Annual 2000 Report

the road to
opportunity...

	Location	Acreage	Main Facility Sq. Footage	Casino Sq. Footage	Slots	Tables	Rooms	Restaurants	Fast-Food Outlets	Movie Screens	Bowling Lanes	Child Care	Covered Parking	Opening/ Acquisition Date
PALACE STATION	Las Vegas, NV	39	287,000	84,000	2,084	51	1,014	5	5	—	—	—	1,900	7/76
BOULDER STATION	Las Vegas, NV	46	337,000	89,000	2,988	44	300	5	7	11	—	Yes	1,900	8/94
TEXAS STATION	North Las Vegas, NV	47	568,350	102,300	2,999	40	200	5	8	18	60	Yes	3,500	7/95
SUNSET STATION	Henderson, NV	105	428,000	110,000	3,059	55	467	7	8	13	—	Yes	2,900	6/97
SANTA FE STATION	Las Vegas, NV	38	366,000	85,000	1,840	27	200	3	—	—	60	—	—	10/00
GREEN VALLEY RANCH	Henderson, NV	40	435,000	55,000	2,531	42	200	6	6	10	—	—	2,000	12/01
FIESTA CASINO HOTEL	North Las Vegas, NV	25	170,000	70,000	1,850	24	100	5	3	—	—	—	1,000	1/01
THE RESERVE	Henderson, NV	46	190,000	42,000	1,450	26	224	6	3	—	—	—	—	1/01
WILD WILD WEST	Las Vegas, NV	19	16,000	12,500	248	7	260	1	—	—	—	—	—	7/98
BARLEY'S CASINO & BREWERY	Henderson, NV	—	26,000	10,000	199	9	—	1	—	—	—	—	—	1/96
SOUTHWEST GAMING ROUTE	Las Vegas Metro Area	—	N/A	N/A	790	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12/90
TOTALS		405	2,823,350	659,800	20,038	325	2,965	44	40	52	120	—	13,200	

familiar
...leads us to **territory**

STATION CASINOS IS THE PREMIER PROVIDER OF GAMING AND ENTERTAINMENT FOR RESIDENTS OF THE LAS VEGAS VALLEY. THE STATION FRANCHISE CURRENTLY INCLUDES SEVEN MAJOR GAMING AND ENTERTAINMENT COMPLEXES AND TWO SMALLER CASINOS. WITH THE ADDITION OF GREEN VALLEY RANCH IN DECEMBER 2001, WE WILL OPERATE MORE THAN 20,000 GAMING DEVICES AND EMPLOY MORE THAN 11,000 TEAM MEMBERS. OUR PROPERTIES ARE EASILY ACCESSIBLE FROM ANY PART OF THE LAS VEGAS AREA, AS MORE THAN HALF OF THE PEOPLE IN THE AREA LIVE WITHIN A 3-MILE RADIUS OF ONE OF OUR PROPERTIES. WE HAVE NUMEROUS GROWTH OPPORTUNITIES WITH SIX UNDEVELOPED SITES TOTALING 224 ACRES, AND MASTERPLANNED EXPANSION OPPORTUNITIES AT EACH OF OUR CASINOS DESIGNED TO INCREMENTALLY BUILD UPON OUR EXISTING ASSETS AS DEMAND DICTATES. CUSTOMERS ASSOCIATE THE "STATION" BRAND WITH UNPARALLELED CONVENIENCE, HIGH QUALITY FACILITIES, INNOVATIVE GAMING PRODUCTS, PERSONALIZED CUSTOMER SERVICE, AND CONSISTENCY IN EXECUTION.

F I N A N C I A L   H I G H L I G H T S

(In thousands except per share amounts)

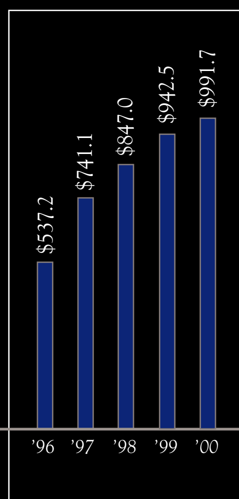
	Fiscal Years Ended December 31, 2000	1999	Transition Period 1998(3)	Fiscal Years Ended March 31, 1998	1997
Statement of Operations Data:					
Net revenues	$ 991,678	$ 942,469	$ 642,214	$769,610	$ 583,515
Operating income before nonrecurring items(1)	$ 210,501	$ 166,306	$ 94,707	$ 95,052	$ 89,943
Operating income	$ 242,812	$ 28,871	$ 64,696	$ 84,186	$ 58,123
Net income (loss) applicable to common stock	$ 93,505	$ (44,758)	$ (17,531)	$ (12,441)	$ 6,518
Earnings (loss) per common share	$ 1.48	$ (0.76)	$ (0.33)	$ (0.23)	$ 0.12
EBITDA, As Adjusted(2)	$ 273,847	$ 236,970	$ 147,682	$162,466	$ 136,548
EBITDA, As Adjusted(2), adjusted for the Sunset equipment lease	$ 273,847	$ 242,890	$ 154,186	$168,708	$ 136,548
Weighted average common shares outstanding	63,116	58,692	52,968	52,964	52,974
Balance Sheet Data:					
Capital expenditures	$ 358,763	$ 76,379	$ 99,460	$ 134,385	$ 506,096
Total assets	$1,440,428	$1,276,273	$1,531,925	$1,300,216	$1,234,118
Long-term debt	$ 989,625	$ 942,480	$1,147,266	$ 900,226	$ 760,963
Stockholders' equity	$ 288,887	$ 216,801	$ 269,406	$ 286,887	$ 298,848

(1) Nonrecurring items include gain on sale of Missouri assets, Missouri/Nevada investigations and fines, preopening expenses, restructuring charges and impairment loss.

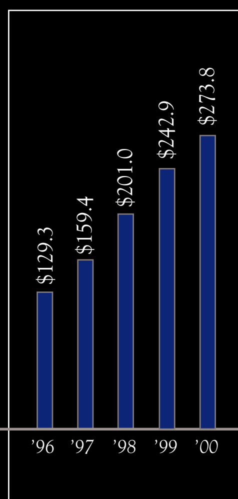
(2) "EBITDA, As Adjusted" consists of operating income plus depreciation, amortization, gain on sale of Missouri assets, Missouri/Nevada investigations and fines, preopening expenses, restructuring charges and impairment loss. The Company believes that in addition to cash flows and net income, EBITDA, As Adjusted is a useful financial performance measurement for assessing the operating performance of the Company. Together with net income and cash flows, EBITDA, As Adjusted provides investors with an additional basis to evaluate the ability of the Company to incur and service debt and incur capital expenditures. To evaluate EBITDA, As Adjusted and the trends it depicts, the components should be considered. The impact of interest, taxes, depreciation and amortization, gain on sale of Missouri assets, Missouri/Nevada investigations and fines, preopening expenses, restructuring charges and impairment loss, each of which can significantly affect the Company's results of operations and liquidity and should be considered in evaluating the Company's operating performance, cannot be determined from EBITDA, As Adjusted. Further, EBITDA, As Adjusted does not represent net income or cash flows from operating, investing and financing activities as defined by generally accepted accounting principles ("GAAP") and does not necessarily indicate that cash flows will be sufficient to fund cash needs. It should not be considered as an alternative to net income, as an indicator of the Company's operating performance or to cash flows as a measure of liquidity. In addition, it should be noted that not all gaming companies that report EBITDA or adjustments to such measures may calculate EBITDA, or such adjustments in the same manner as the Company, and therefore, the Company's measures of EBITDA, As Adjusted may not be comparable to similarly titled measures used by other gaming companies.

(3) On November 6, 1998, the Company filed Form 8-K announcing its change in fiscal year end from March 31 of each year to December 31 of each year. This change is effective for the nine month period ended December 31, 1998 (the "Transition Period 1998").

Net Revenue
$ in millions
(Calendar Year)

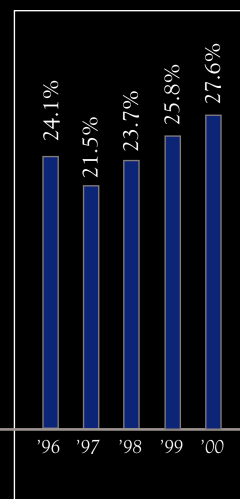


*EBITDA, As Adjusted (1)
$ in millions
(Calendar Year)



*Adjusted for Sunset Equipment Lease

*EBITDA Margins
(Calendar Year)



*Adjusted for Sunset Equipment Lease

message
to our shareholders

Rear View Mirror

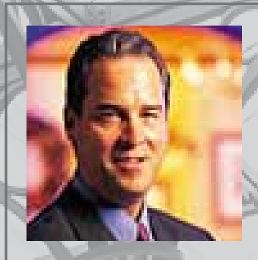
Several words come to mind in describing the past fiscal year, but "eventful" may describe it best. The year started off with the best quarter in the company's history, with record cash flow at each of our Las Vegas properties. By mid-year, however, we were focused on the divestiture of our Missouri assets and the process of reallocating this capital into several opportunities in Las Vegas. Given our position as the leading provider of gaming and entertainment for residents of the Las Vegas metropolitan area, and the potential we see for the area's future, we believe that having most of our eggs in one basket is a good thing. Although the process was difficult, we firmly believe the reallocation of our capital from Missouri to Las Vegas has significantly lowered the risk profile of the company. Even though it may take a few years to duplicate the cash flow generation of our Missouri assets, we believe we've not only upgraded our assets, but we have concentrated our investment in a market with a more stable regulatory environment and greater growth potential. With this transition, virtually all of our focus and resources will be dedicated to what we do best.

Despite distractions during the past year, several positive events occurred that positioned the company well for the future. In particular, we improved total revenues, EBITDA, and net income by 5 percent, 13 percent, and 51 percent, respectively. During this period, we also acquired three other existing locals' casinos in Las Vegas, thereby increasing our share of the overall Las Vegas market and creating potential revenue synergies and cost savings across our entire Las Vegas portfolio. The Santa Fe and The Reserve, in particular, add further geographic diversity to our Las Vegas brand by providing new distribution points with very strong growth profiles. The Fiesta provides a second brand to complement the existing Station brand and allows us to differentiate our future development efforts as necessary. With the purchase of the Santa Fe, Fiesta, and The Reserve, and the opening of Green Valley Ranch later this year, we expect to operate more than 20,000 gaming devices in the metropolitan area—more than any other operator in Las Vegas. Along with these acquisitions, we also secured many of the feasible distribution points for major locals-oriented casino development in the Las Vegas area. We believe the completion of these transactions provides us with the most strategically focused portfolio of assets in the gaming industry and a Las Vegas franchise that we believe is extremely difficult, if not impossible, to replicate.

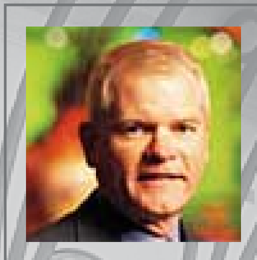
The Road Less Traveled

Our investment thesis for continued capital allocation to Las Vegas has been predicated on favorable long-term trends for supply and demand in that market. With respect to supply, we continue to see governmental support for limitations on the proliferation of locals-oriented casinos. This effort, exemplified by the passage of Nevada Senate Bill 208 in 1997, has been strengthened by the defeat of rezoning proposals at the city, county and state levels. In addition, ordinances have been passed by different local jurisdictions in the Las Vegas valley that further restrict the development of locals' casinos beyond the limitations of SB 208. Recognizing this trend, we spent much of last year accumulating gaming-entitled parcels around the valley. We expect this acquisition strategy to add significant shareholder value over the long term given the attractive supply/demand dynamics of this market going forward.

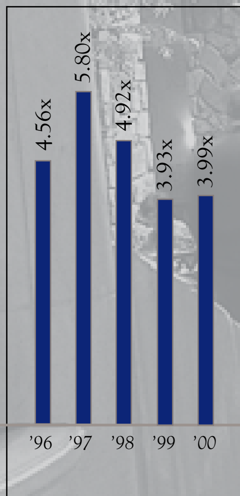
The key drivers with respect to demand appear to remain intact. While the outlook for the U.S. economy has softened, and tempered our expectations for same-store growth in the near-term, Las Vegas continues to attract new residents with a robust job market, appealing climate, low cost of living, and favorable tax environment. The Las Vegas metropolitan area continues to grow and diversify at a rapid pace. We highlight the Las Vegas community later in the report to illustrate the demographic transformation underway.



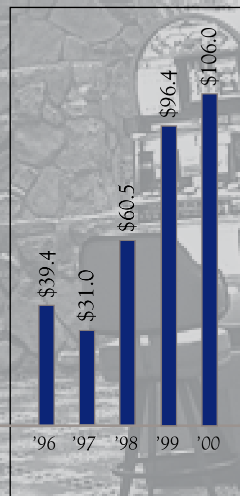
"Las Vegas continues to attract new residents with a robust job market, appealing climate, low cost of living, and favorable tax environment."



*Debt to Cash Flow Ratio
(As of December 31)



*Free Cash Flow
$ in millions
(Calendar Year)



**Free Cash Flow defined as EBITDA less interest, book taxes, dividends, leases, and maintenance capital expenditures*

(clockwise from top row) Lorenzo Fertitta, President; Blake Sartini, Executive Vice President and Chief Operating Officer; Glenn Christenson, Executive Vice President, Chief Financial Officer and Chief Administrative Officer; Scott Nielson, Executive Vice President and General Counsel

While it is difficult to gauge the actual size of the Las Vegas locals' market because of all the gaming options available to Las Vegas residents, the following illustrates the supply/demand equation: By 2002, we expect the number of gaming devices in Clark County (excluding the Strip, Downtown, Laughlin, and restricted locations) will be more than triple the number of gaming devices in 1984. During that same time period, the population in Clark County will have increased approximately 70 percent from 900,000 to more than 1.5 million. Despite the imbalance between supply growth and population growth during that period, gaming revenues have generally kept pace with the growth in supply. Over the next eight years, the absolute growth in population is expected to increase by a similar amount to roughly 2.1 million people, or 40 percent. In contrast, we expect supply growth to moderate, at a rate more commensurate with population growth as increasingly heightened barriers to entry govern off-Strip casino development. This dynamic creates an attractive opportunity for those with exposure to this market.

Shifting to Overdrive

While some industry observers have speculated that the casino industry is a mature industry, careful consideration reveals a meaningful difference between our business plan and the business plans of many of our peers. We have maintained for some time that we can generate long-term EBITDA growth without meaningful unit expansion—a trait that most growth-oriented gaming companies will need to acquire given the lack of new development and consolidation opportunities. With few new gaming jurisdictions on the horizon, it will be more important than ever to have the potential for same-store increases in order to drive earnings growth. While we expect our same-store growth to be suppressed in 2001 as a result of meaningful supply increases over the past several months and a difficult macro-economic environment, we believe that the long term fundamentals of this market are solid and meaningful growth will resume once this supply is absorbed. Beyond 2001, we are not aware of any new major locals-oriented properties that are expected to open other than our own holdings.

One of our primary financial goals over the past two years was to improve our balance sheet so we could take advantage of growth opportunities as they became available. With that goal in mind, we spent 1998, 1999, and much of 2000 reducing our leverage ratios and growing our existing cash flow base. Prior to the sale of our Missouri assets, we had reduced our debt to cash flow ratio to 3.5 times, from 3.9 times a year earlier, and 4.9 times two years prior. The financial discipline involved in improving our balance sheet proved critical in our ability to complete several strategic transactions over the past year. This improvement should continue to provide the framework for growth going forward.

By December 2001, several capital commitments should be winding down and recent acquisitions should be ramping up, setting the stage for another harvest. At that juncture, we can be selective in taking advantage of growth opportunities within our portfolio as growth in demand dictates. These opportunities could include expansion of our existing facilities, new development on one of the several parcels we currently hold for development, or additional strategic acquisitions.

The Road Ahead

In order to maintain our market leadership, we constantly strive to create competitive advantages that are difficult to duplicate. These competitive advantages include our distribution throughout the valley, our recognizable brands, irreplaceable real estate, vast economies of scale, leading-edge technology and flexible capital structure. We will continue to search for new competitive advantages, improve upon our existing advantages, please our guests and build the leading franchise in Las Vegas.

One of the benefits of growth is the new opportunities and responsibilities that we can provide our loyal team members. Each time we build or acquire a new property, our team members are presented with new opportunities for personal and professional growth. We continue to be recognized as an employer of choice in the Las Vegas valley because of the "Beyond the Best" corporate culture we foster and the upward mobility we offer our team members. This advantage, through the efforts of our team members, helps widen the gap between our company and the competition.

We thank our loyal customers, Beyond the Best team members and investors for their continued support and look forward to a prosperous road ahead this year and for years to come.

Sincerely,

Frank J. Fertitta III
Chairman of the Board and Chief Executive Officer

"We believe (we have) the most strategically focused portfolio of assets in the gaming industry and a Las Vegas franchise that is extremely difficult, if not impossible, to replicate."

...leads us to celebrated Stations

PALACE STATION

"Palace Station…embodies many of the high standards we set for ourselves in site development, steady cash flow generation, and brand loyalty."

We first introduced the Station brand name to Las Vegas residents at Palace Station in 1983. Since then, Palace Station has been a cornerstone of our Nevada portfolio, and provided a solid foundation to fund our development efforts. Though Palace Station's physical plant blends the efforts of several decades, it still embodies many of the high standards we set for ourselves in site development, steady cash flow generation, and brand loyalty.

Even after 25 years, there aren't many intersections in Las Vegas busier than Sahara and Interstate-15. Palace Station's prime location west of the Las Vegas Strip has strengthened the property's endurance to withstand a competitive market environment and little capital investment over the past several years. During the second half of 2000, surface streets and freeway ramps surrounding Palace Station have been under major construction. This disruption has, at times, created increased traffic congestion and been inconvenient for our guests. While ultimately the road modifications will enhance Palace's accessibility, we expect construction to continue to negatively impact operations through the end of 2001.

