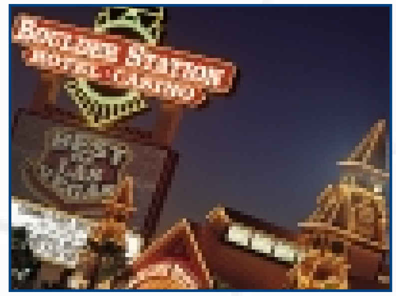
STATION CASINOS INC.

1997 Annual Report

Palace Station Hotel & Casino

Situated on 39 acres at Sahara Ave. and I-15 in Las Vegas, Palace Station offers approximately 84,000 square feet of casino space featuring approximately 2,220 gaming devices and 53 table games, 1,028 guest rooms, five full-service restaurants, and several fast-food outlets.

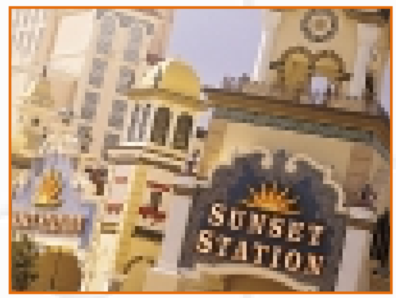


Boulder Station Hotel & Casino

Situated on 40 acres at Boulder Highway and I-515 in Las Vegas, Boulder Station features a 90,000-square foot casino with approximately 2,950 gaming devices and 38 table games, a 300-room hotel, five full-service restaurants, several fast-food outlets, an 11-screen movie theater complex, and a child-care facility.

Texas Station Gambling Hall & Hotel

Situated on 47 acres at Lake Mead Blvd. and Tonopah Highway in North Las Vegas, Texas Station includes an approximately 75,000-square foot casino with approximately 1,985 gaming devices and 36 table games, a 200-room hotel, five full-service restaurants, several fast-food outlets, and a 12-screen movie theater complex.



Sunset Station Hotel & Casino

Situated on 100 acres at Sunset Rd. and I-515 in Henderson, Nevada, Sunset Station offers approximately 80,000 square feet of casino space featuring approximately 2,700 gaming devices and 40 table games, 467 guest rooms, five full-service restaurants, several fast-food outlets, a 13-screen movie theater complex, and several lease tenants including a microbrewery, a non-gaming arcade, and a child-care facility.

Station Casino St. Charles

Situated on 52 acres along the Missouri River, and adjacent to I-70 in St. Charles, Missouri, Station Casino St. Charles includes 47,000 square feet of casino space including approximately 1,810 gaming devices and 85 table games on two continuously docked gaming vessels. The complex also features two full-service restaurants.

Station Casino Kansas City

Situated on 171 acres along the Missouri River and immediately east of I-435 in Kansas City, Missouri, Station Casino Kansas City includes 140,000 square feet of gaming space with 3,300 gaming devices and 162 table games on two continuously docked gaming vessels. The complex also features a 200-room hotel, seven full-service restaurants, several fast-food outlets, a 1,400 seat auditorium, and a child-care facility.

Putting All the Pieces Together

Station Casinos

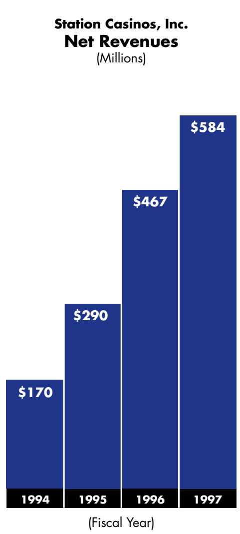
Financial Highlights

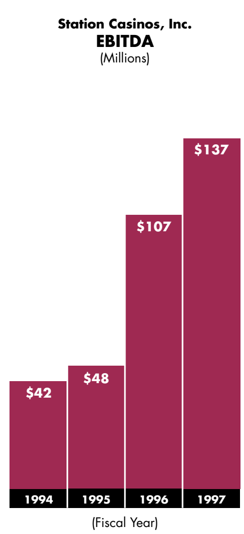
Fiscal Years Ended March 31,	**1997**	1996	1995	1994	1993
		(In thousands, except per share data)			
Statement of Operations Data:					
Net revenues	**$ 583,515**	$466,857	$290,278	$169,543	$149,895
Operating income before preopening expenses	**$ 89,943**	$ 71,900	$ 25,766	$ 25,696	$ 26,857
Operating income	**$ 58,123**	$ 69,464	$ 6,388	$ 25,696	$ 26,857
Net income (loss) applicable to common stock	**$ 6,518**	$ 25,419	$ (7,942)	$ 9,417	n/a
Pro forma net income (1)	**n/a**	n/a	n/a	$ 12,309	$ 11,840
Earnings (loss) per common share	**$ 0.18**	$ 0.75	$ (0.26)	n/a	n/a
Pro forma earnings per share	**n/a**	n/a	n/a	$ 0.42	$ 0.44
EBITDA (2)	**$ 136,548**	$106,939	$ 47,986	$ 41,743	$ 37,792
Weighted average common shares outstanding	**35,316**	33,918	30,113	n/a	n/a
Pro forma weighted average common shares outstanding	**n/a**	n/a	n/a	29,413	26,681
Balance Sheet Data:					
Capital expenditures	**$ 506,096**	$307,745	$163,884	$102,687	$ 15,504
Total assets	**$1,234,118**	$827,314	$436,538	$301,486	$185,110
Long-term debt (3)	**$ 760,963**	$464,998	$299,814	$159,460	$133,215
Stockholders' equity	**$ 298,848**	$278,470	$ 87,886	$ 95,791	$ 37,153
Other Data:		*(Average or end of period)*			
Casino square footage	**432,000**	278,000	206,000	84,000	84,000
Number of machines	**13,008**	9,555	7,020	3,323	3,202
Average daily occupancy	**96%**	94%	95%	97%	94%
Number of hotel rooms	**1,728**	1,528	1,328	1,028	1,028
Average daily rate	**$ 48**	$ 46	$ 41	$ 39	$ 35

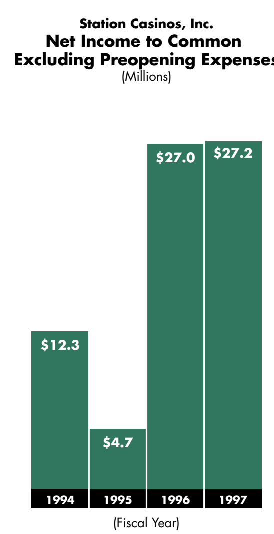
(1) Reflects provisions for federal income taxes (assuming a 34% effective rate for all periods) as if the Company had not been treated as an S corporation during these periods.

(2) "EBITDA" consists of operating income plus depreciation and amortization, including preopening expenses and a restructuring charge in 1997. EBITDA should not be construed as an alternative to operating income as an indicator of the Company's operating performance, or as an alternative to cash provided by operating activities as a measure of liquidity. The company has presented EBITDA solely as a supplemental disclosure because the Company believes that certain investors consider this information useful in the evaluation of the financial performance of companies with substantial depreciation and amortization.

(3) Long-term debt at March 31, 1993, includes $7.8 million of notes payable to affiliates, which was subsequently paid.

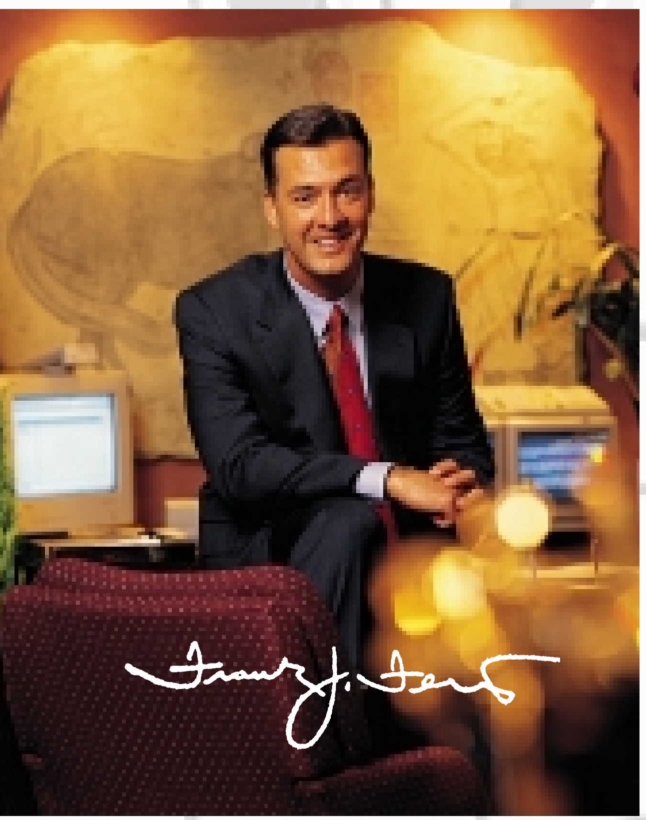






To Our Shareholders:

This past fiscal year was a significant one in our Company's history as several of the strategies that we implemented upon going public in 1993 are now coming to fruition. The pieces of the puzzle are nearly in place. After looking back over our four years as a public company, the expansion of the Station franchise has occurred at a phenomenal pace. In four short years, we have built Boulder Station, Station Casino St. Charles, Station Casino Kansas City, Sunset Station and acquired Texas Station. We have distinguished ourselves from other "mid-cap" operators by building high-quality assets in excellent locations—better positioning us to face the inevitability of competitive challenges in the future. We have maintained our long-term approach by developing properties that are designed to dominate their respective markets and that have potential for further growth in the future.



Ultimately, we believe the strategies of building dominant products, taking a long-term approach and implementing master planned development of our properties will allow our Company to consistently generate same-store growth, with strong returns on investment. Our goal is to create assets that will appreciate at higher rates and command valuations at greater multiples of cash flow than our peers. By committing upfront capital today, our properties will require much less maintenance capital down the road, thereby generating opportunities for better returns on assets with each successive year of operation.

In Nevada, while much of the growth on the Strip has revolved around room rates and other sources of non-gaming revenue, our growth has primarily been fueled by our slot operations. Each of our properties is primed for significant growth opportunities in the future as we are the dominant player in the fastest growing community in the country. We can continue to grow the market and increase our market share through strategic, lower-risk master-planned expansions that will provide high incremental returns and enhance overall returns at each of our properties. In both Nevada and Missouri, our ability to capitalize on same-store growth opportunities at each of our properties is paramount to the Company's long-term commitment to earnings growth and increased shareholder value.

During the past fiscal year, our Company underwent an aggressive capital expenditure program to take advantage of strategic investment opportunities that we believe will preserve and enhance shareholder value over the long-term. As promised, several years of laboring over concepts, plans and drawings have resulted in two of the most creative and innovative gaming and entertainment facilities ever built. We are very proud of Station Casino Kansas City and we are eager for you to experience Sunset Station, which opened in June 1997.

As we move towards the end of this cycle in the Company's evolution, our focus is shifting dramatically. Having accomplished our strategic goal of building a critical mass of Station properties, going forward we will focus on improving operations at our existing facilities. We have and will continue to isolate numerous opportunities to achieve economies of scale and realize further cost savings.

With the pieces of the puzzle soon in place, the platform has been built to delever the Company over the next few years and greatly improve our balance sheet in the process. The delevering process can take several forms. First, cash flow from operations can be used to reduce outstanding debt. Second, each property provides opportunities for low risk/high return masterplan expansions which effectively delever the Company's balance sheet. Within the last two years, we have applied this strategy successfully at Boulder Station and Texas Station. Finally, we will seek to dispose of or lease underutilized assets.

In fiscal 1998, we will round out our Las Vegas portfolio with Sunset Station, completing our strategy to have a presence in the "four corners" of the Las Vegas Valley. We have taken what we've learned from Palace, Boulder, Texas, St. Charles, and Kansas City, to develop a facility that will redefine the locals' gaming experience. With the opening of Sunset Station in June 1997, we now operate more than 10,000 gaming devices and more than 350,000 square feet of casino space throughout Las Vegas, with distribution in every geographical quadrant of the Valley. This represents approximately 38 percent of the total machines located outside of the Strip/Downtown areas in major hotel/casinos, and an estimated 11 percent of the total machines located in all unrestricted locations across the cities of Las Vegas, North Las Vegas, and Henderson.

Results from our Nevada properties have continued to improve despite the addition of new competition in various segments of the locals' market. With an undivided focus on operations, we will seek to enhance the yields at all of our properties by operating more efficiently and synergistically. Missouri will continue to provide political and operational challenges over the near-term. Unlike Nevada, we have yet to be rewarded for our long-term approach and substantial capital investments, but we believe that the fundamental attributes of our properties will ultimately reap large dividends and generate significant returns on investment.

At times we have sacrificed short-term rewards for long-term growth and stability by planning and preparing for additional growth and competitive challenges. Although requiring patience, this strategy will give us the ability to compete effectively over the long-term and allow us to enjoy sustainable competitive advantages.

A great number of people have contributed to our tremendous growth—only through the efforts of more than 10,000 employees can we continue to develop a loyal customer base and investor following. We appreciate the continued support of our employees, investors, and customers, and look forward to the future as we bring all of the pieces of the puzzle together.

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

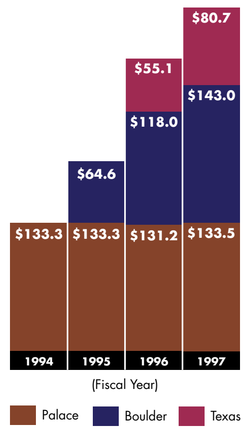
Ultimately, we believe the strategies of building dominant products, taking a long-term approach and implementing master planned development of our properties will allow our Company to consistently generate same-store growth, with strong returns on investment.

Nevada Operations

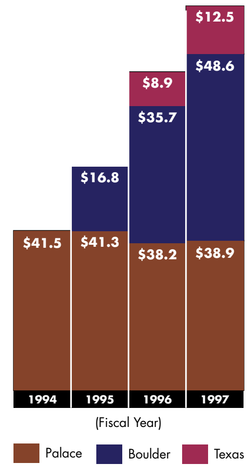
Over the past year, Station Casinos expanded its leadership role in Nevada. In fiscal year 1997, our combined Nevada operations generated $357 million in net revenues and $100 million in EBITDA, an increase of 17% and 21%, respectively and $123 million more in revenue and $42 million more in EBITDA than our next closest competitor. This increase was primarily driven by increased casino revenues at all three of our Nevada properties, which combined for $273 million, a 19% increase over the prior year. By the end of the fiscal year, each of our Las Vegas properties had the highest EBITDA and operating income margins in their respective geographical quadrants. In addition, Boulder Station and Palace Station ranked number one and two in EBITDA margins and operating income margins of all the major "off-Strip" properties in the city.

Our properties continue to generate solid returns in a very competitive market environment. Though population growth has been substantial over the past several years and is expected to continue, locals-oriented casino capacity has outpaced population growth. To offset this, we believe that our strategy of dominating the distribution in this market enables us to realize economies of scale and operating efficiencies and creates barriers to entry, thereby significantly enhancing our competitive position in the market. We are confident in our strategy given the growth projections for Las Vegas over the next 10 years and expect that strict execution of this strategy will reap long term benefits for our shareholders.

