BOYD GAMING CORP
Form 10-Q
August 11, 2008

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 June 30, 2008

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)

3883 Howard Hughes Parkway, Ninth Floor
Las Vegas, Nevada 89169

(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, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Shares outstanding of each of the Registrant's classes of common stock as of July 31, 2008:

Class	Outstanding
Common stock, $.01 par value	87,789,080

BOYD GAMING CORPORATION

QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2008

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Item 1. *Unaudited Condensed Consolidated Financial Statements*

BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2008	December 31, 2007
ASSETS	**(Unaudited)**	
Current assets		
Cash and cash equivalents	$ 148,737	$ 165,701
Restricted cash	51,784	52,244
Accounts receivable, net	19,384	23,602
Inventories	10,692	11,269
Prepaid expenses and other current assets	38,395	39,896
Assets held for sale	24,732	23,188
Income taxes receivable	10,970	17,969
Deferred income taxes	5,737	5,259
Total current assets	310,431	339,128
Property and equipment, net	3,048,830	2,716,036
Investments in and advances to unconsolidated subsidiaries, net	401,748	393,616
Other assets, net	101,212	96,515
Intangible assets, net	502,903	538,095
Goodwill, net	404,206	404,206
Total assets	$ 4,769,330	$ 4,487,596
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 599	$ 629
Accounts payable	63,949	74,073
Construction payables	138,026	72,215
Accrued liabilities		
Payroll and related	59,588	65,272
Interest	16,320	17,597
Gaming	52,247	60,717
Accrued expenses and other	99,566	89,629
Total current liabilities	430,295	380,132
Long-term debt, net of current maturities	2,486,630	2,265,929
Deferred income taxes	347,485	365,370
Other long-term tax liabilities	41,614	39,361
Other liabilities	108,772	51,398
Commitments and contingencies (Note 2 and Note 12)		
Stockholders' equity		
Preferred stock, $.01 par value, 5,000,000 shares authorized	-	-
Common stock, $.01 par value, 200,000,000 shares authorized; 87,789,080 and 87,747,080 shares outstanding	878	877
Additional paid-in capital	607,234	599,751
Retained earnings	758,434	795,693
Accumulated other comprehensive loss, net	(12,012)	(10,915)
Total stockholders' equity	1,354,534	1,385,406
Total liabilities and stockholders' equity	$ 4,769,330	$ 4,487,596

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues				
Gaming	$ 381,058	$ 425,671	$ 774,024	$ 857,602
Food and beverage	64,884	68,955	131,810	137,261
Room	36,516	39,156	74,871	79,128
Other	31,392	33,083	61,056	65,967
Gross revenues	513,850	566,865	1,041,761	1,139,958
Less promotional allowances	53,086	55,474	109,879	111,537
Net revenues	460,764	511,391	931,882	1,028,421
Costs and expenses				
Gaming	172,347	195,624	349,382	393,247
Food and beverage	36,578	41,260	75,856	82,497
Room	11,179	11,990	22,603	23,362
Other	24,485	25,092	46,575	48,461
Selling, general and administrative	76,049	80,705	153,956	157,951
Maintenance and utilities	23,875	23,750	46,912	46,428
Depreciation and amortization	42,575	41,937	85,745	82,549
Corporate expense	14,010	13,544	29,783	28,815
Preopening expenses	5,207	6,062	10,786	10,512
Write-downs and other charges	1,174	1,972	91,487	10,980
Total costs and expenses	407,479	441,936	913,085	884,802
Operating income from Borgata	10,809	17,713	29,012	38,825
Operating income	64,094	87,168	47,809	182,444
Other expense (income)				
Interest income	(5)	(110)	(13)	(110)
Interest expense, net of amounts capitalized	27,162	33,797	57,423	70,345
Decrease (increase) in value of derivative instruments	17	(2,601)	(425)	(2,525)
Loss (gain) on early retirements of debt	(863)	16,945	(1,813)	16,945
Other non-operating expenses from Borgata, net	3,130	3,574	7,735	7,375
Total other expense, net	29,441	51,605	62,907	92,030
Income (loss) from continuing operations before income taxes	34,653	35,563	(15,098)	90,414
Benefit from (provision for) income taxes	(12,995)	(12,622)	4,169	(32,368)
Income (loss) from continuing operations	21,658	22,941	(10,929)	58,046
Discontinued operations:				

Income (loss) from discontinued operations (including a gain on disposition of $285,033 during the six months ended June 30, 2007)	-	(1,284)	-	281,672
Benefit from (provision for) income taxes	-	455	-	(99,740)
Net income (loss) from discontinued operations	-	(829)	-	181,932
Net income (loss)	$ 21,658	$ 22,112	$ (10,929)	$ 239,978