It is evident that even during construction, Palace Station still attracts a core group of loyalists to the Station brand. Perhaps this loyalty is due, in part, to Palace Station's tradition of personalized customer service—a tradition that has served as a template for our Beyond the Best philosophy. This philosophy helps ensure that we provide our customers with the consistency and quality of service that is necessary to attract a loyal clientele.

BOULDER STATION

When Boulder Station opened in 1994, it reflected a new vision for locals' casinos. It was designed to reach out to a broader market in an attempt to dramatically expand what had been a stagnant gaming market in east Las Vegas. In providing a complete entertainment destination, with great attention to detail, we sought to create an environment that offered something for everyone. Boulder Station introduced to the market an entertainment mall of sorts—with movie theaters, specialty restaurants, child-care, quick-service food outlets, and live entertainment venues as principal tenants. While we have fine-tuned this formula over time, Boulder Station has been the prototype we have sought to duplicate in each of our subsequent development efforts.

Located on 46 acres at the intersection of Interstate 515 and the Boulder Highway, Boulder Station is a good example of another irreplaceable asset in an irreplaceable location. The property benefits from an unusual combination of excellent freeway access and visibility, and its location in the epicenter of a densely populated three-mile ring. Given the restrictions on hotel-casino development and zoning today in Las Vegas, this site is a rare gem.

Boulder Station has dominated the competitive landscape on the Boulder Strip since the day it opened, generating more operating cash flow each year than all of its direct competitors combined. More importantly, its return on invested capital has consistently provided a high benchmark from which to gauge effective capital allocation and operating efficiencies within our portfolio. While the competitive environment on the Boulder Strip has become more difficult over the past few quarters, the development and operating strategies we have employed should allow us to continue to produce strong returns over the long term.

"(Boulder Station's) return on invested capital has consistently provided a high benchmark from which to gauge effective capital allocation and operating efficiencies within our portfolio."

TEXAS STATION

"…we are optimistic that continued population growth in North Las Vegas will continue to fuel new demand…"

Perhaps more than any property in our portfolio, Texas Station's footprint has changed most dramatically since opening in July 1995. During the past few years, Texas Station has undergone several master-planned expansions that have helped position the property as the dominant facility in North Las Vegas. Most recently, we completed an expansion that included 350 gaming devices, a 60-lane bowling center, and approximately 40,000 square feet of meeting and banquet space. These additions, which opened in December 2000, aimed to create an all-inclusive entertainment destination for Las Vegas residents.

Through master-planned expansions, we have sought to add both gaming and non-gaming amenities to our facilities in order to capitalize on growth opportunities in the market. Generally, these expansions have enhanced returns by both creating and capturing additional demand. This ability to grow our existing assets in response to heightened demand through multi-phased, master-planned expansion will be a critical component of our growth strategy—particularly as gaming sites become more scarce.

Though competitive capacity additions in west Las Vegas have impacted Texas Station's recent results, we are optimistic that continued population growth in North Las Vegas will continue to fuel new demand for both Texas Station and Fiesta. We expect annual population growth to approach ten percent over the next few years in this portion of the valley which currently has approximately 100 active subdivisions with homes for sale. Since 1996, the first full year in which both Texas Station and Fiesta were open, gaming revenues in North Las Vegas have increased at an average compounded rate of 15 percent, while supply has increased at a rate of 11 percent. While we expect gaming revenue growth to slow from this pace in 2001, we expect moderate growth to resume in 2002 and beyond as the supply/demand fundamentals begin to improve.

SUNSET STATION

The limits of the Las Vegas locals' gaming market were again tested with the opening of Sunset Station in 1997. Faced with the challenge of expanding an east Las Vegas market that had already doubled in size with the opening of Boulder Station, we sought to take a successful formula and create yet another new standard. Like its predecessor, Sunset Station grew the market dramatically, capitalizing on its 105-acre location in the heart of the highest concentration of retail square footage in the state in the fastest growing city in America. These factors, combined with Sunset Station's Beyond the Best service and team members, should allow it to retain its leadership position as the premier locals' property in Las Vegas.

With the heralded opening of Sunset Station in 1997, we completed an important step in expanding our distribution in each of the four quadrants of the Las Vegas valley. By covering the four major quadrants of the valley, we not only provided unparalleled convenience for our guests, but we laid the foundation to develop a brand that could effectively capture future demand across the entire region.

> "With the…opening of Sunset Station in 1997, we completed an important step in expanding our distribution in each of the four quadrants of the Las Vegas valley."

As the number of properties in our portfolio grew, the need to effectively market to our targeted customer base and understand their preferences became increasingly critical. To address this need, we created another sustainable competitive advantage for our company with the introduction of the Station Casinos Boarding Pass in April 1999. The centralized program allows our customers to earn points for their play and redeem the points for awards at any of the Station properties in our portfolio. The implementation of this program has and should continue to drive demand and capture economies at both our core Station properties or new brands that we introduce.

...leads us to

premiere Stations

SANTA FE STATION

"With its bold new footprint, and exploding northwest trade area, we believe that Santa Fe Station may have the best growth potential of any property in our portfolio."

On October 2, 2000, we completed our acquisition of the Santa Fe Hotel & Casino in northwest Las Vegas for $205 million. The Santa Fe site reflects the same attributes we strive for in our own site development—excellent access and visibility from a major interstate and thoroughfare, sufficient acreage on which to expand, and a large trade area in a rapidly growing suburb.

During the first 45 days under our ownership, we embarked on an aggressive renovation and retheming of the facility to mark its conversion to Santa Fe Station. The process included a complete refurbishment of the casino and restaurants, and increased the number of slot machines on the casino floor to approximately 1,900. With the renovation and retheming complete, we have begun construction on a 1,700-space parking garage, a 25,000 square-foot casino expansion to allow for approximately 700 additional gaming devices, a food court area with eight lease tenants, the build-out of leased tenant space for two new restaurants, a new hotel lobby, and a new gift shop. The combined post-acquisition expenditures will total approximately $71 million and be completed by July 2001.

With this acquisition, we have added a solid fifth flag to our core Station holdings. This property allows us to expand the Station brand yet again, and capture another key distribution point in the Las Vegas valley. With its bold new footprint, and exploding northwest trade area, we believe that Santa Fe Station may have the best growth potential of any property in our portfolio.

The next Station on the horizon is at Green Valley Ranch in Henderson, Nevada, located on the southern perimeter of the Las Vegas valley. While we will manage the project, it is co-owned with American Nevada Corporation (ANC), the leader in residential and commercial development in the Henderson community. ANC is also our partner in Barley's Casino & Brewing Co., a popular microbrewery and casino, also located in Henderson.

The 40-acre resort site is part of a 170-acre mixed-use commercial, retail and office project. As the focal point of the Green Valley Ranch master-planned community, the $300 million project will feature over 435,000 square feet of public space, and 200 hotel rooms. The casino mix will closely resemble our other Station properties with 2,500 slot machines and 40 table games. Entertainment amenities will include a 22,000 square-foot spa with outdoor pools, a 10-screen movie theater complex, six full service restaurants, and several quick-serve outlets.

We believe the Green Valley Ranch site is one of the best remaining sites for an off-Strip casino development in the Las Vegas valley. As such, we have developed another "A" facility in this submarket to match the growth potential of the area. The site is the gateway to perhaps the most explosive pocket of residential growth in the country. Within a four-mile radius to the south of this site alone, there are six residential projects each exceeding 300 acres with more than 23,500 total units currently under development. With the opening of Green Valley Ranch later this year, we will operate six properties in the Las Vegas metro area under the Station brand. Both of our new Stations create significant distribution points in important, dynamic suburban markets of Las Vegas. By the end of the year, we expect approximately 55 percent of the population in the Las Vegas valley will live within a three-mile radius of one of our properties.

"…Green Valley Ranch is one of the best remaining sites for an off-strip casino development in the Las Vegas valley."

…leads us to

new Brands

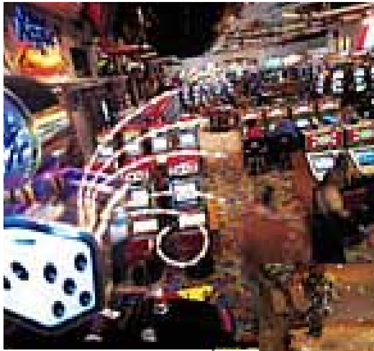
F I E S T A

"…we expect to employ many of the same operating strategies that have successfully differentiated the Fiesta (brand)…"

As part of our strategy to secure several remaining gaming sites in the Las Vegas metropolitan area, we sought a second brand to provide flexibility in our future development plans. Some of the casino sites in our portfolio may never warrant a "Station" label either because of size restrictions or proximity to existing Station properties. Rather than dilute the existing Station brand, we sought to purchase a well-executed brand that could coexist with and complement our existing platform, yet differentiate itself as a separate tiered product offering. In January 2001, the $170 million acquisition of the Fiesta provided this vehicle. Situated on 25 acres across the street from Texas Station, the properties have co-existed in North Las Vegas for several years.

We clearly believe that the burgeoning population, combined with the scarcity of feasible gaming sites around the valley, will create opportunities for additional "Stations." In some instances, however, a Fiesta-sized property may be more appropriate, particularly at sites where a smaller footprint is required or advantageous. As a comparison, the Fiesta's total square footage and capital requirements on a newly built facility would represent roughly half that of a Station branded facility—primarily because it lacks many of the non-gaming amenities that our Station properties typically feature.

In operating the Fiesta brand, we expect to employ many of the same operating strategies that have successfully differentiated the Fiesta from the Station brand in creating a satisfying customer experience. While the Fiesta casino has had its share of success, we believe there are opportunities for margin improvement as we apply our economies of scale in marketing, advertising, and purchasing. As the Fiesta brand is expanded to other sites, we expect these efficiencies will be compounded.



THE RESERVE

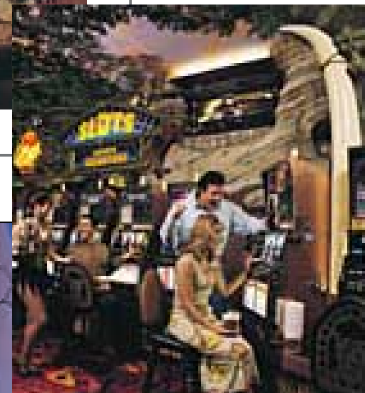
The opportunistic acquisition of The Reserve Hotel & Casino in January 2001 provides us with a third major facility in the fastest growing city in the country. In acquiring the property for $71.8 million, we have obtained a virtually new plant at roughly a 50 percent discount to replacement cost. We believe that this discount provided an attractive entry point and should lead to outsized returns over the longer term.

Our optimism for The Reserve is fueled, in part, by many of the same reasons for our bullishness towards Sunset Station and Green Valley Ranch. Situated at the intersection of Interstate 215 and Interstate 515 in Henderson, Nevada, the property enjoys excellent visibility, access, and traffic counts. We expect The Reserve to continue to benefit from rapid population growth in surrounding areas.

The Reserve differs from Fiesta and Santa Fe in that it has generally struggled since opening in February 1998. Like these other acquisitions, however, The Reserve was operated as a single property in a competitive marketplace. With our cost structure, economies of scale, and market leadership, we believe minor modifications can be made to markedly improve the property's cash flow.

"...we believe minor modifications can be made to markedly improve the property's cash flow."

We are currently considering the future of The Reserve's safari theme, given our recent purchase of the Fiesta. The Reserve's footprint is similar to the Fiesta in size and scope, and its location suitable for the Fiesta brand. At present, we expect to spend approximately $8 million to make minor revisions and additions to the casino floor and parking areas. In any case, we expect to expand margins and take advantage of the property's rapidly growing revenue base.



...leads us to

our Community

CONTINUED GROWTH IN LAS VEGAS

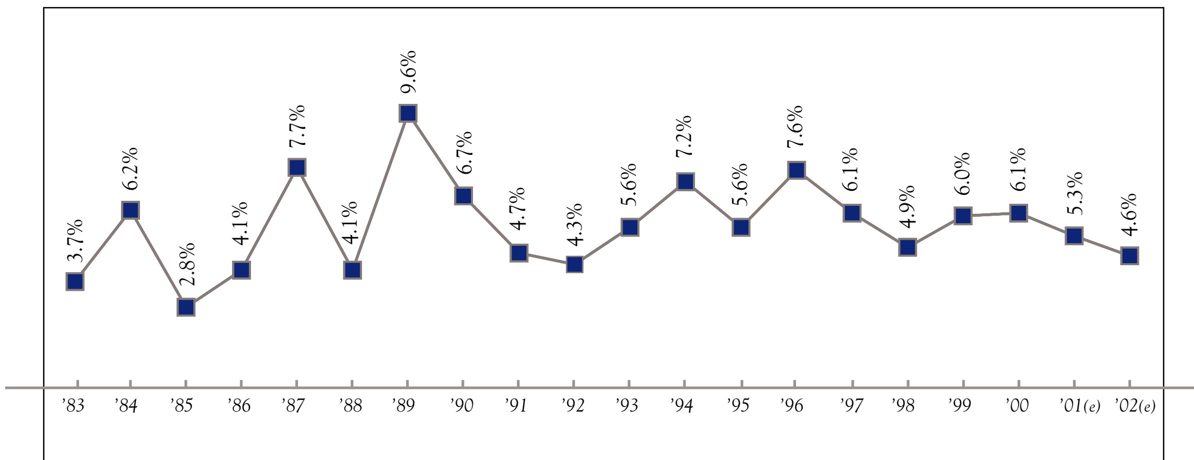
While the road to Las Vegas is a familiar one, it is important to discuss the fundamental tenets as to why we have decided to concentrate our assets here.

Population and Employment Growth

When we wrote our first annual report seven years ago, the population in Clark County was approximately 700,000. Today, it is over twice that number. According to the Center for Business and Economic Research (CBER) at the University of Nevada Las Vegas (UNLV), the strong population growth is primarily linked to employment growth and increased economic opportunity in the Las Vegas valley. While employment growth is expected to moderate over the next two years, CBER projects that the population of Clark County will continue to well outpace the national average at 5.3 percent and 4.6 percent for 2001 and 2002, respectively. Job growth is expected to slow slightly from the previous four years because of the slowdown in large hotel/casino developments, but gains predicted in transportation, service, and retail trade, are expected to drive employment growth in Clark County of 4.9 percent and 4.3 percent in 2001 and 2002, respectively. As has been the case for the past several years, these employment gains are expected to lead the U.S.

Percent Change in Clark County Population

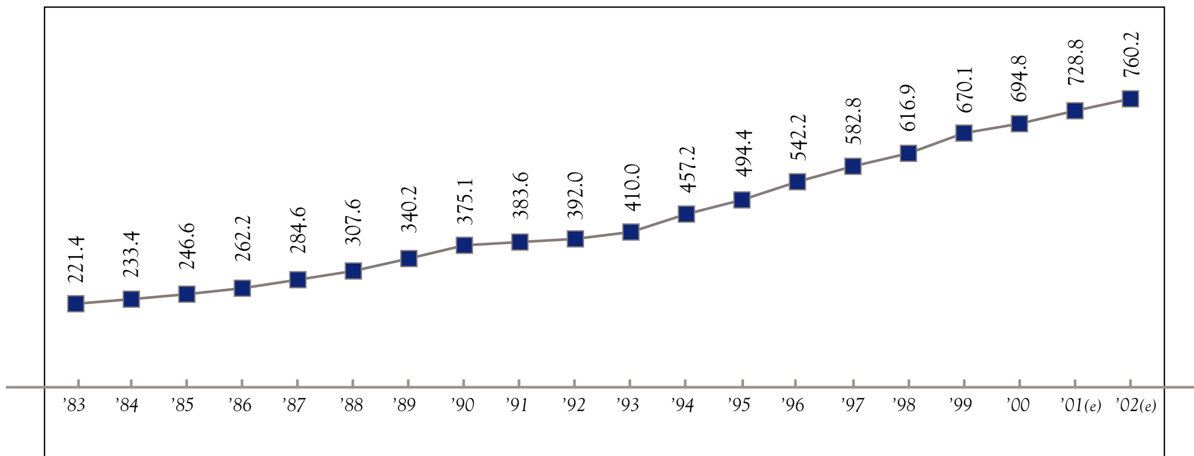
Percent Change



Source: Center for Business and Economic Research (CBER) at the University of Nevada Las Vegas

Clark County Establishment-Based Employment

Thousands of employees

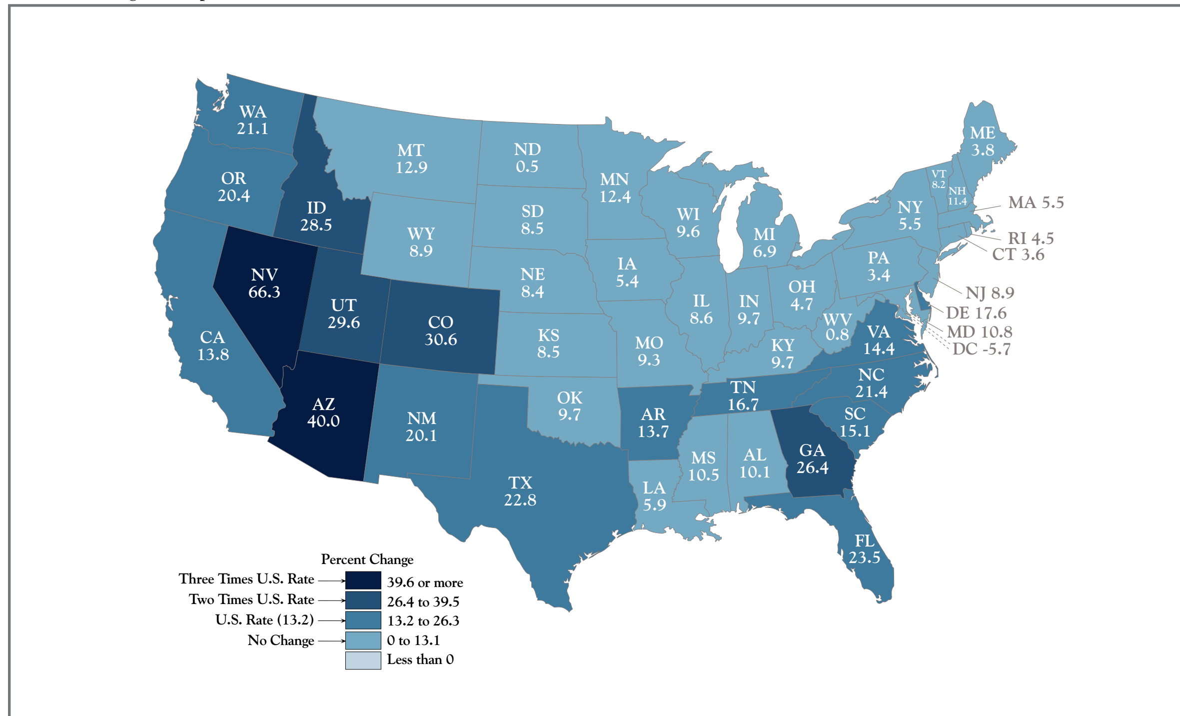


Source: CBER

The Migration Continues

Our local economy reflects, in some measure, the health of the economies of our neighboring communities. Coincidentally, or not, our neighboring states also experienced a population boom during the 1990's. The migration to the southwest has continued in an impressive manner. While Nevada led the country during the 1990's with population growth of 66 percent, the region's growth was equally impressive with four of the top five fastest growing states within close proximity to Nevada. Of the 50 states, only Nevada and Arizona grew at more than three times the U.S. rate of 13.2 percent during the 1990's, while Colorado, Utah, and Idaho, grew at more than twice the U.S. rate during the same period.