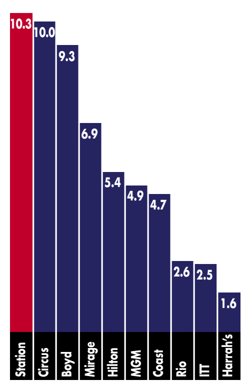
Station Casinos, Inc.
Nevada Operations Revenues
(Millions)



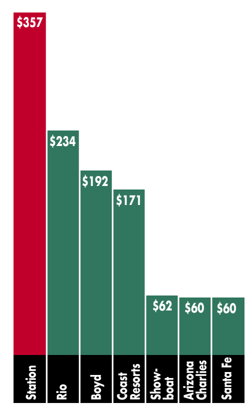
Station Casinos, Inc.
Nevada Operations EBITDA
(Millions)



Station Casinos, Inc.
Number of Gaming Devices in Las Vegas
(Thousands)

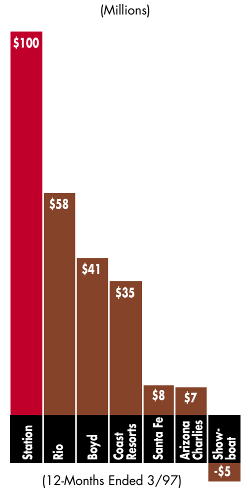


Station Casinos, Inc.
Net Revenue—Las Vegas Locals' Casinos
(Millions)



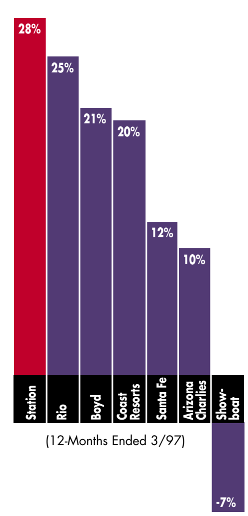
(12 Months Ended 3/97)

Station Casinos, Inc.
EBITDA—Las Vegas Locals' Casinos
(Millions)

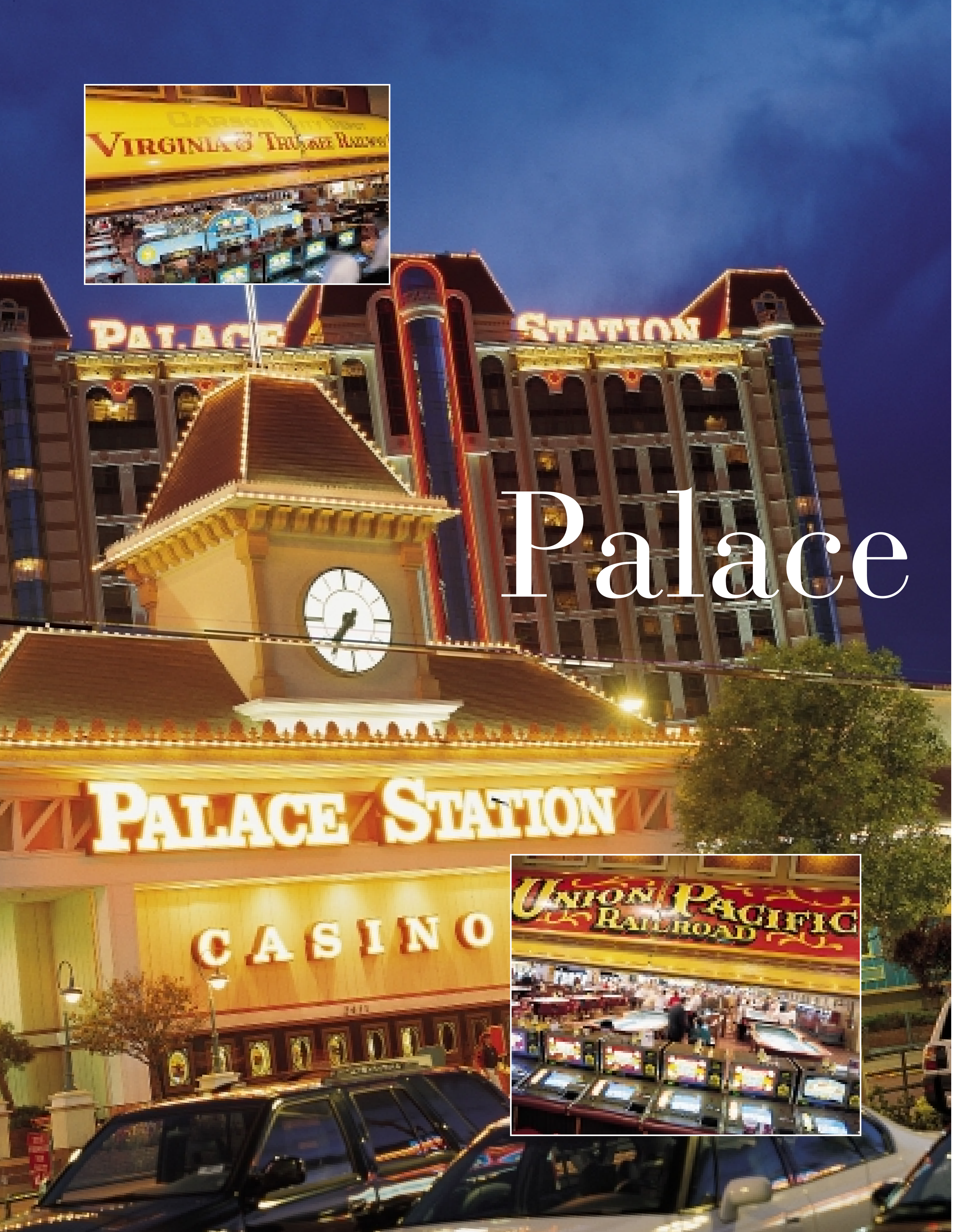


(12-Months Ended 3/97)

Station Casinos, Inc.
EBITDA Margins—Las Vegas Locals' Casinos



(12-Months Ended 3/97)



Palace Station

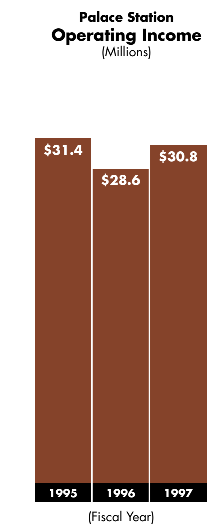
Hotel & Casino

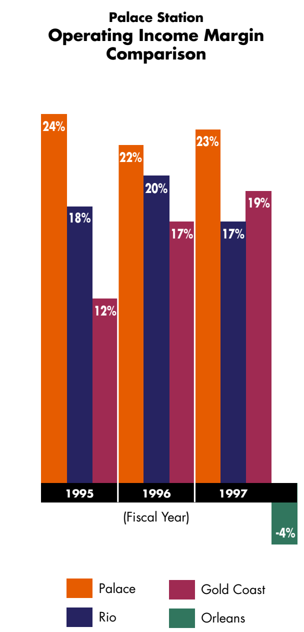
Palace Station is the cornerstone of our Nevada portfolio, providing a solid foundation and steady cash flow for many years. In 1996, Palace Station celebrated it's 20th anniversary as the "Locals' Favorite" by reporting one of its finest years ever. Despite increased competition on the west side of Las Vegas and aspiring locals' operators on the Strip, Palace Station maintained historical levels of net revenues, casino revenues, EBITDA and operating income, exhibiting the long-term staying power that we strive for at all Station Casino properties.

Left to right: Jim Hughes, General Manager; Janice Fitzpatrick, Director of Finance; Paul Biafore, Director of Slot Operations; Richard St. Jean, Director of Hotel Operations

Relative to its competitive peer-group, Palace Station's performance has remained impressive despite minimal capital investment over the past several years. In fact, Palace Station ranked second only to its sister property, Boulder Station, in EBITDA and operating income margins when compared to all other major Las Vegas hotel-casinos outside of the Strip.

We credit our management team and employees for continually improving upon Palace Station's tradition of superior customer service and performance standards. These qualities have enabled Palace Station to maintain its strong market position and loyal customer base until we are prepared to capitalize on our success and initiate the next phase of the property's masterplan.





Boulder Station

Hotel & Casino

Left to right: Felix Rappaport, General Manager; Daniela Jacobson, Director of Finance; Glen Bashore, Assistant General Manager

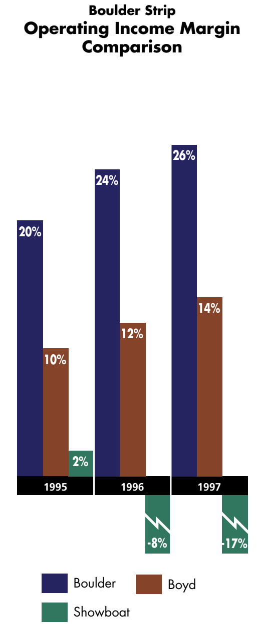
No other property in our portfolio has demonstrated the earnings power of master-planned expansion and the ability to dominate its market as well as Boulder Station. Boulder Station has clearly outperformed its peers since opening, generating more cash flow than its Boulder Strip competitors combined.

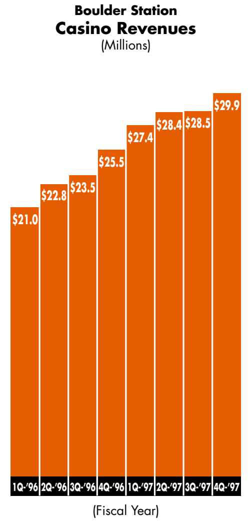
Net revenues, EBITDA, and operating income grew 21%, 36% and 34%, respectively, exhibiting the same-store growth that each of our properties is designed to achieve. Since its opening in August 1994, we've steadily increased EBITDA from $6.2 million to $13.3 million in the fourth quarter of fiscal year 97.

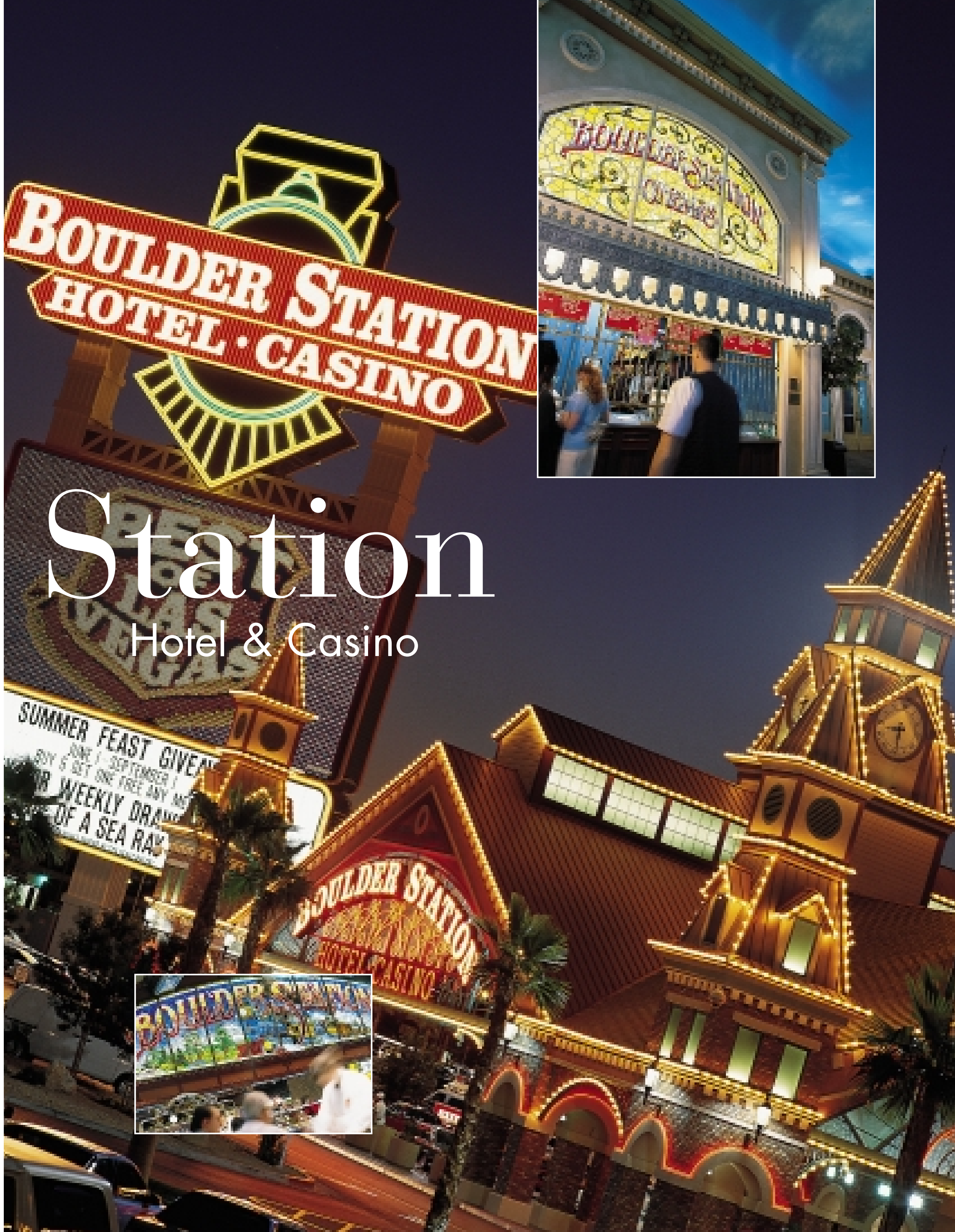
We are continually seeking new ways to enhance each property's physical plant and performance. Over the past 18 months, we've seen Boulder build upon its initial success with the addition of a new parking garage, entertainment complex, and other amenities. Boulder concluded the fiscal year with yet another record quarter, matching it's highest slot win per unit ever, and continuing to build momentum as we headed into fiscal year 1998.

Boulder's success is a reflection of the hard work and dedication of over 1,800 employees. In a very short period of time, Boulder Station has developed a strong local's following and tremendous customer loyalty, typical of more mature casino properties.

Left to right: Dale Hambleton, Director of Slot Operations; Kim Pang, Director of Food & Beverage; Stefanie Johnson, Director of Marketing







Texas Station

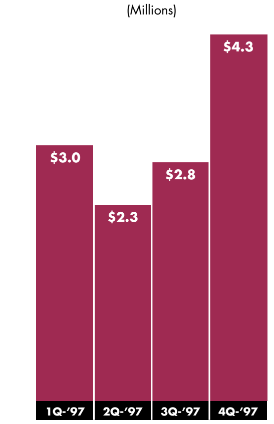
Gambling Hall & Hotel

Throughout its first eighteen months of operations, Texas Station presented many challenges for the company, but we remained confident that over the course of time our business strategies would pay off. We stayed on course, and made numerous physical plant and operational changes we believed necessary to compete more effectively in the Northwest Las Vegas market. Texas' full year results of $80.7 million in net revenue and $12.5 million in EBITDA do not reflect the progress we made over the course of the year, and the efforts of our dedicated employees. During the fourth quarter of fiscal year 1997, Texas reported record levels of net revenues, EBITDA and operating income, with year-over-year gains of 16%, 56%, and 41%, respectively.

We believe the best is yet to come. The North Las Vegas population is projected to grow over 50% over the next four years and there are $170 million in residential construction permits currently on file for that area. Texas is emerging as the winner in the competitive Northwest quadrant, affirming our belief that the 'A' property in the 'A' location will capture more than its fair share of the market, and outperform its competitors in the long run.

One of our goals for the year was to build our Station brand name in order to capitalize on our strong presence in Las Vegas. Last Spring, we changed the name of the Texas Gambling Hall & Hotel to Texas Station to enhance the property's perception and encourage our customers to associate Texas with the high quality entertainment experience, value, and consistency that they have come to expect from all Station properties.