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Basic net income (loss) per common share:				
Income (loss) from continuing operations	$ 0.25	$ 0.26	$ (0.12)	$ 0.66
Net income (loss) from discontinued operations	-	(0.01)	-	2.09
Net income (loss)	$ 0.25	$ 0.25	$ (0.12)	$ 2.75
Weighted average basic shares outstanding	87,854	87,497	87,831	87,369
Diluted net income (loss) per common share:				
Income (loss) from continuing operations	$ 0.25	$ 0.26	$ (0.12)	$ 0.66
Net income (loss) from discontinued operations	-	(0.01)	-	2.05
Net income (loss)	$ 0.25	$ 0.25	$ (0.12)	$ 2.71
Weighted average diluted shares outstanding	88,119	88,714	87,831	88,588
Dividends declared per common share	$ 0.15	$ 0.15	$ 0.30	$ 0.285

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 (Unaudited)
For the six months ended June 30, 2008
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 2008	87,747,080	$ 877	$ 599,751	$ 795,693	$ (10,915)	$ 1,385,406
Net loss	-	-	-	(10,929)	-	(10,929)
Derivative instruments market adjustment, net of taxes of $648	-	-	-	-	(1,097)	(1,097)
Stock options exercised	42,000	1	408	-	-	409
Tax benefit from share-based compensation arrangements	-	-	38	-	-	38
Share-based compensation costs	-	-	7,037	-	-	7,037
Dividends paid on common stock	-	-	-	(26,330)	-	(26,330)
Balances, June 30, 2008	87,789,080	$ 878	$ 607,234	$ 758,434	$ (12,012)	$ 1,354,534

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 (LOSS) (Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ 21,658	$ 22,112	$ (10,929)	$ 239,978
Derivative instruments market adjustment, net of tax	12,635	1,902	(1,097)	510
Restricted available for sale securities market adjustment, net of tax	-	60	-	94
Comprehensive income (loss)	$ 34,293	$ 24,074	$ (12,026)	$ 240,582

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 (Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (10,929)	$ 239,978
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	85,745	82,549
Amortization of debt issuance costs	2,412	2,284
Share-based compensation expense	6,477	9,011
Deferred income taxes	(17,715)	62,733
Operating and non-operating income from Borgata	(21,277)	(31,450)
Distributions of earnings received from Borgata	19,579	32,245
Asset write-downs	91,487	3,744
Gain on disposition of Barbary Coast	-	(285,033)
Loss (gain) on early retirements of debt	(1,813)	16,945
Other operating activities	(744)	(6,826)
Changes in operating assets and liabilities:		
Restricted cash	988	634
Accounts receivable, net	4,218	4,882
Inventories	577	318
Prepaid expenses and other current assets	408	(3,832)
Income taxes receivable	7,049	1,767
Other assets	(7,541)	(7,303)
Other current liabilities	(9,558)	(33,633)
Other liabilities	1,485	3,708
Other long-term tax liabilities	2,253	35,889
Net cash provided by operating activities	153,101	128,610
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(368,737)	(116,225)
Investments in and advances to unconsolidated subsidiaries	(7,129)	(3,005)
Net cash paid for Dania Jai-Alai	-	(80,904)
Other investing activities	8,851	2,107
Net cash used in investing activities	(367,015)	(198,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirements of long-term debt	(28,945)	(260,938)
Borrowings under bank credit facility	468,400	523,500
Payments under bank credit facility	(216,300)	(196,000)
Proceeds from exercise of stock options	409	12,821
Dividends paid on common stock	(26,330)	(24,877)
Excess tax benefit from share-based compensation arrangements	50	4,178
Other financing activities	(334)	718
Net cash provided by financing activities	196,950	59,402
Net decrease in cash and cash equivalents	(16,964)	(10,015)
Cash and cash equivalents, beginning of period	165,701	169,397

Cash and cash equivalents, end of period	$ 148,737	$ 159,382

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$ 57,358	$ 71,490
Cash paid for income taxes, net of refunds	4,265	31,501
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Payables for capital expenditures	$ 139,034	$ 28,599
Capitalized share based compensation costs	560	614
Restricted cash received as a deposit for Morgans Las Vegas, LLC joint venture	528	30,627
Restricted cash proceeds from maturities of restricted investments	-	6,240
Restricted cash used to purchase restricted investments	-	6,765
Restricted cash proceeds from sales of restricted investments	-	596
Increase (decrease) in market adjustment of derivative instruments	(1,745)	799
Land acquired in exchange for Barbary Coast	-	364,000
Acquisition of Dania Jai-Alai		
Fair value of non-cash assets acquired	$ -	$ 131,372
Net cash paid	-	(80,904)
Contingent liability recorded	-	(46,648)
Liabilities assumed	$ -	$ 3,820

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

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its subsidiaries (the "Company," "we," or "us"). Investments in unconsolidated affiliates, which are 50% or less owned and do not meet the consolidation criteria of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (R) (as amended), *Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51* ("FIN 46(R)"), are accounted for under the equity method. All material intercompany accounts and transactions have been eliminated.