Percent Change in Population: 1999 to 2000

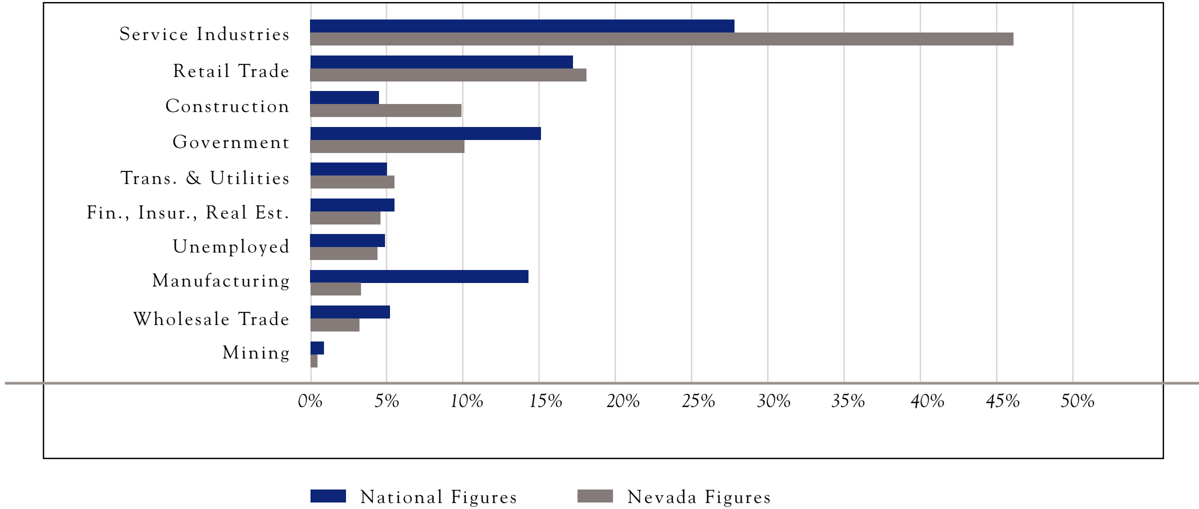


Source: U.S. Census Bureau

Economic Diversification

While tourism, travel, and gaming have led an economic transformation in the area, we believe the future economic strength of the region is well served by economic diversification. A lack of economic diversity historically plagued Nevada for most of the 20th century, but during the 1990's, Las Vegas has gradually evolved into an increasingly diversified metropolis along with the rapid growth in the population base. Clearly, Las Vegas' employment base is relatively concentrated in service industries and construction as a result of the prevalence of the gaming industry and the direct and indirect employment opportunities created by the sector. However, over time, the prevailing mix should continue to shift towards national averages as the appeal of Las Vegas' pro business climate, tax structure, weather, and cost of living attracts a broad range of companies.

Las Vegas Employment Diversification



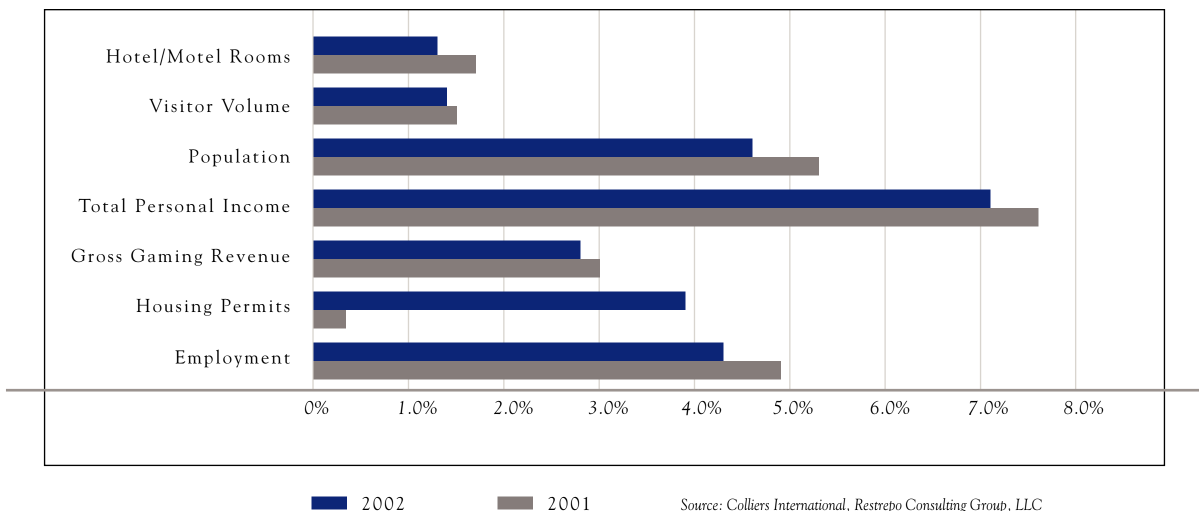
Source: Colliers International, Restrepo Consulting Group, LLC

Outlook

Some analysts predicted that the building boom we witnessed along the Las Vegas Strip in 1999 and the first half of 2000 would finally prove that Las Vegas was indeed overbuilt. As a result, many were surprised when the surge in building spurred strong growth in gaming-sector indicators such as visitor volumes, occupancy rates, and gaming revenues throughout 2000. While we believe these additions to the Las Vegas skyline helped boost other economic indicators for our city, these employment-driven gains were not the only growth driver at work. Specifically, Las Vegas continues to attract record numbers of retirees each year, as growth in this segment of our population base continues to outpace growth in the total population.

While we witnessed surges in many growth indicators over the past two years, we expect these growth rates to moderate in 2001 and 2002, as local construction-based employment softens and the U.S. economy continues to slow. But this lull is not expected to last as new projects continue to surface for 2002 and beyond. While Las Vegas' economic indicators may not match up to the past few years, we believe our community is exceptionally well positioned relative to the rest of the country and poised for continued rapid growth.

Southern Nevada Forecast of Growth Rates: 2001 and 2002



Source: Colliers International, Restrepo Consulting Group, LLC

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The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and the financial statements and notes thereto included elsewhere in this Annual Report.

Results of Operations

The following table highlights the results of operations for the Company (dollars in thousands):

	Fiscal Years Ended December 31, 2000	Fiscal Years Ended December 31, 1999	Twelve Months Ended December 31, 1998	Transition Period 1998
			(unaudited)	
Net revenues—total	$991,678	$942,469	$847,015	$642,214
Nevada Operations (a)	627,968	584,852	526,854	397,908
Missouri Operations (a)	315,422	313,439	290,160	219,734
Other (a)	48,288	44,178	30,001	24,572
Operating income (loss)—total	$242,812	$ 28,871	$ 92,380	$ 64,696
Nevada Operations (a)	165,138	147,217	111,902	83,669
Missouri Operations (a)	102,882	(85,269)	(1,528)	(5,056)
Other (a)	(25,208)	(33,077)	(17,994)	(13,917)
Cash flows from:				
Operating activities	$163,696	$173,058	$108,321	$ 76,692
EBITDA, As Adjusted (b)—total	$273,847	$236,970	$192,384	$147,682
Nevada Operations (a)	211,252	186,677	150,413	113,284
Missouri Operations (a)	82,636	69,223	54,314	43,163
Other (a)	(20,041)	(18,930)	(12,343)	(8,765)
EBITDA, As Adjusted (b), Adjusted for the Sunset equipment lease—total	$273,847	$242,890	$200,952	$154,186
Nevada Operations (a)	211,252	192,597	158,981	119,788

(a) The Nevada Operations include the accounts of: Palace Station, Boulder Station, Texas Station, Sunset Station, Santa Fe Station (from October 2, 2000) and pre-opening expenses related to Fiesta and The Reserve. The Missouri Operations include the accounts of: Station Casino St. Charles and Station Casino Kansas City. On December 20, 2000, the Company completed the sale of substantially all of the assets of the Missouri Operations. Other includes the operations of Wild Wild West, the Company's investment in Barley's, Southwest Gaming and Corporate expense.

(b) "EBITDA, As Adjusted" consists of operating income plus depreciation, amortization, preopening expenses, restructuring charge, Missouri/Nevada investigations and fines, gain on sale of Missouri assets and impairment loss. The Company believes that in addition to cash flows and net income, EBITDA, As Adjusted is a useful financial performance measurement for assessing the operating performance of the Company. Together with net income and cash flows, EBITDA, As Adjusted provides investors with an additional basis to evaluate the ability of the Company to incur and service debt and incur capital expenditures. To evaluate EBITDA, As Adjusted and the trends it depicts, the components should be considered. The impact of interest, taxes, depreciation and amortization, preopening expenses, restructuring charge, Missouri/Nevada investigations and fines, gain on the sale of Missouri assets and impairment loss, each of which can significantly affect the Company's results of operations and liquidity and should be considered in evaluating the Company's operating performance, cannot be determined from EBITDA, As Adjusted. Further, EBITDA, As Adjusted does not represent net income or cash flows from operating, financing and investing activities as defined by generally accepted accounting principles ("GAAP") and does not necessarily indicate cash flows will be sufficient to fund cash needs. It should not be considered as an alternative to net income, as an indicator of the Company's operating performance or to cash flows as a measure of liquidity. In addition, it should be noted that not all gaming companies that report EBITDA or adjustments to such measures may calculate EBITDA, or such adjustments in the same manner as the Company, and therefore, the Company's measure of EBITDA, As Adjusted may not be comparable to similarly titled measures used by other gaming companies.

Consolidated net revenues, cash flows from operating activities and EBITDA, As Adjusted for the fiscal year ended December 31, 1999 increased as compared to the Transition Period 1998. These increases are due to the Transition Period 1998 consisting of nine months as compared to the fiscal year ended December 31, 1999, which is twelve months. The above table presents certain results of operations from the unaudited twelve month period ended December 31, 1998 for comparison purposes.

Consolidated Net Revenues

The increase in consolidated net revenues for the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 is due to increased revenues at all of the Company's properties with the exception of Station Casino St. Charles, which decreased slightly. Increased revenues at the Nevada Operations are partially a result of the acquisition of Santa Fe Station on October 2, 2000 and the subsequent completion in late November of the renovation and retheming of the casino and restaurants. In addition, revenues at the Nevada Operations increased in the early part of the year due to the introduction of the Boarding Pass player rewards program in April 1999, which makes it more convenient for customers to take advantage of products, services and amenities offered under the Station brand. Net revenues at the Missouri Operations increased slightly. However, the results were negatively impacted during the fourth quarter due to inclement weather throughout the Midwest, the anticipated sale of the Missouri Operations and the timing of the sale of the Missouri Operations on December 20, 2000.

The increase in consolidated net revenues for the fiscal year ended December 31, 1999 as compared to the twelve months ended December 31, 1998 is due to increased revenues at all of the Company's properties. Increased revenues at the Nevada Operations are partially a result of the completed master-planned expansions at Texas Station and Sunset Station, which were completed in February 1999 and November 1998, respectively. In addition, revenues at the Nevada Operations increased due to the introduction of the Boarding Pass player rewards program in April 1999, which makes it more convenient for customers to take advantage of the Station brand. Net revenues at the Missouri Operations increased 8% primarily due to Station Casino Kansas City which generated a 13% increase.

Operating Income/Operating Margin

The Company's operating income was impacted by certain charges/credits in each of the above periods that affect the ability to analyze year to year comparisons. The following table identifies these charges/credits (dollars in thousands):

	Fiscal Years Ended December 31,		Twelve Months Ended December 31,	Transition Period
	2000	1999	1998	1998
			(unaudited)	
Operating income	$ 242,812	$ 28,871	$ 92,380	$64,696
Operating margin	*24.5%*	*3.1%*	*10.9%*	*10.1%*
Certain charges/credits:				
Gain on sale of Missouri assets	$(41,731)	$ —	$ —	$ —
Missouri/Nevada investigations and fines	4,388	—	—	—
Preopening expenses	3,858	—	—	—
Restructuring charge	1,174	—	—	—
Impairment loss	—	137,435	30,011	30,011
Operating income, excluding certain charges/credits	$ 210,501	$166,306	$122,391	$94,707
Operating margin, excluding certain charges/credits	*21.2%*	*17.6%*	*14.4%*	*14.7%*

Consolidated operating income, excluding certain charges/credits, improved by $44.2 million in the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 with operating income at all of the Company's properties increasing with the exception of Texas Station. The increases at the Nevada Operations are attributed to the same factors affecting consolidated net revenues discussed above, to the elimination of the equipment lease at Sunset Station in October 1999 and the continued focus on cost controls at each of the properties. The increases at the Missouri Operations are primarily due to significant improvement in operations at both Station Casino St. Charles and Station Casino Kansas City. Operating income at Station Casino St. Charles increased significantly due to a reconfiguration of the gaming operations which transferred all gaming activities from the riverboat to the barge. The new configuration is much more efficient from a cost perspective than the two facility layout. Station Casino Kansas City continued to benefit from increases in the overall gaming market in the Kansas City area.

The consolidated operating margin, excluding certain charges/credits, improved in the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 due to the operating margin at the Missouri Operations improving 7.6 percentage points as a result of the elimination of costs associated with the riverboat in St. Charles, as discussed above, and the Nevada Operations improving 1.7 percentage points due primarily to the revenue growth discussed above.

Consolidated operating income, excluding certain charges/credits, improved by $43.9 million in the fiscal year ended December 31, 1999 as compared to the twelve months ended December 31, 1998 with operating income at all of the Company's properties increasing. The increases at the Nevada properties are attributed to the same factors affecting consolidated net revenues discussed above and the increases at the Missouri properties are primarily attributed to a 95.2% increase in operating income, excluding certain charges/credits, at Station Casino Kansas City due to a significant improvement in operations at this property. In addition, the decline in the prior year at Station Casino St. Charles was reversed as the property posted a $1.6 million increase in operating income, excluding certain charges/credits.

The consolidated operating margin, excluding certain charges/credits, improved in the fiscal year ended December 31, 1999 as compared to the twelve months ended December 31, 1998 due to the operating margins at Sunset Station and Station Casino Kansas City improving over 600 basis points and smaller increases at all of the other properties.

The following table highlights the various sources of revenues and expenses for the Company as compared to prior periods (dollars in thousands):

	Fiscal Years Ended December 31,		Twelve Months Ended December 31,	Transition Period
	2000	1999	1998	1998
			(unaudited)	
Casino revenues	$807,880	$764,089	$673,124	$509,149
Casino expenses	372,826	356,365	328,953	249,353
Margin	*53.9%*	*53.4%*	*51.1%*	*51.0%*
Food and beverage revenues	$137,198	$141,116	$138,044	$104,538
Food and beverage expenses	83,879	88,898	88,423	66,121
Margin	*38.9%*	*37.0%*	*35.9%*	*36.7%*
Room revenues	$ 46,260	$ 42,870	$ 39,678	$ 30,040
Room expenses	16,416	15,860	14,975	11,515
Margin	*64.5%*	*63.0%*	*62.3%*	*61.7%*
Other revenues	$ 67,999	$ 62,286	$ 59,924	$ 47,663
Selling, general and administrative expenses	$180,659	$190,753	$181,723	$136,649
Percent of net revenues	*18.2%*	*20.2%*	*21.5%*	*21.3%*
Corporate expense	$ 26,974	$ 23,007	$ 15,661	$ 11,431
Percent of net revenues	*2.7%*	*2.4%*	*1.8%*	*1.8%*

Casino. Casino revenues increased 5.7% for the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 with increases at all of the Company's properties. The increase in casino revenues at the Nevada Operations is a result of the same factors affecting consolidated net revenues discussed above. The growth in casino revenues in the second half of the year was tempered somewhat due to the competitive impact of the opening of the Suncoast on Texas Station, continued road construction near Palace Station and competitive supply increases on the Boulder Strip and surrounding areas. The increase in casino revenues at the Missouri Operations was impacted by the same factors affecting consolidated net revenues discussed above. The casino profit margin remained relatively consistent for the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999.