Left to right: Cheryl Rose, Director of Slot Operations; Kevin Kelley, General Manager; Staci Columbo, Director of Marketing; Mark Dunkeson, Director of Food & Beverage; Roger Szepelak, Assistant General Manager



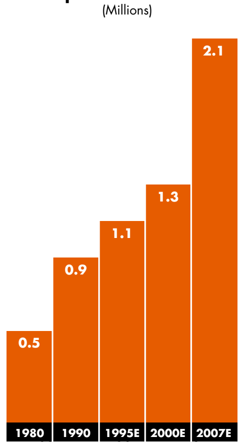
Sunset Station

Hotel & Casino

Sunset Station, the newest addition to our Las Vegas portfolio, is the culmination of years of planning and the embodiment of our key business strategies. In expanding the Station franchise to the Henderson/Green Valley area, we selected 100 acres at the intersection of I-515 and Sunset Road in the fastest growing region of the Las Vegas Valley and located in the middle of the highest concentration of retail in Nevada. With excellent access and visibility from the interstate, we have once again built the dominant property on the best site in this market. In Sunset Station, we also have the advantage of being the first major hotel/casino in the Henderson/Green Valley area, and the only major hotel/casino within a six mile radius. This will allow us to build customer loyalty over time and further enhance our competitive position.

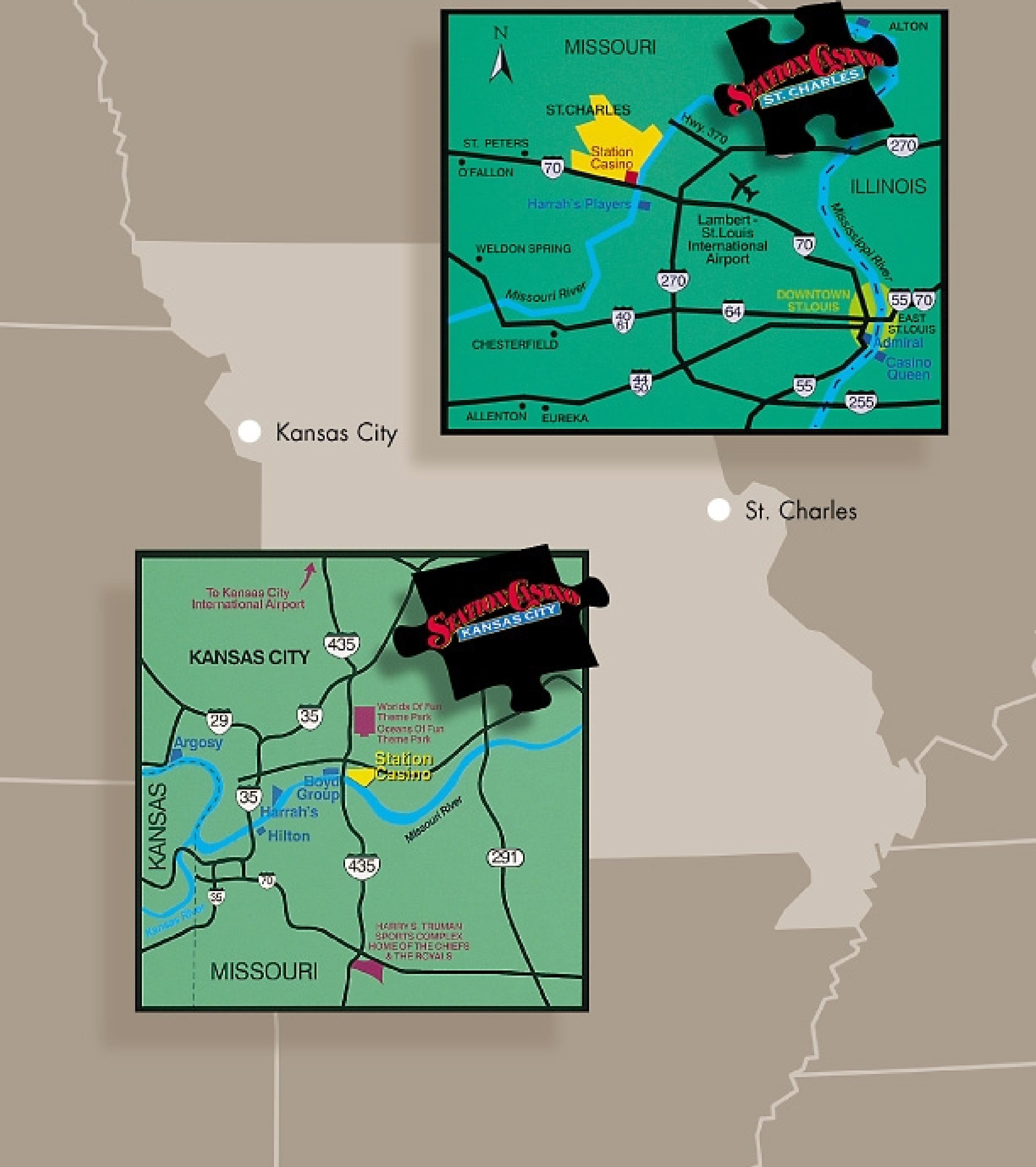
At Sunset, we have built upon our proven formula and created yet another new standard. In addition to the wide variety of gaming products that our customers have come to expect, Sunset features the Feast Around the World Buffet, several unique specialty restaurants, a 13-screen ACT III movie theater, a Sega Station video arcade, a Kid's Quest child care facility, and lease tenants including Gordon Biersch Brewing Company, Fatburger, Kenya's Bakery, Ben & Jerry's, and Manhattan Bagel. In addition, Sunset offers a spectacular swimming pool and amphitheater for unique outdoor entertainment. As you can see, we have set the bar high at Sunset and intend to dominate this market for years to come.

The rapidly expanding population base in the Henderson/Green Valley area will provide the potential to generate same-store growth at the property. We have opened Sunset with a bold footprint, but have master-planned the 100-acre complex for phased growth in the future to ensure the competitive position of the property and its long term viability.



Left to right: Bart Pestrichello, Director of Table Games; Cookie Drescher, Assistant General Manager; Don Marrandino, General Manager; Richard Fitzhugh, Director of Slot Operations; Steve Arcana, Director of Food & Beverage

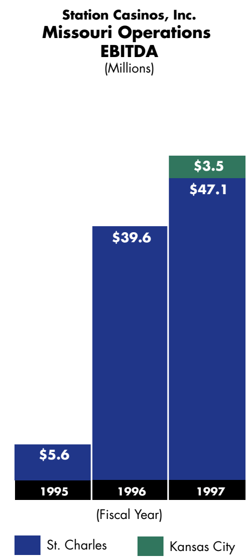
Missouri Properties

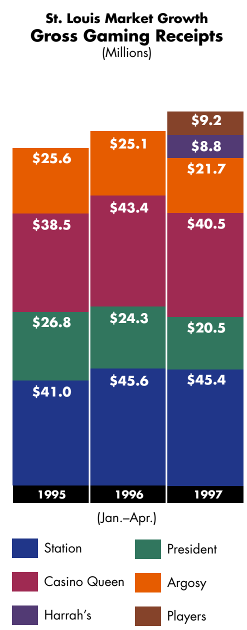


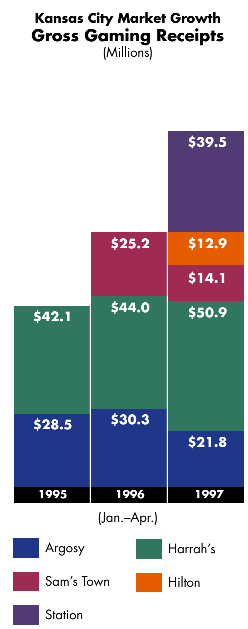
As the largest gaming operator in the state of Missouri, and with significant capital resources devoted to both major metropolitan centers within the state, much of the company's near-term success will be judged by the performance of our Missouri assets.

Though we have faced many obstacles in Missouri over the past several years, we are confident in the long-term success of our Missouri operations due in large part to the quality of our assets, our innovative approach to operations, and the fundamental site selection criteria that we utilize for each facility.

During this past year, legislative efforts to remove the $500 loss limit were unsuccessful. We believe that the current regulatory structure, specifically with respect to the loss limit and cruise times, severely discourages the influx of regional tourism and spending, artificially suppressing the potential size of these gaming markets, and thereby limiting the positive economic impact investments of this magnitude and quality could provide. These regulations also inhibit the ability of Missouri operators to compete against gaming facilities in neighboring states which operate without such restrictions. Though it is disappointing that the economic benefits of casino gaming continue to be sub-optimized in Missouri, we will continue to work with leaders in Missouri to ease the statutory burdens unique to the state and maximize revenue to both operators and state/local governments.





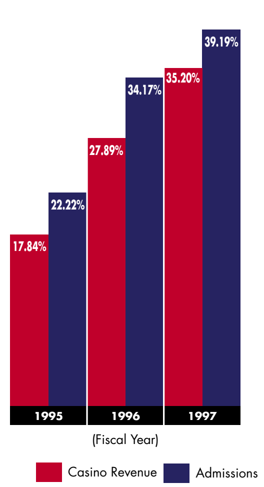


St. Charles Station Casino

During the past year, Station Casino St. Charles maintained its position as the dominant property in the St. Louis metropolitan market. St. Charles increased its market share of admissions from 34% in fiscal year 96 to 39% in fiscal year 97 and gaming revenues from 28% in fiscal year 96 to 35% in fiscal year 97. As a result, EBITDA grew 19% from the prior year to $47 million, illustrating another clear example of same-store growth in the Station Casino portfolio. With new competition across the river in Maryland Heights, results declined during the last few weeks of the fiscal year and into fiscal year 1998. Though it is too early to gauge the long term impact of the additional capacity on the St. Louis market, early results indicate that St. Charles will continue to vie for market share leadership against the combined results of our competitors across the river.

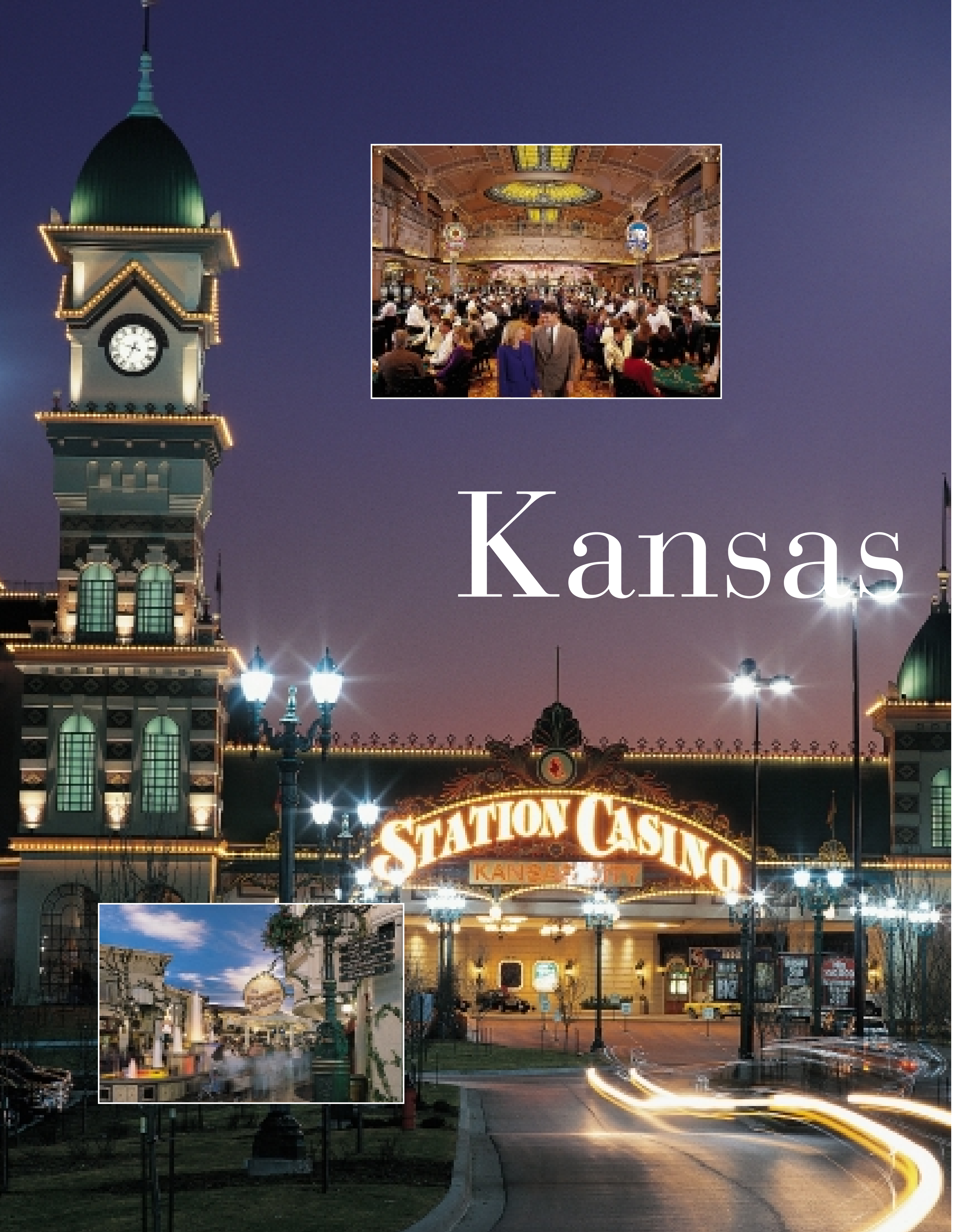
In 1991, we selected the St. Charles location with an eye toward the future. Several key characteristics impressed us with this location—tremendous visibility and access off of I-70, strong traffic counts off the interstate, and the large metropolitan population base of this region. We still believe these fundamental characteristics will benefit the property over the long-term and help the property to achieve above-market returns.

Station Casinos, Inc.
St. Louis Market Share—Gross Receipts & Admissions



Rather than allow St. Charles Station's competitive position to further weaken, we opted to proceed with the master plan of the project, which ultimately calls for the development of a first-class regional entertainment destination. We have signed a non-binding letter of intent with Gordon Group Holdings, Ltd., the developers of the Forum Shops at Caesar's Palace, to develop and lease approximately 220,000 square feet of space in a uniquely styled, two-story entertainment complex which is planned to feature a variety of specialty retail stores, restaurants, and entertainment attractions.

Left to right: Tony Raymon, General Manager; Monique Threadgill, Director of Marketing; Bob Finch, Assistant General Manager; Barrie Brodrick, Director of Table Games



Kansas City

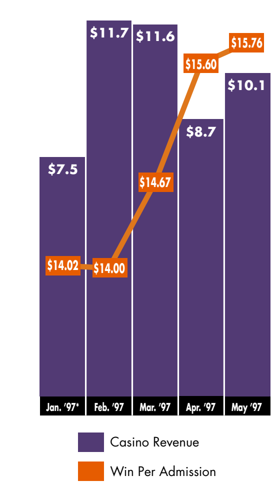
Station Casino

In January 1996, we opened Station Casino Kansas City to capacity crowds. We are very proud of the product we have built, which many regard as one of the finest casino and entertainment complexes in the country.

Station Casino Kansas City has grown the Kansas City gaming market by approximately 40% since its opening, affirming our belief that market size is directly linked to the quality, convenience, and uniqueness of the projects in the market. The increase in market size in absolute dollars has exceeded the impact of the aggregate sum of the two preceding entrants and an expansion by an existing operator which when combined, added similar capacity at a similar investment. Having grown the size of the market, our primary task going forward is to focus on capturing an appropriate level of market share to generate a better rate of return on our asset.

In the ensuing months since opening, we have become even more attuned to the benefits of being first in a market and the customer loyalty that a property can develop. Though admissions to the property were beyond expectations, gaming revenue per admission was far below expectations, resulting in a difficult operating dilemma given the regulatory environment and tax structure of Missouri. Despite the challenges we have faced, we still believe in the project's long term viability. Over the course of several quarters, we will strive to increase our share of the market as we have in each market we have entered as the product distinguishes itself and its long-term competitive advantages take hold.