As of June 30, 2008, we wholly-owned and operated 15 casino entertainment facilities located in Nevada, Mississippi, Illinois, Louisiana and Indiana. In addition, we own and operate a pari-mutuel jai alai facility located in Dania Beach, Florida, two travel agencies and an insurance company that underwrites travel-related insurance. We are also a 50% partner in a joint venture that owns a limited liability company, operating Borgata Hotel Casino and Spa in Atlantic City, New Jersey.

In conjunction with our Echelon development on the Las Vegas Strip, we entered into two joint venture agreements:

Morgans Las Vegas, LLC

- This 50/50 joint venture with Morgans Hotel Group Co. ("Morgans") was formed to develop, construct and operate the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon (see Note 4, *Investments in and Advances to Unconsolidated Subsidiaries* and Note 12, *Commitments and Contingencies*). We currently account for this joint venture under the equity method, as we are not the primary beneficiary of this entity under FIN 46(R). We will continue to evaluate our accounting treatment for this joint venture as it is developed.

Echelon Place Retail Promenade, LLC

- This 50/50 joint venture with General Growth Properties ("GGP") was formed to develop, construct and operate High Street retail promenade at Echelon (see Note 12, *Commitments and Contingencies*). We currently consolidate this joint venture, as we are the primary beneficiary of this entity under FIN 46(R). We will continue to evaluate our accounting treatment for this joint venture as it is developed. At June 30, 2008, GGP's minority interest in this joint venture was $9.5 million, which is included in other liabilities on our consolidated balance sheet.

On August 1, 2008, we announced our decision to delay the Echelon development project. See Note 12, *Commitments and Contingencies*, *Subsequent Event - Echelon Project Commitments*, for a discussion regarding our decision to delay the Echelon project and its impact on our joint venture and other agreements.

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 six months ended June 30, 2008 and 2007, our cash flows for the six months ended June 30, 2008 and 2007, and our balance sheets as of June 30, 2008 and December 31, 2007. This report should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. 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 United States generally accepted accounting principles ("GAAP") have been condensed or omitted. Our operating results for the three and six months ended June

30, 2008 and 2007 and our cash flows for the six months ended June 30, 2008 and 2007 are not necessarily indicative of the results that would be achieved for the full year or future periods.

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 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, certain tax liabilities, estimated cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and intangible assets, share-based payment valuation assumptions, fair values of derivative instruments, fair values of acquired assets and liabilities, 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.

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

Capitalized Interest

Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. 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. If substantially all of the construction-related activities of a project are suspended, capitalization of interest will cease until such activities are resumed. We amortize capitalized interest over the estimated useful life of the related assets. Capitalized interest for the three and six months ended June 30, 2008 was approximately $7.9 million and $14.7 million, respectively. Capitalized interest for the three and six months ended June 30, 2007 was $4.6 million and $6.3 million, respectively.

Preopening Expenses

We expense certain costs of start-up activities as incurred. During the three and six months ended June 30, 2008, we expensed approximately $5.2 million and $10.8 million, respectively, in preopening costs that related primarily to our Echelon development project. During the three and six months ended June 30, 2007, we expensed approximately $6.1 million and $10.5 million, respectively, in preopening costs, also related primarily to our Echelon development project.

Recently Issued Accounting Pronouncements

In June 2008, the FASB issued FASB Staff Position ("FSP") No. EITF 03-6-1, *Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities*. This FSP concludes that those unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and must be included in the computation of both basic and diluted earnings per share (the two-class method). This FSP is effective in the first quarter of 2009 and is to be applied on a retrospective basis to all periods presented. The issue shall be effective for financial statements issued for fiscal years and interim periods within those fiscal years beginning January 1, 2009. Although we can provide no assurances, we do not believe that the adoption of FSP No. EITF 03-6-1 will have an impact on our consolidated financial statements, as our current share-based awards do not include dividend rights.

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No.162, *Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendment to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* Although we can provide no assurances, we do not believe that the adoption of SFAS 162 will have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. We have not yet determined the effect, if any, that the adoption of FSP 142-3 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Although we can provide no assurances, we do not believe that the adoption of SFAS 161 will have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157, *Fair Value Measurements*, ("SFAS 157") to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Early adoption of SFAS 157 is permitted. We have partially applied

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

SFAS 157 to recognize the liability related to our derivative instruments at fair value (see Note 6, *Derivative Instruments and Other Comprehensive Income (Loss)*).

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

Reclassifications

Certain prior period amounts presented in our condensed consolidated financial statements have been reclassified to conform to the June 30, 2008 presentation. These reclassifications had no effect on our net income as previously reported.