Casino revenues increased for the fiscal year ended December 31, 1999 as compared to the twelve months ended December 31, 1998 as a result of the same factors affecting consolidated net revenues discussed above. The casino profit margin increased to 53.4% for the fiscal year ended December 31, 1999 from 51.1% for the twelve months ended December 31, 1998 with all properties improving their margin with the exception of Boulder Station which decreased slightly.

Food and Beverage. Food and beverage revenues decreased 2.8% for the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 despite the acquisition of Santa Fe Station. At the Nevada Operations, food and beverage revenues remained flat with the acquisition of Santa Fe Station offsetting the reduction in food covers at the other Nevada properties. The reduction in food covers is due to a combination of selected menu price increases and additional competition in the market from restaurants in both gaming and non-gaming facilities. At the Missouri Operations, food and beverage revenues experienced a 12.4% decrease primarily due to a decrease in food covers as a result of selected menu price increases at Station Casino Kansas City and to an overall reduction of complimentaries at Station Casino St. Charles. Food and beverage net profit margin increased for the fiscal year ended December 31, 2000 as compared to the fiscal year ended December 31, 1999 due to an improvement at the Nevada Operations, primarily as a result of continued focus on cost control and purchasing efficiencies, as well as selected menu price increases. The increase in margin at the Nevada Operations was offset by a decrease at Station Casino St. Charles.

Food and beverage revenues for the fiscal year ended December 31, 1999 increased 2.2% over food and beverage revenues for the twelve months ended December 31, 1998. This increase is primarily due to the completion of the expansion projects at Sunset Station and Texas Station. These increases in food and beverage revenues in Nevada were offset by decreases at the Missouri properties. Also, food and beverage revenues increased due to selected menu price increases, which were offset by a decrease in food covers at all of the properties. Food and beverage net profit margins increased to 37.0% for the fiscal year ended December 31, 1999 from 35.9% for the twelve months ended December 31, 1998.

Room. Room revenues for the fiscal year ended December 31, 2000 increased 7.9% as compared to the fiscal year ended December 31, 1999. The increase in room revenues is primarily due to the acquisition of Santa Fe Station and to average daily room rates at Palace Station and Wild Wild West increasing 14.9% and 12.7%, respectively, over the prior year and smaller increases at the other Nevada properties. At Palace Station the room rates for all market segments were increased as a result of room renovations completed during the summer. The increase in average daily room rate at the Nevada properties was offset by a decrease in the average daily room rate at Station Casino Kansas City to $106 in the fiscal year ended December 31, 2000 from $109 in the fiscal year ended December 31, 1999 due to new lower rate competitors that entered the market during 1999.

The company-wide room occupancy decreased to 88% in the fiscal year ended December 31, 2000 as compared to 89% in the fiscal year ended December 31, 1999 due to the Company increasing room rates at the Nevada properties. The company-wide average daily room rate increased to $58 in the fiscal year ended December 31, 2000 as compared to $54 in the fiscal year ended December 31, 1999.

Room revenues for the fiscal year ended December 31, 1999 increased 8.0% over room revenues for the twelve months ended December 31, 1998. The primary reason for this increase was due to the acquisition of Wild Wild West in July 1998, which contributed $2.3 million of room revenues in the fiscal year ended December 31, 1999 as compared to $1.1 million of room revenues in the twelve months ended December 31, 1998.

The company-wide room occupancy decreased to 89% in the fiscal year ended December 31, 1999 as compared to 90% in the twelve months ended December 31, 1998 due to the Company increasing room rates at the properties. The average daily room rate increased to $54 in the fiscal year ended December 31, 1999 as compared to $51 in the twelve months ended December 31, 1998.

Selling, General and Administrative ("SG&A"). As a percent of net revenues, SG&A decreased to 18.2% in the fiscal year ended December 31, 2000 as compared to 20.2% in the fiscal year ended December 31, 1999. This decrease is due primarily to the continuing operating efficiencies in addition to the elimination of the equipment lease at Sunset Station in October 1999. Also, due to the fixed cost nature of some of these expenses, they decrease on a percentage basis as the Company continues to increase revenue.

As a percent of net revenues, SG&A decreased to 20.2% in the fiscal year ended December 31, 1999 as compared to 21.5% in the twelve months ended December 31, 1998. These decreases are due primarily to the fine tuning of operations at Sunset Station and Station Casino Kansas City.

Corporate Expense. Corporate expense as a percent of net revenues increased to 2.7% in the fiscal year ended December 31, 2000 as compared to 2.4% in the fiscal year ended December 31, 1999. Corporate expense as a percent of net revenues increased to 2.4% in the fiscal year ended December 31, 1999 as compared to 1.8% in the twelve months ended December 31, 1998. The Company has increased its corporate infrastructure and spending on Information Technology and Human Resources as it continues to lay the foundation for future growth.

Depreciation and Amortization. Depreciation and amortization decreased 10.4% in the fiscal year ended December 31, 2000 to $63.3 million as compared to $70.7 million in the fiscal year ended December 31, 1999. This decrease is primarily due to the write-down of assets at Station Casino St. Charles in the fourth quarter of 1999 and also due to the assets at Station Casino St. Charles and Station Casino Kansas City not being depreciated during the last two months of the year. Upon entering into the agreement to sell the Missouri properties, these assets were classified as "assets held for sale" and, consequently, depreciation ceased. This decrease was offset by an increase at Sunset Station due to the purchase of various leased equipment in October 1999 and due to the acquisition of Santa Fe Station.

Depreciation and amortization increased $0.7 million in the fiscal year ended December 31, 1999 to $70.7 million as compared to $70.0 million in the twelve months ended December 31, 1998. This increase is due to the completion of the expansion projects at Sunset Station and Texas Station which were completed in November 1998 and February 1999, respectively. This increase was offset by decreases at Boulder Station and Station Casino St. Charles as a portion of the original equipment became fully depreciated during the fiscal year ended December 31, 1999, as both properties have been open for five years. In addition, Palace Station had a large purchase of slot machines in 1994 that became fully depreciated during the fiscal year ended December 31, 1999.

Impairment Loss. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company recorded an impairment loss of $137.4 million in the fiscal year ended December 31, 1999 and $30.0 million in the Transition Period 1998 to adjust the carrying value of its fixed assets and land held for development to their estimated fair value. In the fiscal year ended December 31, 1999, approximately $125.2 million of the impairment loss was related to Station Casino St. Charles. In the fourth quarter of 1999, the Company made a decision to reconfigure the existing Station Casino St. Charles facility to a more efficient layout in response to the new open boarding rules promulgated by the Missouri Gaming Commission that began in September 1999 in the St. Louis market. In March 2000, all gaming operations were moved to the existing barge and the existing riverboat has been sold. In accordance with SFAS No. 121, the riverboat and miscellaneous other fixed assets were written down by approximately $15 million to their net realizable value.

In addition, the Company performed an evaluation of the carrying values of the remaining assets in St. Charles and determined a $110 million write-down of the asset values was necessary. The write-down was deemed appropriate after a review of the property's asset valuations relative to the Company's near-term investment objectives. The balance of the impairment loss in the fiscal year ended December 31, 1999 resulted primarily from the Company's determination that it would sell a 40-acre parcel of land in Henderson, Nevada, that it had acquired. Future development of the property will be limited to non-gaming purposes. The resulting write-down of the parcel was necessary to reflect the value of the land as a non-gaming site. This land was sold in the fiscal year ended December 31, 2000.

In the Transition Period 1998, the impairment loss principally involves assets at the Station Casino St. Charles facility, including a riverboat formerly used in the Missouri operations, capitalized project costs associated with various parcels of land determined to have no value, and several parcels of land within close proximity to the St. Charles, Missouri site that were being held for future development. The fair value of the impaired assets was primarily determined through the market's interest in riverboats and barges, and on the comparable sales prices on parcels of land in the St. Charles area. The total amount of the impairment loss in the Transition Period 1998 related to this category of assets was approximately $23.4 million. In addition to the assets described above, the most significant portion of the remaining impairment loss in the Transition Period 1998 relates to several parcels of land in Nevada and Texas that the Company had acquired in the past for either defensive or expansion purposes. The value of these parcels was determined based on sales prices for comparable parcels of land on the market. The following two circumstances led to the Company's decision to write-down these assets to their fair market value: (1) the passage, in Nevada, of legislation which places significantly higher requirements on land to be zoned for gaming purposes, and (2) the termination of the Plan of Merger with Crescent Real Estate Equities.

Restructuring Charge. During the fiscal year ended December 31, 2000, the Company recorded a restructuring charge of $1.2 million related to organizational changes to reduce costs and improve efficiency which resulted primarily in employee severance payments. The Nevada Operations were restructured to divide management responsibility between the east side and west side of the Las Vegas valley. As a result, certain functions that were operated on an individual property basis have been consolidated.

Missouri/Nevada Investigations and Fines. During the fiscal year ended December 31, 2000, the Company recorded $4.4 million in costs related to litigation and fines stemming from investigatory proceedings in Missouri and Nevada (see Lazaroff Investigation below for additional information on the Missouri investigation).

Preopening Expenses. Prior to December 31, 1998, the Company capitalized preopening expenses associated with its construction projects. Such amounts were expensed upon the opening of the related project. Preopening expenses incurred after January 1, 1999 have been expensed as incurred. Preopening expenses during the fiscal year ended December 31, 2000 included $1.1 million related to costs incurred for the acquisition of Santa Fe Station, $1.8 million related to the expansion project at Texas Station, $0.7 million related to costs incurred prior to the acquisition of the Fiesta, $0.1 million related to costs incurred prior to the acquisition of The Reserve and $0.2 million related to Green Valley Ranch.

Interest Expense, net. Interest costs incurred (expensed and capitalized) increased 16.2% to $99.2 million for the fiscal year ended December 31, 2000 as compared to $85.4 million in the fiscal year ended December 31, 1999. This increase is due in part to an increase of $47.1 million in total long-term debt from the prior year. In addition, the Company issued $375 million of 9⅞% Senior Subordinated Notes in July 2000. The proceeds of the notes were used to repay amounts outstanding on the revolving credit facility and term loan which carried lower interest rates.

Interest costs incurred (expensed and capitalized) decreased 6.2% to $85.4 million for the fiscal year ended December 31, 1999 as compared to $91.0 million in the twelve months ended December 31, 1998. This decrease is due to a decline of $17.2 million in total long-term debt from the prior year and to a reduction in average interest rates on long-term debt to 9.0% from 9.6% in the prior year.

Other Income/Expense. During the fourth quarter of the fiscal year ended December 31, 1999, the Company wrote off $2.4 million of costs incurred related to the termination of the Flamingo Hilton Kansas City acquisition.

In April 1999, the Company received a $15.0 million settlement payment from Crescent Real Estate Equities, Inc., which is included in the "Merger settlement, net of related legal costs" line on the accompanying Consolidated Statements of Operations.

Extraordinary Item. During the fiscal year ended December 31, 2000, the Company recorded an extraordinary charge of $0.4 million (net of applicable tax benefit) related to the termination of the Company's Term Loan and $0.1 million (net of applicable tax benefit) related to the termination of the Company's bridge loan.

In 1999, the Company recorded an extraordinary charge of $10.4 million (net of applicable tax benefit) to reflect the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem the 9⅝% senior subordinated notes, which were repaid on January 4, 1999. In addition, the Company also recorded an

extraordinary charge of $0.3 million (net of applicable tax benefit) related to the write-off of unamortized loan costs on the Company's $75.0 million secured term loan facility.

Liquidity and Capital Resources

During the fiscal year ended December 31, 2000, the Company generated cash flows from operating activities of $163.7 million. At December 31, 2000, the Company had total available borrowings of $380.8 million under the Amended Bank Facility, of which $64.0 million was directly outstanding. Total available borrowings will reduce each quarter in accordance with the terms of the Amended Bank Facility (see "Description of Certain Indebtedness and Capital Stock-Amended Bank Facility"). The Company also had $256.0 million in cash and cash equivalents. Included in the cash balance was $194.2 million received from the sale of the Missouri properties that was held to fund portions of the Fiesta and The Reserve acquisitions, which were completed in January 2001, as well as the purchase of land in North Las Vegas in January 2001. On December 20, 2000, the Company sold the Missouri Operations to Ameristar Casinos, Inc. for $488 million.

During the year ended December 31, 2000, total capital expenditures were approximately $358.8 million, of which approximately (i) $205 million was associated with the acquisition of Santa Fe Station, (ii) $65.5 million was associated with the expansion project at Texas Station, (iii) $3.3 million was associated with the reconfiguration of the Station Casino St. Charles facility to a more efficient layout, (iv) $8.8 million was associated with the hotel room remodels at Palace Station and Boulder Station, (v) $27.3 million was associated with the renovation and retheming of Santa Fe Station, (vi) $7.7 million was associated with the expansion of the Sunset Station parking garage, (vii) $29.3 million was for maintenance capital expenditures, and (viii) $9.5 million was associated with various other projects. In addition to the capital expenditures noted above, the Company also made $32.0 million of equity contributions to Green Valley Ranch.

The Company's primary capital requirements during fiscal year 2001 are expected to include (i) purchase of the Fiesta Casino Hotel and costs of capital improvements, expected to total approximately $175 million, (ii) purchase of The Reserve Hotel & Casino, and costs of capital improvements, expected to total approximately $80 million, (iii) the remaining costs of the expansion project at Santa Fe Station, estimated to be approximately $43.7 million, (iv) the remaining equity contributions to Green Valley Ranch, expected to be approximately $16 million, (v) investments in new slot machines and a new slot system of approximately $40 million, (vi) the purchases of land for approximately $33 million, which includes the buyout of the land that is currently leased by Sunset Station, (vii) strategic land purchases throughout the Las Vegas area, (viii) opportunistic repurchases of the Company's Common Stock, (ix) maintenance capital expenditures, and (x) principal and interest payments on indebtedness.

In February 2001, the Company issued $300 million of senior notes, the proceeds of which were used to pay down the Revolving Facility and to repay $100 million of principal amount of the 10⅛% senior subordinated notes. The Company believes that cash flows from operations, borrowings under the Amended Bank Facility, vendor and lease financing of equipment, and existing cash balances will be adequate to satisfy the Company's anticipated uses of capital during fiscal year 2001. The Company, however, continually is evaluating its financing needs. If more attractive financing alternatives or expansion, development or acquisition opportunities become available to the Company, the Company may amend its financing plans assuming such financing would be permitted under its existing debt agreements (See "Description of Certain Indebtedness and Capital Stock") and other applicable agreements.

Future Development

Green Valley Ranch

A 50/50 joint venture between the Company and GCR Gaming, LLC (an affiliate of American Nevada Corporation) has commenced construction of a new resort/casino, Green Valley Ranch, on the south side of Interstate 215 at Green Valley Parkway in Henderson, Nevada. The 40-acre resort site is part of a 170-acre mixed-use commercial, retail and office project. The Company expects to contribute approximately $50 million in cash equity for a 50 percent equity ownership. As of December 31, 2000, the Company has made cash equity contributions of $34 million. The Company will be the managing partner of Green Valley Ranch and will receive a management fee for its services. Construction of the resort is expected to be completed in the fourth quarter of 2001. The estimated construction cost of this project is approximately $300 million. The project is expected to be capitalized with total equity contributions from the partners of approximately $100 million and third party financing for the remainder. The joint venture has received commitments from a group of banks for a $165

million reducing revolving credit facility, subject to customary conditions. The Company anticipates that it will be required to enter into a completion guarantee and a make-well agreement in connection with the Green Valley Ranch financing. In addition, the joint venture anticipates obtaining $35 million of equipment lease financing from a group of lenders. If the third party financing cannot be obtained or is insufficient to fund the construction costs, the Company and GCR Gaming, LLC would be obligated to contribute amounts necessary to finance the construction and opening of the project. The Company has co-owned Barley's with an affiliate of American Nevada Corporation since January 1996.

United Auburn Indian Community

On October 12, 1999, the Company announced that it has entered into a Development Services Agreement and a Management Agreement with the United Auburn Indian Community (the "UAIC"). Subject to the receipt of certain governmental approvals, as well as voter approval of a proposed amendment to the California constitution, the Company and the UAIC intend to develop a gaming and entertainment facility on 49 acres, located approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. Voter approval of the proposed amendment to the California constitution was received in March 2000, however there can be no assurances when or if the necessary government approvals will be received. The scope and timing of this project have yet to be determined.

Land Acquisition

In addition to Green Valley Ranch, the Company has purchased or has options to purchase an additional 290 acres of land for six additional gaming sites in the Las Vegas valley which will be used for future development. The Rhodes Ranch site consists of two parcels totaling 83 acres (the Company owns 51 acres and has an option to purchase 32 acres), located at the intersection of Durango Road and the Southern Beltway/I-215 located in the southwest quadrant of Las Vegas. The Boulder/Tropicana site is a 68-acre site consisting of two parcels at the intersection of Boulder Highway and Tropicana Avenue in eastern Las Vegas. The Company is leasing (with an option to purchase) 34 acres of the site and has entered into an option to purchase the adjacent 34-acre parcel. The Company paid $30.2 million for the land mentioned above. The Company has no immediate plans to develop these sites.

On April 19, 2000, the Company announced that it had secured a gaming site in North Las Vegas. The site is a 34-acre parcel near the intersection of Martin Luther King Jr. Drive and Craig Road in North Las Vegas, Nevada. The Company has entered into a long-term ground lease with an option to purchase the property. The parcel is already entitled for gaming. As part of the transaction, the Company also placed a deed restriction prohibiting casino gaming on an 18-acre parcel, approximately 1.5 miles east of this site, that was previously entitled for gaming. The Company is currently evaluating the size, scope and timing of this project. In order to maintain its gaming entitlements, the Company would be required to complete the facility prior to the end of 2002.

