

BOYD GAMING CORP  
Form 10-Q  
November 08, 2016

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-12882

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BOYD GAMING CORPORATION

(Exact name of registrant as specified in its charter)

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Nevada 88-0242733  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

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

Class Outstanding as of November 3, 2016

Common stock, \$0.01 par value 112,484,580

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BOYD GAMING CORPORATION  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE PERIOD ENDED SEPTEMBER 30, 2016  
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## PART I. Financial Information

## Item 1. Financial Statements (Unaudited)

BOYD GAMING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2016	December 31, 2015
(In thousands, except share data)		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$159,688	\$158,821
Restricted cash	23,292	19,030
Accounts receivable, net	26,936	25,289
Inventories	15,749	15,462
Prepaid expenses and other current assets	43,467	37,250
Income taxes receivable	1,168	1,380
Total current assets	270,300	257,232
Property and equipment, net	2,262,630	2,225,342
Other assets, net	51,766	48,341
Intangible assets, net	878,105	890,054
Goodwill, net	993,853	685,310
Investment in unconsolidated subsidiary held for sale	—	244,621
Total assets	\$4,456,654	\$4,350,900
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$30,250	\$29,750
Accounts payable	88,141	75,803
Accrued liabilities	270,712	249,518
Total current liabilities	389,103	355,071
Long-term debt, net of current maturities and debt issuance costs	2,956,998	3,239,799
Deferred income taxes	98,814	162,189
Other long-term tax liabilities	3,275	3,085
Other liabilities	85,438	82,745
Commitments and contingencies (Notes 3 and 8)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized; 112,483,747 and 111,614,420 shares outstanding	1,125	1,117
Additional paid-in capital	953,511	945,041
Accumulated deficit	(32,098)	(437,881)
Accumulated other comprehensive income (loss)	438	(316)
Total Boyd Gaming Corporation stockholders' equity	922,976	507,961
Noncontrolling interest	50	50
Total stockholders' equity	923,026	508,011
Total liabilities and stockholders' equity	\$4,456,654	\$4,350,900

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Revenues				
Gaming	\$443,568	\$457,397	\$1,359,047	\$1,390,734
Food and beverage	74,257	76,713	226,955	230,918
Room	42,985	41,649	128,225	123,334
Other	29,579	32,379	90,738	92,706
Gross revenues	590,389	608,138	1,804,965	1,837,692
Less promotional allowances	58,488	61,825	175,812	180,934
Net revenues	531,901	546,313	1,629,153	1,656,758
Operating costs and expenses				
Gaming	217,103	225,653	658,396	677,036
Food and beverage	40,745	41,900	124,664	126,380
Room	11,247	10,765	33,039	31,494
Other	18,660	21,548	56,819	60,938
Selling, general and administrative	80,833	79,954	241,686	242,656
Maintenance and utilities	27,854	29,030	76,711	80,965
Depreciation and amortization	47,928	51,345	143,831	155,251
Corporate expense	15,877	15,009	49,883	52,013
Project development, preopening and writedowns	3,735	1,514	11,473	4,218
Impairments of assets	—	—	1,440	1,065
Other operating items, net	3	172	555	342
Total operating costs and expenses	463,985	476,890	1,398,497	1,432,358
Operating income	67,916	69,423	230,656	224,400
Other expense (income)				
Interest income	(1,050)	(460)	(2,506)	(1,396)
Interest expense, net of amounts capitalized	55,203	56,558	170,155	170,624
Loss on early extinguishments and modifications of debt	41,518	863	42,364	32,333
Other, net	1	1,753	143	3,641
Total other expense, net	95,672	58,714	210,156	205,202
Income (loss) from continuing operations before income taxes	(27,756)	10,709	20,500	19,198
Income taxes benefit (provision)	189,620	(3,694)	174,231	5,931
Income from continuing operations, net of tax	161,864	7,015	194,731	25,129
Income from discontinued operations, net of tax	180,707	18,410	211,052	28,974
Net income	\$342,571	\$25,425	\$405,783	\$54,103
Basic net income per common share				
Continuing operations	\$1.41	\$0.06	\$1.70	\$0.22
Discontinued operations	1.58	0.17	1.85	0.26
Basic net income per common share	\$2.99	\$0.23	\$3.55	\$0.48
Weighted average basic shares outstanding	114,567	112,608	114,335	112,100
Diluted net income per common share				
Continuing operations	\$1.40	\$0.06	\$1.69	\$0.22
Discontinued operations	1.57	0.16	1.84	0.26

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Diluted net income per common share	\$2.97	\$0.22	\$3.53	\$0.48
Weighted average diluted shares outstanding	115,202	113,375	115,051	112,930

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 (Unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands)	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$342,571	\$25,425	\$405,783	\$54,103
Other comprehensive income (loss), net of tax:				
Fair value adjustments to available-for-sale securities, net of tax	417	642	754	(121 )
Comprehensive income attributable to Boyd Gaming Corporation	\$342,988	\$26,067	\$406,537	\$53,982

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



BOYD GAMING CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

(In thousands, except share data)	Boyd Gaming Corporation Stockholders' Equity						
	Common Stock		Additional	Accumulated	Accumulated	Noncontrolling	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (Loss), Net	Interest	
Balances, January 1, 2016	111,614,420	\$ 1,117	\$945,041	\$ (437,881 )	\$ (316 )	\$ 50	\$508,011
Net income	—	—	—	405,783	—	—	405,783
Comprehensive income attributable to Boyd	—	—	—	—	754	—	754
Stock options exercised	449,065	4	2,909	—	—	—	2,913
Release of restricted stock units, net of tax	261,235	2	(695 )	—	—	—	(693 )
Release of performance stock units, net of tax	159,027	2	(869 )	—	—	—	(867 )
Share-based compensation costs	—	—	7,125	—	—	—	7,125
Balances, September 30, 2016	112,483,747	\$ 1,125	\$953,511	\$ (32,098 )	\$ 438	\$ 50	\$923,026
Balances, January 1, 2015	109,277,060	\$ 1,093	\$922,112	\$ (485,115 )	\$ (53 )	\$ 50	\$438,087
Net income	—	—	—	54,103	—	—	54,103
Comprehensive income attributable to Boyd	—	—	—	—	(121 )	—	(121 )
Stock options exercised	1,145,302	11	8,595	—	—	—	8,606
Release of restricted stock units, net of tax	118,319	1	(286 )	—	—	—	(285 )
Release of performance stock units, net of tax	481,749	5	(2,451 )	—	—	—	(2,446 )
Share-based compensation costs	—	—	8,227	—	—	—	8,227
Balances, September 30, 2015	111,022,430	\$ 1,110	\$936,197	\$ (431,012 )	\$ (174 )	\$ 50	\$506,171

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)

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Cash Flows from Operating Activities		
Net income	\$405,783	\$54,103
Net (income) from discontinued operations	(211,052 )	(28,974 )
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	143,831	155,251
Amortization of debt financing costs and discounts on debt	12,654	16,576
Share-based compensation expense	7,125	8,227
Deferred income taxes	(177,106 )	17,194
Non-cash impairment of assets	1,440	1,065
Loss on early extinguishments and modifications of debt	42,364	32,333
Other operating activities	1,200	(341 )
Changes in operating assets and liabilities:		
Restricted cash	(4,262 )	(6,626 )
Accounts receivable, net	2,045	2,220
Inventories	733	55
Prepaid expenses and other current assets	(2,919 )	(5,131 )
Current other tax asset	—	1,802
Income taxes receivable	212	1,243
Other assets, net	(759 )	2,149
Accounts payable and accrued liabilities	32,731	11,997
Other long-term tax liabilities	190	(25,580 )
Other liabilities	2,696	3,886
Net cash provided by operating activities	256,906	241,449
Cash Flows from Investing Activities		
Capital expenditures	(117,330 )	(86,997 )
Cash paid for acquisition, net of cash received	(372,322 )	—
Other investing activities	2,719	3,777
Net cash used in investing activities	(486,933 )	(83,220 )
Cash Flows from Financing Activities		
Borrowings under Boyd Gaming bank credit facility	1,622,075	627,000
Payments under Boyd Gaming bank credit facility	(1,290,800 )	(949,700 )
Borrowings under Peninsula bank credit facility	237,000	262,100
Payments under Peninsula bank credit facility	(899,750 )	(335,550 )
Proceeds from issuance of senior notes	750,000	750,000
Retirements of senior notes	(700,000 )	(500,000 )
Debt financing costs, net	(40,718 )	(14,001 )
Premium and consent fees paid	(15,750 )	(24,246 )
Share-based compensation activities, net	1,353	5,875
Other financing activities	—	(3 )
Net cash used in financing activities	(336,590 )	(178,525 )
Cash Flows from Discontinued Operations		
Cash flows from operating activities	(26,596 )	—
Cash flows from investing activities	594,080	—
Cash flows from financing activities	—	—

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Net cash provided by discontinued operations	567,484	—
Change in cash and cash equivalents	867	(20,296 )
Cash and cash equivalents, beginning of period	158,821	145,341
Cash and cash equivalents, end of period	\$ 159,688	\$ 125,045
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	\$ 147,001	\$ 137,128
Cash paid (received) for income taxes, net of refunds	31,698	(1,246 )
Supplemental Schedule of Noncash Investing and Financing Activities		
Payables incurred for capital expenditures	\$ 4,208	\$ 5,031
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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Boyd Gaming Corporation (and together with its subsidiaries, the "Company," "Boyd Gaming," "we" or "us") was incorporated in the state of Nevada in 1988 and has been operating since 1975. The Company's common stock is traded on the New York Stock Exchange under the symbol "BYD."

We are a diversified operator of 22 wholly owned gaming entertainment properties. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Indiana, Iowa, Kansas, Louisiana and Mississippi.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to the Quarterly Report on 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 of America ("GAAP"). 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, 2015, as filed with the U.S. Securities and Exchange Commission ("SEC") on February 25, 2016.

The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations and cash flows for the interim periods presented herein are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods.

On September 27, 2016, we completed our previously announced acquisition of ALST Casino Holdco, LLC ("ALST"), pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), dated as of April 21, 2016, as amended on September 26, 2016, by and among Boyd Gaming, Boyd TCII Acquisition, LLC, a wholly-owned subsidiary of Boyd Gaming ("Merger Sub"), and ALST. The net purchase price, after adjustment for working capital and other items, was \$372.3 million. The acquired assets and liabilities of ALST are included in our condensed consolidated balance sheet as of September 30, 2016, and the results of its operations and cash flows are reported in our condensed consolidated statements of operations and cash flows from September 27, 2016 through September 30, 2016. See Note 3, Acquisitions and Divestitures, for further information. We have not disclosed the pro forma impact of this acquisition to the results of operations for the three and nine months ended September 30, 2016, as the pro forma impact was deemed immaterial.

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming and its wholly owned subsidiaries. Investments in unconsolidated affiliates, which do not meet the consolidation criteria of the authoritative accounting guidance for voting interest, controlling interest or variable interest entities, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. On May 31, 2016, we announced that we had entered into an Equity Purchase Agreement (the "Purchase Agreement") to sell our 50% equity interest in Marina District Development Holding Company, LLC ("MDDHC"), the parent company of Borgata Hotel Casino & Spa ("Borgata"), to MGM Resorts International ("MGM"), and the transaction closed on August 1, 2016. (See Note 3, Acquisitions and Divestitures.) We account for our investment in Borgata applying the equity method and report its results as discontinued operations for all periods

presented in these condensed consolidated financial statements.

#### Revisions and Reclassifications

The financial information for the three and nine months ended September 30, 2015 is derived from our condensed consolidated financial statements and footnotes included in the Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and has been revised to reflect the results of operations and cash flows of our equity investment in Borgata as discontinued operations. (See Note 3, Acquisitions and Divestitures.)

Asset transaction costs that were previously disaggregated in our condensed consolidated statement of operations for the three and nine months ended September 30, 2015 were accumulated with preopening expenses. This reclassification had no effect on our retained earnings or net income as previously reported.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

Amortization of debt financing costs and amortization of discounts on debt, which were previously disaggregated in our condensed consolidated statement of cash flows for the nine months ended September 30, 2015, were combined. This reclassification had no effect on our cash provided by operating activities as previously reported.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments, which include cash on hand and in banks, interest-bearing deposits and money market funds with maturities of three months or less at their date of purchase. The instruments are not restricted as to withdrawal or use and are on deposit with high credit quality financial institutions. Although these balances may at times exceed the federal insured deposit limit, we believe such risk is mitigated by the quality of the institution holding such deposit. The carrying values of these instruments approximate their fair values as such balances are generally available on demand.

## Promotional Allowances

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

The amounts included in promotional allowances are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Rooms	\$18,778	\$19,573	\$56,017	\$57,505
Food and beverage	36,528	38,139	109,640	112,984
Other	3,182	4,113	10,155	10,445
Total promotional allowances	\$58,488	\$61,825	\$175,812	\$180,934

The estimated costs of providing such promotional allowances are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Rooms	\$8,307	\$8,988	\$24,797	\$26,240
Food and beverage	32,611	33,925	96,724	99,874
Other	3,041	3,214	9,021	8,889
Total estimated cost of promotional allowances	\$43,959	\$46,127	\$130,542	\$135,003

## Gaming Taxes

We are subject to taxes based on gross gaming revenues in the jurisdictions in which we operate. These gaming taxes are assessed based on our gaming revenues and are recorded as a gaming expense in the condensed consolidated statements of operations. These taxes totaled approximately \$79.7 million and \$83.2 million for the three months

ended September 30, 2016 and 2015, respectively, and \$243.8 million and \$252.1 million for the nine months ended September 30, 2016 and 2015, respectively.

#### Income Taxes

Income taxes are recorded under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We reduce the carrying amounts of deferred tax assets by a valuation allowance, if after weighing all positive and negative evidence, it is more likely than not that such assets will not be realized. Use of the term "more likely than not" indicates the likelihood of occurrence is greater than 50%. Accordingly, the need to establish valuation allowances for deferred tax assets is continually assessed based on a more likely than not realization threshold. This assessment

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of profitability and taxable income, the duration of statutory carryforward periods, our experience with the utilization of operating loss and tax credit carryforwards before expiration and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

In performing our third quarter valuation allowance analysis, we determined that the positive evidence in favor of releasing the valuation allowance, particularly evidence that was objectively verifiable, outweighed the negative evidence. We utilize a rolling twelve quarters of pretax income adjusted for permanent book to tax differences as a measure of cumulative results in recent years. We transitioned from a cumulative loss position to a cumulative income position over the rolling twelve quarters ended September 30, 2016. Other evidence considered in the analysis included, but was not limited to, a trend reflective of improvement in recent earnings, forecasts of profitability and taxable income and the reversal of existing temporary differences. The change in these conditions during the three months ended September 30, 2016 provided positive evidence that supported the release of the valuation allowance against a significant portion of our deferred tax assets. As such, we concluded that it was more likely than not that the benefit from our deferred tax assets would be realized. As a result, during the third quarter, we released \$190.4 million of valuation allowance on our federal and unitary state income tax net operating loss carryforwards and other deferred tax assets.

For the nine months ended September 30, 2015, we computed our benefit for income taxes by applying the actual effective tax rate, under the discrete method, to year-to-date income. The discrete method was used to calculate our income tax benefit as the annual effective tax rate was not considered a reliable estimate of year-to-date income tax benefit.

Our tax rate is impacted by adjustments that are largely independent of our operating results before taxes. In the current year, such adjustments relate primarily to the release of our valuation allowance on a significant portion of our deferred tax assets. In the prior year, the adjustments relate primarily to changes in our valuation allowance and the accrual of non-cash tax expense in connection with the tax amortization of indefinite-lived intangible assets that are not available to offset existing deferred tax assets. The deferred tax liabilities created by the tax amortization of these intangibles cannot be used to offset corresponding increases in the net operating loss deferred tax assets when determining our valuation allowance.

#### Other Long Term Tax Liabilities

The Company's income tax returns are subject to examination by the Internal Revenue Service ("IRS") and other tax authorities in the locations where it operates. The Company assesses potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes, which prescribe a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Uncertain tax position accounting standards apply to all tax positions related to income taxes. These accounting standards utilize a two-step approach for evaluating tax positions. Recognition occurs when the Company concludes that a tax position, based on its technical merits, is more likely than not to be sustained upon examination. Measurement is only addressed if the position is deemed to be more likely than not to be sustained. The tax benefit is measured as the largest amount of benefit that is more likely than not to be realized upon settlement.

Tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period that they meet the "more likely than not" standard. If it is subsequently determined that a previously recognized tax position no



longer meets the "more likely than not" standard, it is required that the tax position is derecognized. Accounting standards for uncertain tax positions specifically prohibit the use of a valuation allowance as a substitute for derecognition of tax positions. As applicable, the Company will recognize accrued penalties and interest related to unrecognized tax benefits in the provision for income taxes. Accrued interest and penalties are included in other long-term tax liabilities on the balance sheet.

#### 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. Actual results could differ from these estimates.

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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Recently Issued Accounting Pronouncements

Accounting Standards Update 2016-15, Statement of Cash Flows ("Update 2016-15")

In August 2016, the Financial Accounting Standards Board ("FASB") issued Update 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The Accounting Standards Update ("ASU") is intended to reduce the lack of consistent principles on certain classifications such as debt prepayment, debt extinguishment costs, distributions, insurance claims and beneficial interest in securitization transactions. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2017, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-15 to the financial statements.

