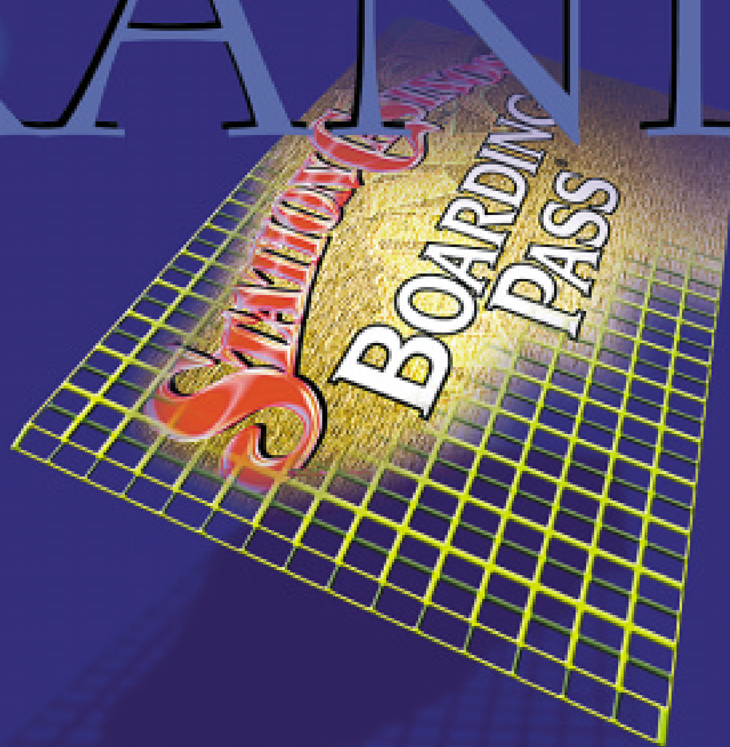
BUILDING THE BRAND

1999 Annual Report



Building the Brand: The Station Casinos brand has been under development for some time. The Station name was first introduced to Las Vegas residents in 1983 at Palace Station and has been earning their trust ever since. With the addition of Sunset Station in 1997, we reached the critical mass necessary to effectively capture the value potential in creating a brand identity. This process was formalized over the past 18 months with the introduction of the Station Casinos Boarding Pass, and several other measures to promote brand unity throughout our organization. We have built a brand to create greater customer loyalty and offer a competitive advantage that will be difficult to replicate. We believe that the brand approach, combined with our distribution and portfolio of quality assets will continue to serve our shareholders, customers, and team members well.

Building our Properties

Properties	Location	Acreage	Main Facility Sq. Footage	Casino Sq. Footage	Slots	Tables	Rooms	Restaurants	Fast-Food Outlets	Movie Screens	Child Care	Covered Parking	Opening Date
Palace Station	Las Vegas, NV	39	287,000	84,000	2,244	47	1,028	5	5	—	—	1,900	7/76
Boulder Station	Las Vegas, NV	46	337,000	89,000	3,108	47	300	5	7	11	✓	1,900	8/94
Texas Station	North Las Vegas, NV	47	390,000	95,000	2,795	43	200	5	8	18	✓	3,500	7/95
Sunset Station	Henderson, NV	105	428,000	110,000	3,000	56	467	7	8	13	✓	2,000	6/97
Station Casino St. Charles*	St. Charles, MO	52	63,000	45,000	1,875	40	—	2	—	—	—	4,000	5/94
Station Casino Kansas City	Kansas City, MO	183	526,000	140,000	3,188	144	200	6	9	18	✓	—	1/97
Wild Wild West	Las Vegas, NV	19	16,000	12,500	250	7	260	1	—	—	—	—	7/98
Barley's Casino & Brewery	Henderson, NV	—	26,000	10,000	199	9	—	1	—	—	—	—	1/96
Proposed Green Valley Ranch Project	Henderson, NV	40	—	—	—	—	—	—	—	—	—	—	12/01
Southwest Gaming Route	Las Vegas Metro Area	—	N/A	N/A	797	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12/90
Boulder Hwy/ Nellis Property	Las Vegas, NV	27	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	TBD
Boulder Hwy/ Tropicana Ave. Property	Las Vegas, NV	34	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	TBD
Rhodes Ranch Property	Las Vegas, NV	51	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	TBD
Santa Fe Galleria Property	Henderson, NV	40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	TBD
TOTALS:		683	2,073,000	585,500	17,456	393	2,455	32	37	60		13,300	

* Property statistics are as of March 30, 2000 after all gaming activity was moved from the riverboat to the barge.

With unparalleled convenience, high quality assets, innovative gaming products, personalized customer service, and consistency in execution, Station is the brand that locals trust.

Corporate Profile

Station Casinos is the preeminent provider of gaming and entertainment for residents of the Las Vegas, St. Louis, and Kansas City metropolitan areas. The Station franchise currently stretches across six major gaming and entertainment complexes, and includes over 680 acres, 585,500 square feet of casino space, 17,400 gaming devices, and 10,700 team members. Our brand is most dominant in the Las Vegas metropolitan area, where we own more than 400,000 square feet of casino space and operate nearly 12,500 gaming devices—more than any other gaming company. Our distribution stretches across each quadrant of the Las Vegas metropolitan area, under the most recognized and respected brand-name among Las Vegas-area residents. We have numerous growth opportunities with 171 undeveloped acres across five sites and masterplanned expansion opportunities designed to incrementally build upon our existing assets as demand dictates. Customers associate the "Station" brand with unparalleled convenience, high quality assets, innovative gaming products, personalized customer service, and consistency in execution.

Financial Highlights

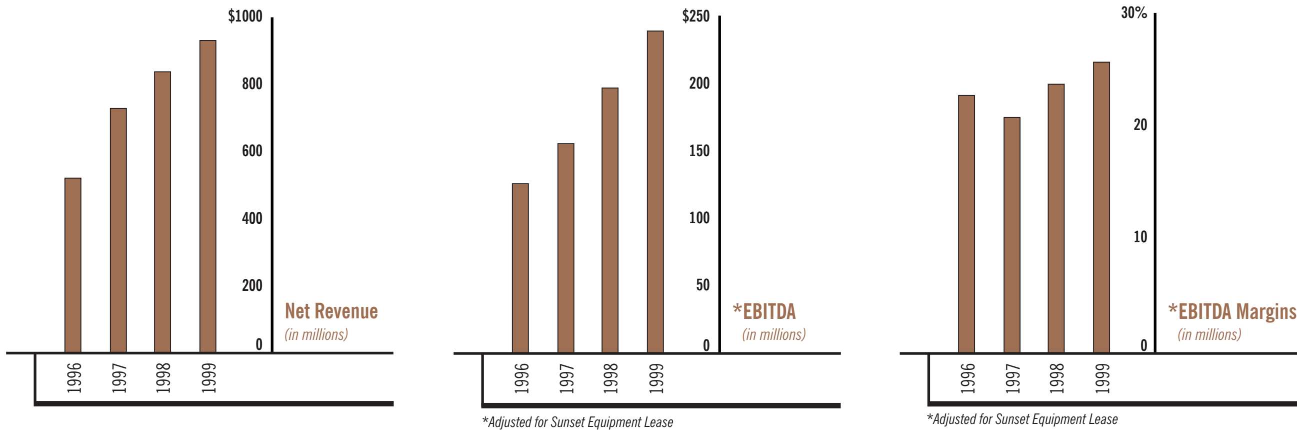
(in 000s, except per share information)	Fiscal Year Ended December 31, 1999	Transition Period 1998(2)	Fiscal Years Ended March 31, 1998	1997	1996
Statement of Operations Data:					
Net revenues	$ 942,469	$ 642,214	$ 769,610	$ 583,515	$466,857
Operating income before impairment loss and preopening expenses	$ 166,306	$ 94,707	$ 95,052	$ 89,943	$ 71,900
Operating income	$ 28,871	$ 64,696	$ 84,186	$ 58,123	$ 69,464
Net income (loss) applicable to common stock	$ (44,758)	$ (17,531)	$ (12,441)	$ 6,518	$ 25,419
Earnings (loss) per common share	$ (1.14)	$ (0.50)	$ (0.35)	$ 0.18	$ 0.75
EBITDA, As Adjusted(1)	$ 236,970	$ 147,682	$ 162,466	$ 136,548	$106,939
EBITDA, As Adjusted(1), adjusted for the Sunset equipment lease	$ 242,890	$ 154,186	$ 168,708	$ 136,548	$106,939
Weighted average common shares outstanding	39,128	35,312	35,309	35,316	33,918
Balance Sheet Data:					
Capital expenditures	$ 76,379	$ 99,460	$ 134,385	$ 506,096	$307,745
Total assets	$1,276,273	$1,531,925	$1,300,216	$1,234,118	$827,314
Long-term debt	$ 942,480	$1,147,266	$ 900,226	$ 760,963	$464,998
Stockholders' equity	$ 216,801	$ 269,406	$ 286,887	$ 298,848	$278,470
			(average or end of period)		
Other Data:					
Casino square footage(3)	585,500	567,500	521,000	432,000	278,000
Number of machines(3)	17,456	16,451	16,237	13,008	9,555
Average daily occupancy	89%	90%	93%	96%	94%
Number of hotel rooms	2,455	2,455	2,195	1,728	1,528
Average daily rate	$ 54	$ 51	$ 52	$ 48	$ 46

(1) "EBITDA, As Adjusted" consists of operating income plus depreciation, amortization, preopening expenses, impairment loss and a one time restructuring charge in 1997. 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, impairment loss and a one time restructuring charge in 1997, 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 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.