In December 2000, the Company purchased for $42.0 million a 49-acre gaming-entitled parcel in southwest Las Vegas at the intersection of Flamingo Road and the soon-to-be-completed Interstate 215 Western Beltway. In January 2001, the Company purchased for $9.0 million a 29-acre gaming-entitled parcel at the intersection of Smoke Ranch Road and Rancho Road in North Las Vegas, adjacent to the North Las Vegas airport. In addition, the Company owns a 27-acre gaming entitled parcel at the intersection of Boulder Highway and Nellis Boulevard.

The Company's capital requirements in 2001 could also include amounts necessary to fund the proposed development of the project with the United Auburn Indian Community to the extent development of such project is commenced in 2001. In addition, the Company has in the past, and may in the future, make acquisitions and enter into joint ventures on an opportunistic basis. While the Company has not entered into any agreement with respect to any such future acquisition or joint venture other than as disclosed in this report, the Company's capital requirements in 2001 may include amounts necessary to permit the Company to pursue such expansion activities.

Lazaroff Investigation

In November the Company entered into a Settlement and Final Order with the Missouri Gaming Commission (the "MGC"). The settlement addressed all outstanding issues between the MGC and the Company and its affiliates, including (1) allegations relating to the activities of Michael Lazaroff, an attorney who formerly represented the Company in Missouri, and (2) other unrelated, pending disciplinary actions which sought administrative penalties totaling $400,000. Although denying any wrongdoing, the Company

paid an administrative penalty of $1 million to the MGC as part of the settlement after the closing of the sale of the Company's Missouri properties to Ameristar Casinos, Inc.

Regulation and Taxes

The Company is subject to extensive regulation by the Nevada gaming authorities and will be subject to regulation, which may or may not be similar to that in Nevada, by any other jurisdiction in which it may conduct gaming activities in the future. Changes in applicable laws or regulations could have a significant impact on the Company's operations. Pursuant to legislation enacted in 1996, a federal commission conducted a two-year study of the gaming industry in the United States and reported its findings and recommendations to Congress. To date there have been no changes to existing laws or regulations as a result of this report.

The gaming industry represents a significant source of tax revenue, particularly to the State of Nevada and its counties and municipalities. From time to time, various state and federal legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. Proposals in recent years that have not been enacted included a federal gaming tax and increases in state or local taxes, however, we have no assurances that future proposals will not be enacted.

Management believes that the Company's recorded tax balances are adequate. However, it is not possible to determine with certainty the likelihood of possible changes in tax law or in the administration of such law. Such changes, if adopted, could have a material adverse effect on the Company's operating results.

Description of Certain Indebtedness and Capital Stock

Amended Bank Facility

In August 1999, the Company amended its existing bank credit facility (the "Revolving Facility") and entered into a new secured term loan facility (the "Term Loan") (collectively, "the Amended Bank Facility"). The Amended Bank Facility is secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, Sunset Station, Station Casino St. Charles and Station Casino Kansas City (the "Borrowers"). The proceeds from the Term Loan were used to repay the Company's existing $75.0 million secured term loan facility and to reduce outstanding borrowings under the Company's Revolving Facility. The Company recorded an extraordinary charge of $0.3 million (net of applicable tax benefit) to reflect the write-off of the unamortized loan costs on the refinanced $75.0 million secured term loan facility. See discussion below regarding the termination of the term loan.

In March 2000, the Company exercised its right to increase the Revolving Facility by $50.0 million. The Revolving Facility provides for borrowings up to an aggregate principal amount of $380.8 million at December 31, 2000. The Revolving Facility matures on September 30, 2003. The availability under the Revolving Facility was to reduce by $14.0 million on each March 31, 2001 and June 30, 2001; by $17.5 million on each fiscal quarter end until and including September 30, 2002; by $30.6 million on each fiscal quarter end until and including June 30, 2003; and by $173.4 million on September 30, 2003. However, in February 2001, the Company reduced the Revolving Facility to $300.8 million. This reduction in the facility will eliminate substantially all the scheduled amortization through March 31, 2002. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility), as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Revolving Facility, will vary quarterly based on the Company's combined consolidated ratio of debt to EBITDA (each, as defined in the Revolving Facility). As of December 31, 2000, the Borrower's margin above the Eurodollar Rate on borrowings under the Revolving Facility was 1.50%. The maximum margin for Eurodollar Rate borrowings is 2.75%. The maximum margin for Alternate Base Rate borrowings is 1.50%. As of December 31, 2000, the fee for the unfunded portion of the Revolving Facility was 35 basis points.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.50 to 1.00 for each fiscal quarter (reduced to 2.25 to 1.00 in February 2001), a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.50 to 1.00 for each fiscal quarter, limitations on indebtedness, limitations on asset dispositions, limitations on investments, limitations on prepayments of indebtedness and rent and limitations on capital expenditures. As of December 31, 2000, the Borrowers combined funded debt to Adjusted EBITDA ratio was 0.72 to 1.00 and their combined fixed charge coverage ratio for the preceding four quarters ended December 31, 2000 was 2.34 to 1.00. A tranche of the

Revolving Facility contains a minimum tangible net worth requirement for Palace Station and certain restrictions on distributions of cash from Palace Station to the Company. As of December 31, 2000, Palace Station's tangible net worth exceeded the requirement by approximately $10.2 million. These covenants limit Palace Station's ability to make payments to the Company, a significant source of anticipated cash for the Company.

In addition, the Revolving Facility has financial and other covenants relating to the Company. These include a tangible net worth covenant and a covenant limiting the consolidated funded debt to Adjusted EBITDA ratio to no more than 4.50 to 1.00 on December 31, 2000. In February 2001, this ratio was increased to 5.25 to 1.00 and reducing in various steps to 4.50 to 1.00 on September 30, 2003. Other covenants limit prepayments of indebtedness or rent (including, subordinated debt other than refinancings meeting certain criteria), limitations on asset dispositions, limitations on dividends, limitations on indebtedness, limitations on investments and limitations on capital expenditures. The Revolving Facility also prohibits the Company from holding excess cash and cash equivalents. As of December 31, 2000, the Company's consolidated funded debt to Adjusted EBITDA ratio was 3.99 to 1.00. As of December 31, 2001, the Company has pledged the stock of all of its material subsidiaries except Kansas City Station Corporation and St. Charles Riverfront Station, Inc. and has agreed to pledge the stock of these subsidiaries.

Senior Subordinated Notes

The Company has $916.5 million, net of unamortized discount of $6.4 million, of senior subordinated notes outstanding as of December 31, 2000, $198 million of these notes bear interest, payable semi-annually, at a rate of 10⅛% per year, $150 million of these notes bear interest, payable semi-annually, at a rate of 9¾% per year, $199.9 million of these notes bear interest, payable semi-annually, at a rate of 8⅞% per year and $375 million of these notes bear interest, payable semi-annually, at a rate of 9⅞% per year (collectively the "Notes"). The indentures governing the Notes (the "Indentures") contain certain customary financial and other covenants, which limit the Company and its subsidiaries' ability to incur additional debt and to pay dividends. At December 31, 2000, the Company's Consolidated Coverage Ratio (as defined) was 2.34 to 1.00. The Indentures provide that the Company may not incur additional indebtedness, other than specified types of indebtedness, unless the Consolidated Coverage Ratio is at least 2.00 to 1.00. In the event the Consolidated Coverage Ratio is not at least 2.00 to 1.00, the covenant limits the Company's ability to incur additional indebtedness for borrowings under the Amended Bank Facility not to exceed the greater of $200 million or 1.5 times Operating Cash Flow (as defined) for the four most recent quarters, plus $15 million. On August 10, 2000, the Company completed a consent solicitation with the holders of the Notes to exclude the write-down of assets at Station Casino St. Charles in December 1999 from the definition of consolidated net income for the Consolidated Coverage Ratio. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures significantly restrict the Company's ability to pay dividends on its capital stock. The Indentures also give the holders of the Notes the right to require the Company to purchase the Notes at 101% of the principal amount of the Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the Indentures) of the Company.

Senior Notes

In February 2001, the Company issued $300 million of 8⅜% Senior Notes (the "Senior Notes"). The proceeds from the Senior Notes were used to repay amounts outstanding on the Revolving Facility and to redeem $100 million principal amount (and the associated call premium) of the 10⅛% senior subordinated notes. The Senior Note indenture contains substantially the same covenants as the Indentures, as well as a limitation on the amount of liens the Company can incur.

Sunset Operating Lease

The Company entered into an operating lease for furniture, fixtures and equipment (the "Equipment") with a cost of up to $40.0 million, dated as of September 25, 1996 (the "Sunset Operating Lease") with First Security Trust Company of Nevada. A total of $35.7 million of this facility had been drawn. The Company incurred approximately $2.0 million of rent expense per quarter related to the Sunset Operating Lease. In October 1999, the Company exercised its option to purchase the equipment for approximately $27 million. The purchase price was funded with borrowings from the Company's Revolving Facility.

Common Stock

On May 23, 2000, the Company announced a 3-for-2 stock split. The record date for the stock split was June 30, 2000 and the distribution date was July 17, 2000. Cash was paid for all fractional shares. All share data has been adjusted

retroactively in the accompanying consolidated financial statements for the 3-for-2 stock split.

Adjusted for the stock split, the Company is authorized to issue up to 135,000,000 shares of its common stock, $0.01 par value per share (the "Common Stock"), 63,919,530 shares of which were issued and 3,552,401 shares were held in treasury as of December 31, 2000. Each holder of the Common Stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of the Common Stock have no cumulative voting, conversion, redemption or preemptive rights or other rights to subscribe for additional shares other than pursuant to the Rights Plan described below. Subject to any preferences that may be granted to the holders of the Company's preferred stock, each holder of Common Stock is entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefore as well as any distributions to the stockholders and, in the event of liquidation, dissolution or winding up of the Company, is entitled to share ratably in all assets of the Company remaining after payment of liabilities.

Rights Plan

On October 6, 1997, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock. The dividend was paid on October 21, 1997. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Preferred Stock, par value $0.01 per share ("Preferred Shares") of the Company at a price of $40.00 per one one-hundredth of a Preferred Share, subject to adjustment. The Rights are not exercisable until the earlier of 10 days following a public announcement that a person or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the outstanding Common Stock ("Acquiring Person") or 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding Common Stock.

The Rights will expire on October 21, 2007. Acquiring Persons do not have the same rights to receive Common Stock as other holders upon exercise of the Rights. Because of the nature of the Preferred Shares' dividend, liquidation and voting rights, the value of one one-hundredth interest in a Preferred Share purchasable upon exercise of each Right should approximate the value of one Common Share. In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, the proper provisions will be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter become void), will thereafter have the right to receive upon exercise that number of shares of Common Stock having a market value of two times the exercise price of the Right. In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group has become an Acquiring Person, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon exercise thereof, that number of shares of Common Stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Right. Because of the characteristics of the Rights in connection with a person or group of affiliated or associated persons becoming an Acquiring Person, the Rights may have the effect of making an acquisition of the Company more difficult and may discourage such an acquisition.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of its preferred stock, $0.01 par value per share (the "Preferred Stock"). As of June 14, 1999, the Company redeemed all 2,070,000 shares of its $3.50 Convertible Preferred Stock in exchange for 10,112,448 shares of the Company's Common Stock. The Board of Directors, without further action by the holders of Common Stock, may issue shares of Preferred Stock in one or more series and may fix or alter the rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of Preferred Stock. Except as described above, the Board of Directors, without further stockholder approval, may issue shares of Preferred Stock with rights that could adversely affect the rights of the holders of Common Stock. The issuance of shares of Preferred Stock under certain circumstances could have the effect of delaying or preventing a change of control of the Company or other corporate action.

Treasury Stock

Adjusted for the stock split, the Company is authorized to repurchase up to approximately 9.5 million shares of its Common Stock. As of December 31, 2000, the Company had purchased 3.6 million shares at a cost of $41.9 million. In July 2000, the Company entered into an equity forward contract that allows for shares of the Company's Common Stock to be purchased by a financial institution and held on the Company's behalf. This contract expired in January 2001 and the terms of the contract permitted settlement in cash, shares, net cash or net shares. In January 2001, the Company closed out the contract and purchased 3.2 million shares for approximately $46 million.

Put Options

During the quarter ended March 31, 2000, the Company sold put options, adjusted for the stock split, on 2.2 million shares of its Common Stock. The Company had the option to settle in cash or shares of Common Stock. On April 27, 2000, options on 1.1 million shares expired unexercised. On July 27, 2000, the remaining options on 1.1 million shares were rolled into another put option for 1.1 million shares, which was terminated on August 4, 2000.

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. The Company's primary exposure to market risk is interest rate risk associated with its long-term debt. The Company attempts to limit its exposure to interest rate risk by managing the mix of its long-term fixed-rate borrowings and short-term borrowings under the Amended Bank Facility. Borrowings under the Amended Bank Facility bear interest, at the Company's option, at a specified premium over the prime rate or at a specified premium over the one-, two-, three-, or six-month London Interbank Offered Rate ("LIBOR"). However, the amount of outstanding borrowings is expected to fluctuate and may be reduced from time to time. The Revolving Facility matures in September 2003.

The following table provides information about the Company's long-term debt at December 31, 2000 (see also "Description of Certain Indebtedness and Capital Stock") (amounts in thousands):

	Maturity Date	Face Amount	Carrying Value	Estimated Fair Value
Revolving Facility at a weighted average interest rate of approximately 9.41%	September 2003	$ 64,000	$ 64,000	$ 64,000
9⅞% senior subordinated notes	July 2010	375,000	373,566	386,438
8⅞% senior subordinated notes	December 2008	199,900	199,900	196,622
9¾% senior subordinated notes	April 2007	150,000	145,782	153,720
10⅛% senior subordinated notes	March 2006	198,000	197,205	204,098
Other notes, interest ranging from 8.50% to 9.00%	Various to June 2007	9,172	9,172	9,172
Total		$996,072	$989,625	$1,014,050

(amounts in thousands, except per share data)

	December 31, 2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 255,984	$ 73,072
Receivables, net	11,128	12,346
Income tax receivable	18,351	—
Inventories	3,975	6,013
Prepaid gaming tax	11,072	10,035
Prepaid expenses	5,276	8,219
Deferred income tax	7,248	8,023
Total current assets	313,034	117,708
Property and equipment, net	811,449	1,025,753
Goodwill, net	114,854	2,407
Land held for development	97,949	18,839
Investment in joint ventures	45,210	3,699
Deferred income tax, net	—	24,319
Other assets, net	57,932	83,548
Total assets	$1,440,428	$1,276,273
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 5,684	$ 8,647
Accounts payable	21,871	11,998
Accrued payroll and related	20,335	25,065
Construction contracts payable	5,476	750
Accrued interest payable	10,998	12,341
Accrued progressives	6,837	8,877
Accrued expenses and other current liabilities	53,541	50,011
Total current liabilities	124,742	117,689
Long-term debt, less current portion	983,941	933,833
Deferred income tax, net	31,336	—
Other long-term liabilities, net	11,522	7,950
Total liabilities	1,151,541	1,059,472
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, par value $.01; authorized 135,000,000 shares; 63,919,530 and 63,683,999 shares issued	427	424
Treasury stock, 3,552,401 and 1,167,494 shares, at cost	(41,882)	(11,862)
Additional paid-in capital	288,794	282,294
Deferred compensation—restricted stock	(6,050)	(7,432)
Retained earnings (accumulated deficit)	47,598	(45,907)
Accumulated other comprehensive income	—	(716)
Total stockholders' equity	288,887	216,801
Total liabilities and stockholders' equity	$1,440,428	$1,276,273

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

(amounts in thousands, except share data)

	For the Years Ended December 31, 2000	For the Years Ended December 31, 1999	Transition Period 1998
			(see Note 1)
Operating revenues:			
Casino	$ 807,880	$ 764,089	$ 509,149
Food and beverage	137,198	141,116	104,538
Room	46,260	42,870	30,040
Other	67,999	62,286	47,663
Gross revenues	1,059,337	1,010,361	691,390
Promotional allowances	(67,659)	(67,892)	(49,176)
Net revenues	991,678	942,469	642,214
Operating costs and expenses:			
Casino	372,826	356,365	249,353
Food and beverage	83,879	88,898	66,121
Room	16,416	15,860	11,515
Other	37,077	30,616	19,463
Selling, general and administrative	180,659	190,753	136,649
Corporate expense	26,974	23,007	11,431
Depreciation and amortization	63,346	70,664	52,975
Gain on sale of Missouri assets	(41,731)	—	—
Missouri/Nevada investigations and fines	4,388	—	—
Preopening expenses	3,858	—	—
Restructuring charge	1,174	—	—
Impairment loss	—	137,435	30,011
	748,866	913,598	577,518
Operating income	242,812	28,871	64,696
Other income (expense):			
Interest expense, net	(94,098)	(84,618)	(66,127)
Merger settlement, net of related legal costs	—	12,824	(2,943)
Other	(565)	(4,300)	(5,490)
	(94,663)	(76,094)	(74,560)
Income (loss) before income taxes and extraordinary item	148,149	(47,223)	(9,864)
Income tax (provision) benefit	(54,098)	14,929	871
Income (loss) before extraordinary item	94,051	(32,294)	(8,993)
Extraordinary item—loss on early retirement of debt, net of applicable income tax benefit	(546)	(10,653)	(3,104)
Net income (loss)	93,505	(42,947)	(12,097)
Preferred stock dividends	—	(1,811)	(5,434)
Net income (loss) applicable to common stock	$ 93,505	$ (44,758)	$ (17,531)
Basic and diluted earnings (loss) per common share:			
Earnings (loss) applicable to common stock, before extraordinary item:			
Basic	$ 1.55	$ (0.58)	$ (0.27)
Diluted	$ 1.49	$ (0.58)	$ (0.27)
Earnings (loss) applicable to common stock:			
Basic	$ 1.55	$ (0.76)	$ (0.33)
Diluted	$ 1.48	$ (0.76)	$ (0.33)
Weighted average common shares outstanding:			
Basic	60,519,046	58,692,141	52,967,573
Diluted	63,116,113	58,692,141	52,967,573

