million per day. Our insurance carrier has confirmed that Delta Downs is covered under the policy for these items due to the effects of the hurricane. As of September 30, 2006, we have received advances of $11 million related to business interruption coverage, approximately $9.0 million of which relates to post-closing expenses and $2.0 million of which related to lost profits at Delta Downs. The $2.0 million of insurance recoveries related to lost profits has been included in our deferred gain balance of $28 million on our condensed consolidated balance sheet at September 30, 2006. The deferred gain, and any deferred gain that may arise from further recoveries of lost profits, will not be recognized on our consolidated statement of operations until final settlement with our insurance carrier. We continue to work with our insurance carrier on the scope of our business interruption claim and can provide no assurance with respect to the ultimate outcome of this matter.

Business Interruption-Treasure Chest.

For the policy year ended June 30, 2006, Treasure Chest maintained business interruption insurance that covers lost profits and continuing normal operating expenses, up to a maximum amount of $10 million. This coverage pertains to business interruption due to civil authority, ingress/egress or off-premise utility interruption. Our insurance carrier has notified us that they are denying our business interruption claim. Therefore, we have not recorded a receivable from our insurance carrier for post-closing expenses as recovery of these amounts currently does not appear to be probable. We intend to vigorously pursue our claims under Treasure Chest's insurance policy.

Note 10. Write-downs and Other Charges, Net

Write-downs and other charges, net includes the following for the three- and nine-month periods ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Ni
	2006	2005	2
Asset write-downs	$ 3,000	$ --	$
Property closure costs	3,388	--	
Hurricane and related expenses, net	(398)	7,303	
Gain on sales of undeveloped land	--	(269)	
Total write-downs and other charges, net	$ 5,990	$ 7,034	$

Asset Write-downs

The $3.0 million asset write-down during the three months ended September 30, 2006 relates to land held for sale in Pennsylvania that we previously planned to utilize as a gaming operation. However, on April 27, 2006, the Limerick Township Board of Supervisors voted against our proposed casino entertainment facility, thereby foreclosing our potential to be awarded a gaming license. In September 2006, we made the decision to sell the property and recorded the write-down of the land to its fair value less estimated costs to sell. Asset write-downs during the nine months ended September 30, 2006 also include $28 million related to the write-off of the net book value of the original Blue Chip gaming vessel, which was replaced with a new gaming vessel in conjunction with our expansion project. After analysis of alternative uses for the original vessel, management decided in June 2006 to permanently retire the asset from further operations, resulting in the write-off.

Property Closure Costs

In connection with our Las Vegas Strip development, Echelon Place, we closed the Stardust Hotel and Casino on November 1, 2006 and expect to demolish the property during the first quarter 2007. In February 2006, we established and communicated our plan to provide one-time termination benefits to our Stardust employees. For the three and nine months ended September 30, 2006, we recorded $3.4 million and $6.8 million, respectively, related to one-time employee termination costs on our condensed consolidated statements of operations. The total cost of these termination benefits was approximately $8 million, substantially all of which was paid subsequent to September 30, 2006.

Other closure costs related to the Stardust, consisting of one-time contract termination costs and other associated costs, including demolition, are estimated to be approximately $14 million and are expected to be expensed as incurred from the date of closure to the date the demolition is completed. We cannot provide any assurances that our estimated closure costs will not increase.

Note 11. Related Party Transactions

Percentage Ownership

William S. Boyd, our Chairman and Chief Executive Officer, together with his immediate family, beneficially owned approximately 37% of our outstanding shares of common stock as of September 30, 2006. As a result, the Boyd family has the ability to significantly influence our affairs, including the election of our directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation or sale of assets. For the three- and nine-month periods ended September 30, 2006 and 2005, there were no material related party transactions between us and the Boyd family.

South Coast Sale

On July 25, 2006, we entered into the Agreement to sell South Coast to Mr. Gaughan, who at the time was an Officer and a member of our Board of Directors, for a purchase price equal to the net proceeds from the sale of all 15,790,005 shares of Boyd Gaming stock owned by Mr. Gaughan. The transaction closed on October 25, 2006.

As consideration for South Coast, Mr. Gaughan:

- paid us the net proceeds from the public offering of his 12,342,504 shares of our common stock, and
- applied the principal amount of the term note described below to the purchase price,

subject to adjustment pursuant to cash and working capital provisions in the Agreement, collectively referred to as the "Agreement Consideration."