Effective April 1, 2008, the Company reclassified the reporting of its Midwest and South segment to exclude the results of Dania Jai-Alai, since it does not share similar economic characteristics with our other Midwest and South operations, and are included as part of the "Other" category. In addition, as of the same date, we reclassified the reporting of corporate expense to exclude it from our subtotal for Reportable Segment Adjusted EBITDA and include it as part of total other operating costs and expenses. Furthermore, corporate expense has been presented to include its portion of share-based compensation expense (see Note 13, *Segment Information*). All prior period amounts have been reclassified to conform to the current presentation.

Note 2. Acquisition of Dania Jai-Alai

On March 1, 2007, we acquired Dania Jai-Alai and approximately 47 acres of related land located in Dania Beach, Florida. Dania Jai-Alai is one of four pari-mutuel facilities in Broward County approved under Florida law to operate 2,000 Class III slot machines (see Note 12, *Commitments and Contingencies*, for information related to the Broward County slot initiative and the pending challenge to its validity). We purchased Dania Jai-Alai with the intention of redeveloping the property into a casino with slot machines. We paid approximately $81 million to close this transaction and, if certain conditions are satisfied, we will be required to pay an additional $75 million, plus interest accrued at the prime rate (the "contingent payment"), in March 2010 or earlier. We can provide no assurances as to when, or whether, such conditions will be satisfied.

The following table sets forth the fair values assigned to the assets and liabilities of Dania Jai-Alai, including all purchase adjustments at the time of acquisition.

	March 1, 2007
	(In thousands)
Current assets, including cash of $780	$ 4,352
Property and equipment	46,000
Intangible license right	81,800
Total assets acquired	132,152
Current liabilities assumed	(3,820)
Non-current contingent liability	(46,648)
Net assets acquired	$ 81,684

The $46.6 million non-current contingent liability represents the excess of the fair value of the net assets acquired over our initial cost paid for Dania Jai-Alai and is included in other liabilities on our consolidated balance sheet at June 30, 2008. We will not record the remaining portion of the contingent payment unless or until the contingency has been resolved and the additional consideration is distributable. If the contingency is resolved and the $46.6 million recognized is less than the contingent payment made, it will be added to the cost of the acquisition, and may result in an impairment charge in addition to the impairment charge discussed in Note 10, *Write-Downs and Other Charges*. If the contingency is resolved and the $46.6 million recognized exceeds the contingent payment made, that excess will be allocated as a pro rata reduction of the amounts initially assigned to the assets acquired. Any amounts that remain after reducing these assets to zero will be recognized as an extraordinary gain on our consolidated statement of operations.

We also reported $0.9 million of acquisition related expenses for this transaction, which are included in write-downs and other charges on our consolidated statement of operations for the six months ended June 30, 2007 (see Note 10, *Write-Downs and Other Charges*).

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

During the six months ended June 30, 2008, we recorded an $84.0 million non-cash impairment charge to write-off Dania Jai-Alai's intangible license right and write-down its property and equipment to their estimated fair values, following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility. Our decision to postpone the development is based on numerous factors, including the introduction of expanded gaming at a nearby Native American casino, the potential for additional casino gaming venues in Florida, and the existing Broward County pari-mutuel casinos performing below our expectations for the market (see Note 10, *Write-Downs and Other Charges*).

Note 3. Intangible Assets

The balance of intangible assets as of June 30, 2008 and December 31, 2007 is as follows.

	June 30, 2008	December 31, 2007
	(In thousands)	
License rights	$ 486,065	$ 521,217
Trademarks	50,700	50,700
Customer lists	400	400
Total intangible assets	537,165	572,317
Less accumulated amortization:		
License rights	33,939	33,939
Customer lists	323	283
Intangible assets, net	$ 502,903	$ 538,095

The following table sets forth the change in our intangible assets during the six months ended June 30, 2008 (in thousands).

Balance as of January 1, 2008	$ 538,095
Finalization of Dania Jai-Alai purchase price allocation (see Note 2)	46,648
Write-off of Dania Jai-Alai intangible license right (see Note 2 and Note 10)	(81,800)
Amortization expense	(40)
Balance as of June 30, 2008	$ 502,903

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

Customer lists are being amortized over a five-year period. For each of the three and six months ended June 30, 2008 and 2007, amortization expense for customer lists was less than $0.1 million. We estimate that the amortization expense related to customer lists will be less than $0.1 million for the remainder of 2008 and approximately $0.1 million for the year ending December 31, 2009.

Annual Asset Impairment Testing

We have significant amounts of goodwill and indefinite-life intangible assets on our consolidated balance sheets as of June 30, 2008 and December 31, 2007. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we perform an annual impairment test of these assets in the second quarter of each year, which resulted in no impairment charge; however, if our ongoing estimates of projected cash flows related to these assets are not met, we may be subject to a non-cash write-down of these assets, which could have a material adverse impact on our consolidated financial statements.