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

(amounts in thousands)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Deferred Compensation-Restricted Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances, March 31, 1998	$ 103,500	$353	$ —	$167,180	$ (528)	$ 16,382	$ —	$286,887
Exercise of stock options	—	—	—	36	—	—	—	36
Amortization of deferred compensation	—	—	—	—	369	—	—	369
Preferred stock dividends	—	—	—	—	—	(5,434)	—	(5,434)
Purchase of treasury stock, at cost (320 shares)	—	—	(2,006)	—	—	—	—	(2,006)
Other	—	—	—	1,651	—	—	—	1,651
Net loss	—	—	—	—	—	(12,097)	—	(12,097)
Balances, December 31, 1998, (see Note 1)	103,500	353	(2,006)	168,867	(159)	(1,149)	—	269,406
Exercise of stock options	—	1	—	827	—	—	—	828
Issuance of restricted stock	—	3	—	7,510	(7,513)	—	—	—
Amortization of deferred compensation	—	—	—	—	240	—	—	240
Preferred stock dividends	—	—	—	—	—	(1,811)	—	(1,811)
Preferred stock conversion	(103,500)	67	—	103,746	—	—	—	313
Purchase of treasury stock, at cost (848 shares)	—	—	(9,856)	—	—	—	—	(9,856)
Other	—	—	—	1,344	—	—	—	1,344
Asset held for sale market valuation adjustment	—	—	—	—	—	—	(716)	(716)
Net loss	—	—	—	—	—	(42,947)	—	(42,947)
Balances, December 31, 1999	—	424	(11,862)	282,294	(7,432)	(45,907)	(716)	216,801
Exercise of stock options	—	3	—	3,146	—	—	—	3,149
Cancellation of restricted stock	—	—	—	(631)	631	—	—	—
Amortization of deferred compensation	—	—	—	—	751	—	—	751
Purchase of treasury stock, at cost (2,384 shares)	—	—	(30,020)	—	—	—	—	(30,020)
Sale of put options	—	—	—	2,085	—	—	—	2,085
Other	—	—	—	1,900	—	—	—	1,900
Asset held for sale market valuation adjustment	—	—	—	—	—	—	716	716
Net income	—	—	—	—	—	93,505	—	93,505
Balances, December 31, 2000	$ —	$427	$(41,882)	$288,794	$(6,050)	$ 47,598	$ —	$288,887

The accompanying notes are an integral part of these consolidated statements

(amounts in thousands)

	For the Years Ended December 31, 2000	1999	Transition Period 1998 (see Note 1)
Cash flows from operating activities:			
Net income (loss)	$ 93,505	$ (42,947)	$ (12,097)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	63,346	70,664	52,975
Amortization of debt discount and issuance costs	2,979	2,659	4,254
Loss on early retirement of debt	840	16,389	4,775
Impairment loss	—	137,435	30,011
Gain on sale of Missouri assets	(41,731)	—	—
Changes in assets and liabilities:			
(Increase) decrease in receivables, net	(19,613)	6,026	(5,598)
Decrease (increase) in inventories and prepaid expenses and other	432	(3,113)	(2,839)
Increase (decrease) in deferred income tax	56,430	(32,733)	(6,410)
Increase (decrease) in accounts payable	9,873	(6,893)	2,138
(Decrease) increase in accrued expenses and other current liabilities	(321)	25,170	9,531
Other, net	(2,044)	401	(48)
Total adjustments	70,191	216,005	88,789
Net cash provided by operating activities	163,696	173,058	76,692
Cash flows from investing activities:			
Capital expenditures	(358,763)	(76,344)	(96,482)
Proceeds from sale of property and equipment and Missouri assets	511,576	5,025	5,998
Purchase of land held for development	(79,596)	(1,947)	(580)
Investment in joint ventures	(58,837)	(2,643)	—
Assets held for sale	—	(37,468)	—
Increase (decrease) in construction contracts payable	4,726	(9,649)	(135)
Other, net	(11,810)	(8,627)	(2,572)
Net cash provided by (used in) investing activities	7,296	(131,653)	(93,771)
Cash flows from financing activities:			
(Payments) borrowings under bank facility, net	(313,300)	(1,700)	55,000
Principal payments on notes payable	(13,695)	(16,004)	(11,780)
Proceeds from the issuance of senior subordinated notes	373,522	—	199,900
Defeasance of 9⅝% senior subordinated notes	—	(201,670)	—
Purchase of treasury stock	(30,020)	(9,856)	(2,006)
Sale of put options	2,085	—	—
Dividends paid on preferred stock	—	(1,811)	(5,434)
Exercise of stock options	3,149	828	36
Debt issuance costs and other, net	(9,821)	457	(7,372)
Net cash provided by (used in) financing activities	11,920	(229,756)	228,344
Cash and cash equivalents:			
Increase (decrease) in cash and cash equivalents	182,912	(188,351)	211,265
Balance, beginning of year	73,072	261,423	50,158
Balance, end of year	$ 255,984	$ 73,072	$ 261,423
Supplemental cash flow disclosures:			
Cash paid for interest, net of amounts capitalized	$ 93,582	$ 85,176	$ 65,275
Cash paid for income taxes, net	$ 16,550	$ 15,202	$ 519
Property and equipment purchases financed by debt	$ —	$ 35	$ 2,978
Preferred stock converted to common stock and additional paid-in capital	$ —	$ 100,131	$ —
Market valuation adjustment for asset held for sale	$ —	$ 716	$ —

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

1. Summary of Significant Accounting Policies and Basis of Presentation

Basis of Presentation and Organization

Station Casinos, Inc. (the "Company"), a Nevada Corporation, is a gaming company that owns and operates seven distinctly themed hotel/casino properties and two smaller casino properties throughout the Las Vegas metropolitan area. The Company also owns and provides slot route management services in southern Nevada. On October 2, 2000, the Company consummated the purchase of substantially all of the assets of the Santa Fe Hotel & Casino for an aggregate purchase price of $205 million and renamed the property Santa Fe Station. Until December 20, 2000, the Company owned and operated St. Charles Riverfront Station, Inc. ("Station Casino St. Charles") located in St. Charles, Missouri and Kansas City Station Corporation ("Station Casino Kansas City") located in Kansas City, Missouri. On December 20, 2000, the Company consummated the sale of substantially all of the assets of Station Casino St. Charles and Station Casino Kansas City (collectively the "Missouri Properties") to Ameristar Casinos, Inc. for an aggregate purchase price of approximately $488 million.

On January 4, 2001, the Company consummated the purchase of substantially all of the assets of the Fiesta Casino Hotel for a purchase price of $170 million. On January 30, 2001, the Company consummated the purchase of substantially all of the assets of The Reserve Hotel & Casino for an aggregate purchase price of $71.8 million.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Palace Station Hotel & Casino, Inc. ("Palace Station"), Boulder Station, Inc. ("Boulder Station"), Texas Station, Inc. ("Texas Station"), Sunset Station, Inc. ("Sunset Station"), Santa Fe Station, Inc. ("Santa Fe Station"), St. Charles Riverfront Station, Inc. ("Station Casino St. Charles"), Kansas City Station Corporation ("Station Casino Kansas City"), Southwest Gaming Services, Inc. ("SGSI") and Tropicana Station, Inc., the operator of the Wild Wild West Gambling Hall & Hotel ("Wild Wild West"). The Company also owns a 50% interest in Town Center Amusements, Inc. d.b.a. Barley's Casino & Brewing Company ("Barley's"). All significant intercompany accounts and transactions have been eliminated.

Change in Fiscal Year

On November 6, 1998, the Company filed a Form 8-K announcing its change in fiscal year end from March 31 of each year to December 31 of each year. This change is effective for the nine month period ended December 31, 1998 (the "Transition Period 1998"). Selected consolidated financial data for the twelve months ended December 31, 1998 is presented below, for comparison purposes only (amounts in thousands, unaudited).

Net revenues	$847,015
Operating income	92,380
Loss before income taxes and extraordinary item	(10,092)
Income tax benefit	453
Extraordinary item, net of applicable income tax benefit	(5,146)
Net loss	(14,785)
Net loss applicable to common stock	(22,030)
Loss per common share applicable to common stock	(0.42)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments purchased with an original maturity of 90 days or less.

Inventories

Inventories are stated at the lower of cost or market; cost being determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or the terms of the capitalized lease, whichever is less. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

Goodwill

In connection with the acquisition of Santa Fe Station, the excess of the purchase price over the fair market value of the net assets acquired was $113.3 million and is being amortized over a period of 40 years.

Capitalization of Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. Interest capitalization ceases once the project is substantially complete or no longer undergoing construction activities to prepare it for its intended use. When no debt is specifically identified as being incurred in connection with such construction projects, the Company capitalizes interest on amounts expended on the project at the Company's weighted average cost of borrowed money. Interest capitalized was approximately $3.8 million for the fiscal year ended December 31, 2000, was approximately $0.4 million for the fiscal year ended December 31, 1999 and was approximately $1.2 million for the Transition Period 1998.

Investments in Joint Ventures

The Company has investments in two joint ventures that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of earnings, losses and distributions of the joint ventures. The investment balance also includes interest capitalized during the construction period which will be amortized against the earnings of the joint venture when operations begin. In addition, the Company has an investment in a joint venture in which it owns a 6.7% interest, and therefore, is accounted for on the cost method. Under the cost method, earnings will be recognized only to the extent that cash is distributed from the joint venture.

Debt Issuance Costs

Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the terms of the related debt agreements.

Preopening Expenses

Effective January 1, 1999, Statement of Position 98-5, "Reporting on the Costs of Start-up Activities", changed the manner in which the Company accounts for preopening expenses. Preopening expenses incurred after January 1, 1999 have been expensed as incurred. The construction phase typically covers a period of 12 to 24 months. The majority of preopening costs are incurred in the three months prior to opening. During the fiscal year ended December 31, 2000, the Company incurred preopening expenses of $3.9 million related to the expansion of Texas Station, the remodeling of Santa Fe Station and ongoing construction of Green Valley Ranch. During the fiscal year ended December 31, 1999 and the Transition Period 1998, the Company had no preopening expenses.

Revenues and Promotional Allowances

In accordance with industry practice, the Company recognizes as casino revenues the net win from gaming activities, which is the difference between gaming wins and losses. All other revenues are recognized as the service is provided. Revenues include the retail value of accommodations and food and beverage provided on a complimentary basis to customers. The estimated departmental costs of providing such promotional allowances are included in casino costs and expenses and consist of the following (amounts in thousands):

	For the Years Ended December 31,		Transition Period
	2000	1999	1998
Food and beverage	$51,545	$51,916	$38,816
Room	3,126	2,527	1,877
Other	3,242	3,106	1,932
Total	$57,913	$57,549	$42,625

Earnings (Loss) Applicable to Common Stock

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", basic EPS is computed by dividing net income (loss) applicable to common stock by the weighted average common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially dilutive securities such as stock options and convertible preferred stock.

The weighted average number of common shares used in the calculation of basic and diluted earnings per share consisted of the following:

	Year Ended December 31, 2000
Weighted average common shares outstanding (used in calculation of basic earnings per share)	60,519,046
Potential dilution from the assumed exercise of stock options	2,597,067
Weighted average common and common equivalent shares outstanding (used in calculation of diluted earnings per share)	63,116,113

The assumed exercise of stock options for the year ended December 31, 1999 and the Transition Period 1998 was anti-dilutive and, therefore, not included in the calculation above.

Recently Issued Accounting Standards

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments for fiscal years beginning after June 15, 2000. Management estimates that SFAS No. 133 will not have a significant impact on the Company's results of operations or financial position.

Reclassifications

Certain amounts in the December 31, 1999 and the Transition Period 1998 consolidated financial statements have been reclassified to conform to the December 31, 2000 presentation. These reclassifications had no effect on the previously reported net loss.

2. Receivables

Components of receivables are as follows (amounts in thousands):

	December 31, 2000	December 31, 1999
Casino	$ 7,376	$ 7,496
Hotel	2,546	2,546
Other	4,144	5,263
	14,066	15,305
Allowance for doubtful accounts	(2,938)	(2,959)
Receivables, net	$11,128	$12,346

3. Property and Equipment

Property and equipment consists of the following as of December 31, 2000 and 1999 (amounts in thousands):

	Estimated Life (years)	December 31, 2000	December 31, 1999
Land	—	$ 57,956	$ 36,737
Land leases acquired	48-52	4,995	4,995
Buildings and leasehold improvements	31-45	675,696	765,042
Boats and barges	20-45	—	67,009
Furniture, fixtures and equipment	3-7	258,058	284,167
Construction in progress	—	19,022	119,353
		1,015,727	1,277,303
Accumulated depreciation and amortization		(204,278)	(251,550)
Property and equipment, net		$ 811,449	$1,025,753

At December 31, 2000 and 1999, substantially all property and equipment of the Company is pledged as collateral for long-term debt.

Construction in Progress

Since December 31, 1997, construction on the Station Casino St. Charles expansion project has been halted. Included in construction in progress at December 31, 1999 is approximately $101.0 million related to the Station Casino St. Charles expansion project (see Asset Impairment discussion below).

Asset Impairment

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company recorded an impairment loss of $137.4 million in the fiscal year ended December 31, 1999 and $30.0 million in the Transition Period 1998 to adjust the carrying value of its fixed assets and land held for development to their estimated fair value. In the fiscal year ended December 31, 1999, approximately $125.2 million of the impairment loss was related to Station Casino St. Charles. In the fourth quarter of 1999, the Company made a decision to reconfigure the existing Station Casino St. Charles facility to a more efficient layout in response to the new open boarding rules promulgated by the Missouri Gaming Commission that began in September 1999 in the St. Louis market. In March 2000, all gaming operations were moved to the existing barge and the existing riverboat has been sold. In accordance with SFAS No. 121, the riverboat and miscellaneous other fixed assets were written down by approximately $15 million to their net realizable value. In December 2000, the Company sold its Missouri assets (see Note 6).

In addition, the Company performed an evaluation of the carrying values of the remaining assets in St. Charles and determined a $110 million write-down of the asset values was necessary. The write-down was deemed appropriate after a review of the property's asset valuations relative to the Company's near-term investment objectives. The balance of the impairment loss in the fiscal year ended December 31, 1999, resulted primarily from the Company's determination that it would sell a 40-acre parcel of land in Henderson, Nevada, that it had acquired. Future development of the property will be limited to non-gaming purposes. The resulting write-down of the parcel was necessary to reflect the value of the land as a non-gaming site. This land was sold in the fiscal year ended December 31, 2000.

In the Transition Period 1998, the impairment loss principally involves assets at the Station Casino St. Charles facility, including a riverboat formerly used in the Missouri operations, capitalized project costs associated with various parcels of land determined to have no value, and several parcels of land within close proximity to the St. Charles, Missouri site that were being held for future development. The fair value of the impaired assets was primarily determined through the market's interest in riverboats and barges, and on the comparable sales prices on parcels of land in the St. Charles area. The total amount of the impairment loss in the Transition Period 1998 related to this category of assets was approximately $23.4 million. In addition to the assets described above, the most significant portion of the remaining impairment loss in the Transition Period 1998 relates to several parcels of land in Nevada and Texas that the Company had acquired in the past for either defensive or expansion purposes. The value of these parcels was determined based on sales prices for comparable parcels of land on the market. The following two circumstances led to the Company's decision to write-down these assets to their fair market value: (1) the passage, in Nevada, of legislation which places significantly higher requirements on land to be zoned for gaming purposes, and (2) the termination of the Plan of Merger with Crescent Real Estate Equities Company.

Palace Station Fire and Flood

On July 20, 1998, Palace Station suffered damage to its casino and hotel tower as a result of a thunderstorm in the Las Vegas valley. In November 1998, repairs were completed to the casino and all of the rooms in the 21-story hotel tower became fully functional. Losses associated with the property damage and business interruption were covered under the Company's insurance policies. As of December 31, 1998, the Company had recorded $6.8 million in other revenues in the Consolidated Statements of Operations for the Transition Period 1998 related to the business interruption claim. During the quarter ended March 31, 1999, the Company received its final payment from its insurance company on these claims.

4. Land Held for Development

The Company has acquired several parcels of land in the Las Vegas valley as part of the Company's development activities. The Company's decision on whether to proceed with any new gaming opportunity is dependent upon future economic and regulatory factors, the availability of financing and competitive and strategic considerations. As many of these considerations are beyond the Company's control, no assurances can be made that the Company will be able to obtain appropriate licensing or be able to secure additional, acceptable financing in order to proceed with any particular project. As of

December 31, 2000, the Company has $97.9 million of land held for development. Land held for development consists primarily of five sites that are owned or leased which comprise 195 acres. In addition, the Company has options to purchase a total of 66 acres adjacent to two of the sites.