Left to right: Tom Burke, Assistant General Manager; John Finamore, General Manager; Bruce Lowder, Director of Finance



*Station Casino Kansas City opened on Jan. 16, 1997
Source: Missouri Gaming Commission

It would be impossible to grow at the rate we have over the past several years without well-qualified managers and leaders at all levels of the organization. We are proud of the team we have assembled, which includes former top managers from well-respected companies in the gaming industry, as well as talent developed from within.

Several years ago, we recognized that we were about to embark upon a period of substantial growth. In anticipation of several new additions to the portfolio, we employed a farm team approach to help seed new operations with our depth of capable management. This approach has been effective in training leaders within the company to assume greater responsibilities and ensure a consistent corporate culture throughout the organization.

Strength in Management

Left to right: Glenn Christenson, Executive Vice President, Chief Financial Officer, Chief Administrative Officer; Blake Sartini, Executive Vice President, Chief Operating Officer; Scott Nielson, Executive Vice President, General Counsel; Jay Sevigny, President of Missouri Operations

Southwest Companies (left to right): Brian Skagen, Vice President of Operations; Kelly Bulgatz, Director of Finance; Brad Pederson, President

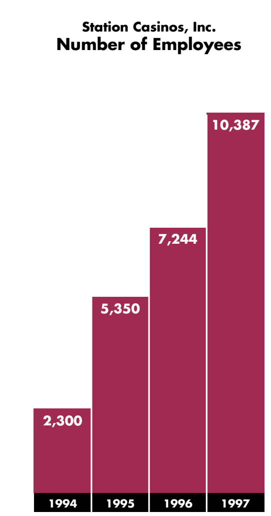
Barley's Casino & Brewing Company (left to right): Laura Bushey, Controller; Tony Carolo, General Manager; Carol Bauck, Human Resources Manager

Left to right: Marshall Andrew, Vice President of Information Services; Bill Warner, Vice President of Finance; Verne Holmes, Vice President of New Product Development

Left to right: John Pasqualotto, Vice President of Regulatory Compliance; Tom Moore, Vice President of Project Administration; Mike McNabb, Vice President of Advertising; Rod Atamian, Vice President of Financial Services

We have also been successful in attracting quality managers from other companies, many of whom are attracted to our entrepreneurial style and opportunities for growth. Our ability to bring in these talented individuals is a tribute to the company's key business strategies and confidence in the company's long term growth.

The real engine behind the growth and success of Station Casinos is the company's family of more than 10,000 employees. It is through their efforts and dedication that each property has made significant strides to improve upon last year's performance. In June 1997, approximately 1,800 team members joined the Station Casinos family at Sunset Station after being selected from a pool of 51,000 applicants.



Financial Review

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

Results of Operations

The following table highlights the results of operations for the Company and its subsidiaries:

Fiscal Year Ended March 31,	**1997**	1996	1995
Nevada Operations:			
Palace Station			
Net revenues	**$133,464**	$131,178	$133,313
Operating income	**30,802**	28,615	31,390
EBITDA (1)	**38,890**	38,225	41,285
Boulder Station			
Net revenues	**$143,039**	$118,040	$ 64,645
Operating income (2)	**37,728**	28,103	5,450
EBITDA (1)	**48,553**	35,650	16,842
Texas Station			
Net revenues	**$ 80,690**	$ 55,098	$ —
Operating income	**4,062**	3,903	—
EBITDA (1)	**12,462**	8,904	—
Total Nevada Operations:			
Net revenues	**$357,193**	$304,316	$197,958
Operating income	**72,592**	60,621	36,840
EBITDA (1)	**99,905**	82,779	58,127
Missouri Operations:			
Station Casino St. Charles			
Net revenues	**$158,760**	$129,878	$ 58,384
Operating income (loss) (3)	**34,996**	28,058	(12,039)
EBITDA (1)	**47,144**	39,627	5,632
Station Casino Kansas City			
Net revenues	**$ 39,071**	$ —	$ —
Operating (loss) (4)	**(30,701)**	—	—
EBITDA (1)	**3,536**	—	—
Total Missouri Operations:			
Net revenues	**$197,831**	$129,878	$ 58,384
Operating income (loss) (3)(4)	**4,295**	28,058	(12,039)
EBITDA (1)	**50,680**	39,627	5,632
Station Casinos, Inc. and Other:			
Net revenues	**$ 28,491**	$ 32,663	$ 33,936
Operating loss	**(18,764)**	(19,215)	(18,413)
EBITDA (1)	**(14,037)**	(15,467)	(15,773)

(1) "EBITDA" consists of operating income plus depreciation and amortization, including preopening expenses and a restructuring charge in 1997. EBITDA should not be construed as an alternative to operating income as an indicator of the Company's operating performance, or as an alternative to cash provided by operating activities as a measure of liquidity. The Company has presented EBITDA solely as supplemental disclosure because the Company believes that certain investors consider this information useful in the evaluation of the financial performance of companies with substantial depreciation and amortization.

(2) Operating income for Boulder Station for the fiscal year ended March 31, 1995, includes preopening expenses of $7.5 million.

(3) Operating loss for Station Casino St. Charles for the fiscal year ended March 31, 1995, includes preopening expenses of $11.9 million.

(4) Operating loss for Station Casino Kansas City for the fiscal year ended March 31, 1997, includes preopening expenses of $31.1 million.

Fiscal Year 1997 Compared to Fiscal Year 1996

Consolidated net revenues increased 25.0% to $583.5 million for the fiscal year ended March 31, 1997, from $466.9 million in the prior year. The Company's Nevada Operations contributed $357.2 million of net revenues for the fiscal year ended March 31, 1997, an increase of 17.4% over the prior year. This increase is primarily due to improved operations at Boulder Station and the operations of Texas Station which opened in July 1995. The Company's Missouri Operations contributed $197.8 million of net revenues for the fiscal year ended March 31, 1997, an increase of 52.3% over the prior year. This increase is due to the opening of Station Casino Kansas City in January 1997, as well as an increase in revenues at Station Casino St. Charles. For the fiscal year ended March 31, 1996, net revenues and operating income at Station Casino St. Charles were adversely impacted by flooding on the Missouri River, which closed operations for 16 days and disrupted operations through the balance of the first quarter of fiscal year 1996. During the fiscal year ended March 31, 1997, the improved results at Station Casino St. Charles were achieved despite disruption created from the construction of a new parking garage and elevated roadway, which opened in May 1996, and construction related to the further development of the property's master plan. Flooding on the Missouri River did occur again in May 1996. The newly completed parking garage and elevated roadway served one of its intended purposes in minimizing business disruption caused by the flood. Additionally, results at Station Casino St. Charles were adversely impacted with the opening of a new hotel/casino in March 1997.

Operating income decreased 16.3% to $58.1 million for the fiscal year ended March 31, 1997, from $69.5 million in the prior year. Operating income at the Company's Nevada Operations increased 19.8% to $72.6 million from $60.6 million in the prior year. Operating income at the Company's Missouri Operations were negatively impacted by the write-off of preopening expenses for Station Casino Kansas City and a one-time restructuring charge from the implementation of a plan to reduce costs and improve efficiency which resulted primarily in employee severance payments. Operating income at Station Casino St. Charles increased 24.7% to $35.0 million. For the fiscal year ended March 31, 1997, these results, including an increase in net interest expense of $6.1 million, a decrease in the income tax provision of $7.0 million and dividends of $7.2 million on the convertible preferred stock issued in March 1996, resulted in net income applicable to common stock of $6.5 million, or earnings per common share of $0.18, compared to net income applicable to common stock of $25.4 million or earnings per common share of $0.75 in the prior year.

Casino. Casino revenues increased 25.5% to $450.0 million for the fiscal year ended March 31, 1997, from $358.5 million in the prior year. This increase is due to the opening of Station Casino Kansas City, a full year of operations at Texas Station, as well as improved results at both Boulder Station and Station Casino St. Charles. Casino revenues increased $42.8 million and $51.6 million for the Nevada Operations and Missouri Operations, respectively. Station Casino Kansas City generated casino revenue of $29.9 million since opening in January 1997.

Casino expenses increased 35.2% to $203.9 million for the fiscal year ended March 31, 1997, from $150.8 million in the prior year. These increases in casino expenses are consistent with the increases in casino revenues discussed above.

Casino net profit margin decreased to 54.7% from 57.9% in the prior year. This decrease is due to a slight decrease at the Nevada Operations and a lower margin at Station Casino Kansas City due to the start-up nature of the new operations. In addition, the Missouri Operations have a lower margin than the Company's combined margin due primarily to higher gaming tax rates in Missouri as compared to Nevada.

Food and Beverage. Food and beverage revenues increased 26.2% to $92.2 million for the fiscal year ended March 31, 1997, from $73.1 million in the prior year. This improvement is primarily due to an increase in food and beverage revenues at Station Casino St. Charles of $5.0 million resulting from two new full-service restaurant facilities which opened in October 1995, an increase of $5.0 million at Texas Station and $7.5 million from Station Casino Kansas City.

Food and beverage net profit margins improved to 25.2% for the fiscal year ended March 31, 1997, from 21.1% in the prior year. This increase in net margins is primarily due to improvements at the Nevada Operations, especially Texas Station, as a result of continued focus on cost control and strong margins at Station Casino St. Charles with the addition of the two full-service restaurants.

Room. Room revenues increased 16.1% to $27.4 million for the fiscal year ended March 31, 1997, from $23.6 million in the prior year. This increase is due primarily to the addition of Texas Station with a total of 200 rooms which contributed an increase of $1.6 million of room revenues and Station Casino Kansas City with a total of 180 rooms which contributed $1.2 million of room revenues for the fiscal year ended March 31, 1997. The Company-wide room occupancy increased to 96% from 94%, while the average daily room rate increased to $48 from $46.

Other. Other revenues increased 25.2% to $49.0 million for the fiscal year ended March 31, 1997, from $39.1 million in the prior year. This increase is due to $2.3 million for the Company's interest in the operating income of Barley's Casino & Brewing Company which opened in January 1996, $3.1 million of lease income from the lease of a riverboat gaming facility, combined increases in other revenues at the Company's other operating properties of $7.5 million, offset by lost revenues of $3.0 million from the sale of vending assets of Southwest Services which were sold in September 1995. The riverboat gaming facility lease will terminate in August 1997. Revenues from the Company's slot route business remained constant at $21.0 million.

Selling, General and Administrative. Selling, general and administrative expenses ("SG&A") increased 23.4% to $120.3 million for the fiscal year ended March 31, 1997, from $97.5 million in the prior year. This increase is primarily due to the addition of Texas Station in July 1995 and Station Casino Kansas City in January 1997. SG&A as a percentage of net revenues decreased slightly to 20.6% from 20.9% in the prior year.

Corporate Expenses. Corporate expenses increased 14.4% to $18.3 million for the fiscal year ended March 31, 1997, from $16.0 million in the prior year. These increases are attributable to increases in personnel infrastructure to manage the Company's new properties and projects under development. Corporate expenses decreased to 3.1% of net revenues for the fiscal year ended March 31, 1997, from 3.4% in the prior year.

Development Expenses. Development expenses decreased significantly for the fiscal year ended March 31, 1997 compared to the prior year. This decrease is the result of reduced efforts to identify potential gaming opportunities. Such costs are incurred by the Company in its efforts to identify and pursue potential gaming opportunities in selected jurisdictions, including those in which gaming has not been approved. The Company expenses development costs including lobbying, legal and consulting until such time as the jurisdiction has approved gaming and the Company has identified a specific site. Costs incurred subsequent to these criteria being met are capitalized.

Depreciation and Amortization. Depreciation and amortization increased 27.3% to $44.6 million for the fiscal year ended March 31, 1997, from $35.0 million in the prior year. Station Casino Kansas City contributed $2.8 million of this increase, while Texas Station contributed $3.8 million. Depreciation expense increased at Boulder Station primarily as a result of the parking garage and entertainment facilities added during mid-fiscal year 1996 as well as at Station Casino St. Charles primarily as a result of the parking garage which opened in May 1996. These increases were offset by a decrease in depreciation expense at Palace Station.

Preopening Expenses. The Company capitalizes significant preopening expenses associated with its construction projects, including Station Casino Kansas City which opened January 16, 1997, and Sunset Station. These amounts are expensed upon the opening of the related project and could have a material adverse impact on the Company's earnings. During the fiscal year ended March 31, 1997 the Company expensed preopening expenses of $31.8 million substantially related to Station Casino Kansas City. Preopening expenses for the fiscal year ended March 31, 1996 relate to the opening of the new restaurant facilities at Station Casino St. Charles, the theater and parking garage at Boulder Station, the opening of Texas Station in July 1995 and the opening at Barley's Casino & Brewing Company in January 1996.

Interest Expense, net. Interest costs incurred (expensed and capitalized) increased 59.2% to $58.8 million for the fiscal year ended March 31, 1997. This increase is primarily attributable to added interest costs associated with the 10⅛% Senior Subordinated Notes issued by the Company in March 1996 and borrowings under the reducing revolving credit facility. During the first quarter of fiscal year 1997, the Company recorded interest income of $0.7 million from investments in tax free municipal securities purchased with the excess proceeds of the public offerings completed in March 1996. Capitalized interest is expected to continue, but at a reduced rate with the opening of Station Casino Kansas City in January 1997, due to the construction of a new casino facility in Las Vegas and expansion projects at the Company's Missouri facilities, as well as ongoing improvements at the Company's existing Las Vegas facilities (see "Liquidity and Capital Resources").

Fiscal Year 1996 Compared to Fiscal Year 1995

The Company's results of operations include the operations of Texas Station located in northwest Las Vegas which opened on July 12, 1995, operations for the full fiscal year ended March 31, 1996 at Boulder Station, which opened on August 23, 1994, and full-scale gaming at Station Casino St. Charles which opened on a limited basis on May 27, 1994. Operations at Station Casino St. Charles were limited for a significant portion of fiscal year 1995 due to the unexpected decision of the Missouri Supreme Court in January 1994 that certain games of chance were prohibited under the Missouri Constitution. On November 8, 1994, by referendum, the Missouri voters amended the Missouri Constitution to permit full-scale gaming. Full-scale operations began at Station Casino St. Charles on December 9, 1994.

Consolidated net revenues increased 60.8% to $466.9 million for the fiscal year ended March 31, 1996, as compared to $290.3 million for the prior year. This increase is due to the factors noted in the preceding paragraph. Station Casino St. Charles contributed $129.9 million of net revenues, an increase of $71.5 million as compared to the prior year, while Boulder Station contributed $118.0 million of net revenues, an increase of $53.4 million as compared to the prior year. Texas Station contributed $55.1 million of net revenues during the current fiscal year. For the fiscal year ended March 31, 1996, net revenues and operating income of Station Casino St. Charles were negatively impacted by the flooding of the Missouri River which led to the closing of the property from May 17 through June 1, 1995, and disruption of operations throughout the balance of the first quarter. The operations of Station Casino St. Charles have been further disrupted by ongoing construction, including a new parking garage and elevated roadway which opened in May 1996. The new parking garage and elevated roadway should provide improved access to the gaming facility and reduce the likelihood of further business disruption from flooding. In addition this project is the foundation for future phases of the land based elements of the Station Casino St. Charles master plan.

Operating income increased $63.1 million to $69.5 million for the fiscal year ended March 31, 1996, as compared to $6.4 million for the prior year. This improvement is due to the new and expanded operations discussed above. In addition, contributing to the lower operating income for the fiscal year ended March 31, 1995 were preopening expenses of $19.4 million related to the opening of Boulder Station and Station Casino St. Charles. The Company did not incur a large amount of preopening expenses in connection with the Texas Station acquisition due to the fact that Texas Station was substantially ready to open upon acquisition. This improvement in operating income, partially offset by an increase in net interest expense of $10.6 million and an increase of $18.1 million in the income tax provision, resulted in net income applicable to common stock of $25.4 million, or earnings per common share of $0.75 for fiscal year 1996.