Pursuant to the terms of the Agreement, on August 7, 2006, we repurchased 3,447,501 shares of our common stock from Mr. Gaughan directly. As consideration for the repurchase, we issued a term note to Mr. Gaughan in the aggregate amount of approximately $112 million. Upon the closing of the transaction, we cancelled the term note and used approximately $401 million, the full amount of the cash proceeds that we received from Mr. Gaughan, to repay a portion of the outstanding balance on our revolving credit facility. Pursuant to the terms of the Agreement, for a period of five years following the closing of the sale of South Coast, Mr. Gaughan cannot sell South Coast to any party other than us, or an affiliate of ours, and for three additional years thereafter we will have a right of first refusal on any potential sale of South Coast.

North Las Vegas Land

In February 2006, we purchased a 40-acre, fully entitled casino site in North Las Vegas for approximately $35 million from a group that included the father of Michael J. Gaughan. At the time of the purchase, Michael J. Gaughan was an Officer and a member of our Board of Directors.

Las Vegas Dissemination Company

We utilize services from Las Vegas Dissemination Company, Inc., or LVDC, in connection with our Nevada race book operations. LVDC is wholly-owned by John Gaughan, son of Michael J. Gaughan, and as such, became a related party on July 1, 2004, the date of the merger with Coast Casinos. We pay to LVDC a monthly fee for race wire services as well as a percentage of wagers, ranging from 3% to 5%, on wagers we accept for races held at certain racetracks. The terms on which the dissemination services are provided are regulated by the Nevada Gaming Authorities. We paid a total of $1.2 million and $3.6 million to LVDC for the three- and nine-month periods ended September 30, 2006, respectively. For the three- and nine-month periods ended September 30, 2005, we paid a total of $1.1 million and $3.3 million, respectively, to LVDC.

Note 12. Stock Incentive Plans

Stock Options

As of September 30, 2006, we had two stock incentive plans in effect, both of which have been approved by our shareholders. Stock options or other awards under these plans are granted to our employees and directors. The number of shares of common stock authorized for issuance under these plans is approximately 21.6 million shares.

Options granted under the plans generally become exercisable ratably over a three-year period from the date of grant. Options that have been granted under the plans had an exercise price equal to the market price of our common stock on the date of grant and will expire no later than ten years after the date of grant.

Summarized stock option plan activity for the nine months ended September 30, 2006 is as follows:

	Options	Range of Options Prices	Weighte Averag Option Price
Options outstanding at January 1, 2006	6,587,229	$ 4.35 - $52.35	$ 28.7
Options granted	20,000	48.40	48.4
Options canceled	(371,329)	4.56 - 39.96	37.3
Options exercised	(578,541)	4.50 - 36.76	15.6
Options outstanding at September 30, 2006	5,657,359	$ 4.35 - $52.35	$ 29.5
Options exercisable at September 30, 2006	2,611,155		$ 19.5
Shares available for grant at September 30, 2006	5,559,923		

The following table summarizes the information about stock options outstanding at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.35 - $16.65	1,419,255	6.10	$ 12.64	1,388,923	$ 12.57
17.21 - 25.75	738,108	6.48	19.63	634,112	18.69
36.76 - 36.76	1,755,996	8.19	36.76	578,703	36.76
39.96 - 52.35	1,744,000	9.05	40.25	9,417	50.98
	5,657,359	7.71	$ 29.55	2,611,155	$ 19.55

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As discussed in Note 1, effective January 1, 2006, we adopted SFAS No. 123R. The total intrinsic value of in-the-money options exercised during the three- and nine-month periods ended September 30, 2006 was $1.1 million and $17.9 million, respectively. The total fair value of options vested during the three- and nine-month periods ended September 30, 2006 was approximately $1.0 million and $6.0 million, respectively. As of September 30, 2006, there was approximately $14.5 million of total unrecognized share-based compensation expense related to unvested stock options, which is expected to be recognized over approximately one year, the weighted average remaining requisite service period.

On November 2, 2006, we granted options to purchase an aggregate of approximately 1.6 million shares of our common stock at a market price of $39.00, representing the closing market price of our common stock on that date.

Restricted Stock Units

On May 18, 2006, our board of directors amended and restated our 2002 Stock Incentive Plan to provide for the grant of Restricted Stock Units ("RSU"s). An RSU is an award which may be earned in whole or in part upon the passage of time or the attainment of performance criteria and which may be settled for cash, shares or other securities or a combination of cash, shares or other securities. The RSUs do not contain voting rights. We awarded to certain members of our board of directors a total of 17,500 RSUs with a grant date fair value of $45.95 per unit each fully vested upon grant and to be paid in shares of common stock upon cessation of service on the board of directors.