5. Long-term Debt

Long-term debt consists of the following (amounts in thousands):

	December 31, 2000	December 31, 1999
Amended and restated reducing revolving credit facility, $380.8 million limit at December 31, 2000, due September 30, 2003, interest at a margin above the bank's prime rate or the Eurodollar Rate (9.41% at December 31, 2000)	$ 64,000	$177,300
Secured term loan facility	—	200,000
9⅞% senior subordinated notes, interest payable semi-annually, principal due July 1, 2010, net of unamortized discount of $1.4 million at December 31, 2000	373,566	—
8⅞% senior subordinated notes, interest payable semi-annually, principal due December 1, 2008	199,900	199,900
9¾% senior subordinated notes, interest payable semi-annually, principal due April 15, 2007, net of unamortized discount of $4.2 million at December 31, 2000	145,782	145,326
10⅛% senior subordinated notes, interest payable semi-annually, principal due March 15, 2006, net of unamortized discount of $0.8 million at December 31, 2000	197,205	197,087
Other long-term debt, collateralized by various assets, including slot machines, furniture and equipment, and land, monthly installments including interest ranging from 8.50% to 9.00% at December 31, 2000	9,172	22,867
Total long-term debt	989,625	942,480
Current portion of long-term debt	(5,684)	(8,647)
Total long-term debt, less current portion	$983,941	$933,833

In August 1999, the Company amended its existing bank credit facility (the "Revolving Facility") and entered into a new secured term loan facility (the "Term Loan") (collectively, "the Amended Bank Facility"). The Amended Bank Facility is secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, Sunset Station, Station Casino St. Charles and Station Casino Kansas City (the "Borrowers"). The proceeds from the Term Loan were used to repay the Company's existing $75.0 million secured term loan facility and to reduce outstanding borrowings under the Company's Revolving Facility. The Company recorded an extraordinary charge of $0.3 million (net of applicable tax benefit) to reflect the write-off of the unamortized loan costs on the refinanced $75.0 million secured term loan facility. See discussion below regarding the termination of the Term Loan.

Subsequent to December 31, 2000, the Company amended the Revolving Facility to amend certain covenants discussed below including the scheduled amortization and the consolidated funded debt to adjusted EBITDA ratio. See discussion of amendment in Note 12.

In March 2000, the Company exercised its right to increase the Revolving Facility by $50.0 million. The Revolving Facility provides for borrowings up to an aggregate principal amount of $380.8 million at December 31, 2000. The Revolving Facility matures on September 30, 2003. The availability under the Revolving Facility will reduce by $14.0 million on each of March 31, 2001 and June 30, 2001; by $17.5 million each fiscal quarter end until and including September 30, 2002; by $30.6 million on each fiscal quarter end until and including June 30, 2003; and by $173.4 million on September 30, 2003. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility), as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Revolving Facility, will vary quarterly based on the Company's combined consolidated ratio of debt to EBITDA (each, as defined in the Revolving Facility). As of December 31, 2000, the Borrower's margin above the Eurodollar Rate on borrowings under the Revolving Facility was 1.50%. The maximum margin for Eurodollar Rate borrowings is 2.75%. The maximum margin for Alternate Base Rate borrowings is 1.50%. As of December 31, 2000, the fee for the unfunded portion of the Revolving Facility was 35 basis points.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.50 to 1.00 for each fiscal quarter, a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.50 to 1.00 for each fiscal quarter, limitations on indebtedness, limitations on asset dispositions, limitations on investments, limitations on prepayments of indebtedness and rent and limitations on capital expenditures. As of December 31, 2000, the Borrowers combined funded debt to Adjusted EBITDA ratio was 0.72 to 1.00 and their combined fixed charge coverage ratio for the preceding four quarters ended December 31, 2000 was 2.34 to 1.00. A tranche of the Revolving Facility contains a minimum tangible net worth requirement for Palace Station and certain restrictions on distributions of cash from Palace Station to the Company. As of December 31, 2000, Palace Station's tangible net worth exceeded the requirement by approximately $10.2 million. These covenants limit Palace Station's ability to make payments to the Company, a significant source of anticipated cash for the Company.

In addition, the Revolving Facility has financial and other covenants relating to the Company. These include a tangible net worth covenant and a covenant limiting the consolidated funded debt to Adjusted EBITDA ratio to no more than 4.50 to 1.00 on December 31, 2000 and reducing quarterly to 4.00 to 1.00 on September 30, 2001. Other covenants limit prepayments of indebtedness or rent (including, subordinated debt other than refinancings meeting certain criteria), limitations on asset dispositions, limitations on dividends, limitations on indebtedness, limitations on investments and limitations on capital expenditures. The Revolving Facility also prohibits the Company from holding excess cash and cash equivalents. As of December 31, 2000, the Company's consolidated funded debt to Adjusted EBITDA ratio was 3.99 to 1.00. As of December 31, 2000, the Company has pledged the stock of all of its material subsidiaries except Kansas City Station Corporation and St. Charles Riverfront Station, Inc. and has agreed to pledge the stock of these subsidiaries.

In July 2000, the Company completed an offering of $375.0 million of senior subordinated notes due in July 2010, that have equal priority with the other senior subordinated notes. The $375.0 million senior subordinated notes bear interest payable semi-annually at a rate of 9⅞%. The discount on the $375.0 million senior subordinated notes was recorded as a reduction to long-term debt. Proceeds from the sale of the $375.0 million senior subordinated notes were used to repay all amounts outstanding under the Term Loan and the Term Loan was terminated. The remaining proceeds were used to reduce amounts outstanding under our Revolving Facility. The Company recorded an extraordinary charge of $0.4 million (net of applicable tax benefit) to reflect the write-off of the unamortized loan costs related to the termination of the Term Loan.

In December 1998, the Company completed an offering of $199.9 million of senior subordinated notes due in December 2008 that have equal priority with the Company's other senior subordinated notes. The $199.9 million senior subordinated notes bear interest payable semi-annually, at a rate of 8⅞% per year (the "8⅞% Notes"). At December 31, 1998, the Company had deposited the net proceeds from the sale of the 8⅞% Notes and a portion of the funds borrowed under the Amended Bank Facility in a separate trust account with the trustee under the indenture relating to the 9⅝% senior subordinated notes (the "9⅝% Notes") to redeem and to pay accrued interest and redemption premiums related to the 9⅝% Notes on the redemption date. The redemption occurred on January 4, 1999. The Company recorded an extraordinary charge of $10.4 million (net of applicable tax benefit) to reflect the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem the 9⅝% Notes.

In April 1997, the Company completed an offering of $150 million of senior subordinated notes due in April 2007, that have equal priority with the other senior subordinated notes. The $150 million senior subordinated notes have a coupon rate of 9¾% and were priced to yield 10.37% to maturity. The discount on the $150 million senior subordinated notes has been recorded as a reduction to long-term debt in the accompanying consolidated balance sheets.

In March 1996, the Company completed an offering of $198 million of senior subordinated notes due in March 2006, that have equal priority with the other senior subordinated notes. The $198 million senior subordinated notes have a coupon rate of 10⅛% and were priced to yield 10.24% to maturity. The discount on the $198 million senior subordinated notes has been recorded as a reduction to long-term debt in the accompanying consolidated balance sheets.

The indentures governing the Company's senior subordinated notes (the "Indentures") contain certain customary financial and other covenants which limit the Company and

its subsidiaries' ability to incur additional debt and to pay dividends. At December 31, 2000, the Company's Consolidated Coverage Ratio (as defined in the Indentures) was 2.34 to 1.00. The Indentures provide that the Company may not incur additional indebtedness, other than specified types of indebtedness, unless the Consolidated Coverage Ratio is at least 2.00 to 1.00. As a result, the covenant limits the Company's ability to incur additional indebtedness for borrowings under the Amended Bank Facility not to exceed the greater of $200 million or 1.5 times Operating Cash Flow (as defined) for the four most recent quarters, plus $15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures significantly restrict the Company's ability to pay dividends on its capital stock. On August 10, 2000, the Company completed a consent solicitation with the holders of the Notes to exclude the write-down of assets at Station Casino St. Charles in December 1999 from the definition of consolidated net income for the Consolidated Coverage Ratio. The Indentures also give the holders of the Notes the right to require the Company to purchase the Notes at 101% of the principal amount of the Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the Indentures) of the Company.

The estimated fair value of the Company's long-term debt at December 31, 2000, was approximately $1,014.0 million, compared to its book value of approximately $989.6 million. The estimated fair value amounts were based on quoted market prices on or about December 31, 2000, for the Company's debt securities that are publicly traded. For the Amended Bank Facility, the fair value approximates the carrying amount of the debt due to the short-term maturities of the individual components of the debt.

Scheduled maturities of long-term debt are as follows (amounts in thousands):

Year ending December 31,

2001	$ 5,684
2002	257
2003	66,901
2004	121
2005	126
Thereafter	916,536
Total	$989,625

6. Commitments and Contingencies

Boulder Station Lease

The Company entered into a ground lease for 27 acres of land on which Boulder Station is located. The Company leases this land from a trust pursuant to a long-term ground lease. The trustee of this trust is Bank of America NT&SA, the beneficiary of which is KB Enterprises, an affiliated company owned by Frank J. Fertitta, Jr. and Victoria K. Fertitta (the "Related Lessor"), the parents of Frank J. Fertitta III, Chairman of the Board and Chief Executive Officer of the Company. The lease has a maximum term of 65 years, ending in June 2058. The lease provides for monthly payments of $135,525 through June 2008. In July 2008, and every ten years thereafter, the rent will be adjusted by a cost of living factor. In July 2003, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return for comparably situated property or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals beginning in June 1998, to purchase the land at fair market value. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the Amended Bank Facility.

Texas Station Lease

The Company entered into a ground lease for 47 acres of land on which Texas Station is located. The Company leases this land from a trust pursuant to a long-term ground lease. The trustee of this trust is Bank of America NT&SA, the beneficiary of which is Texas Gambling Hall & Hotel, Inc., an affiliate company of the Related Lessor. The lease has a maximum term of 65 years, ending in July 2060. The lease provides for monthly rental payments of $287,500 through June 2010. In July 2010, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return being realized for owners of comparable land in Clark County or (ii) 8% per year. The rent will be further adjusted by a cost of living factor after the first ten years and every ten years thereafter. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, the Company has an option, exercisable at five-year

intervals beginning in May 2000, to purchase the land at fair market value. The Company did not exercise its May 2000 option. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the Amended Bank Facility.

Sunset Station Lease

In June 1994, the Company entered into a lease agreement for approximately 48 acres of land on which Sunset Station is located. The lease has a term of 65 years with monthly rental payments of $120,000, adjusted on each subsequent five-year anniversary by a cost of living factor. In June 2001, the Company has an option to purchase this land for $23.8 million.

Equipment Lease

In connection with the loan agreement to fund the construction of Sunset Station, the Company entered into an operating lease for furniture, fixtures and equipment (the "Equipment") with a cost of up to $40 million, dated as of September 25, 1996, (the "Sunset Operating Lease") with First Security Trust Company of Nevada. A total of $35.7 million of this facility had been drawn. The Company incurred approximately $2.0 million of rent expense per quarter related to the Sunset Operating Lease. In October 1999, the Company exercised its option to purchase the equipment for approximately $27.0 million. The purchase price was funded with borrowings from the Company's Revolving Facility.

Operating Leases

The Company leases several parcels of land and equipment used in its operations at Palace Station, Boulder Station, Texas Station, Sunset Station and Wild Wild West. Leases on various parcels ranging from 13 acres to 47 acres have terms expiring between March 2006 and July 2063. Future minimum lease payments required under these operating leases and other noncancelable operating leases are as follows (amounts in thousands):

Year ending December 31,

2001	$ 11,943
2002	12,781
2003	12,656
2004	12,537
2005	11,879
Thereafter	584,636
Total	$646,432

Rent expense totaled approximately $10.9 million, $14.6 million and $12.1 million for the fiscal years ended December 31, 2000 and 1999 and the Transition Period 1998, respectively.

Green Valley Ranch

A 50/50 joint venture between the Company and GCR Gaming, LLC (an affiliate of American Nevada Corporation) has commenced construction of a new resort/casino, Green Valley Ranch, on the south side of Interstate 215 at Green Valley Parkway in Henderson, Nevada. The 40-acre resort site is part of a 170-acre mixed-use commercial, retail and office project. The Company expects to contribute approximately $50 million in cash equity for a 50 percent equity ownership. As of December 31, 2000, the Company has made cash equity contributions of $34 million. The Company will be the managing partner of Green Valley Ranch and will receive a management fee for its services. Construction of the resort is expected to be completed in the fourth quarter of 2001. The estimated construction cost of this project is approximately $300 million. The project is expected to be capitalized with total equity contributions from the partners of approximately $100 million and third party financing for the remainder. The joint venture has received commitments from a group of banks for a $165 million reducing revolving credit facility, subject to customary conditions. The Company anticipates that it will be required to enter into a completion guarantee and a make-well agreement in connection with the Green Valley Ranch financing. In addition, the joint venture anticipates obtaining $35 million of equipment lease financing from a group of lenders. If the third party financing cannot be obtained or is insufficient to fund the construction costs, the Company and GCR Gaming, LLC would be obligated to contribute amounts necessary to finance the construction and opening of the project. The Company has co-owned Barley's with an affiliate of American Nevada Corporation since January 1996.

United Auburn Indian Community

On October 12, 1999, the Company announced that it has entered into a Development Services Agreement and a Management Agreement with the United Auburn Indian Community (the "UAIC"). Subject to the receipt of certain governmental approvals, as well as voter approval of a proposed amendment to the California constitution, the Company and

the UAIC intend to develop a gaming and entertainment facility on 49 acres, approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. Voter approval of the proposed amendment to the California constitution was received in March 2000, however, there can be no assurances when or if the necessary government approvals will be received. The scope and the timing of this project have yet to be determined.

Missouri Properties Sale

On December 20, 2000, the Company sold the Missouri Properties for an aggregate purchase price of $488 million. The sale of the Missouri Properties is subject to a post-closing purchase price adjustment related to the current assets purchased and the current liabilities assumed by Ameristar. The amount of any payments required related to the post-closing purchase price adjustment has yet to be determined. In addition, the Company has agreed to indemnify Ameristar for any losses resulting from breaches by the Company of representations or warranties contained in the purchase agreements subject to applicable caps and thresholds with respect to such losses.

7. Stockholders' Equity

Common Stock

On May 23, 2000, the Company announced a 3-for-2 stock split. The record date for the stock split was June 30, 2000 and the distribution date was July 17, 2000. Cash was paid for all fractional shares. All share data has been adjusted retroactively in the accompanying consolidated financial statements for the 3-for-2 stock split.

Adjusted for the stock split, the Company is authorized to issue up to 135,000,000 shares of its common stock, $0.01 par value per share (the "Common Stock"), 63,919,530 shares of which were issued and 3,552,401 shares were held in treasury as of December 31, 2000. Each holder of the Common Stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of the Common Stock have no cumulative voting, conversion, redemption or preemptive rights or other rights to subscribe for additional shares other than pursuant to the Rights Plan described below. Subject to any preferences that may be granted to the holders of the Company's preferred stock, each holder of Common Stock is entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefore as well as any distributions to the stockholders and, in the event of liquidation, dissolution or winding up of the Company, is entitled to share ratably in all assets of the Company remaining after payment of liabilities.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of its preferred stock, $0.01 par value per share (the "Preferred Stock"). As of June 14, 1999, adjusted for the stock split, the Company redeemed all 2,070,000 shares of its $3.50 Convertible Preferred Stock in exchange for 10,112,448 shares of the Company's Common Stock. The Board of Directors, without further action by the holders of Common Stock, may issue shares of Preferred Stock in one or more series and may fix or alter the rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of Preferred Stock. Except as described above, the Board of Directors, without further stockholder approval, may issue shares of Preferred Stock with rights that could adversely affect the rights of the holders of Common Stock. The issuance of shares of Preferred Stock under certain circumstances could have the effect of delaying or preventing a change of control of the Company or other corporate action.

Treasury Stock

Adjusted for the stock split, the Company is authorized to repurchase up to approximately 9.5 million shares of its Common Stock. As of December 31, 2000, the Company had purchased 3.6 million shares at a cost of $41.9 million. In July 2000, the Company entered into an equity forward contract that allows for shares of the Company's Common Stock to be purchased by a financial institution and held on the Company's behalf. This contract expired in January 2001 and the terms of the contract permitted settlement in either net shares or cash. In January 2001, the Company closed out the contract and purchased 3.2 million shares for approximately $46 million.

Put Options

During the quarter ended March 31, 2000, the Company sold put options, adjusted for the stock split, on 2.2 million shares of its Common Stock. The Company had the option to settle in cash or shares of Common Stock. On April 27, 2000, options on 1.1 million shares expired unexercised. On July 27, 2000, the remaining options on 1.1 million shares were rolled into another put option for 1.1 million shares, which was terminated on August 4, 2000.

Rights Plan

On October 6, 1997, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock. The dividend was paid on October 21, 1997. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Preferred Stock, par value $0.01 per share ("Preferred Shares") of the Company at a price of $40.00 per one one-hundredth of a Preferred Share, subject to adjustment. The Rights are not exercisable until the earlier of 10 days following a public announcement that a person or group of affiliated or associated persons have acquired beneficial ownership of 15% or more of the outstanding Common Stock ("Acquiring Person") or 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the outstanding Common Stock.

The Rights will expire on October 21, 2007. Acquiring Persons do not have the same rights to receive Common Stock as other holders upon exercise of the Rights. Because of the nature of the Preferred Shares' dividend, liquidation and voting rights, the value of one one-hundredth interest in a Preferred Share purchasable upon exercise of each Right should approximate the value of one Common Share. In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, the proper provisions will be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter become void), will thereafter have the right to receive upon exercise that number of shares of Common Stock having a market value of two times the exercise price of the Right. In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group has become an Acquiring Person, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon exercise thereof, that number of shares of Common Stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the Right. Because of the characteristics of the Rights in connection with a person or group of affiliated or associated persons becoming an Acquiring Person, the Rights may have the effect of making an acquisition of the Company more difficult and may discourage such an acquisition.