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

Note 4. Investments in and Advances to Unconsolidated Subsidiaries

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

	June 30, 2008	December 31, 2007
	(In thousands)	
Net investment in and advances to Borgata (50%)	$ 383,825	$ 380,140
Investment in and advances to Morgans Las Vegas, LLC (50%)	17,713	13,105
Investment in and advances to Tunica Golf Course, L.L.C. (33.3%)	210	371
Total investments in and advances to unconsolidated subsidiaries, net	$ 401,748	$ 393,616

For further explanation regarding our 50% investment in and advances to Morgans Las Vegas, LLC, see Note 1, *Summary of Significant Accounting Policies* and Note 12, *Commitments and Contingencies*.

Borgata Hotel Casino and Spa

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Gaming revenue	$ 178,522	$ 177,966	$ 357,158	$ 365,235
Non-gaming revenue	74,286	71,686	142,392	138,423
Gross revenues	252,808	249,652	499,550	503,658
Less promotional allowances	47,747	47,553	92,465	97,829
Net revenues	205,061	202,099	407,085	405,829
Expenses	159,891	147,636	306,449	290,797
Depreciation and amortization	18,685	16,906	36,140	33,732
Preopening expenses	4,201	1,077	5,017	2,018
Write-downs and other charges, net	17	403	157	334
Operating income	22,267	36,077	59,322	78,948
Interest expense, net	(5,730)	(7,823)	(12,187)	(15,516)
Benefit from (provision for) state income taxes	(530)	676	(3,284)	766
Total non-operating expenses	(6,260)	(7,147)	(15,471)	(14,750)
Net income	$ 16,007	$ 28,930	$ 43,851	$ 64,198

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Our share of Borgata's operating income	$ 11,134	$ 18,038	$ 29,661	$ 39,474
Net amortization expense related to our investment in Borgata	(325)	(325)	(649)	(649)
Operating income from Borgata, as reported on our condensed consolidated statements of operations	$ 10,809	$ 17,713	$ 29,012	$ 38,825
Other non-operating expenses from Borgata, net, as reported on our condensed consolidated statements of operations	$ 3,130	$ 3,574	$ 7,735	$ 7,375

Note 5. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2008	December 31, 2007
	(In thousands)	
Bank credit facility	$ 1,605,000	$ 1,352,900
7.75% Senior Subordinated Notes due 2012	268,905	300,000
6.75% Senior Subordinated Notes due 2014	350,000	350,000
7.125% Senior Subordinated Notes due 2016	250,000	250,000
Other	13,324	13,658
Total debt outstanding	2,487,229	2,266,558
Less current maturities	(599)	(629)
Total long-term debt	$ 2,486,630	$ 2,265,929

During the three and six months ended June 30, 2008, we purchased and retired $14.3 million and $31.1 million, respectively, principal amount of our 7.75% senior subordinated notes due December 2012. The total purchase price of the notes was approximately $13.3 million and $28.9 million, respectively, resulting in a gain of approximately $0.8 million and $1.8 million, net of associated deferred financing fees, which is recorded on our consolidated statements of operations for the three and six months ended June 30, 2008. The transactions were funded by availability under our bank credit facility.

Note 6. Derivative Instruments and Other Comprehensive Income (Loss)

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 earnings. If the derivative qualifies and is designated as a hedge, depending on the nature of the hedge, changes in its fair value will either be offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

We utilize derivative instruments to manage interest rate risk. The net effect of our floating-to-fixed interest rate swaps resulted in an increase to interest expense of $2.6 million and $2.1 million for the three and six months ended June 30, 2008, respectively, and a reduction of interest expense of $0.9 million and $1.6 million for the three and six months ended June 30, 2007, respectively, as compared to the contractual rate of the underlying hedged debt, for the three and six months ended June 30, 2008 and 2007.

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

The following table reports the effects of the mark-to-market valuations of our derivative instruments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net gains (losses) from cash flow hedges from:				
Change in value of derivatives excluded from the assessment of hedge ineffectiveness	$ -	$ 2,583	$ -	$ 2,430
Ineffective portion of change in value of cash flow hedges	(17)	18	425	95
Increase (decrease) in value of derivative instruments, as reported on our condensed consolidated statements of operations	$ (17)	$ 2,601	$ 425	$ 2,525
Derivative instruments market adjustment	$ 19,616	$ 2,962	$ (1,745)	$ 799
Tax effect of derivative instruments market adjustment	(6,981)	(1,060)	648	(289)
Net derivative instruments market adjustment, as reported on our condensed consolidated statements of comprehensive income (loss)	$ 12,635	$ 1,902	$ (1,097)	$ 510

A portion of the net derivative instruments market adjustment included in accumulated other comprehensive loss, net, at June 30, 2008 relates to certain derivative instruments that we de-designated as cash flow hedges in connection with breaking certain LIBOR contracts under our previous bank credit facility during the three months ended June 30, 2007. As a result, we expect $2.1 million of deferred net gain related to these derivative instruments, included in accumulated other comprehensive loss, net, at June 30, 2008, will be accreted as a reduction of interest expense on our consolidated statements of operations during the next twelve months.