(2) 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").

(3) Information for Station Casino St. Charles is as of March 30, 2000 after all gaming activity was moved from the riverboat to the barge.

To Our Shareholders



1999 was the most prosperous and rewarding year in our history as a publicly traded company. A number of accomplishments stand out over the past 12 months.

- Net revenues increased 11 percent to $942.5 million.
- Consolidated EBITDA, as adjusted for the Sunset equipment lease, increased 21 percent to $242.9 million.
- Earnings per share, before several non-recurring items increased to $1.16.
- Our operating cash flow margin improved to 25.8 percent, more than two percentage points higher than 1998.
- We generated nearly $100 million in free cash flow, which allowed us to reduce our long term debt, complete a master-planned expansion at Texas Station, buy-out an equipment lease, purchase a development site, and repurchase our stock.
- Our stock price reacted with a 170 percent increase for 1999, making it one of the best performing stocks in the gaming industry.

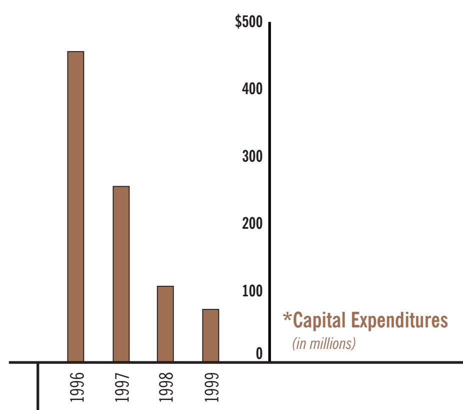
1999 was a banner year by any measure. But apart from the impressive numbers, we implemented several programs, both financial and operational, to lay the foundation for our future success and preserve and enhance our strong market positions.

Though we have been building our brand for several years, perhaps no year has been more critical to its advancement than 1999. In April, we launched our unified Boarding Pass player rewards program in Nevada. The unified Boarding Pass program has allowed us to take full advantage of our size and distribution in the Las Vegas market and offer our customers something no one else in our market has—a multi-property player rewards program that allows customers to earn points for slot play and redeem them for merchandise, food, lodging, movie passes, child-care, concert tickets, and other events at any of the four Station properties in Las Vegas. In addition, we realigned our management compensation programs and implemented better systems to refine our operations and promote unity of the brand. These initiatives should help to establish greater customer loyalty, provide a platform to pursue more functional and timely customer information, and spawn efficiencies in our promotional and marketing efforts.

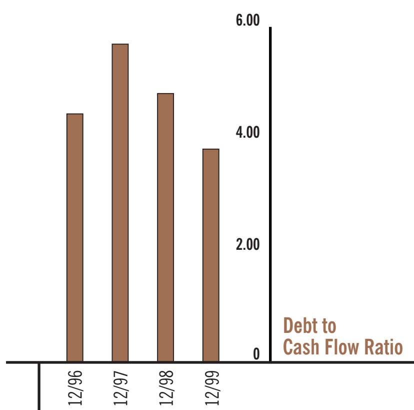
By expanding and strengthening our brand name franchise, we greatly expand our opportunities for same-store revenue and cash flow growth. The brand approach is particularly appropriate for our business because of the repeat visitation pattern of our customers. This pattern creates a unique opportunity to differentiate ourselves and build brand-name loyalty. The brand is just one of several sustainable competitive advantages that we have created in order to thrive in a highly competitive environment.

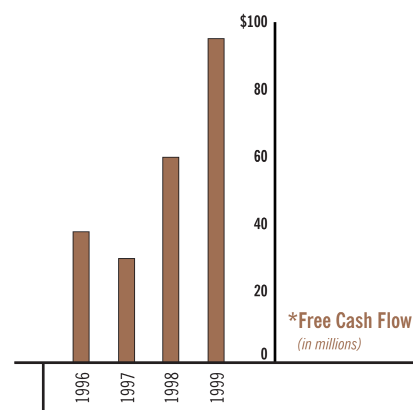
Behind the numbers, we've asked ourselves, "What do we want our brand to symbolize?" Obviously there's more to the brand than a simple card. What is it that best defines the Station brand?

We often use the term "distribution," but to our customers, it is simply "convenience." Providing unparalleled customer convenience is an important component of our operating strategy. We try to apply this simple idea to meet all of our customers' needs—whether they're looking to park their car, play a particular machine, or enjoy a great meal.



*Includes Capitalized Interest





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

Most of the Las Vegas area population is literally "minutes from a Station." We control more distribution points in our market than anyone else, and the availability of these distribution points is shrinking. It's not easy to build a casino off the Las Vegas Strip anymore. It wasn't that long ago that less restrictive zoning laws permitted new locals' casinos just about anywhere a savvy developer could dream. Regulatory changes at the state, city, and county level, as well as a shift in the political tides, have, and should continue to create, limitations on new supply. Recognizing this change, our strategy has been to control multiple distribution points in the market.

By cornering the four major quadrants of the Las Vegas valley, we have best positioned ourselves to capture the future growth of the Las Vegas metropolitan area. We recently added three new potential distribution points to our inventory. First, we have signed a definitive agreement with GCR Gaming, LLC to jointly develop a hotel-casino on 40 acres just off of Interstate-215 in Henderson, Nevada. Construction is expected to begin on the project later this year and open to the public in late-2001. Second, we have purchased a 51-acre parcel and optioned an adjacent 32-acre parcel in the southwest quadrant of the valley, near the future I-215 western beltway in the Rhodes Ranch masterplanned community. Though we have no immediate plans to develop the site, we believe that it will make an attractive casino location several years in the future. Finally, we leased a 34-acre parcel, and optioned an adjacent 34-acre parcel at Boulder Highway and Tropicana Avenue in eastern Las Vegas. With these distribution points secure, we have a broad portfolio of growth opportunities, across several platforms, to draw on as the market continues to grow. We now own or lease 448 acres of property zoned for casino development in the Las Vegas metropolitan area at 10 different sites, and options to expand these sites by an additional 66 acres. We believe this amount to be more than any other gaming company (or proposed combination of gaming companies). As a result, we can continue our balanced approach to growth without depending upon acquisitions or new opportunities arising in emerging jurisdictions.

It's advantageous to have multiple distribution points, but it takes more than convenience to keep customers coming back. We believe that in order to create long-term shareholder value, it is important to be a market leader. We want to be number one in our markets and own the best products. We associate quality

Executive Vice Presidents (left to right)
Glenn Christenson, ***Chief Financial Officer, and Chief Administrative Officer;***
Mark Brown, ***Government & Community Relations;*** **Blake Sartini,** ***Chief Operating Officer;***
Scott Nielson, ***General Counsel***

In reality, all of our properties are in their infancy. They have a formula that works today, while also having the flexibility to adapt and change to whatever is needed in order to remain competitive.

	1999 Gaming Revenue Statistics					Compounded Annual Growth Rate Since Inception*		
Our Markets	Market Size	'99 vs. '98	STN Revenue	'99 vs. '98	Market Share	Market	STN	Competition
Boulder Strip (NV)	$556	9%	$279	13%	50%	17%	32%	8%
North Las Vegas (NV)	$222	17%	$107	26%	48%	15%	21%	10%
Kansas City (MO)	$517	8%	$169	16%	33%	9%	18%	5%
St. Louis (MO)	$621	16%	$112	2%	18%	12%	–1%	16%

Source: Nevada Gaming Control Board Abstracts, Missouri Gaming Commission
**Inception defined as the first full year with a Station property in the market.*

products, information technology, service leadership, and relationship building with long-term success. The following ideals and strategies are critical components of our brand:

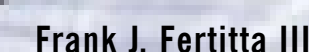
- At each of our properties, we pay great attention to detail and create an entertainment environment that a broad spectrum of people can enjoy.
- We seek to capitalize on the latest technology and push innovation, rather than rely on the archaic systems and “build it and they will come” paradigm stereotypical of our industry.
- Our service standards will not be compromised. Our team members are trained to provide “Beyond the Best” service to give our customers the personalized attention they deserve.
- We seek to build strong relationships with our customers and communities.

These strategies, discussed in more detail throughout our report this year, should allow us to produce stronger returns over the long term, more resilient cash flows in the event of a market downturn, and more expandable cash flow in a growing market.

In discussing our company’s prospects, we have pounded the table during the past year about why our business is fundamentally different than better-known Las Vegas Strip operators. Some of you may have heard this before, but we like to repeat it. Simply stated, our business model provides more predictable and stable cash flow. We’re not fixated on airline seat capacity or load factors coming in or out of Las Vegas’ McCarran Airport, nor are we particularly concerned about the price of gasoline. Our profits for the quarter aren’t hanging in the balance on whether a high-roller from Asia has a great night at a baccarat table or how much we actually collected after their last visit. We don’t expect to use “hold percentage” as a reason to why we missed a quarter. Our business is very simple. At the end of the day, we collect nickels, quarters, and dollars, and put them in the bank.

In addition to a more stable and predictable cash flow stream, the market dynamics allow for same-store growth. Last year we told you that the last four properties we’ve built have generated record cash flow in each successive year of operations. In 1999, this streak remained intact. We haven’t opened a new property for almost three years, yet operating cash flow has trended up sequentially in each of the last ten quarters. Our cash flow margin expansion has been equally impressive growing from 21.5 percent in 1997, to 23.7 percent in 1998, and 25.8 percent in 1999.

We have demonstrated that we can grow EBITDA without unit expansion. The operating leverage of our business will become more apparent as the supply/demand dynamics in our markets continue to improve. Given the market dynamics, and the efficiencies from the economies of scale we have obtained in our expense structure, the flow-through of each incremental dollar



Frank J. Fertitta III

of slot win can have a dramatic impact to our bottom line. As our brand expands to more distribution points and through better use of technology, the margin on incremental gaming dollars should continue to improve.

