BOYD GAMING CORP
Form 10-Q
August 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ______ to ______

Commission file number: 1-12882

BOYD GAMING CORPORATION

(Exact name of registrant as specified in its charter)

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 ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 July 30, 2010
Common stock, $0.01 par value	**86,226,640 shares**

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BOYD GAMING CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED JUNE 30, 2010

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PART I. Financial Information

Item 1. ***Financial Statements***

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

Total liabilities and stockholders equity	$ 5,437,107	$ 4,459,957

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

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

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

Six Months Ended June 30, 2010

(Unaudited and in thousands, except share data)

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited and in thousands)

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

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

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

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

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

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

Basis of Presentation

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

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

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

Principles of Consolidation

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

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

Use of Estimates

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

Property and Equipment, Net

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

Investments In and Advances to Unconsolidated Subsidiaries, Net

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

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

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

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

Intangible Assets

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

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

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

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

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

Goodwill

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

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