Accounting Standards Update 2016-13, Financial Instruments-Credit Losses ("Update 2016-13")

In June 2016, the FASB issued Update 2016-13, which amends the guidance on the impairment of financial instruments. Update 2016-13 adds to GAAP an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-13 to the financial statements.

Accounting Standards Update 2016-12, Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients ("Update 2016-12"); Accounting Standards Update 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting ("Update 2016-11"); Accounting Standards Update 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing ("Update 2016-10"); and Accounting Standards Update 2016-08, Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("Update 2016-08") In March 2016 through May 2016, the FASB issued Update 2016-08, Update 2016-10, Update 2016-11 and Update 2016-12, which amend and further clarify the new revenue standard, Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("Update 2014-09"), which was subsequently amended and deferred in Accounting Standards Update 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date ("Update 2015-14", and collectively with the original standard, Update 2014-09, and subsequent amendments, Update 2016-08, Update 2016-10, Update 2016-11 and Update 2016-12, the "Revenue Standard"). The Revenue Standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Earlier application is permitted only for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is evaluating the impact of the Revenue Standard on its consolidated financial statements.

Accounting Standards Update 2016-09, Compensation - Stock Compensation ("Update 2016-09")

In March 2016, the FASB issued Update 2016-09 which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2016, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-09 to the financial statements.

Accounting Standards Update 2016-07, Investments - Equity Method and Joint Ventures ("Update 2016-07")

In March 2016, the FASB issued Update 2016-07 which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such

accounting as a result of an increase in the level of ownership interest or degree of influence. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2016, and early adoption is permitted. The Company determined that the impact of the new standard on its consolidated financial statements will not be material.

Accounting Standards Update 2016-02, Leases ("Update 2016-02")

In February 2016, the FASB issued Update 2016-02 which requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The standard is effective for financial statements issued for annual periods and interim periods within those annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is evaluating the impact of the adoption of Update 2016-02 to the financial statements.

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("Update 2016-01")

In January 2016, the FASB issued Update 2016-01, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted only if explicit early adoption guidance is applied. The Company is evaluating the impact of the new standard on its consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently being studied 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.

NOTE 3. ACQUISITIONS AND DIVESTITURES

Acquisition - Aliante Casino + Hotel + Spa

Overview

On September 27, 2016, Boyd Gaming completed its previously announced acquisition of ALST, the holding company of Aliante Gaming, LLC ("Aliante"), the owner and operator of the Aliante Casino + Hotel + Spa, pursuant to the Merger Agreement. Pursuant to the Merger Agreement, Merger Sub merged (the "Merger") with and into ALST, with ALST surviving the Merger. ALST and Aliante are now wholly-owned subsidiaries of Boyd Gaming. Aliante is an upscale, resort-style casino and hotel situated in North Las Vegas and offering premium accommodations, gaming, dining, entertainment and retail, and is aggregated into our Las Vegas Locals segment (See Note 11, Segment Information.) The acquired assets and liabilities of ALST and Aliante are included in our condensed consolidated balance sheet as of September 30, 2016, and the results of its operations and cash flows are reported in our condensed consolidated statements of operations and cash flows from September 27, 2016 through September 30, 2016. The net purchase price was \$372.3 million.

Consideration Transferred

The fair value of the consideration transferred on the acquisition date included the purchase price of the net assets transferred. The total gross consideration was \$399.1 million.

Status of Purchase Price Allocation

For purposes of these financial statements, we have allocated the purchase price to the assets acquired and the liabilities assumed based on their respective net book values as reflected in the accounting records of ALST. The excess of the purchase price over the net book value of the assets acquired and liabilities assumed has been recorded as goodwill. The Company will recognize the assets acquired and liabilities assumed in the Merger based on fair value estimates as of the date of the Merger. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) is currently in process. This determination requires significant judgment. As such, management has not completed its valuation analysis and calculations in sufficient detail necessary to arrive at estimates of the fair value of the assets acquired and liabilities assumed, along with the related allocations of goodwill and intangible assets. The final fair value determinations are expected to be completed during the fourth quarter of 2016. The final fair value determinations may be significantly different than those reflected in the consolidated financial statements at September 30, 2016.

Acquisition Method of Accounting

The Company is following the acquisition method of accounting per Accounting Standards Codification ("ASC") 805 guidance. In accordance with ASC 805, the Company will allocate the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their fair values, which will be determined primarily by management with assistance from third-party appraisals. The excess of the purchase price over those fair values will be recorded as goodwill.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

The following table summarizes the preliminary allocation of the purchase price:

(In thousands)	As Recorded
Current assets	\$ 31,886
Property and equipment, net	60,618
Other assets	4,441
Total acquired assets	96,945
Current liabilities	5,693
Other liabilities	636
Total liabilities assumed	6,329
Net identifiable assets acquired	90,616
Goodwill	308,530
Net assets acquired	\$ 399,146

The following table summarizes the preliminary values assigned to acquired property and equipment and estimated useful lives:

(In thousands)	Useful Lives	As Recorded
Land		\$ 6,200
Buildings and improvements	10 - 45 years	47,945
Furniture and equipment	3 - 7 years	5,831
Construction in progress		642
Property and equipment acquired		\$ 60,618

The goodwill recognized is the excess of the purchase price over the preliminary values assigned to the assets acquired and liabilities assumed. All of the goodwill was assigned to the Las Vegas Locals reportable segment. All of the goodwill is expected to be deductible for income tax purposes.

The Company recognized \$0.9 million and \$1.9 million of acquisition related costs that were expensed for the three and nine months ended September 30, 2016, respectively. These costs are included in the condensed consolidated statements of operations in the line item entitled "Project development, preopening and writedowns".

Condensed Consolidated Statement of Operations for the period from September 27, 2016 through September 30, 2016

The following supplemental information presents the financial results of Aliante included in the Company's condensed consolidated statement of operations for the three and nine months ended September 30, 2016:

(In thousands)	Period from September 27 to September 30, 2016
Net revenues	\$ 1,040
Net income	\$ 248

Pending Acquisition - Cannery Casino Hotel and Nevada Palace, LLC

On April 25, 2016, Boyd Gaming announced it has entered into a definitive agreement to acquire The Cannery Hotel and Casino, LLC ("Cannery"), the owner and operator of Cannery Casino Hotel located in North Las Vegas, and Nevada Palace, LLC ("Eastside"), the owner and operator of Eastside Cannery Casino and Hotel located in the eastern part of the Las Vegas Valley, comprising the Las Vegas assets of Cannery Casino Resorts, LLC ("CCR"), for total cash consideration of \$230 million, subject to adjustment based on the working capital, including cash and less indebtedness of the acquired assets and less any transaction expenses.

Boyd Gaming will acquire Cannery and Eastside pursuant to a Membership Interest Purchase Agreement (the "Cannery Purchase Agreement") entered into on April 25, 2016, by and among, Boyd Gaming, CCR, Cannery and Eastside. The Cannery Purchase Agreement provides that, pursuant to the terms and subject to the conditions set forth therein, Boyd Gaming will acquire from

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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CCR all of the issued and outstanding membership interests of Cannery and Eastside (the "Cannery Purchase"), such that, following the Cannery Purchase, Cannery and Eastside will be wholly-owned subsidiaries of Boyd Gaming.

The Cannery Purchase Agreement contains customary representations, warranties, covenants and termination rights. In addition, \$20 million of the cash consideration will be placed in escrow to satisfy the indemnification obligations of CCR.

On October 28, 2016, Boyd Gaming, Cannery, Eastside and CCR entered into an amendment to the Cannery Purchase Agreement (the "Cannery Purchase Amendment") to extend the outside date for the Closing (as defined in the Cannery Purchase Agreement) from October 31, 2016 to December 31, 2016.

The completion of the Cannery Purchase is subject to customary conditions and the receipt of all required regulatory approvals, including, among others, approval by the Nevada Gaming Commission and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to the satisfaction or waiver of the respective conditions in the Cannery Purchase Agreement, we currently expect the Cannery Purchase to close before the end of 2016.

Investment in and Divestiture of Borgata

On August 1, 2016, Boyd Gaming completed its previously announced sale of its 50% equity interest in MDDHC, the parent company of Borgata in Atlantic City, New Jersey ("Borgata"), to MGM Resorts International ("MGM") pursuant to an Equity Purchase Agreement (the "Purchase Agreement") entered into on May 31, 2016, as amended on July 19, 2016, by and among Boyd, Boyd Atlantic City, Inc., a wholly-owned subsidiary of Boyd ("Seller"), and MGM.

Prior to the sale of our equity interest, the Company and MGM each held a 50% interest in MDDHC, which owns all the equity interests in Borgata. Until the closing of the sale, we were the managing member of MDDHC, and we were responsible for the day-to-day operations of Borgata.

Pursuant to the Purchase Agreement, MGM acquired from Boyd Gaming 49% of its 50% membership interest in MDDHC and, immediately thereafter, MDDHC redeemed Boyd Gaming's remaining 1% membership interest in MDDHC (collectively, the "Transaction"). Following the Transaction, MDDHC became a wholly-owned subsidiary of MGM.

In consideration for the Transaction, MGM paid Boyd Gaming \$900 million. The initial net cash proceeds were approximately \$589 million, net of certain expenses and adjustments on the closing date, including outstanding indebtedness, cash and working capital. These initial proceeds do not include our 50% share of any future property tax settlement benefits, from the time period during which we held a 50% ownership in MDDHC, to which Boyd Gaming retains the right to receive upon payment. During third quarter 2016, we recognized \$4.3 million in income for the cash we received for our share of property tax benefits realized by Borgata subsequent to the closing of the sale. Borgata estimates that it is entitled to additional property tax refunds totaling between \$140 million and \$160 million, including amounts due under court decisions rendered in its favor and estimates for open tax appeals.

We reflect the results of operations and cash flows from our investment in Borgata as discontinued operations for all periods presented in these condensed consolidated financial statements.



The after-tax gain on the sale of Borgata was \$181.7 million and is included in discontinued operations in the three and nine months ended September 30, 2016.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

Summarized income statement information for Borgata is as follows:

	Period from July 1 to July 31, 2016	Period from January 1 to July 31, 2016
(In thousands)		
Net revenues	\$91,870	\$485,510
Operating expenses	63,997	366,812
Operating income	27,873	118,698
Non-operating expenses	6,104	36,280
Net income	\$21,769	\$82,418
	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(In thousands)		
Net revenues	\$237,461	\$611,213
Operating expenses	175,248	495,473
Operating income	62,213	115,740
Non-operating expenses	25,363	58,909
Net income	\$36,850	\$56,831

## NOTE 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	September 30, 2016	December 31, 2015
(In thousands)		
Land	\$234,186	\$229,857
Buildings and improvements	2,618,837	2,539,578
Furniture and equipment	1,212,038	1,152,277
Riverboats and barges	238,846	238,743
Construction in progress	68,735	42,497
Other	5,388	7,404
Total property and equipment	4,378,030	4,210,356
Less accumulated depreciation	2,115,400	1,985,014
Property and equipment, net	\$2,262,630	\$2,225,342

Other property and equipment presented in the table above relates to the estimated net realizable value of construction materials inventory that was not disposed of with the 2013 sale of the Echelon development project. Such assets are not in service and are not currently being depreciated.

Depreciation expense is as follows:

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	Three Months Ended		Nine Months Ended	
(In thousands)	September 30,		September 30,	
	2016	2015	2016	2015
Depreciation expense	\$44,010	\$44,643	\$131,832	\$134,904

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 5. INTANGIBLE ASSETS

Intangible assets consist of the following:

(In thousands)	September 30, 2016		Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
	Weighted Average Life Remaining	Gross Carrying Value			
Amortizing intangibles					
Customer relationships	1.1 years	\$136,300	\$ (121,147 )	\$—	\$ 15,153
Favorable lease rates	31.7 years	45,370	(12,779 )	—	32,591
Development agreement	—	21,373	—	—	21,373
		203,043	(133,926 )	—	69,117
Indefinite lived intangible assets					
Trademarks	Indefinite	129,487	—	(3,500 )	125,987
Gaming license rights	Indefinite	873,335	(33,960 )	(156,374 )	683,001
		1,002,822	(33,960 )	(159,874 )	808,988
Balance, September 30, 2016		\$1,205,865	\$ (167,886 )	\$ (159,874 )	\$ 878,105
(In thousands)	December 31, 2015		Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
	Weighted Average Life Remaining	Gross Carrying Value			
Amortizing intangibles					
Customer relationships	1.9 years	\$136,300	\$ (109,994 )	\$—	\$ 26,306
Favorable lease rates	32.4 years	45,370	(11,997 )	—	33,373
Development agreement	—	21,373	—	—	21,373
		203,043	(121,991 )	—	81,052
Indefinite lived intangible assets					
Trademarks	Indefinite	129,501	—	(3,500 )	126,001
Gaming license rights	Indefinite	873,335	(33,960 )	(156,374 )	683,001
		1,002,836	(33,960 )	(159,874 )	809,002
Balance, December 31, 2015		\$1,205,879	\$ (155,951 )	\$ (159,874 )	\$ 890,054

## NOTE 6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	September 30, 2016	December 31, 2015
(In thousands)		
Payroll and related expenses	\$ 64,242	\$ 71,815
Interest	44,080	35,337
Gaming liabilities	42,268	37,496
Player loyalty program liabilities	18,280	18,491

Other accrued liabilities	101,842	86,379
Total accrued liabilities	\$ 270,712	\$ 249,518

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 7. LONG-TERM DEBT

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

(In thousands)	September 30, 2016				
	Interest	Unamortized			
	Rates	Outstanding	Unamortized	Origination	Long-Term
	at Sept. 30, 2016	Principal	Discount	Fees and Costs	Debt, Net
Bank credit facility	3.54 %	\$ 1,541,000	\$ (1,986	) \$ (28,483	) \$ 1,510,531
6.875% senior notes due 2023	6.88 %	750,000	—	(11,648	) 738,352
6.375% senior notes due 2026	6.38 %	750,000	—	(12,270	) 737,730
Other	5.80 %	635	—	—	635
Total long-term debt		3,041,635	(1,986	) (52,401	) 2,987,248
Less current maturities		30,250	—	—	30,250
Long-term debt, net		\$3,011,385	\$ (1,986	) \$ (52,401	) \$ 2,956,998

(In thousands)	December 31, 2015				
	Interest	Unamortized			
	Rates	Outstanding	Unamortized	Origination	Long-Term
	at Dec. 31, 2015	Principal	Discount	Fees and Costs	Debt, Net
Boyd Gaming Corporation Debt					
Bank credit facility	3.75 %	\$ 1,209,725	\$ (2,702	) \$ (9,746	) \$ 1,197,277
9.00% senior notes due 2020	9.00 %	350,000	—	(7,044	) 342,956
6.875% senior notes due 2023	6.88 %	750,000	—	(12,934	) 737,066
		2,309,725	(2,702	) (29,724	) 2,277,299
Peninsula Gaming Debt					
Bank credit facility	4.25 %	662,750	—	(14,143	) 648,607
8.375% senior notes due 2018	8.38 %	350,000	—	(6,357	) 343,643
		1,012,750	—	(20,500	) 992,250
Total long-term debt		3,322,475	(2,702	) (50,224	) 3,269,549
Less current maturities		29,750	—	—	29,750
Long-term debt, net		\$3,292,725	\$ (2,702	) \$ (50,224	) \$ 3,239,799

## Boyd Gaming Debt

## Credit Facility

On September 15, 2016, the Company entered into an Amendment No. 1 and Joinder Agreement (the "Amendment") among the Company, certain financial institutions, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender. The Amendment modified the Third Amended and Restated Credit Agreement (the "Prior Credit Facility"), dated August 14, 2013, together referred to as the "Credit Facility" or the "Credit Agreement".

As modified by the Amendment, the Credit Facility provides for: (i) increased commitments under the existing senior secured revolving credit facility (the "Revolving Credit Facility") to an amount equal to \$775.0 million, (ii) commitments under the existing senior secured term A loan (the "Term A Loan") in an amount equal to \$225.0 million, and (iii) a new \$1.0 billion senior secured term B-2 loan (the "Term B-2 Loan"). The maturity dates of the Revolving Credit Facility and the Term A Loan have been extended to September 15, 2021 (or earlier upon the occurrence or non-occurrence of certain events); the Term B-2 Loan matures on September 15, 2023 (or earlier upon the occurrence or non-occurrence of certain events); the maturity date of the existing senior secured term B-1 loan (the "Term B-1 Loan"), under which \$274.0 million in aggregate principal is outstanding, remains August 14, 2020. The increase to the Term A Loan and the new Term B-2 Loan were fully funded on the effective date of the Amendment. Proceeds from the Credit Facility were used to refinance all outstanding obligations under the Prior Credit Facility and to fund transaction costs in connection with the Credit Facility and may be used for working capital and other general corporate purposes.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

The Credit Facility includes an accordion feature which permits an increase in the Revolving Credit Facility and the issuance and increase of senior secured term loans in an amount up to (i) \$550.0 million, plus (ii) certain voluntary permanent reductions of the Revolving Credit Facility and certain voluntary prepayments of the senior secured term loans, plus (iii) certain reductions in the outstanding principal amounts under the term loans or the Revolving Credit Facility, plus (iv) any additional amount if, after giving effect thereto, the First Lien Leverage Ratio (as defined in the Credit Agreement) would not exceed 4.25 to 1.00 on a pro forma basis, less (v) any Incremental Equivalent Debt (as defined in the Credit Agreement), in each case, subject to the satisfaction of certain conditions.