One of the key goals in 1999 was to realize improvement in our leverage ratios such that we had the ability to take full advantage of the opportunities we expected to arise as a result of our leadership position. One of the specific targets we cited for 1999 included reducing our debt to EBITDA ratio to below 4.0. We are pleased to report that this goal was achieved well ahead of schedule, prior to the end of the third quarter. The improvement in our balance sheet is a result of a transition in our focus from development of new properties to enhancing existing operations. Since the completion of Sunset Station in June 1997, we've spent fractions of our annual operating cash flow on new projects while growing our base of cash flow. As a result, we have managed to take some of the risk out of the business.

Just because we've accomplished our goal of de-leveraging our balance sheet somewhat, does not mean that we'll be running out to develop three new properties this year. I do not envision a situation in which we would spend several multiples of our annual operating cash flow on new construction in any given year. Does that mean that we'll sit back and rest, content with a one-dimensional approach? Absolutely not. We intend to take a balanced approach to growth in maintaining a capital structure that will preserve our ability to aggressively pursue strategic transactions and developments that will further our brand.

The successes of the past year have dramatically improved the flexibility in our capital structure. This year we have several options to consider in our quest to enhance shareholder value. We have several growth opportunities that can be pursued in a disciplined fashion; we have solid market positions and stable operations to allow us to continue to pay down debt if deemed prudent; we have the resources to buy back stock if short-term fluctuations in our stock price bring about opportunities to capture meaningful shareholder value; and we have a balance sheet that allows us to consider strategic acquisitions to enhance our position in the Las Vegas locals' market. We look to continue this stellar performance in 2000 and thank our team members, customers, and investors for your support in these efforts.

Sincerely,

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

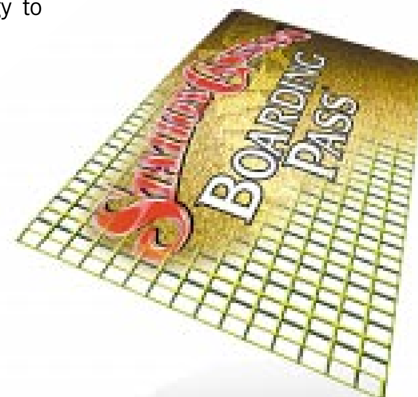
Building Distribution Channels

More than 50 percent of the population base in the Las Vegas metropolitan area lives within a 3-mile radius of one of our facilities.

"You're only minutes from a Station" has been one of the key mantras of our brand-advertising program over the past few years. We are unwavering in the pursuit of this thought. As in all retail-based business, convenience is an important part of our success. More than 50 percent of the population base in the Las Vegas metropolitan area lives within a 3-mile radius of one of our facilities. Our competitive advantage is compounded by the fact that our properties are located off of major interstates and thoroughfares, enabling our customers to access our facilities easily from any part of the city. We expect this penetration rate to grow over the next decade as the population grows and we expand our distribution points to include the land we hold for development. All said, we now have five additional sites in our portfolio totaling 171 acres, spread across the valley to grow and complement our existing franchise. In addition to these five sites, we have additional acreage at each of our four major properties to grow and enhance our existing facilities.

In addition to having more locations than any company in the market, we have the capacity to take advantage of the demand for our product. At the end of 1999, we operated nearly 12,500 gaming devices in the Las Vegas metropolitan area. By the end of 2000, we expect to have approximately 18,000 devices in operation between Nevada and Missouri.

In addition to bricks and mortar, we are developing an online wagering strategy to establish a new point of contact with our customers. Though substantial regulatory hurdles remain for online wagering on a nationwide basis, we are working on developing a strategy to implement "intranet" gaming to Nevada residents only, thereby capitalizing on our brand awareness and presence in the Southern Nevada market.



A Station property is expected to deliver an unmatched array of entertainment and gaming options in an environment characterized by quality and attention to detail.

One tour of our markets, and it's easy to understand what it takes to be a "Station Property." The Station brand carries high expectations for our customers and investors. They expect us to deliver an unmatched array of entertainment and gaming options in an environment characterized by quality and attention to detail. The quality of the physical plant and the integration of different entertainment options are other ways in which we differentiate our brand. Our customers know to expect more than a vanilla shell with a warehouse of slots and a cafeteria-style buffet. We build complete entertainment destinations that serve as the entertainment hub in each sub-market that we serve. From movie theaters, to specialty restaurants, to child-care, to live entertainment, to fast-food venues, there's something for everyone. With each new product we have developed, we have tried to change the competitive landscape, to bring something more to the table, and to take quality to a whole new level.

We strive to balance our innovations with the value for the dollar and personalized service inspired by the Old Vegas tradition—a tradition where customers knew the manager or owner by name, rather than a stock symbol. It is this relationship between quality, value, and service that keeps our customers coming back again and again.

In our markets, we associate quality with long-term success. We believe that dominant products that consistently deliver quality service and value for the dollar will ultimately produce outsized returns over the long term, more resilient cash flows in the event of a market downturn, and more expandable cash flow in a growing market.

Building Quality Products

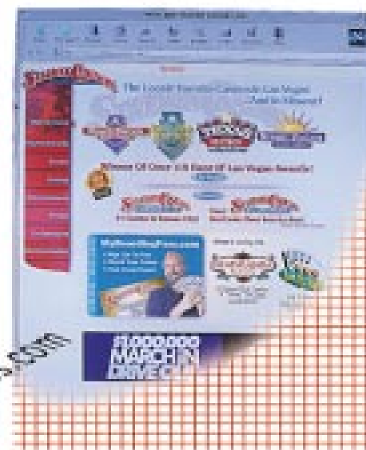
Building Our
Information Technology

We use our retail knowledge to ensure that our customers get what they want, as conveniently as possible.

Though casino floors may start to look the same to some, it is the information technology behind the product that separates us from our competition. We analyze our casino floor just as Wal-Mart analyzes the positioning of each product in its aisles. We view our casino floor as a successful mall developer—focused on optimizing thousands of tenant lease spaces to maximize traffic and yield. We use our retail knowledge to ensure that our customers get what they want, as conveniently as possible. Well-thought-out product placement is the key. Our information systems allow us to fine-tune our merchandising skills to help improve yields, better recognize and reward our best customers, and market to our customer base more efficiently.

Over the past several years, we have been able to gather a great deal of information on the preferences of our customers. In April 1999, we introduced a new player rewards program to further strengthen our leadership position in the Las Vegas locals' market. The Station Casinos Boarding Pass allows customers to earn points for slot play and redeem them for merchandise, food, lodging, movie passes, child-care, concert tickets, and other events at any of the Station properties in Las Vegas. The unified Boarding Pass replaces individual programs that were in place at each Station property and rewards players according to their cumulative play at all of our Las Vegas properties. All this…and our customers don't have to fly around the country to take advantage of it!

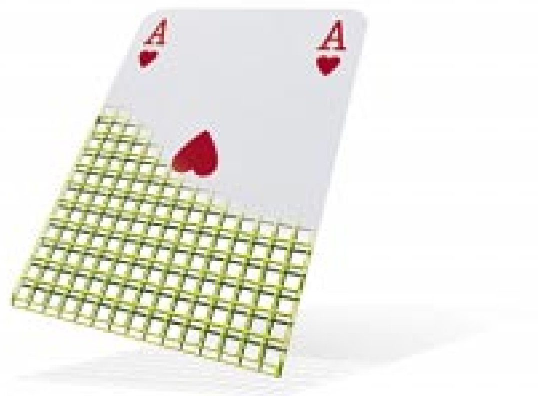
Our expansive data base has and will continue to be a sustainable competitive advantage for our company. This information aids us in assessing investment decisions in our development activities, as well as analyzing our day-to-day operations. We will continue to look for ways to leverage this information about our markets and customers into shareholder value.



The Beyond the Best program ensures that we provide our customers with consistent, quality service, setting our brand name apart, and establishing their loyalty.

The service that our team members provide is among the most important elements to our success. In our business, good customer service is critical to establishing customer loyalty. Our strategy to provide regional entertainment hubs within the sub-markets we serve lends itself to attracting repeat customers—perhaps more than any other company in the industry. Our "local" customers visit our facilities much more frequently than a typical tourist and are among the most discriminating consumers in the country because of the array of gaming options available to them. As a result, every team member goes through a training program to understand the Station philosophy to customer service and to learn the personalized service standards that we believe are necessary to cater to a loyal clientele. This philosophy is referred to as "Beyond the Best." The Beyond the Best program ensures that we provide our customers with consistent, quality service, setting our brand name apart, and establishing their loyalty.

To compete effectively, investment in our employees is paramount. During the past year, we have accomplished several milestones that we believe will promote team member retention and encourage the Beyond the Best attitude throughout our organization. First, we have upgraded team member benefits to include one of the finest medical coverage plans in the gaming industry. Second, we are teaching English as a Second Language, to help our non-English speaking employees communicate better with our guests. Finally, we recently opened the first of six, state-of-the-art, 24-hour educational/day-care centers for our team members' children. We'll continue to invest in our human resources and promote this area with creativity and tenacity.



Building Our
Service Leadership

Building Relationships

As a recognized leader in Las Vegas, we support numerous programs that enhance the quality of life of the entire region, and all the markets where we operate our business.

The Station brand of entertainment has grown and prospered as a result of the growth and development of the Las Vegas metropolitan area. That is why we have always believed so strongly in helping community and charity programs in Las Vegas and all the markets where we operate our business.