Casino. Casino revenues increased 70.3% to $358.5 million for the fiscal year ended March 31, 1996, as compared to $210.5 million for the prior year. This increase is directly related to $40.1 million in casino revenues generated by the new Texas Station property and combined casino revenue increases generated by Station Casino St. Charles and Boulder Station of $110.2 million. For the fiscal year ended March 31, 1996, casino revenues at Palace Station decreased $2.2 million or 2.3% as compared to the prior year, primarily as a result of a decline in sports book revenue. Management believes that Palace Station's revenues were negatively impacted by road construction at Interstate 15 and Sahara Avenue. This construction was substantially completed in October 1995. In addition, two of the restaurants at Palace Station were closed for remodeling during different parts of the fiscal year which management believes also had a negative impact on casino revenues. Both restaurants have been reopened. Revenues at the Southwest Company's Louisiana Downs Race Track video poker operation declined by $2.2 million for the fiscal year ended March 31, 1996 as compared to the prior year. This decrease is a result of increased competition in northwest Louisiana from riverboats opened in the first two quarters of fiscal year 1995. The Company is considering various alternatives for improving cash flows or possibly selling its interest in the Louisiana Downs joint venture. In any event, the operations of the joint venture are not material to the Company's financial position or results of operations taken as a whole.

Casino expenses increased 62.5% to $150.8 million for the fiscal year ended March 31, 1996, as compared to $92.8 million for the prior year. This increase in casino expenses is consistent with the increase in casino revenues discussed above. Casino net profit margin improved to 57.9% from 55.9% during the prior year. This improvement comes primarily from the operations at Station Casino St. Charles where the casino profit margin was 53.1% for the fiscal year ended March 31, 1996, compared to 45.0% for the prior year. The improvement at Station Casino St. Charles was primarily due to increased revenues generated as a result of the Missouri vote which allowed full-scale gaming beginning in December 1994. The increased revenues allowed for substantial operational efficiencies. The casino net profit margins at Station Casino St. Charles are lower than the Company's combined margin primarily due to higher gaming tax rates in Missouri as compared to Nevada.

Food and Beverage. Food and beverage revenues increased $29.8 million or 69.1% for the fiscal year ended March 31, 1996, as compared to the prior year. This increase is due to food and beverage revenues of $15.1 million at the newly opened Texas Station property and combined food and beverage revenue increases at Station Casino St. Charles and Boulder Station of $14.2 million. Food and beverage revenues at Station Casino St. Charles have increased with the opening of two full service restaurants in October 1995. The addition of these restaurants should have a positive impact on food and beverage revenues during the upcoming fiscal year.

Food and beverage net profit margins have remained relatively flat, with a margin of 21.1% in fiscal year 1996. Net profit margins for Boulder Station have improved significantly over the prior year from 5.4% to 17.8% for the fiscal year ended March 31, 1996. Management believes that the low margin experienced in the prior year was due to typical initial operating inefficiencies of a new property. In fiscal year 1996 the increase in margin at Boulder Station was due to efficiencies resulting from effective cost control measures implemented. The net profit margin at Texas Station was 9.7% which management attributes primarily to initial operating inefficiencies typical for a new property.

Room. Room revenues increased 33.5% to $23.6 million for the fiscal year ended March 31, 1996, as compared to $17.7 million for the prior year. This increase is due primarily to the addition of Texas Station and a full year of operations at Boulder Station. Texas Station, with a total of 200 rooms, contributed $2.1 million of the increase. Boulder Station, with a total of 300 rooms, contributed $2.7 million of the increase. Palace Station contributed an increase of $1.1 million over the prior year. The Company-wide room occupancy rate declined from 95% in the prior year to 94% for the fiscal year ended March 31, 1996, while the average daily room rate increased from $41 to $46.

Other. Other revenues increased $2.5 million or 6.9% to $39.1 million for the fiscal year ended March 31, 1996, as compared to the prior year. This increase is due primarily to increased slot route revenues of $4.0 million and an increase in other revenues at Boulder Station of $1.8 million. In addition, Texas Station added $1.8 million of other revenues during the fiscal year ended March 31, 1996. These increases were offset by decreases in operating revenues resulting after the sale of certain assets of the pay phone division at the end of fiscal year 1995 and the vending division in the middle of fiscal year 1996.

Selling, General and Administrative. Selling, general and administrative expenses ("SG&A") increased $36.7 million or 60.3% for the fiscal year ended March 31, 1996, as compared to the prior year. This increase is primarily due to the operations at Station Casino St. Charles and Boulder Station, which combined, contributed an increase of $20.5 million over the prior year. In addition, Texas Station added $14.8 million of SG&A for the fiscal year ended March 31, 1996. SG&A as a percentage of net revenues remained consistent at 20.9%.

Corporate Expenses. Corporate expenses increased $2.8 million or 21.6% to $16.0 million for the fiscal year ended March 31, 1996, as compared to the prior year. This increase is attributable to increases in personnel and other infrastructure costs required to manage the Company's new properties and expansion plans for fiscal years 1997 and beyond. Corporate expenses declined to 3.4% of net revenues for the fiscal year ended March 31, 1996, as compared to 4.5% in the prior year.

Development Expenses. Development expenses decreased significantly for the fiscal year ended March 31, 1996, compared to the prior year. This decrease was the result of reduced efforts to identify potential gaming opportunities. Such costs are incurred by the Company in its efforts to identify and pursue potential gaming opportunities in selected jurisdictions, including those in which gaming has not been approved. The Company expenses development costs including lobbying, legal and consulting until such time as the jurisdiction has approved gaming and the Company has identified a specific site. Costs incurred subsequent to these criteria being met are capitalized.

Depreciation and Amortization. Depreciation and amortization increased $12.8 million or 57.7% to $35.0 million for the fiscal year ended March 31, 1996. This increase is attributed to increases of $3.5 million at Boulder Station and $5.2 million at Station Casino St. Charles due to expansions at these facilities. In addition, Texas Station generated $4.1 million of depreciation and amortization for the fiscal year ended March 31, 1996.

Interest Expense, net. Interest costs incurred (expensed and capitalized) for the fiscal year ended March 31, 1996 were $36.7 million, a 41.5% increase over the prior year. This increase is primarily attributable to increases in term note and revolving line of credit balances as a result of the capital required for the Company's expansion strategy. Capitalized interest is expected to continue to grow at an increased pace due to ongoing improvements at the Company's casinos as well as construction of new facilities (see "Liquidity and Capital Resources").

Other income includes a $1.2 million gain recorded as a result of the sale of certain assets of the vending division of Southwest Services, Inc.

Liquidity and Capital Resources

During the fiscal year ended March 31, 1997, the Company's sources of capital included cash flows from operating activities of $111.8 million, borrowings under the Company's reducing revolving bank credit facility of $277.0 million, borrowings under the Sunset Loan Agreement (as defined herein) of $46.0 million, net proceeds from the exercise of the underwriters' over-allotment option to purchase an additional 270,000 shares of convertible preferred stock related to 1,800,000 shares of convertible preferred stock issued by the Company on March 29, 1996 of $13.1 million and excess cash invested from the March 29, 1996 issuance of convertible preferred stock and senior subordinated notes. At March 31, 1997, the Company had available borrowings of $91.0 million under its reducing revolving bank credit facility, $64.0 million under the Sunset Loan Agreement, available advances of $40.0 million under the Sunset Operating Lease (as defined herein) and $42.5 million in cash and cash equivalents. In addition, in April 1997, the Company completed an offering of $150 million of senior subordinated notes, the proceeds of which were used to reduce amounts outstanding under the bank credit facility.

During the fiscal year ended March 31, 1997, total capital expenditures were approximately $506.1 million, of which approximately (i) $211.1 million was associated with the development and construction of Station Casino Kansas City, (ii) $112.8 million was associated with the development and construction of Sunset Station, (iii) $99.6 million was associated with the construction of the St. Charles Expansion Project (as defined below), (iv) $14.7 million was associated with the construction of a 4,000-space parking structure and elevated roadway at Station Casino St. Charles, which opened in May 1996 and (v) $67.9 million was associated with various other projects, maintenance capital expenditures and net construction period interest.

The Company's primary requirements during fiscal year 1998 are expected to include the following:

- Sunset Station—The Company anticipates that the total cost of the Sunset Station project will be approximately $198 million (excluding net construction period interest and preopening expenses), of which approximately $143.9 million had been incurred as of March 31, 1997. The cost of the project has increased $38 million from the previous estimate of $160 million. The increased cost is primarily attributable to the Company's decision to expand the project to include an increase in the number of slot and video poker machines from 2,300 to 2,700 machines, a tenant buildout for a microbrewery, enhancements to the streetscape facades, sky ceilings, stained glass, landscaping and other general interior upgrades, an increased number of hotel suites, an enhanced outdoor pool and an amphitheater. In addition, the Company experienced increased construction costs due in part to the high level of overall construction activity in Las Vegas. Management believes that the enhanced project will position the Company as the premier entrant in the Henderson/Green Valley area, and allow the Company to market the property more effectively and offer guests a more complete entertainment experience. Sunset Station is being constructed on approximately 100 acres in the Henderson/Green Valley area of Las Vegas and will feature a casino, hotel, and dining and entertainment facilities. The construction of Sunset Station is being financed through $110 million of non-recourse debt under the Sunset Loan Agreement and a $40 million operating lease provided by the Company. See "Description of Certain Indebtedness and Capital Stock." As of March 31, 1997, the Company has made equity contributions of $54.0 million to the project and plans to fund all of the remaining construction and preopening expenses in excess of the $110 million note and $40 million operating lease through additional equity contributions of approximately $33.0 million.

- Station Casino St. Charles—The Company has commenced construction of an expansion at Station Casino St. Charles (the "St. Charles Expansion Project"). In connection with this expansion project, the Company is constructing a man-made backwater basin that would contain two new gaming vessels, which will be similar to the gaming vessels at Station Casino Kansas City. The project also includes a transition deck to provide direct access from the 4,000-space parking garage into the new casino facilities. This project is expected to cost approximately $190 million (excluding construction period interest and preopening expenses), of which $99.6 million had been incurred at March 31, 1997. Management estimates that the St. Charles Expansion Project will be completed by mid-summer of 1998. The scope and timing of this expansion project depend on several factors, including, but not limited to, the Company's ability to draw under its Bank Facility as restricted by the maximum funded debt to EBITDA (as adjusted for preopening expenses) ratio described herein. In addition, the Company has entered into a non-binding letter of intent with the Gordon Group to develop a substantial portion of the new retail and entertainment complex portion of the St. Charles Expansion Project. The Company anticipates that between $50 million and $70 million of financing will be required by the Gordon Group for the development of a uniquely styled shopping and entertainment area, including a variety of specialty retail stores, restaurants and entertainment attractions. If the Gordon Group fails to proceed with development of the retail and entertainment complex, the Company plans to complete a smaller-scale build-out of the retail and entertainment complex for an estimated cost of $16 million (net of construction period interest and preopening expenses). No assurances can be given that the Company and the Gordon Group will enter into a definitive development agreement with respect to the project, that the Gordon Group will be able to obtain the necessary financing, that the Gordon Group will complete the build-out of the complex within the Company's estimated completion time of mid-summer 1998 or that the Gordon Group will be able to develop and operate the project successfully.

- Construction Contracts Payable—The payment of approximately $95 million of construction contracts payable and retention outstanding as of March 31, 1997. This includes approximately $35.3 million related to the construction and development of Sunset Station.

Other planned uses of capital include (i) maintenance capital expenditures at Palace Station, Boulder Station, Texas Station, Sunset Station, Station Casino Kansas City, Station Casino St. Charles and SGSI, (ii) principal and interest payments on indebtedness, (iii) dividend payments on convertible preferred stock and (iv) general corporate purposes. The Company has delayed commencement of construction on a 507-room hotel project at Boulder Station. Management is currently evaluating the timing of this Boulder Station project which depends significantly on the operating results of the Company, including its new facility Station Casino Kansas City, as well as the Las Vegas market's ability to absorb significantly increased hotel capacity. The Company capitalizes significant preopening expenses associated with its construction projects, including Sunset Station, which amounts will be expensed upon the opening of the related project and could have a material adverse impact on the Company's earnings.

The Company believes cash flows from operations, borrowings under the reducing revolving bank credit facility, borrowings under the Sunset Loan Agreement, net proceeds from the issuance of $150 million 9¾% senior subordinated notes in April 1997, 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 1998. The Company, however, is continually evaluating the financing needs of its current and planned projects. If more attractive financing alternatives become available to the Company, the Company may amend its financing plans with respect to such projects, assuming such financing would be permitted under its debt agreements (see "Description of Certain Indebtedness and Capital Stock") and other applicable agreements.

The Company's plans for the development of additional new gaming opportunities, as well as further expansion of the existing operations, may require substantial amounts of additional capital. The Company has entered into various option agreements to acquire or lease land for the development of existing and potential new gaming projects with purchase prices totaling $31.3 million as of March 31, 1997. In consideration for these options, the

Company had paid or placed in escrow $6.0 million as of March 31, 1997, all of which would be forfeited should the Company not exercise its option to acquire or lease the land. To develop all of these projects, together with any new commitments the Company may enter into, the Company will be required to obtain additional capital through debt or equity financings. There can be no assurance that any such financing would be available to the Company or, if available, that any such financing would be available on favorable terms. The Company's reducing revolving bank credit facility and the senior subordinated note indentures limit the incurrence of additional indebtedness by the Company and its subsidiaries and contain various financial and other covenants. In addition, the Sunset Loan Agreement contains similar restrictions related to the Sunset Station project. See "Description of Certain Indebtedness and Capital Stock."

Description of Certain Indebtedness and Capital Stock

Bank Facility

The Company's secured, reducing revolving loan agreement, as amended on March 21, 1997 (the "Bank Facility"), is a reducing revolving credit facility which provides for borrowings up to an aggregate principal amount of $368 million as of March 31, 1997. The Bank Facility is secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, Station Casino Kansas City and Station Casino St. Charles (collectively, the "Borrowers"). The Company and SGSI guarantee the borrowings under the Bank Facility (collectively the "Guarantors"). The Bank Facility matures on September 30, 2000 and available borrowings reduce quarterly by varying amounts (including $8.0 million for the fiscal quarter ending June 30, 1997 and $10.0 million for each quarter ending September 30, 1997, December 31, 1997 and March 31, 1998, and by substantially higher amounts thereafter). Borrowings under the Bank Facility bear interest at a margin above the bank's prime rate or the Eurodollar Rate, as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Bank Facility, will vary quarterly based on the combined Borrower's and the Company's consolidated (exclusive of Sunset Station) ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") adjusted for preopening expenses. As of March 31, 1997, the Company's margin above the Eurodollar Rate on borrowings under the Bank Facility is 2.0%. Such margin will increase to 2.75% if the maximum funded debt to EBITDA (adjusted for preopening expenses) ratio is reached.