Pursuant to the terms of the Credit Facility (i) the loans under the Term A Loan will amortize in an annual amount equal to 5.00% of the original principal amount thereof, commencing December 31, 2016, payable on a quarterly basis, (ii) the loans under the Term B-2 Loan will amortize in an annual amount equal to 1.00% of the original principal amount thereof, commencing December 31, 2016, payable on a quarterly basis, and (iii) beginning with the fiscal year ending December 31, 2016, the Company is required to use a portion of its annual Excess Cash Flow, as defined in the Credit Agreement, to prepay loans outstanding under the Credit Facility.

The outstanding principal amounts under the Credit Facility are comprised of the following:

	September 30, 2016	December 31, 2015
(In thousands)		
Revolving Credit Facility	\$—	\$240,000
Term A Loan	225,000	183,275
Term B-1 Loan	274,000	730,750
Term B-2 Loan	1,000,000	—
Swing Loan	42,000	55,700
Total outstanding principal amounts under the Credit Facility	\$1,541,000	\$1,209,725

At September 30, 2016, approximately \$1.5 billion was outstanding under the Credit Facility and \$12.0 million was allocated to support various letters of credit, leaving remaining contractual availability of \$721.0 million.

## Interest and Fees

The interest rate on the outstanding balance from time to time of the Revolving Credit Facility and the Term A Loan is based upon, at the Company's option, either: (i) the Eurodollar rate or (ii) the base rate, in each case, plus an applicable margin. Such applicable margin is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio and ranges from 1.75% to 2.75% (if using the Eurodollar rate) and from 0.75% to 1.75% (if using the base rate). A fee of a percentage per annum (which ranges from 0.25% to 0.50% determined in accordance with a specified pricing grid based on the total leverage ratio) will be payable on the unused portions of the Revolving Credit Facility.

The interest rate on the outstanding balance from time to time of the Term B-1 Loan is based upon, at the Company's option, either: (i) the Eurodollar rate (subject to a 1.00% minimum) plus 3.00%, or (ii) the base rate plus 2.00%. The interest rate on the outstanding balance from time to time of the Term B-2 Loan is based upon, at the Company's option, either: (i) the Eurodollar rate (subject to a 0.00% minimum) plus 3.00%, or (ii) the base rate plus 2.00%.



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

#### Optional and Mandatory Prepayments

Amounts outstanding under the Credit Agreement may be prepaid without premium or penalty, and the unutilized portion of the commitments may be terminated without penalty, subject to certain exceptions, including a 1.00% prepayment premium for any prepayment of the Term B-2 Loan prior to March 15, 2017 that is accompanied by a repricing of the Term B-2 Loan.

The Credit Agreement contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio, (ii) establishing a maximum permitted consolidated total leverage ratio, (iii) establishing a maximum permitted secured leverage ratio, (iv) imposing limitations on the incurrence of

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

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indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Amended Credit Agreement in connection with certain asset sales and issuances of certain additional secured indebtedness. In addition, it requires fixed quarterly amortization of principal and requires that the Company use a portion of its annual excess cash flow as defined in the agreement to prepay the loans.

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

Senior Notes

6.375% Senior Notes due April 2026

Significant Terms

On March 28, 2016, we issued \$750 million aggregate principal amount of 6.375% senior notes due April 2026 (the "6.375% Notes"). The 6.375% Notes require semi-annual interest payments on April 1 and October 1 of each year, commencing on October 1, 2016. The 6.375% Notes will mature on April 1, 2026 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. Net proceeds from the 6.375% Notes were used to pay down the outstanding amount under the Revolving Credit Facility and the balance was deposited in money market funds and classified as cash equivalents on the condensed consolidated balance sheets.

In conjunction with the issuance of the 6.375% Notes, we incurred approximately \$13.0 million in debt financing costs that have been deferred and are being amortized over the term of the 6.375% Notes using the effective interest method.

The 6.375% Notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the base and supplemental indentures governing the 6.375% Notes, together, the "Indenture") to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. In addition, upon the occurrence of a change of control (as defined in the Indenture), we will be required, unless certain conditions are met, to offer to repurchase the 6.375% Notes at a price equal to 101% of the principal amount of the 6.375% Notes, plus accrued and unpaid interest and Additional Interest (as defined in the Indenture), if any, to, but not including, the date of purchase. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the 6.375% Notes.

At any time prior to April 1, 2021, we may redeem the 6.375% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. After April 1, 2021, we may redeem all or a portion of the 6.375% Notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.188% in 2021 to 100% in 2024 and thereafter, plus accrued and unpaid interest and Additional Interest.

In connection with the private placement of the 6.375% Notes, we entered into a registration rights agreement with the initial purchasers in which we agreed to file a registration statement with the SEC to permit the holders to exchange or resell the 6.375% Notes. We must use commercially reasonable efforts to file a registration statement and to consummate an exchange offer within 365 days after the issuance of the 6.375% Notes, subject to certain suspension and other rights set forth in the registration rights agreement. Under certain circumstances, including our determination that we cannot complete an exchange offer, we are required to file a shelf registration statement for the resale of the 6.375% Notes and to cause such shelf registration statement to be declared effective as soon as reasonably practicable (but in no event later than the 365th day following the issuance of the 6.375% Notes) after the occurrence of such circumstances. Subject to certain suspension and other rights, in the event that the registration statement is not filed or declared effective within the time periods specified in the registration rights agreement, the exchange offer is not consummated within 365 days after the issuance of the 6.375% Notes, or the registration statement is filed and declared effective but thereafter ceases to be effective or is unusable for its intended purpose for a period in excess of 30 days without being succeeded immediately by a post-effective amendment that cures such failure, the agreement provides that additional interest will accrue on the principal amount of the 6.375% Notes at a rate of 0.25% per annum during the 90-day period immediately following any of these events and will increase by 0.25% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.00% per annum, until the default is cured. There are no other alternative settlement methods and, other than the

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

1.00% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event we do not meet the registration statement filing requirements. We currently intend to file a registration statement, have it declared effective and consummate any exchange offer within these time periods. Accordingly, we do not believe that payment of additional interest under the registration payment arrangement is probable and, therefore, no related liability has been recorded in the consolidated financial statements.

Senior Notes

9.00% Senior Notes due July 2020

On September 6, 2016 we redeemed all of our 9.00% senior notes due July 2020 (the "9.00% Notes") at a redemption price of 104.50% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand.

As a result of this redemption, the 9.00% Notes have been fully extinguished.

Peninsula Gaming Debt

Bank Credit Facility

On September 2, 2016, Peninsula repaid all of the outstanding amounts, including all principal and accrued interest amounts, under the Peninsula senior secured credit facility (the "Peninsula Credit Facility") pursuant to the Peninsula Credit Agreement. In connection with the repayment in full of the Peninsula Credit Facility (the "Repayment"), the Peninsula Credit Agreement was terminated.

At December 31, 2015, the outstanding principal amount under the Peninsula Credit Facility was comprised of the following:

(In thousands)

Term Loan	\$647,750
Revolving Facility	9,000
Swing Loan	6,000
Total outstanding principal amount under the Peninsula Credit Facility	\$662,750

Peninsula Senior Notes

8.375% Senior Notes due February 2018

On September 2, 2016 we redeemed all of our 8.375% senior notes due February 2018 (the "8.375% Notes") at a redemption price of 100.0% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand.

Loss on Early Extinguishments and Modifications of Debt

The components of the loss on early extinguishments and modifications of debt, are as follows:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
(In thousands)	2016	2015	2016	2015
9.00% Senior Notes premium and consent fees	\$15,750	\$—	\$15,750	\$—
9.00% Senior Notes deferred finance charges	5,976	—	5,976	—
8.375% Senior Notes deferred finance charges	4,497	—	4,497	—
9.125% Senior Notes premium and consent fees	—	—	—	23,962

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9.125% Senior Notes deferred finance charges	—	—	—	4,888
Boyd Gaming Credit Facility deferred finance charges	6,629	444	6,629	1,602
Peninsula Credit Facility deferred finance charges	8,666	419	9,512	1,881
Total loss on early extinguishments and modifications of debt	\$41,518	\$863	\$42,364	\$32,333

Covenant Compliance

As of September 30, 2016, we believe that we were in compliance with the financial and other covenants of our debt instruments.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 8. COMMITMENTS AND CONTINGENCIES

## Commitments

There have been no material changes to our commitments described under Note 10, Commitments and Contingencies, in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 25, 2016, except for the pending acquisitions of the Las Vegas assets of CCR as discussed in Note 3, Acquisitions and Divestitures.

## Contingencies

## Legal Matters

We are parties to various legal proceedings arising in the ordinary course of business. In our opinion, all pending legal matters are either adequately covered by insurance, or, if not insured, will not have a material adverse impact on our financial position, results of operations or cash flows.

## NOTE 9. STOCKHOLDERS' EQUITY AND STOCK INCENTIVE PLANS

## Share-Based Compensation

We account for share-based awards exchanged for employee services in accordance with the authoritative accounting guidance for share-based payments. Under the guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Gaming	\$86	\$68	\$251	\$191
Food and beverage	17	12	48	36
Room	8	6	23	17
Selling, general and administrative	437	345	1,274	969
Corporate expense	994	1,429	5,529	7,014
Total share-based compensation expense	\$1,542	\$1,860	\$7,125	\$8,227

## Performance Shares Vesting

The Performance Share Unit ("PSU") grants awarded in December 2012 and 2011 vested during first quarters of 2016 and 2015, respectively. Common shares were issued based on the determination by the Compensation Committee of the Board of Directors of our actual achievement of net revenue growth, Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") growth and customer service scores for the three-year performance period of the grant. As provided under the provisions of our stock incentive plan, certain of the participants elected to surrender a portion of the shares to be received to pay the withholding and other payroll taxes payable on the compensation resulting from the vesting of the PSUs.

The PSU grant awarded in December 2012 resulted in a total of 213,365 shares issued, representing approximately 0.59 shares per PSU. Of the 213,365 shares issued, a total of 54,338 were surrendered by the participants for payroll taxes, resulting a net issuance of 159,027 shares due to the vesting of the 2012 grant. The actual achievement level under the award metrics equaled the estimated performance as of year-end 2015; therefore, the vesting of the PSUs

did not impact compensation costs in our 2016 condensed consolidated statement of operations.

The PSU grant awarded in December 2011 resulted in a total of 654,478 shares issued, representing approximately 1.67 shares per PSU. Of the 654,478 shares issued, a total of 177,274 were surrendered by the participants for payroll taxes, resulting a net issuance of 477,204 shares due to the vesting of the 2011 grant. The actual achievement level under the award metrics equaled the estimated performance as of year-end 2014; therefore, the vesting of the PSUs did not impact compensation costs in our 2015 condensed consolidated statement of operations.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 10. FAIR VALUE MEASUREMENTS

The authoritative accounting guidance for fair value measurements specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

## Balances Measured at Fair Value

The following tables show the fair values of certain of our financial instruments:

## September 30, 2016

(In thousands)	Balance	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 159,688	\$ 159,688	\$ —	\$ —
Restricted cash	23,292	23,292	—	—
Investment available for sale	18,279	—	—	18,279

**Liabilities**

Contingent payments	\$ 3,435	\$ —	\$ —	\$ —3,435
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## December 31, 2015

(In thousands)	Balance	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 158,821	\$ 158,821	\$ —	\$ —
Restricted cash	19,030	19,030	—	—
Investment available for sale	17,839	—	—	17,839

**Liabilities**

Contingent payments	\$ 3,632	\$ —	\$ —	\$ —3,632
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Cash and Cash Equivalents and Restricted Cash

The fair value of our cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, are based on statements received from our banks at September 30, 2016 and December 31, 2015.

Investment Available for Sale

We have an investment in a single municipal bond issuance of \$21.0 million aggregate principal amount of 7.5% Urban Renewal Tax Increment Revenue Bonds, Taxable Series 2007 that is classified as available for sale. We are the only holder of this instrument and there is no quoted market price for this instrument. As such, the fair value of this investment is classified as Level 3 in the fair

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

value hierarchy. The estimate of the fair value of such investment was determined using a combination of current market rates and estimates of market conditions for instruments with similar terms, maturities, and degrees of risk and a discounted cash flows analysis as of September 30, 2016 and December 31, 2015. Unrealized gains and losses on this instrument resulting from changes in the fair value of the instrument are not charged to earnings, but rather are recorded as other comprehensive income (loss) in the stockholders' equity section of the condensed consolidated balance sheets. At both September 30, 2016 and December 31, 2015, \$0.4 million of the carrying value of the investment available for sale is included as a current asset in prepaid expenses and other current assets, and at September 30, 2016 and December 31, 2015, \$17.8 million and \$17.4 million, respectively, is included in other assets on the condensed consolidated balance sheets. The discount associated with this investment of \$3.1 million and \$3.2 million at September 30, 2016 and December 31, 2015, respectively, is netted with the investment balance and is being accreted over the life of the investment using the effective interest method. The accretion of such discount is included in interest income on the condensed consolidated statements of operations.

## Contingent Payments

In connection with the development of the Kansas Star Casino ("KSC"), KSC agreed to pay a former casino project developer and option holder 1% of KSC's EBITDA each month for a period of ten years commencing on December 20, 2011. The liability is recorded at the estimated fair value of the contingent payments using a discounted cash flows approach and the significant unobservable input used in the valuation at both September 30, 2016 and December 31, 2015, is a discount rate of 18.5%. At both September 30, 2016 and December 31, 2015, there was a current liability of \$0.9 million related to this agreement, which is recorded in accrued liabilities on the respective condensed consolidated balance sheets, and long-term obligation at September 30, 2016 and December 31, 2015, of \$2.5 million and \$2.7 million, respectively, which is included in other liabilities on the respective condensed consolidated balance sheets.

The following table summarizes the changes in fair value of the Company's Level 3 assets and liabilities:

	Three Months Ended			
	September 30, 2016		September 30, 2015	
	Assets	Liability	Assets	Liability
	Investment		Investment	
(In thousands)	Available for Sale	Contingent Payments	Available for Sale	Contingent Payments
Balance at beginning of reporting period	\$17,832	\$ (3,488 )	\$17,276	\$ (3,642 )
Total gains (losses) (realized or unrealized):				
Included in interest income (expense)	30	(147 )	31	(156 )
Included in other comprehensive income (loss)	417	—	642	—
Transfers in or out of Level 3	—	—	—	—
Purchases, sales, issuances and settlements:				
Settlements	—	200	—	211
Balance at end of reporting period	\$18,279	\$ (3,435 )	\$17,949	\$ (3,587 )

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

(In thousands)	Nine Months Ended		September 30, 2016		September 30, 2015	
	Assets	Liability	Assets	Liability	Assets	Liability
	Investment	Investment	Investment	Investment	Investment	Investment
	Available	Contingent	Available	Merger	Contingent	Contingent
	for	Payments	for	Earnout	Payments	Payments
	Sale		Sale			
Balance at beginning of reporting period	\$17,839	\$ (3,632 )	\$18,357	\$(75)	\$(3,792 )	
Total gains (losses) (realized or unrealized):						
Included in interest income (expense)	96	(452 )	93	75	(476 )	
Included in other comprehensive income (loss)	754	—	(121 )	—	—	
Transfers in or out of Level 3	—	—	—	—	—	
Purchases, sales, issuances and settlements:						
Settlements	(410 )	649	(380 )	—	681	
Balance at end of reporting period	\$18,279	\$ (3,435 )	\$17,949	\$—	\$(3,587 )	

The table below summarizes the significant unobservable inputs used in calculating fair value for our Level 3 assets and liabilities:

	Valuation Technique	Unobservable Input	Rate
Investment available for sale	Discounted cash flow	Discount rate	9.7 %
Contingent payments	Discounted cash flow	Discount rate	18.5 %

## Balances Disclosed at Fair Value

The following tables provide the fair value measurement information about our obligation under minimum assessment agreements and other financial instruments:

(In thousands)	September 30, 2016			Fair Value Hierarchy
	Outstanding Face Amount	Carrying Value	Estimated Fair Value	
Liabilities				
Obligation under assessment arrangements	\$33,823	\$26,858	\$28,118	Level 3
Other financial instruments	100	95	95	Level 3

(In thousands)	December 31, 2015			Fair Value Hierarchy
	Outstanding Face Amount	Carrying Value	Estimated Fair Value	
Liabilities				
Obligation under assessment arrangements	\$35,126	\$27,660	\$28,381	Level 3
Other financial instruments	200	186	186	Level 3

The following tables provide the fair value measurement information about our long-term debt:

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September 30, 2016

(In thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Bank credit facility	\$1,541,000	\$1,510,531	\$1,548,060	Level 2
6.875% senior notes due 2023	750,000	738,352	811,875	Level 1
6.375% senior notes due 2026	750,000	737,730	802,500	Level 1
Other	635	635	635	Level 3
Total debt	\$3,041,635	\$2,987,248	\$3,163,070	

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

(In thousands)	December 31, 2015		Estimated Fair Value	Fair Value Hierarchy
	Outstanding Face Amount	Carrying Value		
Boyd Gaming Debt				
Bank credit facility	\$1,209,725	\$1,197,277	\$1,202,870	Level 2
9.00% senior notes due 2020	350,000	342,956	372,750	Level 1
6.875% senior notes due 2023	750,000	737,066	772,500	Level 1
	2,309,725	2,277,299	2,348,120	
Peninsula Gaming Debt				
Bank credit facility	662,750	648,607	661,131	Level 2
8.375% senior notes due 2018	350,000	343,643	357,000	Level 2
	1,012,750	992,250	1,018,131	
Total debt	\$3,322,475	\$3,269,549	\$3,366,251	

The estimated fair values of our Credit Facility is based on a relative value analysis performed on or about September 30, 2016 and December 31, 2015. The estimated fair value of the Peninsula Credit Facility is based on a relative value analysis performed on or about December 31, 2015. The estimated fair values of our senior notes are based on quoted market prices as of September 30, 2016 and December 31, 2015. The other debt is a fixed-rate debt that is payable in 32 semi-annual installments, beginning in 2008. It is not traded and does not have an observable market input; therefore, we have estimated its fair value to be equal to the carrying value.