As the recognized leader of the “locals” market in Las Vegas, we support numerous programs that enhance the quality of life of the entire region. One example, representative of our commitment, is the work performed by our entire team at Texas Station for C. P. Squires Elementary School in North Las Vegas. Three years ago, Texas Station adopted C. P. Squires as its community partner. The school, which marked its 40th anniversary last year, is one of the oldest elementary schools in Clark County. A majority of its students come from single-parent homes or families who live in homeless shelters in Las Vegas. Texas Station has provided time and money to build an entire computer room, landscape the property, paint and repair the entire building and purchase books and computer software that have greatly improved the learning ability of all its students.

But that is just one example from a long list. Whether it’s the United Way, the Public Broadcasting System, Catholic Charities, Boy Scouts, or Opportunity Village (the city’s major center for the disabled), the community knows we will be there to help.

We also recognize the fact that a small percentage of our customers may encounter a problem with our entertainment products. In a gaming industry first, we recently provided the initial funding for the first low-cost clinic in Las Vegas for those who cannot afford counseling. The Problem Gambling Center, a non-profit organization, now offers help to those who recognize they have a gambling problem but have no way to pay for therapy. We encourage every gaming company to support this project.

Building for Our Future

We have long sought to establish a brand identity in major metropolitan markets with the greatest potential long-term user demand. All of the markets we operate in demonstrate this potential. But few, if any, gaming markets in the country offer the same supply/demand dynamics as the Las Vegas metropolitan area. Extraordinary population growth continues to fuel demand, while regulatory obstacles and political sentiment continues to curtail supply. As a result, nearly all of our management's time and attention is dedicated to building the leading franchise in Las Vegas.

Aiding our strategy is the immense amount of infrastructure and support services that others are building for us. Every day last year, 261 new residents moved to Las Vegas, 58 new homes were sold, and 75 new jobs were created, on average. As the population continues to grow, Las Vegas is becoming more diversified with an employee base that stretches across many industries and occupations and a robust influx of retirees. This shift, in turn, creates a more stable and broad foundation for us to implement our business model.

In building our future, we have tried to stay as flexible as possible in maximizing our ability to accommodate new demand. We believe that a product's adaptability to the market as it matures and changes is very important —so important that we've invested additional capital upfront at all of our properties. As we've shown at virtually all of our facilities, the first phase represents a very small portion of its ultimate potential. In reality, all of our properties are in their infancy. They have a formula that works today, while also having the flexibility to adapt and change to whatever is needed in order to remain competitive. We are committed to maintaining this approach in our overall strategy.

We believe the brand strategy will add value to all facets of our Company's growth strategy. It should allow us to more consistently generate same-store growth, positively enhance the risk-reward ratio of master-planned expansions and new development opportunities, and further leverage and capture additional synergies through strategic consolidation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with 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 Year Ended December 31, 1999	Twelve Months Ended December 31, 1998	Transition Period 1998	Nine Months Ended December 31, 1997	Fiscal Year Ended March 31, 1998
		(unaudited)		*(unaudited)*	
Net revenues—total	$942,469	$847,015	$642,214	$564,809	$769,610
Nevada Operations (a)	584,852	526,854	397,908	341,447	470,393
Missouri Operations (a)	313,439	290,160	219,734	203,374	273,800
Other (a)	44,178	30,001	24,572	19,988	25,417
Operating income (loss)—total	$ 28,871	$ 92,380	$ 64,696	$ 56,502	$ 84,186
Nevada Operations (a)	147,217	111,902	83,669	60,028	88,261
Missouri Operations (a)	(85,269)	(1,528)	(5,056)	6,358	9,886
Other (a)	(33,077)	(17,994)	(13,917)	(9,884)	(13,961)
Cash flows from:					
Operating activities	$173,058	$108,321	$ 76,692	$ 73,326	$104,955
EBITDA, As Adjusted (b)—total	$236,970	$192,384	$147,682	$117,764	$162,466
Nevada Operations (a)	186,677	150,413	113,284	96,029	133,158
Missouri Operations (a)	69,223	54,314	43,163	29,640	40,791
Other (a)	(18,930)	(12,343)	(8,765)	(7,905)	(11,483)
EBITDA, As Adjusted (b), Adjusted for the Sunset equipment lease—total	$242,890	$200,952	$154,186	$121,942	$168,708
Nevada Operations (a)	192,597	158,981	119,788	100,207	139,400

(a) The Nevada Operations include the accounts of: Palace Station, Boulder Station, Texas Station and Sunset Station. The Missouri Operations include the accounts of: Station Casino St. Charles and Station Casino Kansas City. Other includes the operations of Wild Wild West, which opened in July 1998, 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 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 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, operating income, cash flows from operating activities and EBITDA, As Adjusted for the Transition Period 1998 decreased as compared to the fiscal year ended March 31, 1998. These decreases are due to the Transition Period 1998 consisting of nine months as compared to the fiscal year ended March 31, 1998, which is twelve months. The above table presents certain results of operations from the unaudited nine month period ended December 31, 1997 for comparison purposes.

Consolidated Net Revenues

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 redeem points earned from gaming activity at any of the Nevada properties. Net revenues at the Missouri Operations increased 8% primarily due to Station Casino Kansas City which generated a 13% increase in net revenues.

Consolidated net revenues increased for the Transition Period 1998 as compared to the nine months ended December 31, 1997 due to increased revenues from the Nevada properties generally, and results from Sunset Station, which opened in June 1997, are included for only seven months in the nine months ended December 31, 1997. Also, revenues from the Station Casino Kansas City facility continued to steadily improve. Net revenues at Station Casino St. Charles declined 5% as a result of significant competition in the St. Louis market.

Operating Income/Operating Margin

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

	Fiscal Year Ended December 31, 1999	Twelve Months Ended December 31, 1998	Transition Period 1998	Nine Months Ended December 31, 1997	Fiscal Year Ended March 31, 1998
		(unaudited)		*(unaudited)*	
Operating income	$ 28,871	$ 92,380	$64,696	$56,502	$84,186
Operating margin	*3.1%*	*10.9%*	*10.1%*	*10.0%*	*10.9%*
Certain charges:					
Impairment loss	$137,435	$ 30,011	$30,011	—	—
Preopening expenses	—	—	—	$10,866	$10,866
Operating income, excluding certain charges	$166,306	$122,391	$94,707	$67,368	$95,052
Operating margin, excluding certain charges	*17.6%*	*14.4%*	*14.7%*	*11.9%*	*12.4%*

Consolidated operating income, excluding certain charges, 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, 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.

The consolidated operating margin, excluding certain charges, 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.

Operating margin, excluding certain charges, improved in the Transition Period 1998 as compared to the fiscal year ended March 31, 1998 primarily as a result of significantly improved operations at Station Casino Kansas City. Operating income, excluding certain charges at Station Casino Kansas City, improved by $17.8 million in the Transition Period 1998 as compared to the nine months ended December 31, 1997. The only casino property experiencing a decline in operating income, excluding certain charges, was Station Casino St. Charles, which experienced a $4.4 million decline due to the increased competition discussed above.

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

	Fiscal Year Ended December 31, 1999	Twelve Months Ended December 31, 1998	Transition Period 1998	Nine Months Ended December 31, 1997	Fiscal Year Ended March 31, 1998
		(unaudited)		*(unaudited)*	
Casino revenues	$764,089	$673,124	$509,149	$436,872	$600,847
Casino expenses	356,365	328,953	249,353	211,502	291,102
Margin	*53.4%*	*51.1%*	*51.0%*	*51.6%*	*51.6%*
Food and beverage revenues	$141,116	$138,044	$104,538	$ 97,859	$131,365
Food and beverage expenses	88,898	88,423	66,121	67,626	89,928
Margin	*37.0%*	*35.9%*	*36.7%*	*30.9%*	*31.5%*
Room revenues	$ 42,870	$ 39,678	$ 30,040	$ 27,692	$ 37,330
Room expenses	15,860	14,975	11,515	10,001	13,461
Margin	*63.0%*	*62.3%*	*61.7%*	*63.9%*	*63.9%*
Other revenues	$ 62,286	$ 59,924	$ 47,663	$ 41,233	$ 53,494
Selling, general and administrative	$190,753	$181,723	$136,649	$128,196	$173,270
Percent of net revenues	*20.2%*	*21.5%*	*21.3%*	*22.7%*	*22.5%*
Corporate expenses	$ 23,007	$ 15,661	$ 11,431	$ 10,391	$ 14,621
Percent of net revenues	*2.4%*	*1.8%*	*1.8%*	*1.8%*	*1.9%*

Casino. 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.

Casino profit margin for the Transition Period 1998 remained relatively consistent with results for the nine months ended December 31, 1997.

Food and Beverage. 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.

Food and beverage revenues for the Transition Period 1998 increased 6.8% over food and beverage revenues for the nine months ended December 31, 1997. The primary reason for this increase is the results from Sunset Station, which opened in June 1997, are included for only seven months in the nine months ended December 31, 1997. The increase in food and beverage revenues is less than the overall increase in revenues. This is primarily due to a decline in food and beverage revenues at Station Casino Kansas City. In the prior year's period, the Company was very aggressive in promoting Station Casino Kansas City's food operations.

Food and beverage net profit margins improved to 36.7% for the Transition Period 1998, from 30.9% in the nine months ended December 31, 1997. This increase in margin is due to improvement at the Company's Nevada Operations, primarily as a result of continued focus on cost control, as well as selected menu price increases.

Room. 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 is the opening of the Wild Wild West Gambling Hall & Hotel 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.