The Bank Facility contains certain financial and other covenants. These include a maximum funded debt to EBITDA (adjusted for preopening expenses) ratio for the Borrowers combined of 3.00 to 1.00 for each fiscal quarter through June 30, 1997, 2.75 to 1.00 for each fiscal quarter through June 30, 1998, and 2.50 to 1.00 for each fiscal quarter thereafter, a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.35 to 1.00 for the periods March 31, 1996 through June 30, 1998, and 1.50 to 1.00 for periods thereafter, a limitation on indebtedness, and limitations on capital expenditures. As of March 31, 1997, the Borrowers funded debt to EBITDA ratio was 1.97 to 1.00 and the fixed charge coverage ratio for the fiscal year ended March 31, 1997 was 2.54 to 1.00. A tranche of the Bank Facility contains a minimum tangible net worth requirement for Palace Station ($10 million plus 95% of net income determined as of the end of each fiscal quarter with no reduction for net losses) and certain restrictions on distributions of cash from Palace Station to the Company. As of March 31, 1997, Palace Station's tangible net worth exceeded the requirement by approximately $7 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 Bank Facility has financial covenants relating to the Company. These include prohibitions on dividends on or redemptions of the Company's Common Stock, restrictions on repayment of any subordinated debt, limitations on the incurrence of additional indebtedness, the Company's senior subordinated notes and other specified indebtedness, minimum consolidated tangible net worth requirements (adjusted upwards for post October 1, 1995 preopening expenses, not to exceed $18 million and for potential losses on disposed or discontinued assets, not to exceed $30 million), for the Company of $165 million plus 95% of post October 1, 1995 net income (not reduced by net losses) and 100% of net equity offering proceeds, and limitations on capital expenditures and investments. As of March 31, 1997, the Company's consolidated net worth exceeded the requirement by approximately $20 million. In March 1997 the Company obtained certain amendments to the Bank Facility in order to enhance its borrowing capacity under its Bank Facility to fund the expansion strategy described herein. As amended, the Bank Facility includes a maximum funded debt to EBITDA (adjusted for preopening expenses) ratio, including annualized EBITDA (adjusted for preopening expenses) for any new venture, as defined, open less than a year, for the Company on a consolidated basis of 5.00 to 1.00 for the fiscal quarter ending March 31, 1997, 5.25 to 1.00 for each fiscal quarter through December 31, 1997, 5.00 to 1.00 for each fiscal quarter through June 30, 1998, 4.75 to 1.00 for the fiscal quarter ending September 30, 1998, 4.50 to 1.00 for the fiscal quarter ending December 31, 1998, 4.25 to 1.00 for each fiscal quarter through June 30, 1999, 4.00 to 1.00 for the fiscal quarter ending September 30, 1999 and 3.75 to 1.00 thereafter. As of March 31, 1997, the Company's funded debt to EBITDA ratio was 4.54 to 1.00. Such consolidated calculations for the Company do not include Sunset Station. In addition, the Bank Facility prohibits the Company from holding cash and cash equivalents in excess of the sum of the amounts necessary to make the next scheduled interest or dividend payments on the Company's senior subordinated notes and preferred stock, the amounts necessary to fund casino bankroll in the ordinary course of business and $2.0 million. The Guarantors waive certain defenses and rights including rights of subrogation and reimbursement. The Bank Facility contains customary events of default and remedies and is cross-defaulted to the Company's senior subordinated notes and the Change of Control Triggering Event as defined in the indentures governing the senior subordinated notes.

The Company has obtained an amendment to the Bank Facility that will permit the Company to form a wholly-owned limited partnership to enter into a financing transaction to lease the two new gaming vessels under construction at Station Casino St. Charles pursuant to an operating lease.

Senior Subordinated Notes

The Company has $383.1 million, net of unamortized discount of $8.0 million, of senior subordinated notes outstanding as of March 31, 1997. $186.2 million of these notes bear interest, payable semi-annually, at a rate of 9⅝% per year and $196.8 million of these notes bear interest, payable semi-annually, at a rate of 10⅛% per year. In April 1997, the Company issued $150 million of 9¾%

senior subordinated notes that rank *pari passu* with the existing senior subordinated notes (collectively the "Notes"). The indentures governing the Notes ("Indentures") contain certain customary financial and other covenants which prohibit the Company and its subsidiaries from incurring indebtedness (including capital leases) other than (a) non-recourse debt for certain specified subsidiaries, (b) certain equipment financings, (c) the Notes, (d) up to $15 million of additional indebtedness, (e) additional indebtedness if, after giving effect thereto, a 2.00 to 1.00 pro forma Consolidated Coverage Ratio (as defined) has been met, (f) Permitted Refinancing Indebtedness (as defined), (g) borrowings of up to $72 million under the Bank Facility, and (h) certain other indebtedness. At March 31, 1997, the Company's Consolidated Coverage Ratio was 2.66 to 1.00. In addition, the Indentures prohibit the Company from paying dividends on any of its capital stock unless at the time of and after giving effect to such dividends, among other things, the aggregate amount of all Restricted Payments and Restricted Investments (as defined in the Indentures, and which include any dividends on any capital stock of the Company) do not exceed the sum of (i) 50% of Cumulative Consolidated Net Income (as defined) of the Company (less 100% of any consolidated net losses), (ii) certain net proceeds from the sale of equity securities of the Company and (iii) $15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures may significantly affect 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 Loan Agreement, Supplemental Loan Agreement and Sunset Operating Lease

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 Bank of America National Trust and Savings Association ("Bank of America NT&SA"), Bank of Scotland, Societe Generale and each of the other lenders party to such agreement, 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 $40 million to be subleased to Sunset Station.

The Sunset Loan Agreement includes a first mortgage term note in the amount of $110 million (the "Sunset Note") which is 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 has pledged all of the stock of Sunset Station as security for the Sunset Loan Agreement. As of March 31, 1997, Sunset Station had borrowed $46.0 million under the Sunset Note. The Sunset Note is to reduce $1.8 million for each fiscal quarter ending March 1998 through December 1998, $2.3 million for each fiscal quarter ending March 1999 through December 1999, and $2.0 million for the fiscal quarters ending March 2000 and June 2000 and matures in September 2000. In addition, the Sunset Note is subject to prepayment subsequent to July 1998 by an amount equal to a specified percentage of Excess Cash Flow (as defined). The Sunset Note carries an interest rate of 375 basis points over the Eurodollar Rate (as defined in the Sunset Loan Agreement). The Sunset Note is secured by substantially all of the assets of Sunset Station, including a deed of trust with respect to the real property on which Sunset Station is being constructed, a portion of which is subject to a lease from the Company to Sunset Station, and the remainder of which property is owned by Sunset Station, and a security agreement as to all tangible and intangible personal property including Sunset Station's rights under an operating lease for certain furniture, fixtures and equipment.

The Sunset Loan Agreement contains certain customary financial and other covenants (related exclusively to Sunset Station) including a minimum fixed charge coverage ratio as of the last day of any full quarter after the opening of Sunset Station of not less than 1.10 to 1.00, a maximum senior funded debt to EBITDA (adjusted for certain cash contributions or advances by the Company) ratio after opening of 4.50 to 1.00 for the first full quarter reducing by 0.25 on certain quarters thereafter to 3.25 to 1.00 for the tenth quarter and each quarter thereafter, and a minimum net worth as of any quarter end after opening of not less then $52 million plus 80% of net income (not reduced by net losses) for each quarter after opening, plus 100% of certain additional equity contributions by the Company and Supplemental Loans (as defined). In addition, the agreement places restrictions on indebtedness and guarantees, dividends, stock redemptions, mergers, acquisitions, sale of assets or sale of stock in subsidiaries and limitations on capital expenditures.

In addition, the Company has provided a funding commitment to Sunset Station of up to an additional $25 million pursuant to a supplemental loan agreement (the "Supplemental Loan Agreement"). The Sunset Loan Agreement requires Sunset Station to draw amounts under the Supplemental Loan Agreement in the event of the failure of certain financial covenants under the Sunset Loan Agreement. Loans under this funding commitment may be drawn down beginning on the last day of the first full calendar quarter ending after Sunset Station opens for business in the amount of up to $10 million during the first year after such date, up to $10 million during the second year after such date and up to $5 million during the third year after such date. The Supplemental Loan Agreement also provides for an additional, separate funding commitment up to $40 million in connection with a purchase option for certain furniture, fixtures and equipment currently financed under the Sunset Operating Lease (as defined herein). Sunset Station will pay interest at a rate per annum equal to the three month Eurodollar Rate, the interest being payable solely in the form of commensurate additions to the principal of the Supplemental Loans. The Supplemental Loan Agreement expires in September 2001. The funding commitments under the Supplemental Loan Agreement are subject to limitations imposed by the Existing Indentures, the Indenture and the Bank Facility.

In order to manage the interest rate risk associated with the Sunset Note, Sunset Station entered into an interest rate swap agreement with Bank of America NT&SA. This agreement swaps the variable rate interest pursuant to the Sunset Note to a fixed rate of 9.58% 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 expires in December 1998. The difference paid or received pursuant to the swap agreement is accrued as interest rates change and recognized as an adjustment to interest expense for the Sunset Note. Sunset Station is exposed to credit risk in the event of non-performance by the counterparty to the agreement. The Company believes the risk of non-performance by the counterparty is minimal.

The Company has also entered into an operating lease for furniture, fixtures and equipment (the "Equipment") with a cost of $40 million, dated as of September 25, 1996 (the "Sunset Operating Lease") between the Company and First Security Trust Company of Nevada. The Sunset Operating Lease expires in October 2000 and carries a lease rate of 225 basis points above the Eurodollar Rate. The Company has entered into a sublease with Sunset Station for the Equipment pursuant to an operating lease with financial terms substantially similar to the Sunset Operating Lease. In the event that Sunset Station elects to purchase the Equipment, the Company has provided a funding commitment up to the amount necessary for such purchase pursuant to the Supplemental Loan Agreement (subject to the limitations on funding contained in the Supplemental Loan Agreement).

In connection with the Sunset Operating Lease, the Company also entered into a participation agreement, dated as of September 25, 1996 (the "Participation Agreement") with the trustee, as lessor under the Sunset Operating Lease, and holders of beneficial interests in the Lessor Trust (the "Holders"). Pursuant to the Participation Agreement, the Holders will advance funds to the trustee for the purchase by the trustee of, or to reimburse the Company for the purchase, of the Equipment, which will then be leased to the Company under the Sunset Operating Lease, and in turn subleased to Sunset Station. Pursuant to the Participation Agreement, the Company also agreed to indemnify the Lessor and the Holders against certain liabilities.

Common Stock

The Company is authorized to issue up to 90,000,000 shares of its common stock, $.01 par value per share (the "Common Stock"), 35,318,057 shares of which were issued and outstanding as of March 31, 1997. 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. 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.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of its preferred stock, $.01 par value per share (the "Preferred Stock"). In March 1996, the Company completed an offering of 1,800,000 shares of $3.50 Convertible Preferred Stock (the "Convertible Preferred Stock"). In April 1996, the underwriters exercised the over allotment option of an additional 270,000 shares of the Convertible Preferred Stock. The Board of Directors, without further action by the holders of Common Stock or the Convertible Preferred 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 or the Convertible Preferred 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.

Convertible Preferred Stock. As of March 31, 1997, the Company has 2,070,000 shares of Convertible Preferred Stock outstanding, each with a liquidation preference of $50.00 per share plus an amount equal to any accumulated and unpaid dividends at the annual rate of $3.50 per share, or 7.0% of such liquidation preference. Such dividends accrue and are cumulative from the date of issuance and are payable quarterly. The Convertible Preferred Stock is convertible at the option of the holder thereof at any time, unless previously redeemed, into shares of Common Stock at an initial conversion rate of 3.2573 shares of Common Stock for each share of Convertible Preferred Stock, subject to adjustment in certain circumstances. The Company may reduce the conversion price of the Convertible Preferred Stock by any amount for any period of at least 20 days, so long as the decrease is irrevocable during such period. The Convertible Preferred Stock is redeemable, at the option of the Company, in whole or in part, for shares of Common Stock, at any time after March 15, 1999, initially at a price of $52.45 per share of Convertible Preferred Stock, and thereafter at prices decreasing annually to $50.00 per share of Convertible Preferred Stock on and after March 15, 2006, plus accrued and unpaid dividends. The Common Stock to be issued is determined by dividing the redemption price by the lower of the average daily closing price for the Company's Common Stock for the preceding 20 trading days or the closing price of the Company's Common Stock on the first business day preceding the date of the redemption notice. Any fractional shares would be paid in cash. There is no mandatory sinking fund obligation with respect to the Convertible Preferred Stock. The holders of the Convertible Preferred Stock do not have any voting rights, except as required by applicable law and except that, among other things, whenever accrued and unpaid dividends on the Convertible Preferred Stock are equal to or exceed the equivalent of six quarterly dividends payable on the Convertible Preferred Stock, the holders of the Convertible Preferred Stock, voting separately as a class with the holders of any other series of parity stock upon which like voting rights have been conferred and are exercisable, will be entitled to elect two directors to the Board of Directors until dividend arrearage has been paid or amounts have been set apart for such payment. The Convertible Preferred Stock is senior to the Common Stock with respect to dividends and upon liquidation, dissolution or winding-up.

March 31,	**1997**	1996
	(amounts in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 42,522**	$114,868
Accounts and notes receivable, net	**7,852**	5,151
Inventories	**3,473**	2,299
Prepaid gaming taxes	**4,291**	3,726
Prepaid expenses and other	**11,231**	7,395
Total current assets	**69,369**	133,439
Property and equipment, net	**1,069,052**	616,211
Land held for development	**26,354**	28,934
Other assets, net	**69,343**	48,730
Total assets	**$1,234,118**	$827,314
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 18,807**	$ 23,256
Accounts payable	**21,106**	11,091
Accrued payroll and related	**13,460**	11,519
Construction contracts payable	**94,835**	27,879
Accrued interest payable	**10,625**	6,875
Accrued expenses and other current liabilities	**26,433**	16,706
Total current liabilities	**185,266**	97,326
Long-term debt, less current portion	**742,156**	441,742
Deferred income taxes, net	**7,848**	9,776
Total liabilities	**935,270**	548,844
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value $.01; authorized 5,000,000 shares; 2,070,000 and 1,800,000 convertible preferred shares issued and outstanding	**103,500**	90,000
Common stock, par value $.01; authorized 90,000,000 shares; 35,318,057 and 35,303,346 shares issued and outstanding	**353**	353
Additional paid-in capital	**167,397**	167,623
Deferred compensation—restricted stock	**(1,225)**	(1,811)
Retained earnings	**28,823**	22,305
Total stockholders' equity	**298,848**	278,470
Total liabilities and stockholders' equity	**$1,234,118**	$827,314

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

For the Years Ended March 31,	**1997**	1996	1995
	(amounts in thousands, except share data)		
Operating revenues:			
Casino	**$450,013**	$358,495	$210,534
Food and beverage	**92,220**	73,057	43,208
Room	**27,420**	23,614	17,690
Other	**48,957**	39,099	36,561
Gross revenues	**618,610**	494,265	307,993
Promotional allowances	**(35,095)**	(27,408)	(17,715)
Net revenues	**583,515**	466,857	290,278
Operating costs and expenses:			
Casino	**203,857**	150,805	92,812
Food and beverage	**68,994**	57,659	34,045
Room	**10,318**	9,147	7,014
Other	**23,927**	24,902	27,270
Selling, general and administrative	**120,285**	97,466	60,810
Corporate expenses	**18,284**	15,979	13,141
Restructuring charge	**2,016**	—	—
Development expenses	**1,302**	3,960	7,200
Depreciation and amortization	**44,589**	35,039	22,220
Preopening expenses	**31,820**	2,436	19,378
	525,392	397,393	283,890
Operating income	**58,123**	69,464	6,388
Other income (expense):			
Interest expense, net	**(36,698)**	(30,563)	(19,967)
Other	**(47)**	1,150	2,160
	(36,745)	(29,413)	(17,807)
Income (loss) before income taxes	**21,378**	40,051	(11,419)
Income tax (provision) benefit	**(7,615)**	(14,579)	3,477
Net income (loss)	**13,763**	25,472	(7,942)
Preferred stock dividends	**(7,245)**	(53)	—
Net income (loss) applicable to common stock	**$ 6,518**	$ 25,419	$ (7,942)
Earnings (loss) per common share	**$ 0.18**	$ 0.75	$ (0.26)
Weighted average common shares outstanding	**35,316,077**	33,917,646	30,112,851