There were no transfers between Level 1, Level 2 and Level 3 measurements during the nine months ended September 30, 2016 or 2015.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 11. SEGMENT INFORMATION

We have aggregated certain of our properties in order to present three Reportable Segments: (i) Las Vegas Locals; (ii) Downtown Las Vegas; and (iii) Midwest and South. The table below lists the classification of each of our properties.

## Las Vegas Locals

Gold Coast Hotel and Casino	Las Vegas, Nevada
The Orleans Hotel and Casino	Las Vegas, Nevada
Sam's Town Hotel and Gambling Hall	Las Vegas, Nevada
Suncoast Hotel and Casino	Las Vegas, Nevada
Aliante Casino + Hotel + Spa	North Las Vegas, Nevada
Eldorado Casino	Henderson, Nevada
Jokers Wild Casino	Henderson, Nevada

## Downtown Las Vegas

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

## Midwest and South

Par-A-Dice Hotel Casino	East Peoria, Illinois
Blue Chip Casino, Hotel & Spa	Michigan City, Indiana
Diamond Jo Dubuque	Dubuque, Iowa
Diamond Jo Worth	Northwood, Iowa
Kansas Star Casino	Mulvane, Kansas
Amelia Belle Casino	Amelia, Louisiana
Delta Downs Racetrack Casino & Hotel	Vinton, Louisiana
Evangeline Downs Racetrack and Casino	Opelousas, Louisiana
Sam's Town Hotel and Casino	Shreveport, Louisiana
Treasure Chest Casino	Kenner, Louisiana
IP Casino Resort Spa	Biloxi, Mississippi
Sam's Town Hotel and Gambling Hall	Tunica, Mississippi

As a result of the agreement to sell our equity interest in Borgata (see Note 3, Acquisitions and Divestitures), we no longer report our interest in Borgata as a Reportable Segment.

In third quarter 2016, the Peninsula debt was refinanced, eliminating the financing structure that restricted our ability to transfer cash from Peninsula to Boyd Gaming. As a result of the elimination of this restriction, management has concluded that the properties previously comprising the Peninsula segment will be aggregated into the Midwest and South reportable segment, and has retrospectively adjusted the presentation for all periods presented.

Also, as of September 27, 2016, our Las Vegas Locals segment includes our wholly-owned subsidiary, Aliante (see Note 3, Acquisitions and Divestitures).

## Results of Operations - Total Reportable Segment Net Revenues and Adjusted EBITDA

We evaluate each of our property's profitability based upon Property EBITDA, which represents each property's earnings before interest expense, income taxes, depreciation and amortization, deferred rent, share-based compensation expense, project development, preopening and writedowns expenses, impairments of assets, other

operating items, net, and gain or loss on early retirements of debt, as applicable. Total Reportable Segment Adjusted EBITDA is the aggregate sum of the Property EBITDA for each of the properties included in our Las Vegas Locals, Downtown Las Vegas, and Midwest and South segments. Results for Downtown Las Vegas include the results of our Hawaii-based travel agency and captive insurance company.

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

The following table sets forth, for the periods indicated, certain operating data for our Reportable Segments, and reconciles Total Reportable Segment Adjusted EBITDA to operating income, as reported in our accompanying condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Net Revenues				
Las Vegas Locals	\$148,879	\$148,022	\$462,213	\$451,356
Downtown Las Vegas	56,606	56,685	174,423	171,723
Midwest and South	326,416	341,606	992,517	1,033,679
Total Reportable Segment Net Revenues	\$531,901	\$546,313	\$1,629,153	\$1,656,758
Adjusted EBITDA				
Las Vegas Locals	\$36,173	\$32,261	\$123,617	\$113,313
Downtown Las Vegas	10,018	10,144	36,962	33,128
Midwest and South	90,633	96,347	281,305	294,635
Total Reportable Segment Adjusted EBITDA	136,824	138,752	441,884	441,076
Corporate expense	(14,884)	(13,581)	(44,355)	(45,000)
Adjusted EBITDA	121,940	125,171	397,529	396,076
Other operating costs and expenses				
Deferred rent	816	857	2,449	2,573
Depreciation and amortization	47,928	51,345	143,831	155,251
Share-based compensation expense	1,542	1,860	7,125	8,227
Project development, preopening and writedowns	3,735	1,514	11,473	4,218
Impairments of assets	—	—	1,440	1,065
Other operating items, net	3	172	555	342
Total other operating costs and expenses	54,024	55,748	166,873	171,676
Operating income	\$67,916	\$69,423	\$230,656	\$224,400

For purposes of this presentation, corporate expense excludes its portion of share-based compensation expense. Corporate expense represents unallocated payroll, professional fees, aircraft expenses and various other expenses not directly related to our casino and hotel operations.

## Total Reportable Segment Assets

The Company's assets by Reportable Segment consisted of the following amounts:

	September 30, 2016	December 31, 2015
(In thousands)		
Assets		
Las Vegas Locals	\$1,535,515	\$1,155,224
Downtown Las Vegas	149,172	138,159
Midwest and South	2,597,024	2,634,742
Total Reportable Segment Assets	4,281,711	3,928,125
Corporate	174,943	422,775



Total Assets	\$4,456,654	\$4,350,900
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## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## NOTE 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Separate condensed consolidating financial information for our subsidiary guarantors and non-guarantors of our 6.875% Senior Notes due May 2023 ("6.875% Notes") and our 6.375% Notes is presented below. Each of these notes is fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The non-guarantors primarily represent special purpose entities, tax holding companies, our less significant operating subsidiaries and our less than wholly owned subsidiaries.

On September 2, 2016, we notified the trustees of our 6.875% Notes and our 6.375% Notes of our designation of the following additional subsidiaries as "Restricted Subsidiaries": Boyd Acquisition I, LLC, Boyd Acquisition II, LLC, Peninsula Gaming, LLC, Belle of Orleans, L.L.C., Diamond Jo, LLC, Diamond Jo Worth, LLC, Kansas Star Casino, LLC, and The Old Evangeline Downs, L.L.C.

The tables below present the condensed consolidating balance sheets as of September 30, 2016, and December 31, 2015, the condensed consolidating statements of operations for the three and nine months ended September 30, 2016 and 2015, and the condensed consolidating statements of cash flows for the nine months ended September 30, 2016 and 2015. We have reclassified certain prior year amounts in the current year presentation to reflect the designation of the additional Restricted Subsidiaries listed above as subsidiary guarantors.

## Condensed Consolidating Balance Sheets

	September 30, 2016					
		Guarantor	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	
(In thousands)	Parent	Subsidiaries				Consolidated
<b>Assets</b>						
Cash and cash equivalents	\$1,705	\$145,570	\$12,413	\$ —	\$—	\$159,688
Other current assets	16,023	88,533	15,764	—	(9,708)	110,612
Property and equipment, net	68,118	2,099,977	94,535	—	—	2,262,630
Investments in subsidiaries	4,509,550	—	—	—	(4,509,550)	—
Intercompany receivable	—	1,489,652	—	—	(1,489,652)	—
Other assets, net	13,336	30,165	21,497	—	(13,232)	51,766
Intangible assets, net	—	854,046	24,059	—	—	878,105
Goodwill, net	—	684,529	309,324	—	—	993,853
Total assets	\$4,608,732	\$5,392,472	\$477,592	\$ —	\$(6,022,142)	\$4,456,654
<b>Liabilities and Stockholders' Equity</b>						
Current maturities of long-term debt	\$30,250	\$—	\$—	\$ —	\$—	\$30,250
Other current liabilities	127,456	190,831	40,799	—	(233)	358,853
Accumulated losses of subsidiaries in excess of investment	—	169,906	265	—	(170,171)	—
Intercompany payable	534,902	—	963,992	254	(1,499,148)	—

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Long-term debt, net of current maturities and debt issuance costs	2,956,362	—	636	—	—	2,956,998
Other long-term liabilities	36,786	163,973	—	—	(13,232 )	187,527
Boyd Gaming Corporation stockholders' equity (deficit)	922,976	4,867,762	(528,100 )	(254 )	(4,339,408 )	922,976
Noncontrolling interest	—	—	—	—	50	50
Total stockholders' equity (deficit)	922,976	4,867,762	(528,100 )	(254 )	(4,339,358 )	923,026
Total liabilities and stockholders' equity	\$4,608,732	\$5,392,472	\$477,592	\$ —	\$(6,022,142)	\$4,456,654

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Balance Sheets - continued

	December 31, 2015			Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
	Parent	Guarantor Subsidiaries					
(In thousands)							
<b>Assets</b>							
Cash and cash equivalents	\$2	\$156,116	\$ 2,482	\$ 221	\$—		\$158,821
Other current assets	14,602	74,402	10,415	—	(1,008)	)	98,411
Property and equipment, net	68,515	2,120,455	36,372	—	—		2,225,342
Investments in subsidiaries	3,547,690	—	—	—	(3,547,690)	)	—
Intercompany receivable	—	1,701,817	—	—	(1,701,817)	)	—
Other assets, net	12,521	30,755	18,293	—	(13,228)	)	48,341
Intangible assets, net	—	865,995	24,059	—	—		890,054
Goodwill, net	—	684,529	781	—	—		685,310
Investment in unconsolidated subsidiary held for sale	—	244,621	—	—	—		244,621
<b>Total assets</b>	<b>\$3,643,330</b>	<b>\$5,878,690</b>	<b>\$ 92,402</b>	<b>\$ 221</b>	<b>\$(5,263,743)</b>		<b>\$4,350,900</b>
<b>Liabilities and Stockholders' Equity</b>							
Current maturities of long-term debt	\$21,500	\$8,250	\$ —	\$ —	\$—		\$29,750
Other current liabilities	102,946	198,590	24,071	—	(286)	)	325,321
Accumulated losses of subsidiaries in excess of investment	—	4,507	302	—	(4,809)	)	—
Intercompany payable	720,400	—	981,688	475	(1,702,563)	)	—
Long-term debt, net of current maturities and debt issuance costs	2,255,800	983,999	—	—	—		3,239,799
Other long-term liabilities	34,723	226,524	—	—	(13,228)	)	248,019
Boyd Gaming Corporation stockholders' equity (deficit)	507,961	4,456,820	(913,659)	(254)	(3,542,907)	)	507,961
Noncontrolling interest	—	—	—	—	50		50
<b>Total stockholders' equity (deficit)</b>	<b>507,961</b>	<b>4,456,820</b>	<b>(913,659)</b>	<b>(254)</b>	<b>(3,542,857)</b>	<b>)</b>	<b>508,011</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,643,330</b>	<b>\$5,878,690</b>	<b>\$ 92,402</b>	<b>\$ 221</b>	<b>\$(5,263,743)</b>		<b>\$4,350,900</b>

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2016					Consolidated
		Guarantor	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	
(In thousands)	Parent	Subsidiaries				
Net revenues	\$29,708	\$523,904	\$13,252	\$—	—\$(34,963)	\$531,901
Operating costs and expenses						
Operating	300	275,916	11,539	—	—	287,755
Selling, general and administrative	12,491	66,491	1,849	—	2	80,833
Maintenance and utilities	—	27,463	391	—	—	27,854
Depreciation and amortization	2,355	44,597	976	—	—	47,928
Corporate expense	14,247	471	1,159	—	—	15,877
Project development, preopening and writedowns	7,213	(5,646)	2,168	—	—	3,735
Other operating items, net	—	3	—	—	—	3
Intercompany expenses	301	34,299	365	—	(34,965)	—
Total operating costs and expenses	36,907	443,594	18,447	—	(34,963)	463,985
Equity in earnings of subsidiaries	230,669	(607)	—	—	(230,062)	—
Operating income (loss)	223,470	79,703	(5,195)	—	(230,062)	67,916
Other expense (income)						
Interest expense, net	41,778	12,369	6	—	—	54,153
Loss on early extinguishments and modifications of debt	28,356	13,162	—	—	—	41,518
Other, net	—	20	(19)	—	—	1
Total other expense, net	70,134	25,551	(13)	—	—	95,672
Income (loss) from continuing operations before income taxes	153,336	54,152	(5,182)	—	(230,062)	(27,756)
Income taxes benefit (provision)	189,235	363	22	—	—	189,620
Income (loss) from continuing operations, net of tax	342,571	54,515	(5,160)	—	(230,062)	161,864
Income from discontinued operations, net of tax	—	180,707	—	—	—	180,707
Net income (loss)	\$342,571	\$235,222	\$(5,160)	\$—	—\$(230,062)	\$342,571
Comprehensive income (loss)	\$342,988	\$235,639	\$(5,160)	\$—	—\$(230,479)	\$342,988

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Operations - continued

	Three Months Ended September 30, 2015					Consolidated
		Guarantor	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	
(In thousands)	Parent	Subsidiaries				
Net revenues	\$28,946	\$ 539,768	\$ 12,048	\$ —	\$ (34,449 )	\$ 546,313
Operating costs and expenses						
Operating	450	288,296	11,120	—	—	299,866
Selling, general and administrative	11,083	67,227	1,644	—	—	79,954
Maintenance and utilities	—	28,614	416	—	—	29,030
Depreciation and amortization	1,657	48,758	930	—	—	51,345
Corporate expense	13,503	526	980	—	—	15,009
Project development, preopening and writedowns	5	318	1,183	8	—	1,514
Other operating items, net	136	36	—	—	—	172
Intercompany expenses	301	33,827	321	—	(34,449 )	—
Total operating costs and expenses	27,135	467,602	16,594	8	(34,449 )	476,890
Equity in earnings of subsidiaries	57,937	(665 )	(8 )	—	(57,264 )	—
Operating income (loss)	59,748	71,501	(4,554 )	(8 )	(57,264 )	69,423
Other expense (income)						
Interest expense, net	33,883	22,209	6	—	—	56,098
Loss on early extinguishments of debt	444	419	—	—	—	863
Other, net	(2 )	1,775	(20 )	—	—	1,753
Total other expense, net	34,325	24,403	(14 )	—	—	58,714
Income (loss) from continuing operations before income taxes	25,423	47,098	(4,540 )	(8 )	(57,264 )	10,709
Income taxes benefit (provision)	2	(3,692 )	(4 )	—	—	(3,694 )
Income (loss) from continuing operations, net of tax	25,425	43,406	(4,544 )	(8 )	(57,264 )	7,015
Income from discontinued operations, net of tax	—	18,410	—	—	—	18,410
Net income (loss)	\$25,425	\$ 61,816	\$ (4,544 )	\$ (8 )	\$ (57,264 )	\$ 25,425
Comprehensive income (loss)	\$26,067	\$ 62,458	\$ (4,544 )	\$ (8 )	\$ (57,906 )	\$ 26,067

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Operations - continued

	Nine Months Ended September 30, 2016					Consolidated
		Guarantor	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	
(In thousands)	Parent	Subsidiaries				
Net revenues	\$91,901	\$1,607,719	\$37,646	\$	—\$(108,113 )	\$1,629,153
Operating costs and expenses						
Operating	1,200	838,837	32,881	—	—	872,918
Selling, general and administrative	37,203	199,308	5,171	—	4	241,686
Maintenance and utilities	—	75,675	1,036	—	—	76,711
Depreciation and amortization	6,375	134,487	2,969	—	—	143,831
Corporate expense	45,121	1,380	3,382	—	—	49,883
Project development, preopening and writedowns	11,205	(4,382 )	4,650	—	—	11,473
Impairments of assets	1,440	—	—	—	—	1,440
Other operating items, net	106	449	—	—	—	555
Intercompany expenses	903	106,119	1,095	—	(108,117 )	—
Total operating costs and expenses	103,553	1,351,873	51,184	—	(108,113 )	1,398,497
Equity in earnings of subsidiaries	372,953	(1,375 )	—	—	(371,578 )	—
Operating income (loss)	361,301	254,471	(13,538 )	—	(371,578 )	230,656
Other expense (income)						
Interest expense, net	116,245	51,386	18	—	—	167,649
Loss on early extinguishments and modifications of debt	28,356	14,008	—	—	—	42,364
Other, net	1	196	(54 )	—	—	143
Total other expense, net	144,602	65,590	(36 )	—	—	210,156
Income (loss) from continuing operations before income taxes	216,699	188,881	(13,502 )	—	(371,578 )	20,500
Income taxes benefit (provision)	189,084	(14,845 )	(8 )	—	—	174,231
Income (loss) from continuing operations, net of tax	405,783	174,036	(13,510 )	—	(371,578 )	194,731
Income from discontinued operations, net of tax	—	211,052	—	—	—	211,052
Net income (loss)	\$405,783	\$385,088	\$(13,510 )	\$	—\$(371,578 )	\$405,783
Comprehensive income (loss)	\$406,537	\$385,842	\$(13,510 )	\$	—\$(372,332 )	\$406,537