Room revenues for the Transition Period 1998 increased 8.5% over room revenues for the nine months ended December 31, 1997. The primary reason for this increase is the results from Sunset Station, which opened in June 1997, are included for only seven months in the nine months ended December 31, 1997. Additionally, the Company opened the Wild Wild West Gambling Hall & Hotel in July 1998, which contributed $1.1 million of room revenues in the Transition Period 1998. Offsetting these increases was a decline in room revenues at Palace Station and Boulder Station. These declines were primarily a result of a lower average daily room rate.

Selling, General and Administrative ("SG&A"). 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. As a percent of net revenues, SG&A decreased to 21.3% in the Transition Period 1998 as compared to 22.7% in the nine months ended December 31, 1997. These decreases are due primarily to the fine tuning of operations at Sunset Station and Station Casino Kansas City. In the Company's experience, when a new property opens, SG&A as a percent of net revenues is higher than normal, and reduces as the property's operations mature. 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.

Corporate Expenses. Corporate expenses 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 as it continues to lay the foundation for future growth. Corporate expenses as a percent of net revenues for the Transition Period 1998 were consistent with the nine months ended December 31, 1997.

Depreciation and Amortization. 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. Depreciation at Station Casino St. Charles should also decline going forward due to the write-off of assets noted below, while depreciation at Sunset Station should increase due to the purchase of various equipment leases in 1999.

Depreciation and amortization increased $2.6 million in the Transition Period 1998 to $53.0 million as compared to $50.4 million in the nine months ended December 31, 1997. This increase is due to the results of Sunset Station being included for only seven months in the nine months ended December 31, 1997.

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. All gaming operations will be moved to the existing barge by the end of the first quarter of 2000. The existing riverboat is expected to be sold after the reconfiguration is complete. 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 will sell a 40-acre parcel of land in Henderson, Nevada, that it recently 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.

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 (see Note 11 of Notes to Consolidated Financial Statements).

Included in other assets, net on the accompanying consolidated balance sheet as of December 31, 1999, is $26.1 million related primarily to parcels of land. The Company is actively attempting to dispose of these non-strategic assets and expects to complete the sale of certain of these assets in the first half of calendar year 2000.

Preopening Expenses. Prior to December 31, 1998, the Company capitalized preopening expenses associated with its construction projects, including Sunset Station, which opened in June 1997. Such amounts were expensed upon the opening of the related project. During the fiscal year ended March 31, 1998, the Company expensed preopening expenses of $10.9 million related primarily to this project. Preopening expenses incurred after January 1, 1999 will be expensed as incurred.

Interest Expense, net. 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.

Interest costs incurred (expensed and capitalized) for the Transition Period 1998 of $67.6 million remained consistent with interest costs incurred for the nine months ended December 31, 1997 of $68.9 million.

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. The acquisition was terminated when the Missouri Gaming Commission ("Commission") informed the Company that it would not be able to complete its licensing investigation on or before the termination date set forth in the acquisition agreement. The Company believes the Commission was unable to complete its licensing investigation in the required time frame because of the investigation of the actions of an attorney who worked on the Company's legal matters in Missouri.

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 (see Note 11 of Notes to Consolidated Financial Statements).

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, 1999, the Company generated cash flows from operating activities of $173.1 million. At December 31, 1999, the Company had total available borrowings of $530.8 million under the Amended Bank Facility, of which $377.3 million was directly outstanding and $4.8 million was reserved for the potential payment of an outstanding letter of credit. Total available borrowings will reduce beginning March 31, 2000 and each quarter thereafter 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 $73.1 million in cash and cash equivalents.

During the year ended December 31, 1999, total capital expenditures were approximately $76.4 million, of which approximately (i) $30.3 million was associated with the purchase of equipment previously under operating leases at Sunset Station, (ii) $16.2 million was associated with the expansion project at Texas Station, (iii) $22.3 million was for maintenance capital expenditures, and (iv) $7.6 million was associated with various other projects.

The Company's primary capital requirements during fiscal year 2000 are expected to include (i) another expansion project at Texas Station, estimated to cost approximately $55 million, (ii) equity contributions to the proposed Green Valley Ranch project expected to be approximately $40 million, (iii) strategic land purchases throughout the Las Vegas area, (iv) opportunistic repurchases of the Company's Common Stock, (v) maintenance capital expenditures, and (vi) principal and interest payments on indebtedness.

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 2000. 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 Project

A 50/50 joint venture between the Company and GCR Gaming, LLC has proposed to build a new resort/casino in Henderson, Nevada. Construction is expected to commence

during the third quarter of 2000 and is expected to be completed in the fourth quarter of 2001. The estimated construction cost of this project is $270 to $280 million. The project is expected to be funded with total equity contributions from the partners of approximately $80 million and third party financing of the remainder. If 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.

Land Acquisition

In addition to the Green Valley Project, the Company has purchased or has options to purchase an additional 151 acres of land throughout the Las Vegas Valley which will be used for future development. The Rhodes Ranch site consists of two parcels totaling 83 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 and will make combined lease and option payments of $1.6 million per year. The Company has no immediate plans to develop these sites.

The Company's capital requirements in 2000 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 2000. 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 2000 may include amounts necessary to permit the Company to pursue such expansion activities.

Year 2000 Readiness

The Company did not encounter any Year 2000 problems. The total cost to the Company of making the Company's systems Year 2000 compliant was approximately $3.0 million. The majority of this cost related to the acquisition of new computer hardware to replace the systems which were not Year 2000 compliant and the purchase of new software to replace non-compliant software. These costs were capitalized and will be depreciated over their expected useful life. To the extent existing hardware or software was replaced, the Company recognized a loss currently for the undepreciated balance. This loss is included in the above cost.

Low Water Level at Station Casino St. Charles

During December 1998 and January 1999, the water level of the Missouri River was well below normal. In addition, over time silt and debris flowing downstream have built up under the gaming barges and other ancillary barges at Station Casino St. Charles. These circumstances have caused a portion of these barges, at times, to touch the river bottom. Because these barges have touched the river bottom, the American Bureau of Shipping decertified the barges on January 8, 1999. As a result of the decertification, the Missouri Gaming Commission expressed concern regarding the effect of the low water level on the barges. However, based upon improvement in the water level and the Company's agreement to work with the American Bureau of Shipping to re-certify all of the barges at a time when the river levels permit, the Missouri Gaming Commission allowed the gaming facility to remain open. On November 11, 1999, the American Bureau of Shipping recertified the barges. The Company continues to monitor the situation very carefully and believes that the facility should remain in operation. However, there can be no assurance that the Company's assessment will not change or that the relevant authorities will continue to permit the operation of the facility. A prolonged closure of the facility as a result of the low water level would have a material adverse effect on the Company's business, financial position and results of operations.

Regulation and Taxes

The Company is subject to extensive regulation by the Nevada and Missouri 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 revenues, 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, including a recent proposal in Nevada, will not be enacted. This recent proposal in Nevada would increase the tax on gaming revenue from 6¼% to 11¼%. If enacted, this proposal would have a material impact on the results of operations for the Company.

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 $200.0 million 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. The Term Loan matures on December 31, 2005 and amortizes in installments of $0.5 million on each fiscal quarter end from March 31, 2000 until and including December 31, 2004 and of $47.5 million on each fiscal quarter end thereafter. The interest rate on the Term Loan is 2.50% above the Eurodollar Rate. The Term Loan contains financial covenants substantially identical to the covenants in the indentures governing the Company's senior subordinated notes.

The Revolving Facility provides for borrowings up to an aggregate principal amount of $330.8 million at December 31, 1999. The Revolving Facility matures on September 30, 2003. The availability under the Revolving Facility will reduce by $14.0 million on March 31, 2001 and June 30, 2001; by $17.5 million on September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002; and by $30.6 million on each fiscal quarter end thereafter. 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, 1999, the Borrower's margin above the Eurodollar Rate on borrowings under the Revolving Facility was 1.63%. 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, 1999, the fee for the unfunded portion of the Revolving Facility was 40 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, 1999, the Borrowers combined funded debt to Adjusted EBITDA ratio was 1.52 to 1.00 and their combined fixed charge coverage ratio for the preceding four quarters ended December 31, 1999 was 2.55 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, 1999, Palace Station's tangible net worth exceeded the requirement by approximately $9.3 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 5.00 to 1.00 on December 31, 1999 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, limitation 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, 1999, the Company's consolidated funded debt to Adjusted EBITDA ratio was 3.93 to 1.00. The Company has pledged the stock of all of its subsidiaries except Kansas City Station Corporation and St. Charles Riverfront Station, Inc. and has agreed to pledge the stock of the latter two subsidiaries upon regulatory approval (which is expected to be obtained).

Senior Subordinated Notes

The Company has $542.3 million, net of unamortized discount of $5.6 million, of senior subordinated notes outstanding as of December 31, 1999, $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 and $199.9 million of these notes bear interest, payable semi-annually, at a rate of 8⅞% 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, 1999, the Company's Consolidated Coverage Ratio (as defined) was 1.32 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. 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.

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 $27.0 million. The purchase price was funded with borrowings from the Company's Revolving Facility.

Common Stock

The Company is authorized to issue up to 90,000,000 shares of its common stock, $0.01 par value per share (the "Common Stock"), 42,455,999 shares of which were issued and 778,329 shares were held in treasury as of December 31, 1999. 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 therefor 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 6,741,632 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

The Company is authorized to repurchase up to approximately 6.3 million shares of its Common Stock. As of December 31, 1999, the Company had purchased 0.8 million shares at a cost of $11.9 million.

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 at September 2003 and the Amended Bank Facility matures in December 2005.