In addition, at June 30, 2008, we were a party to four floating-to-fixed interest rate swap agreements with an aggregate notional amount of $750 million, whereby we receive payments based upon the three-month LIBOR and make payments based upon a stipulated fixed rate. These derivative instruments are accounted for as cash flow hedges. We have partially adopted SFAS 157, *Fair Value Measurements* (see Note 1, *Summary of Significant Accounting Policies*), which applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS 157 requires enhanced disclosures about investments that are measured and reported at fair value. SFAS 157 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. This statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Our derivative instruments are classified as Level 2, as the LIBOR swap rate is observable at commonly quoted intervals for the full term of the interest rate swaps.

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

If we had terminated our interest rate swaps as of June 30, 2008, we would have been required to pay a total of $22.9 million, based on the fair values of such derivative instruments, for which the principal terms at June 30, 2008 and December 31, 2007 are presented below.

			Fair Value of Liability		
Effective Date	Notional Amount	Fixed Rate Paid	June 30, 2008	December 31, 2007	Maturity Date
September 28, 2007	$ 100,000	5.13%	$ 3,810	$ 4,073	June 30, 2011
September 28, 2007	200,000	5.14%	7,630	8,156	June 30, 2011
September 28, 2007	250,000	4.62%	3,867	3,025	June 30, 2009
June 30, 2008	200,000	5.13%	7,601	7,404	June 30, 2011
	$ 750,000		$ 22,908	$ 22,658	

Note 7. Stockholders' Equity and Stock Incentive Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Gaming	$ 109	$ 122	$ 250	$ 290
Food and beverage	20	20	45	48
Room	12	12	26	28
Selling, general and administrative	600	663	1,362	1,550
Corporate expense	2,325	3,549	4,352	6,627
Preopening expenses	52	279	442	466
Total share-based compensation expense from continuing operations	3,118	4,645	6,477	9,009
Discontinued operations	-	-	-	2
Total share-based compensation expense	3,118	4,645	6,477	9,011
Capitalized share-based compensation	257	307	560	614
Total share-based compensation costs	$ 3,375	$ 4,952	$ 7,037	$ 9,625

Stock Incentive Plan

On May 15, 2008, at our 2008 Annual Meeting of Stockholders, the Company's stockholders approved an amendment of the Company's 2002 Stock Incentive Plan, increasing the maximum number of shares of Boyd Gaming Corporation's common stock authorized for issuance over the term of such plan by 5 million shares, from 12 million to 17 million shares.

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

Stock Options

Summarized stock option plan activity for the six months ended June 30, 2008 is as follows.

	Options	Weighted Average Option Price	Weighted Average Remaining Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2008	7,671,250	$ 35.63		
Options granted	25,000	33.31		
Options canceled	(97,166)	38.92		
Options exercised	(42,000)	9.73		
Options outstanding at June 30, 2008	7,557,084	$ 35.72	7.5	$ 917
Options exercisable at June 30, 2008	4,103,297	$ 32.57	6.4	$ 917
Shares available for grant at June 30, 2008	6,959,590			

We recorded $2.6 million and $6.0 million during the three and six months ended June 30, 2008, respectively, and $4.1 million and $8.5 million during the three and six months ended June 30, 2007, respectively, of share-based compensation costs related to stock options.

Career Shares

Our Career Shares Program is a stock incentive award program for certain executive officers to provide for additional capital accumulation opportunities for retirement and to reward long-service executives. Our Career Shares Program was adopted in December 2006 as part of the overall update of our compensation programs. In January 2008 and 2007, we issued approximately 37,000 and 26,000 Career Shares with a grant date fair value of $33.31 per share and $44.36 per share, respectively. The Career Shares Program rewards eligible executives with annual grants of Boyd Gaming Corporation stock units, to be paid out at retirement. The payout at retirement is dependent upon the executive's age at such retirement and the number of years of service with the Company. Executives must be at least 60 years old and have at least 15 years of service to receive a payout at retirement. We recorded $0.3 million during each of the six months ended June 30, 2008 and 2007 of share-based compensation expenses related to the issuance of these Career Shares. There were no payouts of Career Shares during the three and six months ended June 30, 2008. During the the six months ended June 30, 2007, there was an award payout of 848 Career Shares. Career Shares do not contain voting rights and are not entitled to dividends. Career Shares are subject to the terms and conditions contained in the applicable award agreement and our 2002 Stock Incentive Plan.

Restricted Stock Units

Our amended 2002 Stock Incentive Plan provides for the grant of Restricted Stock Units ("RSUs"). 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 such. The RSUs do not contain voting rights and are not entitled to dividends. The RSUs are subject to the terms and conditions contained in the applicable award agreement and our 2002 Stock Incentive Plan.