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Operations - continued

	Nine Months Ended September 30, 2015					
			Non- Guarantor Subsidiaries	Non- Guarantor Subsidiaries		
		Guarantor	(100% Owned)	(Not 100% Owned)		
(In thousands)	Parent	Subsidiaries			Eliminations	Consolidated
Net revenues	\$91,048	\$1,637,995	\$35,568	\$ —	\$(107,853 )	\$1,656,758
Operating costs and expenses						
Operating	1,350	861,418	33,080	—	—	895,848
Selling, general and administrative	35,828	201,857	4,971	—	—	242,656
Maintenance and utilities	—	79,809	1,156	—	—	80,965
Depreciation and amortization	4,446	147,900	2,905	—	—	155,251
Corporate expense	48,032	1,435	2,546	—	—	52,013
Project development, preopening and writedowns	(36 )	1,253	2,923	78	—	4,218
Impairments of assets	—	—	1,065	—	—	1,065
Other operating items, net	136	206	—	—	—	342
Intercompany expenses	903	105,899	1,051	—	(107,853 )	—
Total operating costs and expenses	90,659	1,399,777	49,697	78	(107,853 )	1,432,358
Equity in earnings of subsidiaries	163,319	(1,778 )	(78 )	—	(161,463 )	—
Operating income (loss)	163,708	236,440	(14,207 )	(78 )	(161,463 )	224,400
Other expense (income)						
Interest expense, net	101,302	67,908	18	—	—	169,228
Loss on early extinguishments of debt	30,452	1,881	—	—	—	32,333
Other, net	415	2,886	340	—	—	3,641
Total other expense, net	132,169	72,675	358	—	—	205,202
Income (loss) from continuing operations before income taxes	31,539	163,765	(14,565 )	(78 )	(161,463 )	19,198
Income taxes benefit (provision)	22,564	(16,593 )	(40 )	—	—	5,931
Income (loss) from continuing operations, net of tax	54,103	147,172	(14,605 )	(78 )	(161,463 )	25,129
Income from discontinued operations, net of tax	—	28,974	—	—	—	28,974
Net income (loss)	\$54,103	\$176,146	\$(14,605 )	\$ (78 )	\$(161,463 )	\$54,103
Comprehensive income (loss)	\$53,982	\$176,025	\$(14,605 )	\$ (78 )	\$(161,342 )	\$53,982



## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2016					Eliminations	Consolidated
		Guarantor	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)			
(In thousands)	Parent	Subsidiaries					
Cash flows from operating activities							
Net cash from operating activities	\$(87,625)	\$ 309,530	\$ 26,251	\$ —	\$ 8,750		\$ 256,906
Cash flows from investing activities							
Capital expenditures	(29,012 )	(87,679 )	(639 )	—	—		(117,330 )
Cash paid for acquisition, net of cash received	(372,322 )	—	—	—	—		(372,322 )
Net activity with affiliates	—	212,165	—	—	(212,165 )		—
Other investing activities	—	704	2,015	—	—		2,719
Net cash from investing activities	(401,334 )	125,190	1,376	—	(212,165 )		(486,933 )
Cash flows from financing activities							
Borrowings under bank credit facility	1,622,075	237,000	—	—	—		1,859,075
Payments under bank credit facility	(1,290,800)	(899,750 )	—	—	—		(2,190,550 )
Proceeds from issuance of senior notes	750,000	—	—	—	—		750,000
Retirements of senior notes	(350,000 )	(350,000 )	—	—	—		(700,000 )
Debt financing costs, net	(40,718 )	—	—	—	—		(40,718 )
Premium and consent fees paid	(15,750 )	—	—	—	—		(15,750 )
Net activity with affiliates	(185,498 )	—	(17,696 )	(221 )	203,415		—
Share-based compensation activities, net	1,353	—	—	—	—		1,353
Net cash from financing activities	490,662	(1,012,750)	(17,696 )	(221 )	203,415		(336,590 )
Cash flows from discontinued operations							
Cash flows from operating activities	—	(26,596 )	—	—	—		(26,596 )
Cash flows from investing activities	—	594,080	—	—	—		594,080
Cash flows from financing activities	—	—	—	—	—		—
Net cash from discontinued operations	—	567,484	—	—	—		567,484
Net change in cash and cash equivalents	1,703	(10,546 )	9,931	(221 )	—		867
Cash and cash equivalents, beginning of period	2	156,116	2,482	221	—		158,821
Cash and cash equivalents, end of period	\$ 1,705	\$ 145,570	\$ 12,413	\$ —	\$ —		\$ 159,688

## BOYD GAMING CORPORATION AND SUBSIDIARIES

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

as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015

## Condensed Consolidating Statements of Cash Flows - continued

(In thousands)	Nine Months Ended September 30, 2015					Eliminations	Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned)	Non- Guarantor Subsidiaries (Not 100% Owned)			
Cash flows from operating activities							
Net cash from operating activities	\$(38,073)	\$ 281,845	\$ (16,309 )	\$ (78 )	\$ 14,064		\$ 241,449
Cash flows from investing activities							
Capital expenditures	(38,068 )	(48,832 )	(97 )	—	—		(86,997 )
Net activity with affiliates	—	(181,674 )	—	—	181,674		—
Other investing activities	2,618	1,159	—	—	—		3,777
Net cash from investing activities	(35,450 )	(229,347 )	(97 )	—	181,674		(83,220 )
Cash flows from financing activities							
Borrowings under bank credit facility	627,000	262,100	—	—	—		889,100
Payments under bank credit facility	(949,700 )	(335,550 )	—	—	—		(1,285,250 )
Proceeds from issuance of senior notes, net	750,000	—	—	—	—		750,000
Debt financing costs, net	(14,001 )	—	—	—	—		(14,001 )
Retirements of senior notes	(500,000 )	—	—	—	—		(500,000 )
Premium and consent fees paid	(24,246 )	—	—	—	—		(24,246 )
Net activity with affiliates	178,596	—	17,064	78	(195,738 )		—
Share-based compensation activities, net	5,875	—	—	—	—		5,875
Other financing activities	—	(3 )	—	—	—		(3 )
Net cash from financing activities	73,524	(73,453 )	17,064	78	(195,738 )		(178,525 )
Cash flows from discontinued operations							
Cash flows from operating activities	—	—	—	—	—		—
Cash flows from investing activities	—	—	—	—	—		—
Cash flows from financing activities	—	—	—	—	—		—
Net cash from discontinued operations	—	—	—	—	—		—
Net change in cash and cash equivalents	1	(20,955 )	658	—	—		(20,296 )
Cash and cash equivalents, beginning of period	2	143,580	1,540	219	—		145,341
Cash and cash equivalents, end of period	\$ 3	\$ 122,625	\$ 2,198	\$ 219	\$ —		\$ 125,045

## NOTE 13. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after September 30, 2016. During this period, up to the filing date, we did not identify any additional subsequent events, other than the Cannery Purchase Amendment disclosed in Note 3, Acquisitions and Divestitures, the effects of which would require disclosure or adjustment to our financial position or results of operations.



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

Boyd Gaming Corporation (and together with its subsidiaries, the "Company," "Boyd Gaming," "we" or "us") was incorporated in the state of Nevada in 1988 and has been operating since 1975. The Company's common stock is traded on the New York Stock Exchange under the symbol "BYD."

We are a diversified operator of 22 wholly-owned gaming entertainment properties. Headquartered in Las Vegas, Nevada, we have gaming operations in Nevada, Illinois, Indiana, Iowa, Kansas, Louisiana and Mississippi. We view each operating property as an operating segment. For financial reporting purposes, we aggregate our wholly-owned properties into the following three reportable segments:

Las Vegas Locals

Gold Coast Hotel and Casino	Las Vegas, Nevada
The Orleans Hotel and Casino	Las Vegas, Nevada
Sam's Town Hotel and Gambling Hall	Las Vegas, Nevada
Suncoast Hotel and Casino	Las Vegas, Nevada
Aliante Casino + Hotel + Spa	North Las Vegas, Nevada
Eldorado Casino	Henderson, Nevada
Jokers Wild Casino	Henderson, Nevada
Downtown Las Vegas	
California Hotel and Casino	Las Vegas, Nevada
Fremont Hotel and Casino	Las Vegas, Nevada
Main Street Station Casino, Brewery and Hotel	Las Vegas, Nevada
Midwest and South	
Par-A-Dice Hotel Casino	East Peoria, Illinois
Blue Chip Casino, Hotel & Spa	Michigan City, Indiana
Diamond Jo Dubuque	Dubuque, Iowa
Diamond Jo Worth	Northwood, Iowa
Kansas Star Casino	Mulvane, Kansas
Amelia Belle Casino	Amelia, Louisiana
Delta Downs Racetrack Casino & Hotel	Vinton, Louisiana
Evangeline Downs Racetrack and Casino	Opelousas, Louisiana
Sam's Town Hotel and Casino	Shreveport, Louisiana
Treasure Chest Casino	Kenner, Louisiana
IP Casino Resort Spa	Biloxi, Mississippi
Sam's Town Hotel and Gambling Hall	Tunica, Mississippi

We also own and operate a travel agency and a captive insurance company that underwrites travel-related insurance, each located in Hawaii. Financial results for these operations are included in our Downtown Las Vegas segment, as our Downtown Las Vegas properties concentrate their marketing efforts on gaming customers from Hawaii.

On May 31, 2016, we announced that we had entered into an Equity Purchase Agreement to sell our 50% equity interest in the parent company of Borgata Hotel Casino and Spa ("Borgata") to MGM Resorts International ("MGM"), and this transaction closed on August 1, 2016. We account for our investment in Borgata by applying the equity method and report its results as discontinued operations for all periods presented in this Quarterly Report on Form 10-Q.

In third quarter 2016, the Peninsula Gaming, LLC ("Peninsula") debt was refinanced, eliminating the financing structure that restricted our ability to transfer cash from Peninsula to Boyd Gaming. As a result of the elimination of

this restriction, management has concluded that the properties previously comprising the Peninsula segment will be aggregated into the Midwest and South reportable segment.

Also, as of September 27, 2016, our Las Vegas Locals segment includes our wholly-owned subsidiary, Aliante Casino + Hotel + Spa ("Aliante") (see Note 3, Acquisitions and Divestitures).

Most of our gaming entertainment properties also include hotel, dining, retail and other amenities. Our main business emphasis is on slot revenues, which are highly dependent upon the number and spending levels of customers at our properties.

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

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

#### Our Strategy

Our overriding strategy is to increase shareholder value by pursuing strategic initiatives that improve and grow our business.

#### Strengthening our Balance Sheet

We are committed to finding opportunities to strengthen our balance sheet through diversifying and increasing cash flow to reduce our debt.

#### Operating Efficiently

We are committed to operating more efficiently and endeavor to prevent unneeded expense in our business. As we continue to experience revenue growth in both our gaming and non-gaming operations, the efficiencies of our business model position us to flow a substantial portion of the revenue growth directly to the bottom line.

#### Evaluating Acquisition Opportunities

Our evaluations of potential transactions and acquisitions are strategic, deliberate, and disciplined. Our goal is to identify and pursue opportunities that are a good fit for our business, deliver a solid return for shareholders, and are available at the right price, such as the recent acquisition of Aliante Casino + Hotel + Spa, and the pending acquisition of Cannery Casino and Hotel and Eastside Cannery Casino and Hotel.

#### Maintaining our Brand

The ability of our employees to deliver great customer service helps distinguish our Company and our brands from our competitors. Our employees are an important reason that our customers continue to choose our properties over the competition across the country.

#### Our Key Performance Indicators

We use several key performance measures to evaluate the operations of our properties. These key performance measures include the following:

##### Gaming revenue measures:

Slot handle, which means the dollar amount wagered in slot machines, and table game drop, which means the total amount of cash deposited in table game drop boxes, plus the sum of markers issued at all table games. Slot handle and table game drop are measures of volume and/or market share.

Slot win and table game hold, which mean the difference between customer wagers and customer winnings on slot machines and table games, respectively. Slot win and table game hold percentages represent the relationship between

slot handle and table game drop to gaming wins and losses.

Food and beverage revenue measures: average guest check, which means the average amount spent per customer visit and is a measure of volume and product offerings; number of guests served ("food covers") is an indicator of volume; and the cost per guest served is a measure of operating margin.

Room revenue measures: hotel occupancy rate, which measures the utilization of our available rooms; and average daily rate ("ADR") is a price measure.

## RESULTS OF OPERATIONS

## Overview

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Net revenues	\$531.9	\$546.3	\$1,629.2	\$1,656.8
Operating income	67.9	69.4	230.7	224.4
Income from continuing operations, net of tax	161.9	7.0	194.7	25.1
Income from discontinued operations, net of tax	180.7	18.4	211.1	29.0
Net income	342.6	25.4	405.8	54.1

## Net Revenues

Net revenues decreased \$14.4 million, or 2.6%, for the three months ended September 30, 2016, compared to the prior year period due to a \$15.2 million decrease in net revenues in the Midwest and South segment, primarily at IP, Evangeline Downs and Par-A-Dice. The three states in which these casinos operate continue to struggle with soft markets and an increased gaming capacity. Partially offsetting these decreases was an increase of \$0.9 million in the Las Vegas Locals segment net revenues.

Net revenues decreased \$27.6 million, or 1.7%, for the nine months ended September 30, 2016, compared to the prior year period due to a \$41.2 million decrease in net revenues in the Midwest and South segment, primarily due to decreases in net revenues at Par-A-Dice, IP and Evangeline Downs. The three states in which these casinos operate continue to struggle with increased gaming capacity in their markets. These decreases were partially offset by increases of \$10.9 million and \$2.7 million in Las Vegas Locals and Downtown Las Vegas segments, respectively.

## Operating Income

The \$1.5 million, or 2.2%, decrease in operating income during the three months ended September 30, 2016, compared to the corresponding period of the prior year reflects a \$2.2 million increase in project development, preopening and writedowns costs over the prior year period, related primarily to costs surrounding our pending acquisitions, as well as the impact of decreased net revenues in our Midwest and South segment.

Operating income increased \$6.3 million, or 2.8%, during the nine months ended September 30, 2016, compared to the corresponding period of the prior year. Operating margins in gaming, food and beverage and rooms did not change significantly. The increase is primarily a result of a decrease in gaming operating cost in the Midwest and South segment and is partially offset by a \$7.3 million increase in project development, preopening and writedowns costs over the prior year period, associated with the acquisition of Aliante and the pending acquisition of Cannery Casino Hotel and Nevada Palace, LLC (the "Cannery Properties").

## Income from continuing operations, net of tax

Income from continuing operations for the three months ended September 30, 2016 was \$161.9 million, as compared to income from continuing operations of \$7.0 million in the comparable prior year period. The three months ended September 30, 2016 included an income tax benefit of \$190.4 million related to the release of a valuation allowance on our federal and unitary state income tax net operating loss carryforwards and other deferred tax assets. Partially offsetting the benefit is \$40.7 million of additional loss on early extinguishment of debt compared to the prior year period due to the modification of the Boyd Gaming Bank Credit Facility, redemption of our 9.0% senior notes due 2018 and Peninsula's 8.375% senior notes due 2018, and the extinguishment of the Peninsula Bank Credit Facility. Interest expense, net of amounts capitalized, for the three months ended September 30, 2016, decreased \$1.4 million compared to the corresponding period of the prior year primarily due to interest rate effects of the same debt



transactions.

The \$169.6 million increase in income from continuing operations during the nine months ended September 30, 2016, compared to the corresponding period of the prior year reflects an income tax benefit of \$190.4 million related to the release of a valuation allowance on our federal and unitary state income tax net operating loss carryforwards and other deferred tax assets. Partially offsetting the benefit is a \$10.0 million increase of loss on early extinguishment of debt.

Income from discontinued operations, net of tax

Income from discontinued operation, net of tax, reflects the results of our equity method investment in Borgata. The increase in both the three and nine months ended September 30, 2016 compared to the corresponding periods of the prior year is primarily a result of the \$181.7 million after-tax gain on the sale of our equity interest in Borgata and the property tax refund received of \$4.3

million received subsequent to the sale, both of which are included in discontinued operations in the three and nine months ended September 30, 2016.