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Deferred Compensation— Restricted Stock	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
			(amounts in thousands)			
Balances, March 31, 1994	$ —	$300	$ 90,663	$ —	$ 4,828	$ 95,791
Restricted stock grant (Note 9)	—	1	2,929	(2,930)	—	—
Amortization of deferred compensation	—	—	—	37	—	37
Net loss	—	—	—	—	(7,942)	(7,942)
Balances, March 31, 1995	—	301	93,592	(2,893)	(3,114)	87,886
Issuance of common stock (Note 7)	—	52	77,309	—	—	77,361
Issuance of preferred stock (Note 7)	90,000	—	(3,278)	—	—	86,722
Amortization of deferred compensation	—	—	—	1,082	—	1,082
Preferred stock dividends	—	—	—	—	(53)	(53)
Net income	—	—	—	—	25,472	25,472
Balances March 31, 1996	90,000	353	167,623	(1,811)	22,305	278,470
Issuance of preferred stock (Note 7)	13,500	—	(405)	—	—	13,095
Exercise of stock options	—	—	179	—	—	179
Amortization of deferred compensation	—	—	—	586	—	586
Preferred stock dividends	—	—	—	—	(7,245)	(7,245)
Net income	—	—	—	—	13,763	13,763
Balances March 31, 1997	$103,500	$353	$167,397	$(1,225)	$28,823	$298,848

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

For the Years Ended March 31,	**1997**	1996	1995
		(amounts in thousands)	
Cash flows from operating activities:			
Net income (loss)	**$ 13,763**	$ 25,472	$ (7,942)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**44,589**	35,039	22,220
Amortization of debt discount and issuance costs	**5,279**	3,141	1,211
Preopening expenses	**31,820**	2,436	19,378
(Decrease) increase in deferred income taxes	**(3,752)**	8,995	(5,449)
Changes in assets and liabilities:			
Increase in accounts and notes receivable, net	**(1,151)**	(522)	(955)
Increase in inventories and prepaid expenses and other	**(3,751)**	(2,428)	(3,152)
(Decrease) increase in accounts payable	**10,015**	(2,710)	10,547
Increase in accrued expenses and other current liabilities	**13,723**	4,822	12,041
Other, net	**1,268**	3,708	595
Total adjustments	**98,040**	52,481	56,436
Net cash provided by operating activities	**111,803**	77,953	48,494
Cash flows from investing activities:			
Capital expenditures	**(505,735)**	(279,340)	(141,165)
Proceeds from sale of land, property and equipment	**8,900**	6,578	12,483
Land held for development	**(36)**	(5,018)	(5,507)
Other long-term assets	**(15,772)**	(1,638)	(2,489)
Refund on land held for development	**—**	—	9,500
Increase (decrease) in construction contracts payable	**66,956**	21,460	(10,337)
Preopening expenses	**(31,820)**	(2,436)	(19,378)
Other, net	**(1,501)**	(6,541)	(692)
Net cash used in investing activities	**(479,008)**	(266,935)	(157,585)
Cash flows from financing activities:			
Borrowings (payments) under bank facility, net	**277,000**	(65,000)	37,000
Borrowings under Sunset loan agreement	**46,000**	—	—
Proceeds from notes payable	**2,250**	42,438	13,757
Principal payments on notes payable	**(30,444)**	(34,958)	(8,195)
Proceeds from the issuance of common stock	**—**	78,246	—
Proceeds from the issuance of senior subordinated notes	**—**	191,292	72,091
Proceeds from the issuance of preferred stock	**13,095**	87,300	—
Distributions paid to stockholders	**—**	—	(4,014)
Dividends paid on preferred stock	**(6,985)**	—	—
Debt issuance costs and other, net	**(6,057)**	(12,429)	(746)
Net cash provided by financing activities	**294,859**	286,889	109,893
Cash and cash equivalents:			
(Decrease) increase in cash and cash equivalents	**(72,346)**	97,907	802
Balance, beginning of year	**114,868**	16,961	16,159
Balance, end of year	**$ 42,522**	$ 114,868	$ 16,961
Supplemental cash flow disclosures:			
Cash paid for interest, net of amounts capitalized	**$ 28,577**	$ 27,817	$ 17,021
Cash paid for income taxes, net	**$ 9,250**	$ 8,668	$ 1,303
Property and equipment purchases financed by debt	**$ 361**	$ 28,405	$ 22,719
Assets sold for note receivable	**$ 1,550**	$ —	$ —

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

1. Summary of Significant Accounting Policies and Basis of Presentation

Basis of Presentation and Organization

Station Casinos, Inc. (the "Company"), a Nevada Corporation, is an established multi-jurisdictional gaming enterprise that currently owns and operates three hotel/casino properties in Las Vegas, Nevada, a gaming and entertainment complex in St. Charles, Missouri and a gaming and entertainment complex in Kansas City, Missouri. The Company also owns and provides slot route management services in Southern Nevada and Louisiana. Additionally, the Company is constructing a new hotel/casino property in Las Vegas.

The 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"), and Southwest Gaming Services, Inc. ("SGSI"). The Company owns a 50% interest in Town Center Amusements, Inc. d.b.a. Barley's Casino & Brewing Company. The Company accounts for this investment using the equity method of accounting. All significant intercompany balances and transactions have been eliminated.

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 complete. 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 average cost of borrowed money. Interest capitalized for the fiscal years ended March 31, 1997, 1996 and 1995 was approximately $21.1 million, $6.1 million and $6.0 million, respectively.

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.

Development Activities

The Company expenses all internal salaries and related expenses with respect to development activities. Other development costs, including legal, lobbying, and consulting are expensed, until such time as the jurisdiction has approved gaming and the Company has a specific site identified. Costs incurred subsequent to these criteria being met are capitalized. At March 31, 1997 and 1996, the Company had capitalized costs of $0.7 million and $1.3 million, respectively, related to various development projects. These costs are included in other assets, net in the accompanying consolidated balance sheets.

Preopening Expenses

Prior to the opening of a facility, all operating expenses, including incremental salaries and wages, related thereto are capitalized as preopening expenses. At March 31, 1997, $2.4 million of preopening expenses related to a new hotel/casino under construction known as Sunset Station had been capitalized and are included in other assets, net in the accompanying consolidated balance sheets. The Company expenses preopening expenses upon the opening of the related facility. During the fiscal year ended March 31, 1995 the Company incurred preopening expenses of $7.5 million and $11.9 million related to Boulder Station and Station Casino St. Charles, respectively. During the fiscal year ended March 31, 1996, the Company incurred preopening expenses of $2.4 million related to new projects for Texas Station and Barley's Casino & Brewing Company and expansion projects at Boulder Station and Station Casino St. Charles. During the fiscal year ended March 31, 1997, the Company incurred preopening expenses of $31.8 million substantially related to the opening of Station Casino Kansas City.

Revenues and Promotional Allowances

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

For the Years Ended March 31,	**1997**	1996	1995
Food and beverage	**$27,418**	$23,483	$14,276
Room	**1,439**	1,203	874
Other	**1,263**	653	313
Total	**$30,120**	$25,339	$15,463

Earnings (Loss) per Common Share

Earnings (loss) per common share is computed by dividing net income (loss) applicable to common stock by the weighted average common shares outstanding during the period. Earnings per share assuming full dilution is not presented 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.

The Financial Accounting Standards Board has issued Statement on Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which is effective for fiscal years ending after December 15, 1997. This statement replaces primary earnings per share ("EPS") with basic EPS. No dilution for potentially dilutive securities is included in basic EPS. This statement also requires when applying the treasury stock method for diluted EPS to compute dilution for options and warrants, to use average share price for the period, rather than the more dilutive greater of the average share price or end-of-period share price. The Company will adopt SFAS No. 128 in the fiscal year ending March 31, 1998. Management believes the adoption of SFAS No. 128 will have no impact on the Company's previously reported earnings per share.

2. Accounts and Notes Receivable

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

March 31,	**1997**	1996
Casino	**$ 3,698**	$2,569
Hotel	**1,331**	1,144
Other	**3,876**	2,082
	8,905	5,795
Allowance for doubtful accounts	**(1,053)**	(644)
Accounts and notes receivable, net	**$ 7,852**	$5,151

3. Property and Equipment

Property and equipment consists of the following as of March 31, 1997 and 1996 (amounts in thousands):

	Estimated Life (years)	*March 31,* 1997	1996
Land	—	**$ 17,114**	$ 16,962
Land leases acquired	48–52	**4,395**	4,395
Buildings and leasehold improvements	31–45	**554,294**	285,558
Boats and barges	20–45	**123,774**	81,463
Furniture, fixtures and equipment	3–7	**192,546**	163,580
Construction in progress	—	**283,792**	165,513
		1,175,915	717,471
Accumulated depreciation and amortization		**(106,863)**	(101,260)
Property and equipment, net		**$1,069,052**	$ 616,211

At March 31, 1997 and 1996, substantially all property and equipment of the Company is pledged as collateral for long-term debt.

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 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. At March 31, 1997 and 1996, $22.6 million and $22.7 million, respectively, of land had been acquired for potential gaming projects in jurisdictions where gaming has been approved. In addition, at March 31, 1997 and 1996, $3.7 million and $6.2 million, respectively, of land had been acquired in certain jurisdictions where gaming has not yet been approved. No assurances can be made that these jurisdictions will approve gaming in the future.

The Company has entered into various purchase agreements whereby the Company has the option to acquire or lease land for development of potential new gaming projects totaling $31.3 million and $34.2 million at March 31, 1997 and 1996, respectively. In consideration for these options, the Company has paid or placed in escrow $6.0 million and $2.4 million at March 31, 1997 and 1996, respectively. Should the Company not exercise its option to acquire or lease the land, it would forfeit all amounts paid or placed in escrow as of March 31, 1997. These option payments are included in other assets, net in the accompanying consolidated balance sheets.

5. Long-term Debt

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

March 31,	**1997**	1996
Station Casinos, Inc. (excluding Sunset Station):		
Reducing revolving credit facility, secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, Station Casino St. Charles and Station Casino Kansas City, $368 million limit at March 31, 1997, reducing quarterly by varying amounts until September 2000 when the remaining principal balance is due, interest at a margin above the bank's prime rate or the Eurodollar Rate (7.89% at March 31, 1997)	**$277,000**	$ —
9⅝% senior subordinated notes, payable interest only semi-annually, principal due June 1, 2003, net of unamortized discount of $6.8 million at March 31, 1997	**186,248**	185,531
10⅛% senior subordinated notes, payable interest only semi-annually, principal due March 15, 2006, net of unamortized discount of $1.2 million at March 31, 1997	**196,818**	196,737
Notes payable to banks and others, collateralized by slot machines and related equipment, monthly installments including interest ranging from 7.47% to 7.94%	**15,952**	24,726
Capital lease obligations, collateralized by furniture and equipment	**7,703**	12,171
Other long-term debt	**31,242**	45,833
Sub-Total	**714,963**	464,998
Sunset Station, Inc.:		
$110 million Sunset Station first mortgage construction/term loan agreement, secured by substantially all of the assets of Sunset Station, interest at a margin of 375 basis points above the Eurodollar Rate (9.37% at March 31, 1997), due September 2000	**46,000**	—
Total long-term debt	**760,963**	464,998
Current portion of long-term debt	**(18,807)**	(23,256)
Total long-term debt, less current portion	**$742,156**	$441,742

In June 1993, the Company completed an offering at par of $110 million in 9⅝% senior subordinated notes due in June 2003. In May 1994, the Company completed an offering of $83 million in senior subordinated notes that rank *pari passu* with the existing $110 million senior subordinated notes, and have identical maturities and covenants as the original issue. The $83 million senior subordinated notes have a coupon rate of 9⅝% and were priced to yield 11.5% to maturity. The discount on the $83 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 rank *pari passu* with the existing $193 million of 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.

In April 1997, the Company completed an offering of $150 million of senior subordinated notes due in April 2007, that rank *pari passu* with the Company's existing 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 will be recorded as a reduction to long-term debt. Proceeds from the offering were used to pay down amounts outstanding under the reducing revolving credit facility.

The indentures governing the Company's senior subordinated notes (the "Indentures") contain certain customary financial and other covenants, which among other things, govern the Company and certain of its subsidiaries ability to incur indebtedness (except, as specifically allowed) unless after giving effect thereto, a 2.0 to 1.0 pro forma Consolidated Coverage Ratio (as defined in the Indentures) has been met. As of March 31, 1997, the Company's Consolidated Coverage Ratio was 2.66 to 1.00.

On July 5, 1995, the Company obtained a $275 million reducing revolving credit facility. On March 25, 1996, the Company amended and restated this bank facility, providing for borrowings up to an aggregate principal amount of $400 million. On March 21, 1997, the Company obtained certain amendments to the reducing revolving bank credit facility in order to enhance its borrowing capacity (the "Bank Facility"). The Bank Facility is secured by substantially all the assets of Palace Station, Boulder Station, Texas Station, Station Casino St. Charles and Station Casino Kansas City (collectively, the "Borrowers"). The Company and SGSI guarantee the borrowings under the Bank Facility (collectively, the "Guarantors"). The Bank Facility matures on September 30, 2000 and reduces quarterly by varying amounts (including $8 million for the fiscal quarter ending on June 30, 1997 and $10 million for each quarter ending September 30, 1997, December 31, 1997 and March 31, 1998). Borrowings under the Bank Facility bear interest at a margin above the bank's prime rate or LIBOR, as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Bank Facility, will vary quarterly based on the combined Borrower's and the Company's consolidated ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA").

The Bank Facility contains certain financial and other covenants. These include a maximum funded debt to EBITDA ratio for the Borrowers combined of 3.00 to 1.00 for each fiscal quarter through June 30, 1997, 2.75 to 1.00 for each fiscal quarter through June 30, 1998, and 2.50 to 1.00 for each fiscal quarter thereafter, a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.35 to 1.00 for periods March 31, 1996 through June 30, 1998, and 1.50 to 1.00 for periods thereafter, a limitation on indebtedness, and limitations on capital expenditures. As of March 31, 1997, the Borrowers funded debt to EBITDA ratio was 1.97 to 1.00 and the fixed charge coverage ratio for the fiscal year ended March 31, 1997 was 2.54 to 1.00. A tranche of the Bank Facility contains a minimum tangible net worth requirement for Palace Station (as defined) and certain restrictions on distributions of cash from Palace Station to the Company. As of March 31, 1997, Palace Station's tangible net worth exceeded the requirement by approximately $7 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 Bank Facility has financial covenants relating to the Company. These include prohibitions on dividends on or redemptions of the Company's common stock, restrictions on repayment of any subordinated debt, limitations on indebtedness beyond existing indebtedness, the Company's senior subordinated notes and up to $25 million of purchase money indebtedness, minimum consolidated net worth requirements for the Company of $165 million plus post October 1, 1995 preopening expenses, 95% of post October 1, 1995 net income (not reduced by net losses) and 100% of net equity offering proceeds, and limitations on capital expenditures. As of March 31, 1997, the Company's consolidated net worth exceeded the requirement by approximately $20 million. The Bank Facility also includes a maximum funded debt to EBITDA (adjusted for preopening expenses) ratio including annualized EBITDA (adjusted for preopening expenses) for any new venture, as defined, open less than a year for the Company on a consolidated basis of 5.00 to 1.00 for the fiscal quarter ended March 31, 1997, 5.25 to 1.00 for each fiscal quarter through December 31, 1997, 5.00 to 1.00 for each fiscal quarter through June 30, 1998, 4.75 to 1.00 for the fiscal quarter ending September 30, 1998, 4.50 to 1.00 for the fiscal quarter ending December 31, 1998, 4.25 to 1.00 for each fiscal quarter through June 30, 1999, 4.00 to 1.00 for the fiscal quarter ending September 30, 1999 and 3.75 to 1.00 thereafter. As of March 31, 1997, the Company's funded debt to EBITDA ratio was 4.54 to 1.00. Such consolidated calculations for the Company do not include Sunset Station (see below). In addition, the Bank Facility prohibits the Company from holding cash and cash equivalents in excess of the sum of the amounts necessary to make the next scheduled interest or dividend payments on the Company's senior subordinated notes and the Convertible Preferred Stock (see Note 7), the amounts necessary to fund casino bankroll in the ordinary course of business, and $2,000,000. The Guarantors waive certain defenses and rights including rights of subrogation and reimbursement. The Bank Facility contains customary events of default and remedies and is cross-defaulted to the Company's senior subordinated notes and the Change of Control Triggering Event as defined in the Indentures.