Note 13. Commitments and Contingencies

Commitments

On June 5, 2006, we entered into a purchase agreement to acquire Dania Jai Alai and approximately 47 acres of related land located in Dania Beach, Florida for an aggregate purchase price of $152.5 million. Dania Jai Alai is one of four facilities approved under Florida law to operate 1,500 Class III slot machines. We anticipate completing the acquisition of Dania Jai Alai in the first quarter 2007, subject to closing conditions. We expect to finance the acquisition through availability under our bank credit agreement. On August 8, 2006, a three-judge panel of the First District Court of Appeals in Broward County, Florida overturned a lower court decision which could lead to the invalidation of a November 2004 initiative approved by Florida voters to operate slot machines at certain parimutuel gaming facilities in Broward County. If the initiative is invalidated, and we were to consummate the acquisition, we may not be able to operate slot machines at the Dania Jai Alai facility, which would materially affect any potential cash flow and revenue expected from the Dania Jai Alai facility. We can provide no assurances that the closing conditions will be satisfied, or that the acquisition will close when expected, or at all. In addition, we can provide no assurances regarding our ability to finance the acquisition on terms acceptable to us, or at all.

Contingencies

Alvin C. Copeland is the sole shareholder of an entity that applied in 1993 for a riverboat license at the location of our Treasure Chest Casino. Copeland was unsuccessful in the application process and has made several attempts to have the Treasure Chest license revoked and awarded to his company. In 1999, Copeland filed a direct action against Treasure Chest and certain other parties seeking the revocation of Treasure Chest's license, an award of the license to him and monetary damages. The suit was dismissed by the trial court citing that Copeland failed to state a claim on which relief could be granted. The dismissal was appealed by Copeland to the Louisiana First Circuit Court of Appeal. On June 21, 2002, the First Circuit Court of Appeal reversed the trial court's decision and remanded the matter to the trial court. On January 14, 2003, we filed a motion to dismiss the matter and that motion was 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, which motions are currently pending. It is not possible to determine the likely date of trial, if any, at this time. We intend to vigorously defend the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it would have a significant adverse effect on our business, financial condition and results of operations.

Note 14. Segment Information

We have aggregated certain of our properties in order to present five reportable segments: Las Vegas Locals, Stardust, Downtown Las Vegas, Central Region and Borgata, our 50% joint venture in Atlantic City. The table below lists the classification of each of our properties. Beginning in 2006, we have reclassified the reporting of our Coast Casinos and Boulder Strip properties so that they are now included together as part of the Las Vegas Locals segment due to their similar market characteristics. We have reclassified the results for the three- and nine-month periods ended September 30, 2005 to conform to the current presentation. In conjunction with the pending exchange of Barbary Coast and the completed sale of South Coast, beginning in the third quarter 2006, we reported the operating results of South Coast and Barbary Coast in "discontinued operations" on our condensed consolidated statement of operations for all periods presented and excluded those properties from our presentation in the Las Vegas Locals segment. In addition, we ceased operations at the Stardust on November 1, 2006.