We annually award RSUs to certain members of our Board of Directors. Each RSU is fully vested upon grant and is to be paid in shares of common stock upon cessation of service on the Board of Directors. In May 2008 and 2007, we issued 41,867 and 19,600 RSUs, respectively, to certain members of our Board of Directors, with a grant date fair value per share of $15.66 and $43.27, respectively.

In April 2008, certain of our executive management employees were granted RSUs, totaling approximately 160,000 units, with a fair value per share of $14.40. Each RSU represents a contingent right to receive one share of Boyd Gaming Corporation common stock upon vesting. The RSUs will vest in full upon the sooner to occur of (i) April 16, 2013, or (ii) a date after October 16, 2009, upon which the closing price of the Company's common stock is $25.98 (which represents 150% of the closing price of our common stock on April 15, 2008) or greater for twenty consecutive trading days beginning on or after October 16, 2009. No such RSUs were granted during the six months ended June 30, 2007.

We recorded $0.7 million during the three and six months ended June 30, 2008 and $0.8 million during the three and six months ended June 30, 2007 of share-based compensation expenses related to the issuance of RSUs.

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

Dividends

Dividends are declared at the discretion of our Board of Directors. We are subject to certain limitations regarding the payment of dividends, such as restricted payment limitations related to our outstanding notes and our bank credit facility. The following table sets forth the cash dividends declared and paid during the six months ended June 30, 2008 and the year ended December 31, 2007.

Payment Date	Record Date	Dividend Per Share
March 1, 2007	February 9, 2007	$ 0.135
June 1, 2007	May 11, 2007	0.150
September 4, 2007	August 17, 2007	0.150
December 3, 2007	November 16, 2007	0.150
March 3, 2008	February 18, 2008	0.150
June 2, 2008	May 14, 2008	0.150

Dividends paid during the three and six months ended June 30, 2008 totaled $13.2 million and $26.3 million, respectively. Dividends paid during the three and six months ended June 30, 2007 totaled $13.1 million and $24.9 million, respectively.

Subsequent Event - Dividends and Share Repurchase Program

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

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

We are subject to certain limitations regarding the repurchase of common stock, such as restricted payment limitations related to our outstanding notes and our bank credit facility.

Note 8. Earnings per Share

Income (loss) from continuing operations and the weighted average number of common shares and common share equivalents used in the calculation of basic and diluted earnings (loss) per share consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Income (loss) from continuing operations	$ 21,658	$ 22,941	$ (10,929)	$ 58,046
Weighted average common shares outstanding	87,854	87,497	87,831	87,369
Potential dilutive effect	265	1,217	-	1,219

Weighted average common shares and common share equivalents	88,119	88,714	87,831	88,588

For the three months ended June 30, 2008, anti-dilutive options of approximately 6.7 million shares were excluded from the computation of diluted earnings per share. Due to the loss from continuing operations for the six months ended June 30, 2008, all potential common shares were anti-dilutive, and therefore were not included in the computation of diluted earnings per share. For each of the three and six months ended June 30, 2007, anti-dilutive options not included in the computation of diluted earnings per share amounted to approximately 1.8 million shares.

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

Note 9. Assets Held for Sale

Assets held for sale at June 30, 2008 and December 31, 2007 primarily consist of land held for sale. On September 5, 2007, we entered into an agreement to sell approximately 125 acres of land that we own in Limerick Township, Pennsylvania for $26.5 million, before selling costs, contingent upon certain conditions. The carrying value of the land is $23.2 million at June 30, 2008 and December 31, 2007. As of the date of this filing, the sale has not closed; however, the transaction has been amended to close in two separate phases. The first phase, representing approximately one-half of the proceeds, is expected to close during the three months ending December 31, 2008. The second phase is expected to close during the three months ending September 30, 2009. We expect to use the net proceeds from the sale of the land to reduce the balance owed under our bank credit facility. The expected gain will be recognized on our consolidated statement of operations if and when the sale is closed. The closing of this transaction is subject to various conditions; therefore, we can provide no assurances that the transaction will close when anticipated, if at all.

In April 2008, we entered into an agreement to sell undeveloped land that we own in St. Louis County, Missouri. The sales price is approximately $0.6 million, before selling costs, with a current closing date of August 31, 2008. Our historical cost of the land is $1.5 million; therefore, during the three months ended June 30, 2008, we recorded a charge of $0.9 million, which is included in write-downs and other charges on our consolidated statement of operations (see Note 10, *Write-downs and Other Charges*). The remaining carrying value of the land has been included in assets held for sale on our consolidated balance sheet, until such sale occurs. We can provide no assurances that the transaction will close when anticipated, if at all.