The following table provides information about the Company's long-term debt at December 31, 1999 (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 7.94%	September 2003	$177,300	$177,300	$177,300
Term Loan, interest at 8.69%	December 2005	200,000	200,000	200,000
8⅞% senior subordinated notes	December 2008	199,900	199,900	192,863
9¾% senior subordinated notes	April 2007	150,000	145,326	150,405
10⅛% senior subordinated notes	March 2006	198,000	197,087	203,267
Other notes, interest ranging from 7.83% to 9.00%	Various to June 2007	22,867	22,867	22,867
Total		$948,067	$942,480	$946,702

Consolidated Balance Sheets

(amounts in thousands, except share data)	December 31, 1999	December 31, 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 73,072	$ 59,040
Cash—restricted for payment of long-term debt—defeased January 4, 1999	—	202,383
Accounts and notes receivable, net	12,346	18,372
Inventories	6,013	5,466
Prepaid gaming tax	10,035	8,908
Prepaid expenses	8,219	6,786
Deferred income tax	10,519	4,981
Total current assets	120,204	305,936
Property and equipment, net	1,025,753	1,147,890
Land held for development	18,839	17,009
Deferred income tax, net	21,823	—
Other assets, net	89,654	61,090
Total assets	$1,276,273	$1,531,925
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 8,647	$ 13,323
Accounts payable	11,998	18,636
Accrued payroll and related	25,065	18,162
Construction contracts payable	750	10,399
Accrued interest payable	12,341	15,306
Accrued progressives	8,877	7,438
Accrued expenses and other current liabilities	50,011	34,672
Total current liabilities	117,689	117,936
Long-term debt, less current portion	933,833	946,308
9⅝% Senior subordinated notes—defeased January 4, 1999	—	187,635
Other long-term liabilities, net	7,950	10,640
Total liabilities	1,059,472	1,262,519
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value $.01; authorized 5,000,000 shares; 0 and 2,070,000 convertible preferred shares issued and outstanding	—	103,500
Common stock, par value $.01; authorized 90,000,000 shares; 42,455,999 and 35,312,192 shares issued	424	353
Treasury stock, 778,329 and 213,008 shares, at cost	(11,862)	(2,006)
Additional paid-in capital	282,294	168,867
Deferred compensation—restricted stock	(7,432)	(159)
Accumulated deficit	(45,907)	(1,149)
Accumulated other comprehensive income	(716)	—
Total stockholders' equity	216,801	269,406
Total liabilities and stockholders' equity	$1,276,273	$1,531,925

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

Consolidated Statements of Operations

(amounts in thousands, except share data)	For the year ended December 31, 1999	For the nine months ended December 31, 1998	For the year ended March 31, 1998
		(see Note 1)	
Operating revenues:			
Casino	$ 764,089	$ 509,149	$ 600,847
Food and beverage	141,116	104,538	131,365
Room	42,870	30,040	37,330
Other	62,286	47,663	53,494
Gross revenues	1,010,361	691,390	823,036
Promotional allowances	(67,892)	(49,176)	(53,426)
Net revenues	942,469	642,214	769,610
Operating costs and expenses:			
Casino	356,365	249,353	291,102
Food and beverage	88,898	66,121	89,928
Room	15,860	11,515	13,461
Other	30,616	19,463	24,762
Selling, general and administrative	190,753	136,649	173,270
Corporate expense	23,007	11,431	14,621
Depreciation and amortization	70,664	52,975	67,414
Impairment loss	137,435	30,011	—
Preopening expenses	—	—	10,866
	913,598	577,518	685,424
Operating income	28,871	64,696	84,186
Other income (expense):			
Interest expense, net	(84,618)	(66,127)	(78,826)
Interest expense—defeasance, net	—	(835)	—
Abandoned acquisition costs	(2,409)	—	—
Merger settlement, net of related legal costs	12,824	(2,943)	—
Write-off of costs to elect REIT status	—	—	(2,914)
Other	(1,891)	(4,655)	(6,566)
	(76,094)	(74,560)	(88,306)
Loss before income taxes and extraordinary item	(47,223)	(9,864)	(4,120)
Income tax benefit	14,929	871	966
Loss before extraordinary item	(32,294)	(8,993)	(3,154)
Extraordinary item—loss on early retirement of debt, net of applicable income tax benefit	(10,653)	(3,104)	(2,042)
Net loss	(42,947)	(12,097)	(5,196)
Preferred stock dividends	(1,811)	(5,434)	(7,245)
Net loss applicable to common stock	$ (44,758)	$ (17,531)	$ (12,441)
Weighted average common shares outstanding	39,128,094	35,311,715	35,309,189
Basic and diluted loss per common share:			
Loss applicable to common stock, before extraordinary item	$ (0.87)	$ (0.41)	$ (0.29)
Extraordinary item	$ (0.27)	$ (0.09)	$ (0.06)
Loss applicable to common stock	$ (1.14)	$ (0.50)	$ (0.35)

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

Consolidated Statements of Stockholders' Equity

(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, 1997	$ 103,500	$353	$ —	$167,397	$(1,225)	$ 28,823	$ —	$298,848
Exercise of stock options	—	—	—	26	—	—	—	26
Cancellation of restricted stock	—	—	—	(243)	243	—	—	—
Amortization of deferred compensation	—	—	—	—	454	—	—	454
Preferred stock dividends	—	—	—	—	—	(7,245)	—	(7,245)
Net loss	—	—	—	—	—	(5,196)	—	(5,196)
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 (213 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 (565 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

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

Consolidated Statements of Cash Flows

(amounts in thousands)	For the year ended December 31, 1999	For the nine months ended December 31, 1998	For the year ended March 31, 1998
		(see Note 1)	
Cash flows from operating activities:			
Net loss	$ (42,947)	$ (12,097)	$ (5,196)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	70,664	52,975	67,414
Amortization of debt discount and issuance costs	2,659	4,254	6,443
Loss on early retirement of debt	16,389	4,775	2,668
Merger and related legal costs	—	2,943	—
Impairment loss	137,435	30,011	—
Write-off of costs to elect REIT status	—	—	2,914
Preopening expenses	—	—	10,866
(Decrease) increase in deferred income tax	(32,733)	(6,410)	2,854
Changes in assets and liabilities:			
Decrease (increase) in accounts and notes receivable, net	6,026	(5,598)	(4,845)
Increase in inventories and prepaid expenses and other	(3,113)	(2,839)	(3,228)
(Decrease) increase in accounts payable	(6,893)	2,138	(4,608)
Increase in accrued expenses and other current liabilities	25,170	9,531	23,160
Other, net	401	(2,991)	6,513
Total adjustments	216,005	88,789	110,151
Net cash provided by operating activities	173,058	76,692	104,955
Cash flows from investing activities:			
Capital expenditures	(76,344)	(96,482)	(130,853)
Proceeds from sale of property and equipment	5,025	5,998	4,925
Assets held for sale	(37,468)	—	—
Decrease in construction contracts payable	(9,649)	(135)	(84,301)
Preopening expenses	—	—	(8,551)
Other, net	(13,217)	(3,152)	(627)
Net cash used in investing activities	(131,653)	(93,771)	(219,407)
Cash flows from financing activities:			
(Payments) borrowings under bank facility, net	(1,700)	55,000	47,000
Payments under the Sunset loan agreement	—	—	(46,000)
Proceeds from notes payable	—	—	16,239
Principal payments on notes payable	(16,004)	(11,780)	(27,030)
Proceeds from the issuance of senior subordinated notes	—	199,900	144,287
Defeasance of 9⅝% senior subordinated notes	(201,670)	—	—
Purchase of treasury stock	(9,856)	(2,006)	—
Dividends paid on preferred stock	(1,811)	(5,434)	(7,245)
Exercise of stock options	828	36	26
Debt issuance costs and other, net	457	(7,372)	(5,189)
Net cash (used in) provided by financing activities	(229,756)	228,344	122,088
Cash and cash equivalents:			
(Decrease) increase in cash and cash equivalents	(188,351)	211,265	7,636
Balance, beginning of year	261,423	50,158	42,522
Balance, end of year	$ 73,072	$261,423	$ 50,158
Supplemental cash flow disclosures:			
Cash paid for interest, net of amounts capitalized	$ 85,176	$ 65,275	$ 66,691
Cash paid for income taxes, net	$ 15,202	$ 519	$ 92
Property and equipment purchases financed by debt	$ 35	$ 2,978	$ 3,532
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.

Notes to Consolidated Financial 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 an established multi-jurisdictional gaming and entertainment enterprise that currently owns and operates four major hotel/casino properties and two smaller casino properties in Las Vegas, Nevada, and gaming and entertainment complexes in St. Charles and Kansas City, Missouri. The Company also owns and provides slot route management services in southern Nevada.

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"), 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"), which opened in July 1998. 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	(0.62)

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.

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 for the fiscal year ended December 31, 1999 was approximately $0.4 million, for the Transition Period 1998 was approximately $1.2 million and for the fiscal year ended March 31, 1998 was approximately $12.8 million.

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

During the construction of and prior to the opening of a facility, all operating expenses, including incremental salaries and wages directly related thereto, were capitalized as preopening expenses. 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. The Company expensed preopening expenses immediately upon the opening of the related facility. During the fiscal year ended March 31, 1998, the Company incurred preopening expenses of $10.9 million, substantially related to the opening of Sunset Station. During the fiscal year ended December 31, 1999 and the Transition Period 1998, the Company had no 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 will be expensed as incurred.