#### Net Income (Loss)

Net income for the three months ended September 30, 2016 was \$342.6 million, compared with net income of \$25.4 million for the corresponding period of the prior year. The \$317.1 million change is primarily due to the \$162.3 million increase of income from discontinued operations, which includes the gain on the sale of our equity interest in Borgata on August 1, 2016, and the \$193.3 million increase in income tax benefit due to the release of the valuation allowance. These increases were offset by a \$40.7 million increase in loss on early extinguishments and modifications of debt in the three months ended September 30, 2016 compared to the prior year period.

Net income for the nine months ended September 30, 2016 was \$405.8 million, compared with net income of \$54.1 million for the corresponding period of the prior year. The \$351.7 million increase over the prior year period is primarily due to the sale of Boyd Gaming's equity interest in Borgata, which is classified as income from discontinued operations, as well as the \$168.3 million increase in income tax benefit due to the release of the valuation allowance. These increases were offset by a \$42.4 million loss on early extinguishments and modifications of debt.

#### Operating Revenues

We derive the majority of our gross revenues from our gaming operations, which produced approximately 75% of gross revenues for each of the three months ended September 30, 2016 and 2015, and 75% and 76% of gross revenues for the nine months ended September 30, 2016 and 2015, respectively. Food and beverage gross revenues represent our next most significant revenue source, generating approximately 13% of gross revenues for each of the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016 and 2015. Room revenues and other revenues separately contributed less than 10% of gross revenues during these periods.

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>REVENUES</b>				
Gaming	\$443.6	\$457.4	\$1,359.0	\$1,390.7
Food and beverage	74.3	76.7	227.0	230.9
Room	43.0	41.6	128.2	123.3
Other	29.5	32.4	90.8	92.8
Gross revenues	590.4	608.1	1,805.0	1,837.7
Less promotional allowances	58.5	61.8	175.8	180.9
Net revenues	\$531.9	\$546.3	\$1,629.2	\$1,656.8

#### COSTS AND EXPENSES

Gaming	\$217.1	\$225.7	\$658.4	\$677.0
Food and beverage	40.7	41.9	124.7	126.4
Room	11.2	10.8	33.0	31.5
Other	18.7	21.5	56.8	60.9
Total costs and expenses	\$287.7	\$299.9	\$872.9	\$895.8

#### MARGINS

Gaming	51.1	%	50.7	%	51.6	%	51.3	%
Food and beverage	45.1	%	45.4	%	45.0	%	45.3	%

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Room	74.0	%	74.2	%	74.2	%	74.6	%
Other	36.9	%	33.7	%	37.4	%	34.5	%

Gaming

Gaming revenues are comprised primarily of the net win from our slot machine operations and table games. The \$13.8 million, or 3.0%, decrease in gaming revenues during the three months ended September 30, 2016 as compared to the corresponding period of the prior year, was due to a decrease of \$16.0 million in the Midwest and South segment. In the Midwest and South segment,

the decrease in gaming revenues was concentrated at IP, Evangeline and Par-A-Dice, all three of which continue to contend with increased gaming capacity in their markets. The Midwest and South segment experienced a 4.5% decrease in slot handle and a 5.8% decrease in table game drop. The decline was partially offset by an increase in gaming revenue of \$2.3 million in the Las Vegas Locals segment, attributable primarily to a 0.2 percentage point increase in both table game hold and slot hold. Gaming expenses decreased by \$8.6 million, or 3.8%, reflective of the overall reduction in gaming revenues.

The \$31.7 million, or 2.3%, decrease in gaming revenues during the nine months ended September 30, 2016 as compared to the corresponding period of the prior year, was due to a decrease of \$43.0 million in the Midwest and South segment. In the Midwest and South segment, the decrease in gaming revenues was concentrated at IP, Evangeline and Par-A-Dice, all three of which continue to contend with increased gaming capacity in their markets. Offsetting these decreases was a 4.7% increase in Blue Chip's gaming revenue resulting from their continued increase in market share. The Midwest and South segment experienced a 4.5% decrease in slot handle and a 5.0% decrease in table game drop. These declines in gaming revenue were partially offset by increases in gaming revenue of \$8.8 million and \$2.5 million in the Las Vegas Locals and Downtown Las Vegas segments, respectively, attributable primarily to increased table game hold and slot win percentages. Gaming expenses decreased by \$18.6 million, or 2.8%, reflective of the overall reduction in gaming revenues.

#### Food and Beverage

Food and beverage revenues decreased \$2.5 million, or 3.2%, during the three months ended September 30, 2016, as compared to the corresponding period of the prior year. The decrease in revenues was due to decreases in food covers of 7.6% and 6.3% in the Las Vegas Locals and Midwest and South segments, respectively. The effect of these changes was partially offset by increases in average guest check of 2.5% in the Downtown Las Vegas segment. Food and beverage expenses decreased by \$1.2 million and margin remained consistent as compared to last year.

Food and beverage revenues decreased \$4.0 million, or 1.7%, during the nine months ended September 30, 2016, as compared to the corresponding period of the prior year. The decrease in revenues was due to a decrease in food covers of 6.8%, 2.5% and 1.9% in the Midwest and South, the Downtown Las Vegas and the Las Vegas Locals segments, respectively. The effect of these changes was partially offset by increases in average guest check of 2.7% and 1.8% in the Downtown Las Vegas and Midwest and South segments, respectively. Food and beverage expenses decreased \$1.7 million and margin remained consistent as compared to last year.

#### Room

Room revenues increased by \$1.3 million, or 3.2%, during the three months ended September 30, 2016, as compared to the corresponding period of the prior year due to increases in average daily rate of 4.9%, 2.8% and 2.2% in the Downtown Las Vegas, Las Vegas Locals and Midwest and South segments, respectively. The increase in average daily rate was offset by 3.5% decreases in hotel occupancy over the prior year period in the Midwest and South segment. Room expenses and margin remained consistent as compared to last year.

Room revenues increased by \$4.9 million, or 4.0%, during the nine months ended September 30, 2016, as compared to the corresponding period of the prior year due to increases in average daily rate of 3.1%, 2.2% and 1.9% in the Las Vegas Locals, Downtown Las Vegas and Midwest and South segments, respectively. Additionally, the increase in average daily rate was offset by 2.4% decrease in hotel occupancy over the prior year period in the Midwest and South segment. Room expenses increased \$1.5 million and margin remained consistent as compared to last year.

#### Other

Other revenues relate to patronage visits at the amenities at our properties, including entertainment and nightclub revenues, retail sales, theater tickets and other venues. Other revenues decreased \$2.8 million, or 8.6%, during the

three months ended September 30, 2016, as compared to the prior year as a result of lower consumption of property amenities and decreased visitor spending.

Other revenues decreased \$2.0 million, or 2.1%, during the nine months ended September 30, 2016, as compared to the prior year as a result of lower consumption of property amenities and decreased visitor spending during the year.

#### Revenues and Adjusted EBITDA by Reportable Segment

We determine each of our properties' profitability based upon Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), which represents earnings before interest expense, income taxes, depreciation and amortization, deferred rent, share-based compensation expense, project development, preopening and writedowns expenses, impairments of assets and other operating items, net, as applicable. Reportable Segment Adjusted EBITDA is the aggregate sum of the Adjusted EBITDA for each of the properties comprising our Las Vegas Locals, Downtown Las Vegas, Midwest and South segments before net amortization, preopening and other items. Results for Downtown Las Vegas include the results of our travel agency and captive insurance company in Hawaii. Corporate expense represents unallocated payroll, professional fees, aircraft expenses and various

other expenses not directly related to our casino and hotel operations. Furthermore, corporate expense excludes its portion of share-based compensation expense.

EBITDA is a commonly used measure of performance in our industry that we believe, when considered with measures calculated in accordance with GAAP, provides our investors a more complete understanding of our 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 a full understanding of our core operating results and as a means to evaluate period-to-period results.

The following table presents our net revenues and Adjusted EBITDA by Reportable Segment:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net revenues				
Las Vegas Locals	\$148.9	\$148.0	\$462.2	\$451.4
Downtown Las Vegas	56.6	56.7	174.4	171.7
Midwest and South	326.4	341.6	992.6	1,033.7
Net revenues	\$531.9	\$546.3	\$1,629.2	\$1,656.8
Adjusted EBITDA (1)				
Las Vegas Locals	\$36.2	\$32.3	\$123.6	\$113.3
Downtown Las Vegas	10.0	10.1	37.0	33.1
Midwest and South	90.6	96.4	281.3	294.7
Total Reportable Segment Adjusted EBITDA	136.8	138.8	441.9	441.1
Corporate expense	(14.9 )	(13.6 )	(44.4 )	(45.0 )
Adjusted EBITDA	\$121.9	\$125.2	\$397.5	\$396.1

(1) Refer to Note 11, Segment Information, in the notes to the condensed consolidated financial statements (unaudited) for a reconciliation of Total Reportable Segment Adjusted EBITDA to operating income, as reported in accordance with GAAP in our accompanying condensed consolidated statements of operations.

#### Las Vegas Locals

Net revenues increased \$.9 million, or 0.6%, during the three months ended September 30, 2016, as compared to the corresponding period of the prior year. Gaming revenue increased \$2.3 million resulting from a 0.2 percentage point increase in table game hold percentage and a 0.2 percentage point increase in slot hold, offset by a 4.8% decrease in slot handle. Room revenues increased \$1.4 million due to average daily rate and hotel occupancy increasing 2.8% and 0.5%, respectively. These increases were offset by a \$1.2 million decrease in food and beverage revenue, resulting primarily from a 7.6% decrease in food covers, and a \$2.5 million decrease in other revenues.

Net revenues increased \$10.9 million, or 2.4%, during the nine months ended September 30, 2016, as compared to the corresponding period of the prior year, due primarily to an \$8.8 million increase in gaming revenue and a \$4.7 million increase in room revenue. The gaming revenue increase resulted from a 2.2% increase in table game drop and a 0.3 percentage point increase in table game hold percentage, and the room revenue increase related to a 1.3% increase in hotel occupancy and a 3.1% increase in average daily rate. Offsetting these increases is a \$2.0 million decrease in other revenue.

Adjusted EBITDA increased by 12.1% and 9.1% for the three and nine months ended September 30, 2016, respectively, over the comparable prior year period due to the flow-through effects of higher revenues and our on-going cost control efforts.

#### Downtown Las Vegas

Net revenues decreased 0.1%, during the three months ended September 30, 2016, as compared to the corresponding period of the prior year. Gaming revenue was consistent with the prior year, however, promotional allowances increased \$0.4 million. Additionally, food and beverage revenue and room revenues had modest increases of approximately \$0.3 million each related to a 2.5% increase in average guest check and a 4.9% increase in average daily rate, respectively. We continue to tailor our marketing programs in the Downtown segment to cater to our Hawaiian market. During the three month periods ended September 30, 2016 and 2015, our Hawaiian market represented approximately 47% and 49% of our occupied rooms in this segment, respectively.

Net revenues increased \$2.7 million, or 1.6%, during the nine months ended September 30, 2016, as compared to the corresponding period of the prior year, due primarily to a \$2.5 million increase in gaming revenues resulting from a 0.9% increase in slot handle and a 0.4 percentage point increase in table game hold percentage. Additionally, food and beverage revenue and room revenues had modest increases of approximately \$0.5 million each related to a 2.7% increase in average guest check and a 2.2% increase in average daily rate, respectively. During both the nine month periods ended September 30, 2016 and 2015, our Hawaiian market represented approximately 51% of our occupied rooms in this segment.

Adjusted EBITDA remained relatively flat for the three months ended September 30, 2016 and increased \$3.8 million for the nine months ended September 30, 2016, over the comparable prior year period due to revenue gains coupled with our cost control efforts.

#### Midwest and South

Net revenues decreased \$15.2 million, or 4.4%, during the three months ended September 30, 2016, as compared to the corresponding period of the prior year, primarily due to a gaming revenue decrease of \$16.0 million, resulting from a 4.5% decrease in slot handle and a 5.8% decrease in table game drop. Food and beverage revenues decreased 3.9% from the prior year despite a 1.3% increase in average guest check due to a 6.3% decrease in food covers. Room revenues remained consistent with the prior year. The results for the segment were impacted by the short-term impact of the recent opening of a new competitor in the Biloxi market and increased gaming capacity in Illinois.

Net revenues decreased \$41.2 million, or 4.0%, during the nine months ended September 30, 2016, as compared to the corresponding period of the prior year, primarily due to a gaming revenue decrease of \$43.0 million, resulting from a 4.5% decrease in slot handle and a 5.0% decrease in table game drop. Food and beverage revenues decreased 4.6% from prior year despite an 1.8% increase in average guest check due to a 6.8% decrease in food covers. Room revenues remained consistent with the prior year. The results for the segment were impacted by severe flooding that affected operations in portions of Louisiana and Mississippi in the early months of the year, the short-term impact of the recent opening of a new competitor in the Biloxi market and increased gaming capacity in Illinois. Overall net revenues for the Midwest and South segment were positively impacted by increased market share achieved by both Treasure Chest and Blue Chip.

The segment reported decreases of \$5.7 million and \$13.3 million in Adjusted EBITDA for the three and nine months ended September 30, 2016, respectively, as compared to the corresponding prior year period due to the decrease in revenues.

#### Other Operating Costs and Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Selling, general and administrative	\$80.8	\$80.0	\$241.7	\$242.7
Maintenance and utilities	27.9	29.0	76.7	81.0
Depreciation and amortization	47.9	51.3	143.8	155.3
Corporate expense	15.9	15.0	49.9	52.0



Project development, preopening and writedowns	3.7	1.5	11.5	4.2
Impairments of assets	—	—	1.4	1.1
Other operating items, net	—	0.2	0.6	0.3

#### Selling, General and Administrative

Selling, general and administrative expenses, as a percentage of gross revenues, were 13.7% during the three months ended September 30, 2016 and 13.1% during the three months ended September 30, 2015. The percentage of gross revenues for selling, general and administrative during the nine months ended September 30, 2016 was 13.4% and 13.2% for the nine months ended September 30, 2015. We continue to focus on disciplined and targeted marketing spend, and our ongoing cost containment efforts.

#### Maintenance and Utilities

Maintenance and utilities expenses, as a percentage of gross revenues, were 4.7% and 4.8% during the three months ended September 30, 2016 and 2015, respectively, and 4.2% and 4.4% during the nine months ended September 30, 2016 and 2015,

respectively. The decrease between the periods is primarily due to cost reductions associated with the Company's energy savings initiatives.

#### Depreciation and Amortization

Depreciation and amortization expenses, as a percentage of gross revenues, were 8.1% and 8.4% during the three months ended September 30, 2016 and 2015, respectively, and 8.0% and 8.5% during the nine months September 30, 2016 and 2015, respectively. Depreciation and amortization expense decreased \$3.4 million for the three months ended September 30, 2016 and \$11.4 million for the nine months ended September 30, 2016, compared to the respective prior year periods. The overall decreases are primarily due to the decrease in intangible asset amortization for the Midwest and South segment as its customer relationships are amortized using an accelerated method over their approximate useful life of five years.

#### Corporate Expense

Corporate expense represents unallocated payroll, professional fees, rent and various other administrative expenses that are not directly related to our casino and/or hotel operations, in addition to the corporate portion of share-based compensation expense. Corporate expense represented 2.7% and 2.5% of gross revenues during the three months ended September 30, 2016 and 2015, respectively, and 2.8% of gross revenues for both of the nine months ended September 30, 2016 and 2015.

#### Project Development, Preopening and Writedowns

Project development, preopening and writedowns represent: (i) certain costs incurred and recoveries realized related to the activities associated with various acquisition opportunities, strategic initiatives, dispositions and other business development activities in the ordinary course of business; (ii) certain costs of start-up activities that are expensed as incurred in our ongoing efforts to develop gaming activities in new jurisdictions and expenses related to other new business development activities that do not qualify as capital costs; and (iii) asset write-downs. The increase in such costs in the current year periods as compared to the prior year is primarily due to the costs incurred related to the recently announced acquisitions. Offsetting these costs for the three and nine months ended September 30, 2016, is a \$6.3 million gain from the sale of non-operating assets.

#### Impairments of Assets

Impairments of assets for the nine months ended September 30, 2016 and 2015, included non-cash impairment charges related to non-operating assets.

#### Other Operating Items, net

Other operating items, net, is generally comprised of miscellaneous non-recurring operating charges, including direct and non-reimbursable costs associated with natural disasters and severe weather, including hurricane and flood expenses and subsequent recoveries of such costs, as applicable.

#### Other Expenses

##### Interest Expense, net

The following table summarizes information with respect to our interest expense on outstanding indebtedness:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Interest Expense, net	\$54.2	\$56.1	\$167.6	\$169.2
Loss on Early Extinguishments and Modifications of Debt	41.5	0.9	42.4	32.3
Average Long-Term Debt Balance (1)	3,194.2	3,342.5	3,425.9	3,421.4

Weighted Average Interest Rates

5.6 % 5.8 % 5.3 % 5.8 %

(1) Average debt balance calculation does not include the related discounts or deferred finance charges.