8. Benefit Plans

Stock Compensation Programs

The Company has adopted a Stock Compensation Program which includes (i) an Incentive Stock Option Plan for the grant of incentive stock options, (ii) a Compensatory Stock Option Plan providing for the grant of nonqualified stock options, (iii) a Restricted Shares Plan providing for the grant of restricted shares of common stock and (iv) a Nonemployee Director Stock Option Plan, providing for the grant of nonqualified stock options. The Company has also adopted the 1999 Stock Compensation Program (combined with the Stock Compensation Program "the Programs"), which includes (i) the 1999 Compensatory Stock Option Plan providing for the grant of nonqualified stock options to employees who are not officers or directors of the Company and (ii) the 1999 Share Plan which grants shares of common stock to employees based on their length of service with the Company. Officers, key employees, directors (whether employee directors or nonemployee directors) and independent contractors or agents of the Company and its subsidiaries are eligible to participate in the programs. However, only employees of the Company and its subsidiaries are eligible to receive incentive stock options.

A maximum of 17,710,500 shares of common stock have been reserved for issuance under the Program. Options are granted at the current market price at the date of grant. The plan provides for a variety of vesting schedules, including immediate, twenty percent per year for five years, and a cliff vest at the vesting date, to be determined at the time of grant. All options have an exercise period of ten years from the date of grant.

The Programs will terminate ten years from the date of adoption, unless terminated earlier by the Board of Directors, and no options or restricted shares may be granted under the Programs after such date. Summarized information for the Programs is as follows:

	For the Year Ended December 31, 2000		For the Year Ended December 31, 1999		Transition Period 1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the year	9,908,493	$ 9.01	9,004,995	$ 8.29	7,601,178	$ 8.87
Granted	1,820,250	$13.93	1,126,149	$14.37	1,557,459	$ 5.13
Exercised	(277,884)	$ 6.18	(107,224)	$ 7.72	(1,684)	$ 8.00
Canceled	(685,267)	$ 8.93	(115,427)	$ 5.75	(151,958)	$ 5.27
Outstanding at end of the year	10,765,592	$ 9.91	9,908,493	$ 9.01	9,004,995	$ 8.29
Exercisable at end of year	6,479,932	$ 9.82	5,652,665	$10.09	2,927,391	$11.07
Options available for grant	5,808,296		6,914,195		169,917	

The following table summarizes information about the options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2000	Weighted Average Exercise Price
$ 3.29–$ 3.58	98,250	7.7	$ 3.57	21,750	$ 3.53
$ 5.00–$ 6.58	3,041,728	7.2	$ 5.12	1,186,318	$ 5.12
$ 7.75–$11.54	3,368,517	5.0	$ 9.42	3,328,617	$ 9.41
$12.00–$16.92	4,257,097	6.5	$13.89	1,943,247	$13.46
	10,765,592	6.2	$ 9.91	6,479,932	$ 9.82

Restricted stock grants of 6,000 and 495,000 shares were issued during the fiscal years ended December 31, 2000 and 1999, respectively. The effect of these grants is to increase the issued and outstanding shares of the Company's common stock and decrease the number of shares available for grant in the plan. Deferred compensation is recorded for the restricted stock grants equal to the market value of the Company's common stock on the date of grant. The deferred compensation is amortized over the period the restricted stock vests and is recorded as compensation expense in the accompanying consolidated statements of operations.

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Programs. Accordingly, compensation expense recognized was different than what would have been otherwise recognized under the fair value based method defined in SFAS No. 123, "Accounting for Stock-Based Compensation". Had compensation expense for the plans been determined in accordance with SFAS No. 123,

the effect on the Company's net income (loss) applicable to common stock and basic and diluted earnings (loss) per common share would have been as follows (amounts in thousands, except per share data):

	For the Years Ended December 31, 2000	1999	Transition Period 1998
Net income (loss) applicable to common stock:			
As reported	$93,505	$(44,758)	$(17,531)
Pro forma	$89,949	$(48,526)	$(19,201)
Basic earnings (loss) per common share:			
As reported	$ 1.55	$ (0.76)	$ (0.33)
Pro forma	$ 1.49	$ (0.83)	$ (0.36)
Diluted earnings (loss) per common share:			
As reported	$ 1.48	$ (0.76)	$ (0.33)
Pro forma	$ 1.43	$ (0.83)	$ (0.36)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing method with the following assumptions:

	For the Years Ended December 31, 2000	1999	Transition Period 1998
Expected dividend yield	—	—	—
Expected stock price volatility	52.00%	50.00%	51.90%
Risk-free interest rate	6.12%	5.90%	4.51%
Expected average life of options (years)	4.36	3.91	3.87
Expected fair value of options granted	$ 6.68	$ 6.31	$ 2.23

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to April 1, 1995, the resulting pro forma net income may not be representative of that to be expected in future years.

401(k) Plan

The Company has a defined contribution 401(k) plan, which covers all employees who meet certain age and length of service requirements and allows an employer contribution up to 50 percent of the first four percent of each participating employee's compensation. Effective October 1, 1998, the employer contribution was increased from 25 percent of the first four percent of each participating employee's compensation. Plan participants can elect to defer before tax compensation through payroll deductions. These deferrals are regulated under Section 401(k) of the Internal Revenue Code. The Company's matching contribution was approximately $2,187,000, $2,103,000 and $678,000 for the fiscal years ended December 31, 2000 and 1999 and the Transition Period 1998, respectively.

9. Executive Compensation Plans

The Company has employment agreements with certain of its executive officers. These contracts provide for, among other things, an annual base salary, supplemental long-term disability and supplemental life insurance benefits in excess of the Company's normal coverage for employees. In addition, the Company has adopted a Supplemental Executive Retirement Plan for its Chief Executive Officer and a Supplemental Management Retirement Plan for certain key executives as selected by the Human Resources Committee of the Company's Board of Directors. Other executive plans include a Deferred Compensation Plan and a Long-Term Stay-On Performance Incentive Plan.

10. Income Taxes

The Company files a consolidated federal income tax return. The benefit (provision) for income taxes for financial reporting purposes consists of the following (amounts in thousands):

	For the Years Ended December 31, 2000	1999	Transition Period 1998
Income tax benefit (provision) from continuing operations	$(54,098)	$14,929	$ 871
Tax benefit from extraordinary loss on early retirement of debt	294	5,736	1,671
Total income taxes	$(53,804)	$20,665	$2,542

The benefit (provision) for income taxes attributable to the net loss consists of the following (amounts in thousands):

	For the Years Ended December 31, 2000	1999	Transition Period 1998
Current	$(22,266)	$(14,960)	$ 3,953
Deferred	(31,538)	35,625	(1,411)
Total income taxes	$(53,804)	$ 20,665	$ 2,542

The income tax benefit (provision) differs from that computed at the federal statutory corporate tax rate as follows:

	For the Years Ended December 31, 2000	For the Years Ended December 31, 1999	Transition Period 1998
Federal statutory rate	35.0%	35.0%	35.0%
Lobbying and political	0.3	(1.2)	(16.8)
Meals and entertainment	0.6	(0.9)	(1.2)
Credits earned, net	(0.3)	0.8	2.5
Other, net	0.9	(1.2)	(2.1)
Effective tax rate	36.5%	32.5%	17.4%

The tax effects of significant temporary differences representing net deferred tax assets and liabilities are as follows (amounts in thousands):

	December 31, 2000	December 31, 1999
Deferred tax assets:		
Current:		
Accrued vacation, bonuses and group insurance	$ 6,088	$ 7,358
Prepaid gaming taxes	(2,911)	(2,880)
Other	4,071	3,545
Total current	7,248	8,023
Long-term:		
Preopening and other costs, net of amortization	1,857	7,135
Accrued benefits	5,640	2,496
FICA credits	—	2,947
State deferred taxes	—	2,023
Net operating loss	—	2,690
Alternative minimum tax credits	16,086	27,725
Total long-term	23,583	45,016
Total deferred tax assets	30,831	53,039
Deferred tax liabilities:		
Long-term:		
Temporary differences related to property and equipment	(45,920)	(19,963)
Other	(8,999)	(734)
Total deferred tax liabilities	(54,919)	(20,697)
Net	$(24,088)	$ 32,342

The excess of the alternative minimum tax over the regular federal income tax is a tax credit which can be carried forward indefinitely to reduce future regular federal income tax liabilities. The Company did not record a valuation allowance at December 31, 2000 or 1999 relating to recorded tax benefits because all benefits are more likely than not to be realized.

11. Legal Matters

The Company is a litigant in legal matters arising in the normal course of business. In the opinion of management, all pending legal matters are either adequately covered by insurance or, if not insured, will not have a material adverse effect on the financial position or the results of operations of the Company.

On December 20, 2000, the Company and Kansas City Station Corporation were named as defendants in an action styled *Fitzgerald Sugar Creek, Inc. v. Kansas City Station Corp. et al.*, No. 00CV230480 (Circuit Court of Jackson County, Missouri). The Company and its subsidiary responded to this lawsuit on January 19, 2001 and moved to remove the case to bankruptcy court in Nevada. The plaintiff alleges that the defendants are liable for unspecified actual punitive damages and other relief, based on alleged tortious interference with the plaintiff's business expectancy of receiving a Missouri gaming license in the Kansas City metropolitan area. The allegations of the petition appear to be based on the same issues involved in the investigation by the Missouri Gaming Commission related to activities of Michael Lazaroff, an attorney who formerly represented the Company in Missouri. The plaintiff also alleges claims based on fraudulent concealment and civil conspiracy. Although no assurance can be made with respect to any litigation, the Company believes that the plaintiffs claims are without merit and does not expect that the lawsuit will have a material adverse effect on the Company's financial position or results of operations.

12. Subsequent Events

On January 4, 2001, the Company consummated the purchase of substantially all of the assets of the Fiesta Casino Hotel for $170 million. Fiesta is strategically located on approximately 25 acres at the intersection of Lake Mead Boulevard and Rancho Road in North Las Vegas, Nevada, across from Texas Station. The property will retain the Fiesta name and theme.

On January 30, 2001, the Company consummated the purchase of substantially all of the assets of The Reserve Hotel & Casino for $71.8 million. The Reserve is strategically located on approximately 46 acres at the intersection of Interstate 215 and Interstate 515 in Henderson, Nevada. The property will retain its name and theme pending further evaluation.

In February 2001, the Company completed an offering of $300 million of senior notes due in February 2008 (the "Senior Notes"). The Senior Notes have a coupon rate of 8⅜% and were priced at par. The indentures governing the Senior Notes contain substantially the same covenants as the Company's senior subordinated notes along with a limitation on the amount of liens the Company can incur. The proceeds from the Senior Notes were used to repay amounts outstanding on the Revolving Facility and to redeem $100 million in principal amount of the 10⅛% senior subordinated notes due 2006. The redemption of the senior subordinated notes was completed on March 15, 2001. The Company will record an extraordinary charge of approximately $4.2 million, net of the applicable tax benefit, related to the redemption of the senior subordinated notes.

In February 2001, the Company reduced the commitments under its Revolving Facility to $300.8 million. The $80 million reduction will eliminate substantially all the scheduled amortization described in Note 5 through March 31, 2002. In addition, on March 12, 2001, the Company amended the Revolving Facility. The amendment affects various covenants in the Revolving Facility, including raising the maximum consolidated funded debt to Adjusted EBITDA ratio to 5.25 to 1.00 through September 30, 2001 and reducing in steps to 4.50 to 1.00 on September 30, 2003.

13. Quarterly Financial Information (Unaudited)

	Net Revenues	Operating Income (loss)	Income (loss) Before Income Taxes and Extraordinary Item	Net Income (loss) Applicable to Common Stock	Diluted Earnings (loss) per Common Share
			(amounts in thousands, except per share amounts)		
Year ended December 31, 2000					
First quarter	**$254,843**	**$ 58,306**	**$ 35,453**	**$ 22,336**	**$ 0.35**
Second quarter	**244,328**	**55,074**	**32,638**	**20,725**	**0.33**
Third quarter	**249,062**	**47,301**	**24,844**	**15,569**	**0.25**
Fourth quarter	**243,445**	**82,131**	**55,214**	**34,875**	**0.55**
Year ended December 31, 1999					
First quarter	$229,931	$ 35,776	$ 12,997	$ (4,045)	$(0.08)
Second quarter	235,371	41,552	34,525	21,592	0.39
Third quarter	237,531	42,235	20,976	13,143	0.21
Fourth quarter	239,636	(90,692)	(115,721)	(75,448)	(1.20)
Transition Period 1998					
First quarter	$206,250	$ 29,179	$ 5,528	$ 1,488	$ 0.03
Second quarter	213,448	31,622	5,090	1,033	0.02
Third quarter	222,516	3,895	(20,482)	(20,052)	(0.38)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Station Casinos, Inc.:

We have audited the accompanying consolidated balance sheets of Station Casinos, Inc. (a Nevada corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2000 and 1999 and for the nine months ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Station Casinos, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999 and for the nine months ended December 31, 1998, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Las Vegas, Nevada
January 23, 2001
(except for Note 12, as to which the date is March 15, 2001)

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock trades on the New York Stock Exchange under the symbol "STN". Prior to September 5, 1996, the common stock traded on the Nasdaq® Stock Market under the symbol "STCI". On May 23, 2000, the Company announced a 3-for-2 stock split. The record date for the stock split was June 30, 2000 and the distribution date was July 17, 2000. Cash was paid for all fractional shares. All share data has been adjusted retroactively for the 3-for-2 stock split. The following table sets forth, for the periods indicated, the high and low sale price per share of the Common Stock as reported on the New York Stock Exchange, adjusted for the stock split:

	High	Low
Fiscal Year Ending December 31, 2000		
First Quarter	**$16.17**	**$11.79**
Second Quarter	**20.00**	**13.50**
Third Quarter	**17.92**	**12.13**
Fourth Quarter	**19.13**	**14.00**
Fiscal Period Ending December 31, 1999		
First Quarter	$ 9.92	$ 5.29
Second Quarter	13.59	8.17
Third Quarter	16.42	11.33
Fourth Quarter	18.25	11.00

As of March 15, 2001, there were 617 holders of record of the Company's common stock.

The Company has never paid cash dividends on any shares of Common Stock. The Company does not intend to pay cash dividends in the foreseeable future so that it may reinvest its earnings in the development of its business. The payment of dividends in the future will be at the discretion of the Board of Directors of the Company. Restrictions imposed by the Company's debt instruments and other agreements limit the payment of dividends by the Company (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Certain Indebtedness and Capital Stock").

Board of Directors
Frank J. Fertitta III
Glenn C. Christenson
R. Hal Dean
Lorenzo J. Fertitta
Lowell H. Lebermann, Jr.
Dr. James E. Nave, D.V.M.
Blake L. Sartini
Delise F. Sartini

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Independent Accountants
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Suite 500
Las Vegas, Nevada 89109

Legal Counsel
Milbank, Tweed, Hadley & McCloy LLC
601 South Figueroa Street
30th Floor
Los Angeles, California 90017

Annual Report on Form 10-K
The Annual Report on Form 10-K of Station Casinos, Inc. filed with the Securities and Exchange Commission may be obtained upon written request and without charge. Requests should be directed to Glenn C. Christenson, Chief Financial Officer and Treasurer, at the corporate mailing address.

Annual Meeting
The Annual Meeting of Stockholders will be held at 10:00 AM Pacific Daylight Time, on May 22, 2001, at Texas Station Gambling Hall & Hotel, 2101 Texas Star Lane, North Las Vegas, Nevada. March 26, 2001 is the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting of Stockholders.

Common Stock
The Company's common stock trades on the New York Stock Exchange under the symbol "STN."

Other Publicly Traded Securities
Over-the-Counter

Station Casinos, Inc.
$10\frac{1}{8}\%$ Senior Subordinated Notes
Due March 15, 2006

Station Casinos, Inc.
$9\frac{3}{4}\%$ Senior Subordinated Notes
Due April 15, 2007

Station Casinos, Inc.
$8\frac{7}{8}\%$ Senior Subordinated Notes
Due December 1, 2008

Station Casinos, Inc.
$9\frac{7}{8}\%$ Senior Subordinated Notes
Due July 1, 2010

Station Casinos, Inc.
$8\frac{3}{8}\%$ Senior Notes
Due February 15, 2008

Agent and Trustees
Wells Fargo Shareowner Services
161 North Concord Exchange
South Saint Paul, Minnesota 55075

First Union National Bank
123 South Broad Street
Philadelphia, PA 19109
Trustee for the $10\frac{1}{8}\%$, $9\frac{3}{4}\%$, $8\frac{7}{8}\%$ and $9\frac{7}{8}\%$ Senior Subordinated Notes

United States Trust Company of New York
114 West 47th Street
New York, NY 10036
Trustee for the $8\frac{3}{8}\%$ Senior Notes

Forward-Looking Statements
When used in this report and elsewhere by management from time to time, the words "believes," "anticipates," and "expects" and similar expressions are intended to identify forward-looking statements with respect to the financial condition, results of operations and the business of Station Casinos, Inc. (the "Company") and its subsidiaries including the expansion, development and acquisition projects, legal proceedings and employee matters of the Company and its subsidiaries. Certain important factors, including but not limited to, financial market risks, could cause the Company's actual results to differ materially from those expressed in the Company's forward-looking statements. Further information on potential factors which could affect the financial condition, results of operations and business of the Company and its subsidiaries, including, without limitation, the ability to maintain existing management, integration of acquisitions, competition within the gaming industry, the cyclical nature of the hotel business and gaming business, economic conditions, development and construction risk, regulatory matters and litigation are included in the filings of the Company with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date thereof. The Company undertakes no obligation to publicly release any revisions to such forward-looking statements to reflect events or circumstances after the date hereof.

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