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 year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Food and beverage	$51,916	$38,816	$40,573
Room	2,527	1,877	3,027
Other	3,106	1,932	2,828
Total	$57,549	$42,625	$46,428

Earnings (Loss) Applicable to Common Stock

In the fiscal year ended March 31, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." This statement replaces previously reported earnings per share ("EPS") with basic EPS and diluted EPS. 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. Diluted EPS is not presented separately because the exercise of stock options and the conversion of the convertible preferred stock does not have a dilutive effect on the per share amounts.

Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings, and is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has adopted SFAS No. 130 as reflected in the accompanying consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes additional standards for segment reporting in financial statements and is effective for fiscal years beginning after December 15, 1997. The Company currently operates in only one segment.

Reclassifications

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

2. Accounts and Notes Receivable

Components of accounts and notes receivable are as follows (amounts in thousands):

	December 31, 1999	December 31, 1998
Casino	$ 7,496	$ 6,238
Hotel	2,546	1,743
Insurance Proceeds (see Note 3)	—	7,239
Other	5,263	5,187
	15,305	20,407
Allowance for doubtful accounts	(2,959)	(2,035)
Accounts and notes receivable, net	$12,346	$18,372

3. Property and Equipment

Property and equipment consists of the following as of December 31, 1999 and 1998 (amounts in thousands):

	Estimated Life (years)	December 31, 1999	1998
Land	—	$ 36,737	$ 37,864
Land leases acquired	48–52	4,995	4,685
Buildings and lease-hold improvements	31–45	765,042	728,642
Boats and barges	20–45	67,009	100,086
Furniture, fixtures and equipment	3–7	284,167	251,681
Construction in progress	—	119,353	224,572
		1,277,303	1,347,530
Accumulated depreciation and amortization		(251,550)	(199,640)
Property and equipment, net		$1,025,753	$1,147,890

At December 31, 1999 and 1998, substantially all property and equipment of the Company is pledged as collateral for long-term debt.

Construction in Progress

In the fall of 1996, the Company commenced an expansion project at Station Casino St. Charles which included the building of a backwater basin containing two new gaming vessels and a new retail and entertainment complex. 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. All gaming operations will be moved to the existing barge by the end of the first quarter of 2000. The existing riverboat is expected to be sold after the reconfiguration is complete. 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 will sell a 40-acre parcel of land in Henderson, Nevada, that it recently 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.

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 (see Note 11).

Included in other assets, net on the accompanying consolidated balance sheet as of December 31, 1999, is $26.1 million related primarily to parcels of land. The Company is actively attempting to dispose of these non-strategic assets and expects to complete the sale of certain of these assets in the first half of calendar year 2000.

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 various jurisdictions 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. Included in land held for development at December 31, 1999 and 1998 is approximately $18.8 million and $17.0 million, respectively, related to land which had been acquired for potential gaming projects in jurisdictions where gaming has been approved. In June 1997, $5.0 million of certain expired option payments to lease or acquire land for future development, which had previously been capitalized, were expensed in other expense on the accompanying Consolidated Statements of Operations.

5. Long-term Debt

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

	December 31,	
	1999	1998
Amended and restated reducing revolving credit facility, $330.8 million limit at December 31, 1999, due September 30, 2003, interest at a margin above the bank's prime rate or the Eurodollar Rate (7.94% at December 31, 1999)	$177,300	$ 304,000
Secured term loan facility, $200.0 million limit at December 31, 1999, due December 31, 2005, interest at 2.50% above the Eurodollar Rate (8.69% at December 31, 1999)	200,000	75,000
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 $4.7 million at December 31, 1999	145,326	144,914
10⅛% senior subordinated notes, interest payable semi-annually, principal due March 15, 2006, net of unamortized discount of $0.9 million at December 31, 1999	197,087	196,981
Other long-term debt, collateralized by various assets, including slot machines, furniture and equipment, and land, monthly installments including interest ranging from 7.83% to 9.00% at December 31, 1999	22,867	38,836
Total long-term debt	942,480	959,631
Current portion of long-term debt	(8,647)	(13,323)
Total long-term debt, less current portion	933,833	946,308
9⅝% senior subordinated notes, net of unamortized discount of $5.4 million at December 31, 1998, defeased January 4, 1999	—	187,635
Total	$933,833	$1,133,943

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, 1999, the Company's Consolidated Coverage Ratio (as defined in the Indentures) was 1.32 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. 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.

In August 1999, the Company amended its existing bank credit facility (the "Revolving Facility") and entered into a new $200.0 million 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. The Term Loan matures on December 31, 2005 and amortizes in installments of $0.5 million on each fiscal quarter end from March 31, 2000 until and including December 31, 2004 and of $47.5 million on each fiscal quarter end thereafter. The interest rate on the Term Loan is 2.50% above the Eurodollar Rate. The Term Loan contains financial covenants substantially identical to the covenants in the indentures governing the Company's senior subordinated notes.

The Revolving Facility provides for borrowings up to an aggregate principal amount of $330.8 million at December 31, 1999. The Revolving Facility matures on September 30, 2003. The availability under the Revolving Facility will reduce by $14.0 million on March 31, 2001 and June 30, 2001; by $17.5 million on September 30, 2001, December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002; and by $30.6 million on each fiscal quarter end thereafter. 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, 1999, the Borrower's margin above the Eurodollar Rate on borrowings under the Revolving Facility was 1.63%. 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, 1999, the fee for the unfunded portion of the Revolving Facility was 40 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, 1999, the Borrowers combined funded debt to Adjusted EBITDA ratio was 1.52 to 1.00 and their combined fixed charge coverage ratio for the preceding four quarters ended December 31, 1999 was 2.55 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, 1999, Palace Station's tangible net worth exceeded the requirement by approximately $9.3 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 5.00 to 1.00 on December 31, 1999 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, limitation 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, 1999, the Company's consolidated funded debt to Adjusted EBITDA ratio was 3.93 to 1.00. The Company has pledged the stock of all of its subsidiaries except Kansas City Station Corporation and St. Charles Riverfront Station, Inc. and has agreed to pledge the stock of the latter two subsidiaries upon regulatory approval (which is expected to be obtained).

On September 25, 1996, Sunset Station, a wholly-owned subsidiary of the Company, entered into a Construction/ Term Loan Agreement (the "Sunset Loan Agreement") with a group of lenders, pursuant to which Sunset Station received a commitment for $110 million to finance the remaining development and construction costs of Sunset Station. The Company also entered into an operating lease for certain furniture, fixtures and equipment with a cost of up to $40 million to be subleased to Sunset Station as part of the Sunset Station project (see Note 6).

The Sunset Loan Agreement included a first mortgage term note in the amount of $110 million (the "Sunset Note") which was non-recourse to the Company, except as to certain construction matters pursuant to a completion guarantee dated as of September 25, 1996, executed by the Company on behalf of Sunset Station and except that the Company had pledged all of the stock of Sunset Station as security for the Sunset Loan Agreement. As of March 31, 1998, the Sunset Note had been repaid. The early retirement resulted in an extraordinary loss of $2.0 million, net of the applicable income tax benefit.

In order to manage the interest rate risk associated with the Sunset Note, Sunset Station entered into an interest rate swap agreement. This agreement swapped the variable rate interest pursuant to the Sunset Note to a fixed rate of 9.58% (5.83% fixed plus the Sunset Note margin), on $35 million notional amount as of January 1997 increasing to $60 million at March 1997, $90 million at June 1997, $100 million at September 1997 and then decreasing to $95 million at June 1998. The agreement expired in December 1998. The difference paid or received pursuant to the swap agreement was accrued as interest rates changed and recognized as an adjustment to interest expense on the Sunset Note. At the time of the early retirement of the Sunset Note, the Borrowers under the Bank Facility accepted the interest rate swap on substantially identical terms to those of the Sunset Note.

The estimated fair value of the Company's long-term debt at December 31, 1999, was approximately $946.7 million, compared to its book value of approximately $942.5 million. The estimated fair value amounts were based on quoted market prices on or about December 31, 1999, 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,	
2000	$ 8,647
2001	9,920
2002	1,052
2003	188,210
2004	2,130
Thereafter	732,521
Total	$942,480

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 did not exercise its June 1998 option. 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 $150,000 through June 2000. In July 2000, 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'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. Additionally, in June 2001, the lessor has an option to sell this land to the Company for $21.8 million.

Station Casino Kansas City Lease

The Company has entered into a joint venture which owns the land on which Station Casino Kansas City is located. At December 31, 1999, $3.0 million related to this investment is included in other assets, net in the accompanying consolidated balance sheets.

In April 1994, Station Casino Kansas City entered into an agreement with the joint venture to lease this land. Currently, the agreement requires monthly payments of $93,636. Commencing April 1, 1998 and every anniversary thereafter, the rent shall be adjusted by a cost of living factor of not more than 5% or less than 2% per annum. The lease expires March 31, 2006, with an option to extend the lease for up to eight renewal periods of ten years each, plus one additional seven year period. In connection with the joint venture agreement, the Company received an option providing for the right to acquire the joint venture partner's interest in this joint venture. The Company has the option to acquire this interest at any time after April 1, 2002 through April 1, 2011, for $11.7 million, however, commencing April 1, 1998, the purchase price will be adjusted by a cost of living factor of not more than 5% or less than 2% per annum. At December 31, 1999, $2.6 million paid by the Company in consideration for this option is included in other assets, net in the accompanying consolidated balance sheets. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the Amended Bank Facility.

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 intends to develop a gaming and entertainment facility on 49 acres, approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. The scope and the timing of this project has yet to be determined.