Note 10. Write-Downs and Other Charges

Write-downs and other charges include the following for the three and six months ended June 30, 2008 and 2007:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)			
Asset write-downs	$ 1,174	$ -	$ 91,487	$ 16
Property closure costs	-	1,972	-	10,020
Acquisition related expenses	-	-	-	944
Total write-downs and other charges	$ 1,174	$ 1,972	$ 91,487	$ 10,980

Asset Write-Downs

Asset write-downs during the three months ended June 30, 2008 consist primarily of a $0.9 million charge related to certain land held for sale (see Note 9, *Assets Held for Sale*).

During the six months ended June 30, 2008, we recorded an $84.0 million non-cash impairment charge, principally related to the write-off of Dania Jai-Alai's intangible license right, following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility. Our decision to postpone the development is based on numerous factors, including the introduction of expanded gaming at a nearby Native American casino, the potential for additional casino gaming venues in Florida, and the existing Broward County pari-mutuel casinos performing below our expectations for the market (see Note 2, *Acquisition of Dania Jai-Alai* and Note 3, *Intangible Assets*). In addition, during the six months ended June 30, 2008, we recorded a $6.3 million non-cash charge related to the abandonment of certain leasehold improvements.

Property Closure Costs

In connection with our Echelon development project, we closed the Stardust Hotel and Casino on November 1, 2006 and demolished the property in March 2007. During the three and six months ended June 30, 2007, we recorded property closure costs, the majority of which represents demolition costs, related to the Stardust. There were no such property closure costs during the three and six months ended June 30, 2008.

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

Acquisition Related Expenses

Acquisition related expenses represent indirect and general costs incurred in connection with our purchase of Dania Jai-Alai on March 1, 2007 (see Note 2, *Acquisition of Dania Jai-Alai*). There were no such acquisition related expenses during the three and six months ended June 30, 2008.

Note 11. Related Party Transactions

Percentage Ownership

William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned approximately 36% of the Company's outstanding shares of common stock as of June 30, 2008. As such, the Boyd family has the ability to significantly influence our affairs, including the election of members of our Board of Directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation, or sale of assets. For the three and six months ended June 30, 2008 and 2007, there were no related party transactions between the Company and the Boyd family.

Note 12. Commitments and Contingencies

Commitments

Echelon

In January 2006, we formed a 50/50 joint venture ("Morgans Las Vegas, LLC") with Morgans to develop, construct and operate two hotel properties, the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon. We are to contribute approximately six acres of land and Morgans is to ultimately contribute approximately $90 million to the venture. The expected cost of the project, including the land, is estimated to be approximately $950 million; however, we can provide no assurances that the estimated cost will approximate the actual cost. Pursuant to an amendment on May 15, 2006 to our joint venture agreement, Morgans deposited $30 million with us as an advance toward their approximately $90 million capital contribution to be made to the venture. This deposit, plus accrued interest, aggregates to $32.0 million as of June 30, 2008 and $31.4 million as of December 31, 2007, and is included in restricted cash and accrued expenses and other on our consolidated balance sheets.

In May 2007, we formed a 50/50 joint venture ("Echelon Place Retail Promenade, LLC") with GGP to develop High Street retail promenade at Echelon. We are to initially contribute the above-ground real estate (air rights) and GGP is to initially contribute $100 million. The expected cost of the project, including the air rights, is estimated to be approximately $500 million; however, we can provide no assurances that the estimated cost will approximate the actual cost.

On August 1, 2008, we announced our decision to delay the Echelon development project. See *Subsequent Event - Echelon Project Commitments* below for a discussion regarding the decision and its impact on our joint venture and other agreements.

Subsequent Event - Echelon Project Commitments

On August 1, 2008, we announced that due to the difficult environment in today's capital markets, as well as weak economic conditions, we have delayed our Echelon project on the Las Vegas Strip. We believe this delay will allow our joint ventures with Morgans and GGP the opportunity to secure financing under more favorable conditions at a later date. Our present expectation is to resume construction in three to four quarters, assuming credit market conditions and the economic outlook improve; however, we can provide no assurances that construction will resume within such time frame, or at all, or that our joint ventures will be able to obtain financing under more favorable conditions, if at all. We are assessing our joint venture agreements with each of our joint venture participants to determine whether modifications will be made thereto.

As of August 1, 2008, we estimate that we have incurred approximately $600 million in capitalized costs related to the Echelon project, excluding land. The following information summarizes the contingencies with respect to our various material commitments related to Echelon:

Morgans Las Vegas, LLC

- Under the current terms of the joint venture agreement, if construction financing is not consummated by September 15, 2008, the joint venture can be dissolved by either member, and Morgans will be entitled to the return of the $30 million deposit made to us as an advance toward their capital contribution to the venture, in accordance with the terms of the joint venture agreement, as amended. In the event the joint venture is dissolved, neither member will be entitled to a return of any non-cash assets remaining in the venture, nor may either member use the architectural plans and designs for the Delano Las Vegas and the Mondrian Las Vegas project; therefore, all or a portion of our investment in and advances to the joint venture may be subject to an