Interest expense, net of capitalized interest and interest income, for the three months ended September 30, 2016, decreased \$1.9 million, or 3.5%, over the prior year due to the redemption of the Peninsula 8.375% senior notes due February 2018, on September 2, 2016, and a reduction in average long-term debt balance of \$148.4 million. The offset to the decreasing interest expense compared to the corresponding period in the prior year was due primarily to our \$750 million senior notes at 6.375% due 2026, which we issued on March 28, 2016.

Interest expense, net of capitalized interest and interest income, for the nine months ended September 30, 2016, decreased \$1.6 million, or 0.9%, over the prior year due to the redemption of the Peninsula 8.375% senior notes due February 2018, on September 2, 2016. The offset to the decreasing interest expense compared to the corresponding period in the prior year due primarily to \$750 million of senior notes at 6.375% due 2026 which we issued on March 28, 2016. While the proceeds were partially used to pay

down the outstanding amount under the Boyd Gaming Revolving Credit Facility, the newly issued debt increased our average long-term debt balance of \$4.6 million for the nine months ended September 30, 2016 compared to the prior year period.

On September 15, 2016, Boyd Gaming Corporation refinanced its Credit Facility. The Boyd Gaming Credit Facility provides for increased commitments under the existing senior secured revolving credit facility to an amount equal to \$775.0 million, a commitment under the existing senior secured Term A Loan in an amount equal to \$225.0 million, and a new \$1.0 billion senior secured Term B-2 Loan. (See Note 7, Long-Term Debt.)

#### Loss on Early Extinguishments and Modifications of Debt

The components of the loss on early extinguishments and modifications of debt, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
9.00% Senior Notes premium and consent fees	\$15.7	\$—	\$15.8	\$—
9.00% Senior Notes deferred finance charges	6.0	—	6.0	—
8.375% Senior Notes deferred finance charges	4.5	—	4.5	—
9.125% Senior Notes premium and consent fees	—	—	—	23.9
9.125% Senior Notes deferred finance charges	—	—	—	4.9
Boyd Gaming Credit Facility deferred finance charges	6.6	0.5	6.6	1.6
Peninsula Credit Facility deferred finance charges	8.7	0.4	9.5	1.9
Total loss on early extinguishments and modifications of debt	\$41.5	\$0.9	\$42.4	\$32.3

#### Income Taxes

As part of our review in determining the need for a valuation allowance, we assess the potential release of existing valuation allowances. In performing our analysis during the third quarter of 2016, we determined that the positive evidence in favor of releasing the valuation allowance, particularly evidence that was objectively verifiable, outweighed the negative evidence. We utilize a rolling twelve quarters of pretax income adjusted for permanent book to tax differences as a measure of cumulative results in recent years. We transitioned from a cumulative loss position to a cumulative income position over the rolling twelve quarters ended September 30, 2016. Other evidence considered in the analysis included, but was not limited to, a trend reflective of improvement in recent earnings, forecasts of profitability and taxable income and the reversal of existing temporary differences. The change in these conditions during the three months ended September 30, 2016 provided positive evidence that supported the release of the valuation allowance against a significant portion of our deferred tax assets. As such, we concluded that it was more likely than not that the benefit from these deferred tax assets would be realized. As a result, during the third quarter, we released \$190.4 million of valuation allowance on our federal and unitary state income tax net operating loss carryforwards and other deferred tax assets.

The effective tax rates on income from continuing operations during the three months ended September 30, 2016 and 2015 were 683.2% and 34.5%, respectively. The effective tax rates on income from continuing operations during the nine months ended September 30, 2016 and 2015 were (849.9%) and (30.9%), respectively. Our effective tax rate is impacted by adjustments that are largely independent of our operating results before taxes. During the nine months ended September 30, 2016, the tax benefit was favorably impacted by the release of a valuation allowance on our federal and unitary state net operating loss carryforwards and other deferred tax assets. During the nine months ended September 30, 2015, the adjustments relate primarily to changes in our valuation allowance and the accrual of

non-cash tax expense in connection with the tax amortization of indefinite-lived intangible assets that are not available to offset existing deferred tax assets. The deferred tax liabilities created by the tax amortization of these intangibles cannot be used to offset corresponding increases in the net operating loss deferred tax assets when determining our valuation allowance. Additionally, in the prior year, our tax benefit was favorably impacted, as a result of an effective settlement in connection with our 2005 - 2009 IRS audit, by the realization of unrecognized tax benefits and reversal of related accrued interest.

For the nine months ended September 30, 2015, we computed our benefit for income taxes by applying the actual effective tax rate, under the discrete method, to year-to-date income. The discrete method was used to calculate our income tax benefit as the annual effective tax rate was not considered a reliable estimate of year-to-date income tax benefit.

We have maintained a valuation allowance of \$56.0 million against certain federal and state deferred tax assets as of September 30, 2016 due to uncertainties related to our ability to realize the tax benefits associated with these assets. In assessing the need to establish a valuation allowance, we consider, among other matters, the nature, frequency and severity of current and cumulative

losses, forecasts of profitability and taxable income, the duration of statutory carryforward periods, our experience with the utilization of operating loss and tax credit carryforwards before expiration and tax planning strategies. Valuation allowances are evaluated periodically and subject to change in future reporting periods as a result of changes in the factors noted above.

#### Income from Discontinued Operations, Net of tax

Income from discontinued operations reflects the \$181.7 million after-tax gain on the August 1, 2016, sale of our equity interest in Borgata, our share of the results of Borgata through the date of sale and our portion of a property tax refund received in September 2016. The Company applied the equity method of accounting to its 50% investment in Borgata.

### LIQUIDITY AND CAPITAL RESOURCES

#### Financial Position

Due to our debt structure, prior to the retirement of the Peninsula 8.375% senior notes due 2018 on September 2, 2016, we separately managed the working capital positions of Boyd Gaming and Peninsula, including their levels of cash and indebtedness. We operate with minimal or negative levels of working capital in order to minimize borrowings and related interest costs. The cash balances and working capital deficits are as follows:

	September 30, 2016	December 31, 2015
(In millions)		
Cash balance		
Boyd Gaming	\$ 159.7	\$ 129.3
Peninsula (1)		29.6

#### Working capital surplus (deficit)

Boyd Gaming	\$ (118.8 )	\$ (79.5 )
Peninsula (1)		(17.9 )

(1) Peninsula 8.375% senior notes due 2018 were retired on September 2, 2016. Subsequent to that date, Peninsula cash and working capital is combined with Boyd Gaming.

Our bank credit facilities generally provide all necessary funds for the day-to-day operations, interest and tax payments, as well as capital expenditures. On a daily basis, we evaluate our cash position and adjust the balance under our bank credit facility as necessary, by either borrowing or paying down debt with excess cash. We also plan the timing and the amounts of capital expenditures. We believe that the borrowing capacity under the bank credit facility, subject to restrictive covenants, and cash flows from operating activities will be sufficient to meet our projected operating and maintenance capital expenditures for at least the next twelve months. The source of funds available to us for repayment of debt or to fund development projects is derived primarily from cash flows from operations and availability under our bank credit facility, to the extent availability exists after we meet working capital needs, and subject to restrictive covenants. See "Indebtedness", below, for further detail regarding funds available through our credit facility.

The Company could also seek to secure additional working capital, repay respective current debt maturities, or fund respective development projects, in whole or in part, through incremental bank financing and additional debt or equity offerings.



## Cash Flows Summary

	Nine Months Ended September 30,	
(In millions)	2016	2015
Net cash provided by operating activities	\$256.9	\$241.4
Cash flows from investing activities		
Capital expenditures	(117.3 )	(87.0 )
Cash paid for acquisition, net of cash received	(372.3 )	—
Other investing activities	2.7	3.8
Net cash used in investing activities	(486.9 )	(83.2 )
Cash flows from financing activities		
Net borrowings (payments) under Boyd Gaming bank credit facility	331.3	(322.7 )
Net payments under Peninsula bank credit facility	(662.8 )	(73.5 )
Retirements of senior notes	(700.0 )	(500.0 )
Proceeds from issuance of senior notes	750.0	750.0
Other financing activities	(55.1 )	(32.3 )
Net cash used in financing activities	(336.6 )	(178.5 )
Net cash provided by discontinued operations	567.5	—
Increase (decrease) in cash and cash equivalents	\$0.9	\$(20.3 )

## Cash Flows from Operating Activities

During the nine months ended September 30, 2016 and 2015, we generated net operating cash flow of \$256.9 million and \$241.4 million, respectively. Generally, operating cash flows increased during 2016 as compared to the prior year period due to the flow through effect of higher revenues and the timing of working capital spending.

## Cash Flows from Investing Activities

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

During the nine months ended September 30, 2016 and 2015, we incurred net cash outflows for investing activities of \$486.9 million and \$83.2 million, respectively. The increase in outflows as compared to the prior year period is primarily due to the acquisition of Aliante, which closed on September 27, 2016. The increase in our capital spending as compared to the prior year was due to our ongoing non-gaming amenities initiative and the hotel expansion project at our Delta Downs property.

## Cash Flows from Financing Activities

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

The net cash outflows for financing activities in the nine months ended September 30, 2016 reflect primarily the net retirement of senior notes and the Peninsula bank credit facility during the period using the net cash proceeds from the sale of our equity interest in Borgata and cash flow from the amended Boyd Gaming Credit bank credit facility.

## Cash Flows from Discontinued Operations



On May 31, 2016, we announced that we had entered into an Equity Purchase Agreement (the "Purchase Agreement") to sell our 50% equity interest in the parent company of Borgata to MGM. During the nine months ended September 30, 2016, net cash from discontinued operations activities primarily represents cash proceeds from the sale of Borgata of approximately \$589 million.

**Indebtedness**

The outstanding principal balances of long-term debt, before unamortized discounts and fees, and the changes in those balances are as follows:

(In millions)	September 30, 2016	December 31, 2015	Increase/ (Decrease)
<b>Boyd Gaming Debt</b>			
Bank credit facility	\$ 1,541.0	\$ 1,209.7	\$ 331.3
9.00% senior notes due 2020	—	350.0	(350.0 )
6.875% senior notes due 2023	750.0	750.0	—
6.375% senior notes due 2026	750.0	—	750.0
Other	0.6	—	0.6
	3,041.6	2,309.7	731.9
<b>Peninsula Gaming Debt</b>			
Bank credit facility	—	662.8	(662.8 )
8.375% senior notes due 2018	—	350.0	(350.0 )
	—	1,012.8	(1,012.8 )
Total long-term debt	3,041.6	3,322.5	(280.9 )
Less current maturities	30.3	29.8	0.5
Long-term debt, net	\$ 3,011.3	\$ 3,292.7	\$ (281.4 )

The amount of current maturities includes certain non-extending balances scheduled to be repaid within the next twelve months under the bank credit facilities.

**Boyd Gaming Debt****Credit Facility**

On September 15, 2016, the Company entered into an Amendment No. 1 and Joinder Agreement (the "Amendment") among the Company, certain financial institutions, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender. The Amendment modified the Third Amended and Restated Credit Agreement (the "Prior Credit Facility"), dated August 14, 2013, together referred to as the "Credit Facility" or the "Credit Agreement".

As modified by the Amendment, the Credit Facility provides for: (i) increased commitments under the existing senior secured revolving credit facility (the "Revolving Credit Facility") to an amount equal to \$775.0 million, (ii) commitments under the existing senior secured term A loan (the "Term A Loan") in an amount equal to \$225.0 million, and (iii) a new \$1.0 billion senior secured term B-2 loan (the "Term B-2 Loan"). The maturity dates of the Revolving Credit Facility and the Term A Loan have been extended to September 15, 2021 (or earlier upon the occurrence or non-occurrence of certain events); the Term B-2 Loan matures on September 15, 2023 (or earlier upon the occurrence or non-occurrence of certain events); the maturity date of the existing senior secured term B-1 loan (the "Term B-1 Loan"), under which \$274.0 million in aggregate principal is outstanding, remains August 14, 2020. The increase to the Term A Loan and the new Term B-2 Loan were fully funded on the effective date of the Amendment. Proceeds from the Credit Facility were used to refinance all outstanding obligations under the Prior Credit Facility and to fund transaction costs in connection with the Credit Facility and may be used for working capital and other general corporate purposes.

The Credit Facility includes an accordion feature which permits an increase in the Revolving Credit Facility and the issuance and increase of senior secured term loans in an amount up to (i) \$550.0 million, plus (ii) certain voluntary permanent reductions of the Revolving Credit Facility and certain voluntary prepayments of the senior secured term

loans, plus (iii) certain reductions in the outstanding principal amounts under the term loans or the Revolving Credit Facility, plus (iv) any additional amount if, after giving effect thereto, the First Lien Leverage Ratio (as defined in the Credit Agreement) would not exceed 4.25 to 1.00 on a pro forma basis, less (v) any Incremental Equivalent Debt (as defined in the Credit Agreement), in each case, subject to the satisfaction of certain conditions.

Pursuant to the terms of the Credit Facility (i) the loans under the Term A Loan will amortize in an annual amount equal to 5.00% of the original principal amount thereof, commencing December 31, 2016, payable on a quarterly basis, (ii) the loans under the Term B-2 Loan will amortize in an annual amount equal to 1.00% of the original principal amount thereof, commencing December 31, 2016, payable on a quarterly basis, and (iii) beginning with the fiscal year ending December 31, 2016, the Company is required

to use a portion of its annual Excess Cash Flow, as defined in the Credit Agreement, to prepay loans outstanding under the Credit Facility.

The blended interest rate for outstanding borrowings under the Credit Facility was 3.5% at September 30, 2016 and 3.8% at December 31, 2015.

#### Amounts Outstanding

The principal amounts under the Credit Facility are comprised of the following:

	September 30, 2016	December 31, 2015
(In millions)		
Revolving Credit Facility	\$ —	\$ 240.0
Term A Loan	225.0	183.3
Term B-1 Loan	274.0	730.8
Term B-2 Loan	1,000.0	—
Swing Loan	42.0	55.6
Total outstanding principal amounts under the Credit Facility	\$ 1,541.0	\$ 1,209.7

At September 30, 2016, approximately \$1.5 billion was outstanding under the Credit Facility and \$12.0 million was allocated to support various letters of credit, leaving remaining contractual availability of \$721.0 million.

#### Interest and Fees

The interest rate on the outstanding balance from time to time of the Revolving Credit Facility and the Term A Loan is based upon, at the Company's option, either: (i) the Eurodollar rate or (ii) the base rate, in each case, plus an applicable margin. Such applicable margin is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio and ranges from 1.75% to 2.75% (if using the Eurodollar rate) and from 0.75% to 1.75% (if using the base rate). A fee of a percentage per annum (which ranges from 0.25% to 0.50% determined in accordance with a specified pricing grid based on the total leverage ratio) will be payable on the unused portions of the Revolving Credit Facility.

The interest rate on the outstanding balance from time to time of the Term B-1 Loan is based upon, at the Company's option, either: (i) the Eurodollar rate (subject to a 1.00% minimum) plus 3.00%, or (ii) the base rate plus 2.00%. The interest rate on the outstanding balance from time to time of the Term B-2 Loan is based upon, at the Company's option, either: (i) the Eurodollar rate (subject to a 0.00% minimum) plus 3.00%, or (ii) the base rate plus 2.00%.

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

#### Optional and Mandatory Prepayments

Amounts outstanding under the Credit Agreement may be prepaid without premium or penalty, and the unutilized portion of the commitments may be terminated without penalty, subject to certain exceptions, including a 1.00% prepayment premium for any prepayment of the Term B-2 Loan prior to March 15, 2017 that is accompanied by a repricing of the Term B-2 Loan.

The Credit Agreement contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio, (ii) establishing a maximum permitted consolidated total leverage ratio, (iii) establishing a maximum permitted secured leverage ratio, (iv)

imposing limitations on the incurrence of indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Amended Credit Agreement in connection with certain asset sales and issuances of certain additional secured indebtedness. In addition, it requires fixed quarterly amortization of principal and requires that the Company use a portion of its annual excess cash flow as defined in the agreement to prepay the loans.

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

## Senior Notes

### 6.375% Senior Notes due April 2026

#### Significant Terms

On March 28, 2016, we issued \$750 million aggregate principal amount of 6.375% senior notes due April 2026 (the "6.375% Notes"). The 6.375% Notes require semi-annual interest payments on April 1 and October 1 of each year, commencing on October 1, 2016. The 6.375% Notes will mature on April 1, 2026 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. Net proceeds from the 6.375% Notes were used to pay down the outstanding amount under the Boyd Gaming Revolving Credit Facility and the balance was deposited in money market funds and classified as cash equivalents on the condensed consolidated balance sheet.

In conjunction with the issuance of the 6.375% Notes, we incurred approximately \$13.0 million in debt financing costs that have been deferred and are being amortized over the term of the 6.375% Notes using the effective interest method.

The 6.375% Notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the base and supplemental indentures governing the 6.375% Notes, together, the "Indenture") to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. In addition, upon the occurrence of a change of control (as defined in the Indenture), we will be required, unless certain conditions are met, to offer to repurchase the 6.375% Notes at a price equal to 101% of the principal amount of the 6.375% Notes, plus accrued and unpaid interest and Additional Interest (as defined in the Indenture), if any, to, but not including, the date of purchase. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the 6.375% Notes.