Equipment Lease

In connection with the Sunset Loan Agreement, 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, Station Casino Kansas City and Wild Wild West. Leases on various parcels ranging from 13 acres to 171 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,	
2000	$ 9,663
2001	10,484
2002	11,376
2003	11,410
2004	11,332
Thereafter	437,023
Total	$491,288

Rent expense totaled approximately $14.6 million, $12.1 million and $12.6 million for the fiscal year ended December 31, 1999, the Transition Period 1998 and the fiscal year ended March 31, 1998, respectively. Rent of $0.3 million was capitalized in connection with the construction of Sunset Station for the fiscal year ended March 31, 1998.

7. Stockholders’ Equity

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 6,741,632 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

The Company is authorized to repurchase up to approximately 6.3 million shares of its Common Stock. As of December 31, 1999, the Company had purchased 0.8 million shares at a cost of $11.9 million.

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 Program

The Company has adopted a Stock Compensation Program (the "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. 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 program. However, only employees of the Company and its subsidiaries are eligible to receive incentive stock options.

A maximum of 10,807,000 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, ranging from immediate to twenty percent a year for five years, to be determined at the time of grant. All options have an exercise period of ten years from the date of grant.

The Program 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 Program after such date. Summarized information for the Program is as follows:

	For the year ended December 31, 1999		Transition Period 1998		For the year ended March 31, 1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of the year	6,003,330	$12.43	5,067,452	$13.30	4,432,182	$15.22
Granted	750,766	$21.55	1,038,306	$ 7.69	1,799,742	$ 7.50
Exercised	(71,483)	$11.58	(1,123)	$12.00	(4,012)	$12.24
Canceled	(76,951)	$ 8.62	(101,305)	$ 7.91	(1,160,460)	$11.59
Outstanding at end of the year	6,605,662	$13.51	6,003,330	$12.43	5,067,452	$13.30
Exercisable at end of year	3,768,443	$15.13	1,951,594	$16.60	1,485,971	$17.28
Options available for grant	3,609,463		113,278		1,050,279	

The following table summarizes information about the options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1999	Weighted Average Exercise Price
$ 4.94–$ 5.38	81,500	8.7	$ 5.36	13,500	$ 5.29
$ 7.50–$11.00	2,390,702	8.2	$ 7.67	433,122	$ 7.70
$11.63–$17.31	2,366,960	6.3	$14.20	2,140,321	$14.04
$18.00–$24.75	1,766,500	5.7	$20.87	1,181,500	$19.95
	6,605,662	6.8	$13.51	3,768,443	$15.13

Restricted stock grants of 330,000 and 170,500 shares were issued during the fiscal years ended December 31, 1999 and March 31, 1995, 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 Program. 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 loss applicable to common stock and basic loss per common share would have been as follows (amounts in thousands, except per share data):

	For the year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Net loss applicable to common stock:			
As reported	$(44,758)	$(17,531)	$(12,441)
Pro forma	$(48,526)	$(19,201)	$(14,455)
Basic and diluted loss per common share:			
As reported	$ (1.14)	$ (0.50)	$ (0.35)
Pro forma	$ (1.24)	$ (0.54)	$ (0.41)

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 year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Expected dividend yield	—	—	—
Expected stock price volatility	50.00%	51.90%	46.20%
Risk-free interest rate	5.90%	4.51%	6.03%
Expected average life of options (years)	3.91	3.87	4.84
Expected fair value of options granted	$9.46	$3.34	$3.38

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) Plans

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 $2,103,000, $678,000 and $499,000 for the fiscal year ended December 31, 1999, the Transition Period 1998 and the fiscal year ended March 31, 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 for income taxes for financial reporting purposes consists of the following (amounts in thousands):

	For the year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Income tax benefit from continuing operations	$ 14,929	$ 871	$ 966
Tax benefit from extraordinary loss on early retirement of debt	5,736	1,671	626
Total income taxes	$ 20,665	$ 2,542	$ 1,592

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

	For the year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Current	$(14,960)	$ 3,953	$ 18,083
Deferred	35,625	(1,411)	(16,491)
Total income taxes	$ 20,665	$ 2,542	$ 1,592

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

	For the year ended December 31, 1999	Transition Period 1998	For the year ended March 31, 1998
Federal statutory rate	35.0%	35.0%	35.0%
Lobbying and political	(1.2)	(16.8)	(7.0)
Meals and entertainment	(0.9)	(1.2)	(3.7)
Credits earned, net	0.8	2.5	3.6
Other, net	(1.2)	(2.1)	(4.5)
Effective tax rate	32.5%	17.4%	23.4%

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

	December 31,	
	1999	1998
Deferred tax assets:		
Current:		
Accrued vacation, bonuses and group insurance	$ 9,854	$ 5,691
Prepaid gaming taxes	(2,880)	(1,910)
Other	3,545	1,200
Total current	10,519	4,981
Long-term:		
Preopening and other costs, net of amortization	7,135	10,632
FICA credits	2,947	2,127
State deferred taxes	2,023	2,023
Net operating loss	2,690	14,208
Alternative minimum tax credits	27,725	18,891
Total long-term	42,520	47,881
Total deferred tax assets	53,039	52,862
Deferred tax liabilities:		
Long-term:		
Temporary differences related to property and equipment	(19,963)	(52,149)
Other	(734)	(1,104)
Total deferred tax liabilities	(20,697)	(53,253)
Net	$ 32,342	$ (391)

The Company currently has a net operating loss carryforward of $7.7 million which expires in 2018. 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, 1999 or 1998 relating to recorded tax benefits because all benefits are more likely than not to be realized.

11. Legal Matters

On January 16, 1998, the Company entered into an Agreement and Plan of Merger, as amended (the "Merger") with Crescent Real Estate Equities Company, a Texas real estate investment trust ("Crescent"). The Company wrote off $2.9 million of costs incurred related to the Merger (which are included in other expense in the accompanying consolidated statements of operations for the Transition Period 1998). The Merger became subject to litigation between the two companies. On April 14, 1999, the Company announced that it had settled its lawsuits with Crescent arising out of the failed Merger. Under the terms of the settlement agreement, Crescent paid the Company $15 million, and the parties have released each other from all claims.

In addition, 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.

12. Quarterly Financial Information (Unaudited)

(amounts in thousands, except per share amounts)	Net revenues	Operating income (loss)	Income (loss) before income taxes and extraordinary item	Net income (loss) applicable to common stock	Basic earnings (loss) per common share
Year ended December 31, 1999					
First quarter	$229,931	$ 35,776	$ 12,997	$ (4,045)	$(0.11)
Second quarter	235,371	41,552	34,525	21,592	0.58
Third quarter	237,531	42,235	20,976	13,143	0.31
Fourth quarter	239,636	(90,692)	(115,721)	(75,448)	(1.80)
Transition Period 1998					
First quarter	$206,250	$ 29,179	$ 5,528	$ 1,488	$ 0.04
Second quarter	213,448	31,622	5,090	1,033	0.03
Third quarter	222,516	3,895	(20,482)	(20,052)	(0.57)
Year ended March 31, 1998					
First quarter	$173,516	$ 8,178	$ (12,846)	$(10,101)	$(0.29)
Second quarter	194,097	23,340	3,655	546	0.02
Third quarter	197,196	24,984	5,299	1,613	0.05
Fourth quarter	204,801	27,684	(228)	(4,499)	(0.13)

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, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 1999, for the nine months ended December 31, 1998 and for the year ended March 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, 1999 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1999, for the nine months ended December 31, 1998 and for the year ended March 31, 1998, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Las Vegas, Nevada
January 24, 2000

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". 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.

	High	Low
Fiscal Year Ending December 31, 1999		
First Quarter	$14.88	$ 7.94
Second Quarter	20.38	12.25
Third Quarter	24.63	17.00
Fourth Quarter	27.38	16.50
Transition Period Ending December 31, 1998		
First Quarter	$15.88	$13.19
Second Quarter	15.31	5.06
Third Quarter	8.50	4.00

As of March 3, 2000, there were 653 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").

Corporate Information

Board of Directors
Frank J. Fertitta III
Glenn C. Christenson
R. Hal Dean
Lorenzo J. Fertitta
Richard J. Heckmann
Lowell H. Lebermann, Jr.
Blake L. Sartini
Delise F. Sartini

Corporate Headquarters
Station Casinos, Inc.
2411 West Sahara Avenue
Las Vegas, Nevada 89102
(702) 367-2411 or (800) 544-2411

Mailing Address
Station Casinos, Inc.
P.O. Box 29500
Las Vegas, Nevada 89126-3300
Room Reservations: (800) 634-3101
Internet: www.stationcasinos.com

Independent Accountants
Arthur Andersen LLP
3773 Howard Hughes Parkway
Suite 500
Las Vegas, Nevada 89109

Legal Counsel
Milbank, Tweed, Hadley & McCloy
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 23, 2000, at Sunset Station Hotel & Casino, 1301 West Sunset Road, Henderson, Nevada. March 24, 2000 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.
10⅛% Senior Subordinated Notes
Due March 15, 2006

Station Casinos, Inc.
9¾% Senior Subordinated Notes
Due April 15, 2007

Station Casinos, Inc.
8⅞% Senior Subordinated Notes
Due December 1, 2008

Agent and Trustees
Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004
Common Stock Transfer Agent and Registrar

First Union National Bank
123 South Broad Street
Philadelphia, Pennsylvania 19109
Trustee for the 10⅛%, 9¾% and 8⅞% Senior Subordinated 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, competition from other gaming operations, leverage, construction risks, the inherent uncertainty and costs associated with litigation, and licensing and other regulatory 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 expansion, development and acquisition projects, legal proceedings and employee matters of the Company and its subsidiaries 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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