Las Vegas Locals

Downtown Las Vegas

Gold Coast Hotel and Casino

Las Vegas, NV

California Hotel and Casino

Las Vegas, NV

The Orleans Hotel and Casino

Las Vegas, NV

Fremont Hotel and Casino

Las Vegas, NV

Sam's Town Hotel and Gambling Hall

Las Vegas, NV

Main Street Station Casino, Brewery

Suncoast Hotel and Casino

Las Vegas, NV

and Hotel

Las Vegas, NV

Eldorado Casino

Henderson, NV

Central Region

Jokers Wild Casino

Henderson, NV

Sam's Town Hotel and Gambling Hall

Tunica, MS

Par-A-Dice Hotel Casino

East Peoria, IL

Stardust Resort and Casino

Las Vegas, NV

Treasure Chest Casino

Kenner, LA

Blue Chip Hotel and Casino

Michigan City, IN

Borgata Hotel Casino and Spa

Atlantic City, NJ

Delta Downs Racetrack Casino & Hotel

Vinton, LA

Sam's Town Hotel and Casino

Shreveport, LA

Three Months Ended September 30,		Ni
2006	2005	2

	(In thousands)		
Gross Revenues			
Las Vegas Locals	$ 225,506	$ 237,287	$ 7
Stardust	36,485	44,497	1
Downtown Las Vegas	63,447	67,067	2
Central Region	268,306	233,621	8
Total gross revenues	$ 593,744	$ 582,472	$ 1,8
Adjusted EBITDA (1)			
Las Vegas Locals	$ 56,217	$ 71,120	$ 2
Stardust	2,683	5,018	
Downtown Las Vegas	9,536	9,346	
Central Region	64,456	48,925	2
Wholly-owned property adjusted EBITDA	132,892	134,409	4
Corporate expense	(10,013)	(11,236)	(
Wholly-owned adjusted EBITDA	122,879	123,173	4
Our share of Borgata's operating income before net amortization, preopening and other expenses (3)	27,021	30,857	
Total Adjusted EBITDA	149,900	154,030	5
Other operating costs and expenses			
Deferred rent	1,158	1,234	
Depreciation and amortization	47,597	41,496	1
Preopening expenses	3,235	1,616	
Our share of Borgata's preopening expenses	418	--	
Our share of Borgata's loss on asset disposals	870	30	
Share-based compensation expense	4,940	--	
Write-downs and other charges, net	5,990	7,034	
Total other operating costs and expenses	64,208	51,410	2
Operating income	85,692	102,620	2
Other non-operating costs and expenses			
Interest expense, net (2)	37,467	30,865	1
Decrease in value of derivative instruments	1,755	--	
Loss on early retirement of debt	--	17,529	
Our share of Borgata's non-operating expenses, net	3,182	2,861	
Total other non-operating costs and expenses	42,404	51,255	1
Income from continuing operations before provision for income taxes and cumulative effect of a change in accounting principle	43,288	51,365	1
Provision for income taxes	(15,212)	(17,502)	(
Income from continuing operations before cumulative effect of a change in accounting principle	$ 28,076	$ 33,863	$ 1

(1) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a commonly used measure of performance in our industry which we believe, when considered with measures calculated in accordance with United States Generally Accepted Accounting Principles (GAAP), gives investors a more complete understanding of operating results before the impact of investing and financing transactions and income taxes

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

(2) Net of interest income and amounts capitalized.

(3) The following table reconciles the presentation of our share of Borgata's operating results in our accompanying condensed consolidated statements of operations to the presentation of our share of Borgata's results in the above table:

	Three Months Ended September 30,	
	2006	2005
		(In thou
Our share of Borgata's operating income	$ 25,409	$ 30,503
Add back:		
Net amortization expense related to our investment in Borgata	324	324
Our share of Borgata's preopening expenses	418	--
Our share of Borgata's loss on asset disposals	870	30
Our share of Borgata's operating income before net amortization, preopening and other expenses	$ 27,021	$ 30,857

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

As of the date of the filing of this quarterly report, we are a diversified operator of 16 wholly-owned gaming entertainment properties and one joint-venture property. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey. We aggregate certain of our properties in order to present five reportable segments: Las Vegas Locals, Stardust, Downtown Las Vegas, Central Region and Borgata, our 50% joint venture in Atlantic City. Beginning in 2006, we have reclassified the reporting of our Coast Casinos and Boulder Strip properties so that they are now included together as part of the Las Vegas Locals segment due to their similar market characteristics. Due to the pending Barbary Coast exchange and the completed South Coast sale, the operating results from these two properties are classified as discontinued operations in our condensed consolidating statements of operations beginning with the three months ended September 30, 2006. As such, we have reclassified the results for the three- and nine-month periods ended September 30, 2005 to conform to the current presentation. For further information related to our segment information, including the property compositions of each segment, the definition of Adjusted EBITDA and reconciliations of certain financial information, see Note 14 to our Condensed Consolidated Financial Statements.

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

Overview

Over the past few years, we have been working to strategically position our Company for greater success by strengthening our operating foundation and effecting strategic growth in an attempt to increase shareholder value. The following is a listing of our most recently completed areas of growth:

- Opening of Borgata's public space expansion in June 2006, which includes three new signature restaurants and nine additional casual dining outlets, additional casino games, an 85-table poker room and an ultra lounge.
- Expansion of Blue Chip Hotel and Casino in January 2006 through the construction of a single-level boat that allowed us to expand our casino to 2,170 slot machines, an increase of approximately 25%. In connection with this expansion project, we also added a new parking structure and enhanced the land-based pavilion.
- Opening of a 206-room hotel at Delta Downs Racetrack Casino & Hotel in March 2005.

We are currently focused on future expansion projects at several of our properties, such as our recently announced Las Vegas Strip development, Echelon Place. We plan to develop Echelon Place in one phase and to open it in mid-2010. See "*Expansion Projects"* below for a more comprehensive description of all of our expansion projects.

In October 2006, we completed the sale of the South Coast, which provided us with additional capital for future growth opportunities. In addition, we announced our agreement to exchange the Barbary Coast for approximately 24 acres of land on the Las Vegas Strip adjacent to our Echelon Place de