At any time prior to April 1, 2021, we may redeem the 6.375% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. Subsequent to April 1, 2021, we may redeem all or a portion of the 6.375% Notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.188% in 2021 to 100% in 2024 and thereafter, plus accrued and unpaid interest and Additional Interest.

In connection with the private placement of the 6.375% Notes, we entered into a registration rights agreement with the initial purchasers in which we agreed to file a registration statement with the SEC to permit the holders to exchange or resell the 6.375% Notes. We must use commercially reasonable efforts to file a registration statement and to consummate an exchange offer within 365 days after the issuance of the 6.375% Notes, subject to certain suspension and other rights set forth in the registration rights agreement. Under certain circumstances, including our determination that we cannot complete an exchange offer, we are required to file a shelf registration statement for the resale of the 6.375% Notes and to cause such shelf registration statement to be declared effective as soon as reasonably practicable (but in no event later than the 365th day following the issuance of the 6.375% Notes) after the occurrence of such circumstances. Subject to certain suspension and other rights, in the event that the registration statement is not filed or declared effective within the time periods specified in the registration rights agreement, the exchange offer is not consummated within 365 days after the issuance of the 6.375% Notes, or the registration statement is filed and declared effective but thereafter ceases to be effective or is unusable for its intended purpose for a period in excess of 30 days without being succeeded immediately by a post-effective amendment that cures such failure, the agreement provides that additional interest will accrue on the principal amount of the 6.375% Notes at a rate of 0.25% per annum during the 90-day period immediately following any of these events and will increase by 0.25% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.00% per

annum, until the default is cured. There are no other alternative settlement methods and, other than the 1.00% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event we do not meet the registration statement filing requirements. We currently intend to file a registration statement, have it declared effective and consummate any exchange offer within these time periods. Accordingly, we do not believe that payment of additional interest under the registration payment arrangement is probable and, therefore, no related liability has been recorded in the consolidated financial statements.

#### Peninsula Gaming Debt

##### Bank Credit Facility

On September 2, 2016, Peninsula repaid all of the outstanding amounts, including all principal and accrued interest amounts, under the Peninsula senior secured credit facility (the "Peninsula Credit Facility") pursuant to the Peninsula Credit Agreement. In connection with the repayment in full of the Peninsula Credit Facility (the "Repayment"), the Peninsula Credit Agreement was terminated.

#### Debt Redemption

On September 2, 2016 we redeemed all of our 8.375% senior notes due February 2018 (the "8.375% Notes") at a redemption price of 100.0% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand.

On September 6, 2016 we redeemed all of our 9.00% senior notes due July 2020 (the "9.00% Notes") at a redemption price of 104.50% plus accrued and unpaid interest to the redemption date. The redemption was funded using cash on hand. (See Note 7, Long-Term Debt.)

#### Debt Service Requirements

Debt service requirements under our current outstanding senior notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.375% to 6.875%) and principal repayments of our 6.875% senior notes due May 21, 2023, and our 6.375% senior notes due April 1, 2026.

#### Covenant Compliance

As of September 30, 2016, we believe that we were in compliance with the financial and other covenants of our debt instruments.

The indentures governing the senior notes contain provisions that allow for the incurrence of additional indebtedness, if after giving effect to such incurrence, the fixed charge coverage ratio (as defined in the respective indentures, essentially a ratio of our consolidated EBITDA to fixed charges, including interest) for the trailing four quarter period on a pro forma basis would be at least 2.0 to 1.0. Should this provision prohibit the incurrence of additional debt, we may still borrow under our existing credit facility. At September 30, 2016, the available borrowing capacity under our credit facility was \$721.0 million.

#### Share Repurchase Program

Subject to applicable corporate securities laws, repurchases under our stock repurchase program may be made at such times and in such amounts as we deem appropriate. We are subject to certain limitations regarding the repurchase of common stock, such as restricted payment limitations related to our outstanding notes and Credit Facility. Purchases under our stock repurchase program can be discontinued at any time that we feel additional purchases are not warranted. We intend to fund the repurchases under the stock repurchase program with existing cash resources and availability under our Credit Facility. In July 2008, our Board of Directors authorized an amendment to our existing share repurchase program to increase the amount of common stock available to be repurchased to \$100 million. We are not obligated to purchase any shares under our stock repurchase program. During the nine months ended September 30, 2016 and 2015, we did not repurchase any shares of our common stock. We are currently authorized to repurchase up to an additional \$92.1 million in shares of our common stock under the share repurchase program.

We have in the past, and may in the future, acquire our debt or equity securities, through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine.

#### Other Items Affecting Liquidity

We anticipate funding our capital requirements using cash on hand, cash flows from operations and availability under our Revolving Credit Facility, to the extent availability exists after we meet our working capital needs for the next twelve months. Any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. The outcome of the specific matters discussed herein, including our commitments and contingencies, may also affect our liquidity.



## Commitments

### Capital Spending and Development

Our estimated total capital expenditures for 2016, excluding the acquisition of Aliante and the pending acquisition discussed below, are expected to be approximately \$225 million, primarily comprised of projects to reposition non-gaming amenities, the hotel expansion project at our Delta Downs property, and various maintenance capital expenditures across our properties. We intend to fund such capital expenditures through our credit facility and operating cash flows.

In addition to the capital spending discussed above, we also continue to pursue other potential development projects that may require us to invest significant amounts of capital. We continue to work with Wilton Rancheria, a federally-recognized tribe located about 30 miles southeast of Sacramento, California, to develop and manage a gaming entertainment complex.

### Pending Acquisition

On April 25, 2016, we announced that we had entered into a definitive agreement (the "Cannery Purchase Agreement") to acquire The Cannery Hotel and Casino, LLC ("Cannery"), the owner and operator of Cannery Casino Hotel, located in North Las Vegas, and Nevada Palace, LLC ("Eastside"), the owner and operator of Eastside Cannery Casino and Hotel, located in the eastern part of the Las Vegas Valley, comprising the Las Vegas assets of Cannery Casino Resorts, LLC ("CCR"), for total cash consideration

of \$230 million, subject to adjustment based on the working capital, including cash and less indebtedness of the acquired assets and less any transaction expenses (the "Cannery Purchase").

The completion of the Cannery Purchase is subject to customary conditions and the receipt of all required regulatory approvals, including, among others, approval by the Nevada Gaming Commission and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Subject to the satisfaction or waiver of the respective conditions in the Cannery Purchase Agreement, we currently expect the transaction to close by the end of 2016. The acquisition will be funded with cash on hand and available revolver capacity under our Bank Credit Facility.

#### Divestiture of Borgata

Prior to the sale of our equity interest, which closed on August 1, 2016, the Company and MGM each held a 50% interest in Marina District Development Holding Company, LLC ("MDDHC"), which owns all the equity interests in Borgata. Until the closing of the sale, we were the managing member of MDDHC, and we were responsible for the day-to-day operations of Borgata.

Pursuant to the Purchase Agreement, on August 1, 2016, MGM acquired from Boyd Gaming 49% of its 50% membership interest in MDDHC and, immediately thereafter, MDDHC redeemed Boyd Gaming's remaining 1% membership interest in MDDHC (collectively, the "Transaction"). Following the Transaction, MDDHC became a wholly-owned subsidiary of MGM.

In consideration for the Transaction, MGM paid Boyd Gaming \$900 million. The initial net cash proceeds were approximately \$589 million, net of certain expenses and adjustments on the closing date, including outstanding indebtedness, cash and working capital. These initial proceeds do not include our 50% share of any future property tax settlement benefits, from the time period during which we held a 50% ownership in MDDHC, to which Boyd Gaming retains the right to receive upon payment. Borgata estimates that it is entitled to property tax refunds totaling between \$140 million and \$160 million, including amounts due under court decisions rendered in its favor and estimates for open tax appeals.

The after-tax gain on the sale of Borgata was \$181.7 million and is included in discontinued operations in the three and nine months ended September 30, 2016.

#### Contingencies

##### Legal Matters

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

##### Other Opportunities

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

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

•availability of acceptable financing.

Additional projects may require us to make substantial investments or may cause us to incur substantial costs related to the investigation and pursuit of such opportunities, which investments and costs we may fund through cash flow from operations or availability under our Credit Facility. To the extent such sources of funds are not sufficient, we may also seek to raise such additional funds through public or private equity or debt financings or from other sources.

#### Off Balance Sheet Arrangements

There have been no material changes to our off balance sheet arrangements as defined in Item 303(a)(4)(ii) and described under Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 25, 2016.

#### Critical Accounting Policies

There have been no material changes to our critical accounting policies described under Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the period ended December 31, 2015, as filed with the SEC on February 25, 2016.

#### Recently Issued Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our condensed consolidated financial statements, see Note 2, Summary of Significant Accounting Policies - Recently Issued Accounting Pronouncements, in the notes to the condensed consolidated financial statements (unaudited).

#### Important Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements contain words such as "may," "will," "might," "expect," "believe," "anticipate," "could," "would," "estimate," "pursue," "target," "project," "intend," "plan," "seek," "should," "assume," and "continue," or the negative thereof or comparable terminology. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include:

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

The risk that our acquisitions and other expansion opportunities divert management's attention or incur substantial costs, or that we are otherwise unable to develop, profitably manage or successfully integrate the businesses we acquire.

The risk that we fail to receive all required governmental approvals, including clearance from the Federal Trade Commission ("FTC") and approval of the Nevada Gaming Commission, regarding our acquisition of the Cannery Properties.

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

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

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

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

The risk that negative industry or economic trends, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in our business, may result in significant write-downs or impairments in future periods.

• The risk that regulatory authorities may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other adverse actions against any of our casino operations.

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

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

• The effects of federal, state and local laws affecting our business such as the regulation of smoking, the regulation of directors, officers, key employees and partners and regulations affecting business in general.

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

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

• The risk that we fail to adapt our business and amenities to changing customer preferences.

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

• The effect of the expansion of legalized gaming in the regions in which we operate.

• The risk of failing to maintain the integrity of our information technology infrastructure and our business and customer data.

• Our estimated effective income tax rates, estimated tax benefits, and merits of our tax positions.

• Risks relating to our realization and estimates of our 50% share of any future property tax settlement benefits from Borgata.

• Our ability to utilize our net operating loss carryforwards and certain other tax attributes.

The risks relating to owning our equity, including price and volume fluctuations of the stock market that may harm the market price of our common stock and the potential of certain of our stockholders owning large interest in our capital stock to significantly influence our affairs.

• Other statements regarding our future operations, financial condition and prospects, and business strategies.

Additional factors that could cause actual results to differ are discussed in Part I. Item 1A. Risk Factors of our Annual Report on Form 10-K for the period ended December 31, 2015, and in other current and periodic reports filed from time to time with the SEC. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not hold any market risk sensitive instruments for trading purposes. Our primary exposure to market risk is interest rate risk, specifically long-term U.S. treasury rates and the applicable spreads in the high-yield investment market, short-term and long-term LIBOR rates, and short-term Eurodollar rates, and their potential impact on our long-term debt. We attempt to limit our exposure to interest rate risk by managing the mix of our long-term fixed-rate borrowings and short-term borrowings under our and Peninsula's bank credit facilities. We do not currently utilize derivative financial instruments for trading or speculative purposes.

As of September 30, 2016, our long-term variable-rate borrowings represented approximately 50.7% of total long-term debt. Based on September 30, 2016 debt levels, a 100 basis point change in the Eurodollar rate or the base rate would cause our annual interest costs to change by approximately \$15.4 million.

See also "Liquidity and Capital Resources" above.

**Item 4. Controls and Procedures**

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

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

## PART II. Other Information

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

Set forth below are certain risk factors related to our business that include material changes to, or discuss risks in addition to, the risks previously disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

We encourage investors to review the risks and uncertainties relating to our business disclosed in that Annual Report on Form 10-K, as well as those contained in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Important Information Regarding Forward-Looking Statements.

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

This report is qualified in its entirety by these risk factors.

#### Risks Related to our Business

We face risks associated with growth and acquisitions.

As part of our business strategy, we regularly evaluate opportunities for growth through development of gaming operations in existing or new markets, through acquiring other gaming entertainment facilities or through redeveloping our existing gaming facilities. For example, on April 25, 2016 we announced that we had entered into a definitive agreement to acquire the Cannery Casino Hotel and Eastside Cannery Hotel (the "Cannery Properties" and such pending acquisition, the "Cannery Purchase"), and on September 27, 2016 we acquired Aliante (the acquisition of Aliante, together with the Cannery Purchase, the "Acquisitions"). The Acquisitions are discussed in detail in Note 3 to the financial statements, Acquisitions and Divestitures.

In the future, we may also pursue expansion opportunities, including joint ventures, in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. The expansion of our operations, including as a result of the Acquisitions, development or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. There can be no assurance that we will be able to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems. Additionally, there can be no assurance that we will receive gaming or other necessary licenses or approvals for new projects that we pursue or that gaming will be approved in jurisdictions where it is not currently approved.

We may face integration difficulties and may be unable to integrate Aliante Casino + Hotel + Spa ("Aliante") and the Cannery Properties into Boyd Gaming's business successfully or realize the anticipated benefits of the Acquisitions. The acquisition of Aliante on September 27, 2016, and consummation of the pending Cannery Purchase will require the successful integration of three additional properties into Boyd Gaming's operating structure in order to realize the anticipated benefits of the Acquisitions. We will be required to devote significant management attention and resources to ensure that such integration is successfully completed. Potential difficulties we may encounter as part of the

integration process include the following:

- the inability to successfully assume management of the new properties in a manner that permits the us to achieve the full revenue and other benefits anticipated to result from the Acquisitions;
- complexities associated with managing the new properties, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the properties in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies; and
- potential unknown liabilities and unforeseen increased expenses associated with the Acquisitions.

In addition, it is possible that the integration process could result in:

- diversion of the attention of Boyd Gaming's management; and



the disruption of, or the loss of momentum in, each property's ongoing businesses or inconsistencies in standards, controls, procedures and policies,

any of which could adversely affect our ability to maintain relationships with customers, suppliers, employees and other constituencies or our ability to achieve the anticipated benefits of the Acquisitions, or could reduce our earnings or otherwise adversely affect our business and financial results.

Our ability to consummate the Cannery Purchase is contingent upon the receipt of governmental approvals and satisfaction of certain closing conditions.

The consummation of the Cannery Purchase is subject to customary conditions and the receipt of all required regulatory approvals, including, among others, approval by the Nevada Gaming Commission and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR"), as amended. We have received a request from the FTC for additional information regarding our acquisition of the Cannery Properties and the FTC's review is ongoing with respect to that acquisition. Further, the review of the Cannery Purchase by the Nevada Gaming Control Board is currently ongoing, and we have not yet received approval for from the Nevada Gaming Commission. If we fail to receive all such required regulatory approvals, or otherwise fail to satisfy a required closing condition, we will be unable to consummate the Cannery Purchase and our business will be negatively affected. Such effects could include, but are not limited to, the failure to recognize the anticipated benefits of the Cannery Purchase, the loss of management's time and the expense expended with respect to investigating, entering into, and attempting to consummate such acquisition, as well as other related costs to Boyd Gaming's business.

Item 6. Exhibits

Exhibit Number	Document of Exhibit	Method of Filing
2.1	Agreement and Plan of Merger entered into as of April 21, 2016, by and among Boyd Gaming Corporation, Boyd TCII Acquisition, LLC, and ALST Casino Holdco, LLC. †	Incorporated by reference to Exhibit 2.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
2.2	Membership Interest Purchase Agreement entered into as of April 25, 2016, by and among Boyd Gaming Corporation, The Cannery Hotel and Casino, LLC, Nevada Palace, LLC, and Cannery Casino Resorts, LLC. †	Incorporated by reference to Exhibit 2.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.
2.3	Equity Purchase Agreement entered into as of May 31, 2016, by and among MGM Resorts International, Boyd Atlantic City, Inc., and Boyd Gaming Corporation. †	Incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on June 2, 2016.
2.4	First amendment to Equity Purchase Agreement entered into as of July 19, 2016, by and among MGM Resorts International, Boyd Atlantic City, Inc., and Boyd Gaming Corporation.	Incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on August 5, 2016.
2.5	First Amendment to Agreement and Plan of Merger, dated as of September 26, 2016, by and among Boyd Gaming Corporation, Boyd TCII Acquisition, LLC, and ALST Casino Holdco, LLC.	Incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the SEC on September 27, 2016.
3.1	Amended and Restated By-Laws of Boyd Gaming Corporation, effective October 20, 2016.	Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on October 26, 2016.
10.1		

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	Amendment No. 1 and Joinder Agreement, dated as of September 15, 2016, among the Company, certain financial institutions, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on September 19, 2016.
10.2	First Amendment to Membership Interest Purchase Agreement, dated October 28, 2016, by and among Boyd Gaming Corporation, Cannery Casino Resorts, LLC, the Cannery Hotel and Casino, LLC, and Nevada Palace, LLC.	Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on November 3, 2016.
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
101	The following materials from Boyd Gaming Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (vi) Notes to Condensed Consolidated Financial Statements.	Filed electronically herewith

† Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the SEC.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 8, 2016.

**BOYD GAMING CORPORATION**

By: /s/ Anthony D. McDuffie  
Anthony D. McDuffie  
Vice President and Chief Accounting Officer