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 Bank of America National Trust and Savings Association, Bank of Scotland, Societe Generale and each of the other lenders party to such agreement, 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 $40 million to be subleased to Sunset Station as part of the Sunset Station Project (see Note 6).

The Sunset Loan Agreement includes a first mortgage term note in the amount of $110 million (the "Sunset Note") which is nonrecourse 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 has pledged all of the stock of Sunset Station as security for the Sunset Loan Agreement. The Sunset Note is to reduce $1.8 million for each fiscal quarter ending March

1998 through December 1998, $2.3 million for each fiscal quarter ending March 1999 through December 1999, and $2.0 million for the fiscal quarters ending March 2000 and June 2000 and matures in September 2000. In addition, the Sunset Note is subject to prepayment subsequent to July 1998 by an amount equal to a specified percentage of Excess Cash Flow, as defined. The Sunset Note carries an interest rate of 375 basis points above the Eurodollar Rate (as defined in the Sunset Loan Agreement). The Sunset Note is secured by substantially all of the assets of Sunset Station, including a deed of trust with respect to the real property on which Sunset Station is being constructed, a portion of which is subject to a lease from the Company to Sunset Station, and the remainder of which property is owned by Sunset Station and a security agreement as to all tangible and intangible personal property including Sunset Station's rights under an operating lease for certain furniture, fixtures and equipment to be used by Sunset Station.

The Sunset Loan Agreement contains certain customary financial and other covenants (related exclusively to Sunset Station) including a minimum fixed charge coverage ratio as of the last day of any quarter after the opening of Sunset Station of not less than 1.10 to 1.00, a maximum senior funded debt to EBITDA (adjusted for certain cash contributions or advances by the Company) ratio after opening of 4.50 to 1.00 for the first full quarter, reducing by 0.25 on certain quarters thereafter to 3.25 to 1.00 for the tenth quarter and each quarter thereafter, and a minimum net worth as of any quarter end after opening of not less than $52 million plus 80% of net income (not reduced by net losses) for each quarter after opening, plus 100% of certain additional equity contributions by the Company and Supplemental Loans, as defined. In addition, the agreement places restrictions on indebtedness and guarantees, dividends, stock redemptions, mergers, acquisitions, sale of assets or sale of stock in subsidiaries and limitations on capital expenditures.

In addition, the Company has provided a funding commitment to Sunset Station of up to an additional $25 million pursuant to a supplemental loan agreement (the "Supplemental Loan Agreement"). The Sunset Loan Agreement requires Sunset Station to draw amounts under the Supplemental Loan Agreement in the event of the failure of certain financial covenants under the Sunset Loan Agreement. Loans under this funding commitment may be drawn down beginning on the last day of the first full calendar quarter ending after Sunset Station opens for business in the amount of up to $10 million during the first year after such date, up to $10 million during the second year after such date and up to $5 million during the third year after such date. The Supplemental Loan Agreement also provides for an additional, separate funding commitment up to $40 million in connection with a purchase option for certain furniture, fixtures and equipment under the Sunset Operating Lease. Sunset Station will pay interest at a rate per annum equal to the three month Eurodollar Rate, the interest being payable solely in the form of commensurate additions to the principal of the Supplemental Loans. The Supplemental Loan Agreement expires in September 2001. The funding commitments under the Supplemental Loan Agreement are subject to limitations imposed by the indentures governing the Company's existing senior subordinated notes and the Bank Facility.

In order to manage the interest rate risk associated with the Sunset Note, Sunset Station entered into an interest rate swap agreement with Bank of America National Trust and Savings Association. This agreement swaps the variable rate interest pursuant to the Sunset Note to a fixed rate of 9.58% 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 expires in December 1998. The difference paid or received pursuant to the swap agreement is accrued as interest rates change and recognized as an adjustment to interest expense on the Sunset Note. Sunset Station is exposed to credit risk in the event of nonperformance by the counterparty to the agreement. The Company believes the risk of non-performance by the counterparty is minimal. As of March 31, 1997, the market value of this interest rate swap was $1.0 million.

The estimated fair value of the Company's long-term debt at March 31, 1997 was approximately $755.6 million, compared to its book value of approximately $761.0 million. The estimated fair value amounts were based on quoted market prices on or about March 31, 1997 for the Company's debt securities that are publicly traded. For debt securities that are not publicly traded, fair value was estimated based on the quoted market prices for similar issues or the current rates offered to the Company for debt having the same remaining maturities.

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

Fiscal Year Ending March 31,	
1998	$ 18,807
1999	12,948
2000	11,141
2001	333,373
2002	1,288
Thereafter	383,406
Total	$760,963

6. Commitments and Contingencies

Station Casino St. Charles

In September 1994, Station Casino St. Charles entered into an agreement for property acquisitions with the City of St. Charles, Missouri which allows for the acquisition by the Company of property within a designated 107-acre Redevelopment Project Area, a portion of which is adjacent to Station Casino St. Charles. This land is being acquired for the construction of a mixed use development which may include retail space, a hotel, office space, convention space or restaurants. The Company has a right to terminate the agreement if all related acquisition costs exceed $13.7 million. As of March 31, 1997, the Company has incurred $3.4 million of acquisition costs included in property and equipment, net in the accompanying consolidated balance sheets.

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 term of 65 years with monthly payments of $125,000 through June 1998. In June 1998, 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. The rent will be further adjusted in June 2003, and every ten years thereafter by a cost of living factor. In no event will the rent for any period be less than the immediately prior period. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals beginning in June 1998, to purchase the land at fair market value. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the 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 term of 65 years with monthly rental payments of $150,000 through July 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 prior period. Pursuant to the ground lease, the Company will have 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 Bank Facility.

Sunset Station Lease

In June 1994, the Company entered into a lease agreement for approximately 47.5 acres of land in the Southeast area of Las Vegas on which Sunset Station is being developed. 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. On the seventh anniversary of the lease, the Company has an option to purchase this land for $23.8 million. Additionally, on the seventh anniversary of the lease, 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 March 31, 1997 $3.5 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. The agreement requires monthly payments of $85,000 through March 31, 1997 and $90,000 through the remainder of the lease term. 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. Commencing April 1, 1998 and every anniversary thereafter, the rent shall be adjusted by a cost of living factor. In connection with the joint venture agreement, the Company received an option providing for the right to acquire the joint venture partners' 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 March 31, 1997 $2.6 million paid by the Company in consideration for this option is included in other assets, net in the accompanying consolidated balance sheets.

Southern Florida

In October 1994, the Company entered into an agreement to form a limited partnership with the existing operator of a pari-mutuel facility in Southern Florida. In the event casino gaming is approved by the voters of Florida by October 2000 and in the event the site is licensed by the state, the Company will be obligated to make capital contributions to the partnership totaling $35 million, reduced by credits for amounts previously contributed to any Florida gaming referendum campaign.

Operating Leases

The Company leases several parcels of land and equipment used in existing operations at Palace Station, Boulder Station, Texas Station, Station Casino St. Charles and Station Casino Kansas City and for land on which Sunset Station is being developed. Leases on various parcels ranging from 13 acres to 171 acres have terms expiring between March 2006 and July 2060. Future minimum lease payments required under these operating leases and other noncancelable operating leases are as follows for the fiscal years ending March 31, (amounts in thousands):

Future Minimum Lease Payments	
1998	$ 6,423
1999	6,296
2000	5,932
2001	5,932
2002	5,932
Thereafter	280,479
Total	$310,994

Rent expense totaled approximately $5.4 million, $6.5 million and $4.9 million for the years ended March 31, 1997, 1996 and 1995, respectively. Rents of $2.2 million and $2.1 million were capitalized in connection with the construction of Station Casino Kansas City and Sunset Station for the fiscal years ended March 31, 1997 and 1996, respectively.

During fiscal 1995, the Company sold approximately $13.0 million of equipment and leased it back under lease agreements ranging from three to seven years. The transactions produced gains of approximately $665,000 which have been deferred and are being amortized against lease expense over the remaining lease terms.

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 $40 million, dated as of September 25, 1996 (the "Sunset Operating Lease") with First Security Trust Company of Nevada. The Sunset Operating Lease expires in October 2000 and carries a lease rate of 225 basis points above the Eurodollar Rate. The Company has entered into a sublease with Sunset Station for the Equipment pursuant to an operating lease with financial terms substantially similar to the Sunset Operating Lease. In the event that Sunset Station elects to purchase the Equipment, the Company has provided a funding commitment up to the amount necessary for such purchase pursuant to the Supplemental Loan Agreement (subject to the limitations on funding contained in the Supplemental Loan Agreement) (see Note 5).

In connection with the Sunset Operating Lease, the Company also entered into a participation agreement, dated as of September 25, 1996 (the "Participation Agreement") with the trustee, as lessor under the Sunset Operating Lease, and holders of beneficial interests in the Lessor Trust (the "Holders"). Pursuant to the Participation Agreement, the Holders will advance funds to the trustee for the purchase by the trustee of, or to reimburse the Company for the purchase of the Equipment, which will then be leased to the Company, and in turn subleased to Sunset Station. Pursuant to the Participation Agreement, the Company also agreed to indemnify the Lessor and the Holders against certain liabilities.

Legal Matters

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

7. Stockholders' Equity

In July 1995, the Company completed a public offering of 5,175,000 shares of common stock at $16 per share generating net proceeds of approximately $78.2 million, before deducting $0.8 million of offering costs paid by the Company. The proceeds from this offering were primarily used to acquire the assets of Texas Station located in North Las Vegas, which commenced operations July 12, 1995. The seller of the assets is a wholly-owned subsidiary of a trust of which the Related Lessor is the sole trustee (the "Seller"). The purchase price of such assets was an amount equal to the Seller's out-of-pocket costs incurred in connection with the financing, development and construction of the hotel/casino through the closing date. At closing, the Company paid $62.8 million to the Seller and assumed various liabilities and contracts to complete construction of the facility. The total cost of the property was approximately $84.9 million. The land on which the Texas Station facility is situated is being leased to the Company by the Seller pursuant to a long-term ground lease (see Note 6).

In March 1996, the Company completed a public offering of 1,800,000 shares of convertible preferred stock (the "Convertible Preferred Stock") at $50.00 per share generating net proceeds of approximately $87.3 million, before deducting $0.6 million of offering costs paid by the Company. In April 1996, the underwriters exercised their option to purchase an additional 270,000 shares of the Convertible Preferred Stock generating net proceeds to the Company of approximately $13.1 million. The Convertible Preferred Stock is convertible at an initial conversion rate of 3.2573 shares of common stock for each share of Convertible Preferred Stock. The Convertible Preferred Stock is redeemable, at the option of the Company in whole or in part, for shares of the Company's common stock at any time after March 15, 1999, initially at a redemption price of $52.45 per share and thereafter at prices decreasing annually to $50.00 per share of Convertible Preferred Stock on and after March 15, 2006, plus accrued and unpaid dividends. The common shares to be issued is determined by dividing the redemption price by the lower of the average daily closing price for the Company's common stock for the preceding 20 trading days or the closing price of the Company's common stock on the first business day preceding the date of the redemption notice. Any fractional shares would be paid in cash. Dividends on the Convertible Preferred Stock of $3.50 per share annually, accrue and are cumulative from the date of issuance. The Convertible Preferred Stock has a liquidation preference of $50.00 per share, plus accrued and unpaid dividends.

8. Related Parties

The Company has employed McNabb/McNabb/DeSoto/Salter & Co. ("MMDS") to provide advertising and marketing research services. Certain stockholders of the Company own a 50% interest in MMDS. During the fiscal years ended March 31, 1997, 1996 and 1995 the Company paid MMDS $27.2 million, $17.4 million and $12.7 million, respectively, for advertising, market research and other costs related to these activities. In management's opinion, these transactions were conducted with terms as fair to the Company as could have been obtained from unaffiliated companies. In April 1997, the Company purchased the assets of MMDS for approximately $0.8 million.

9. 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 non-qualified stock options, and (iii) a Restricted Shares Plan providing for the grant of restricted shares of common stock. Officers, key employees, directors (whether employee directors or non-employee 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 6,307,000 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:

	1997		1996		1995	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding Beginning of the Year	**2,697,012**	**$16.24**	2,372,100	$19.05	1,943,725	$20.09
Granted	**2,160,822**	**$14.01**	1,593,305	$13.42	541,750	$15.50
Exercised	**(14,711)**	**$12.16**	(46)	$12.00	—	$ —
Canceled	**(410,941)**	**$15.70**	(1,268,347)	$17.95	(113,375)	$19.89
Outstanding End of the Year	**4,432,182**	**$15.22**	2,697,012	$16.24	2,372,100	$19.05
Restricted Stock Grants	**—**		—		170,500	
Exercisable at End of Year	**1,408,893**	**$16.50**	993,032	$16.67	721,200	$20.06
Options Available for Grant	**1,689,561**		649,942		479,910	

The following table summarizes information about the options outstanding at March 31, 1997:

	Options Outstanding			Options Exerciseable	
Range of Exercise Prices	**Number Outstanding at March 31, 1997**	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	**Number Exercisable at March 31, 1997**	Weighted Average Exercise Price
\$ 9.38–\$ 9.88	**228,000**	9.9	\$ 9.50	**—**	\$ —
\$11.63–\$13.75	**890,081**	7.3	\$12.07	**549,284**	\$12.04
\$14.38–\$15.00	**2,149,101**	8.9	\$14.59	**100,709**	\$14.44
\$18.00–\$20.00	**1,075,000**	6.3	\$19.72	**695,900**	\$19.83
\$22.00–\$22.00	**90,000**	2.8	\$22.00	**63,000**	\$22.00
	4,432,182	7.9	\$15.22	**1,408,893**	\$16.50

Restricted stock grants in the amount of 170,500 shares were issued during the fiscal year ended March 31, 1995. 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 recorded as compensation expense in selling, general, and administrative 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 income applicable to common stock and earnings per common share would have been as follows (amounts in thousands, except per share data):

Year Ended March 31,	**1997**	1996
Net income applicable to common stock		
As reported	**\$6,518**	\$25,419
Pro forma	**\$3,640**	\$23,562
Earnings per common share		
As reported	**\$ 0.18**	\$ 0.75
Pro forma	**\$ 0.10**	\$ 0.69

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: (i) no dividends, (ii) expected volatility for both years of 45.5%, (iii) risk free interest rate of 6.46% for 1997 and 6.04% for 1996 and (iv) the expected average life of 3.92 years for 1997 and 3.05 years for 1996. The weighted average fair value of options granted in 1997 and 1996 were \$5.64 and \$4.91, respectively.

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.

In May 1995, the Board of Directors of the Company authorized the repricing of 1,156,900 options with option prices ranging from \$13.00 to \$20.00. Options held by certain members of the Company's Board of Directors, including the Chairman and Chief Executive Officer of the Company were not repriced. The effect of the repricing of all the subject options was the cancellation of 1,116,500 options and the reissuance of 872,680 options ("replacement options") with a price of \$12.00 (market value at date of the repricing) which are included in granted and canceled options in the table above. The number of replacement options was determined, based upon a valuation model, so that the value of the replacement options was equivalent to the value of the options originally granted.

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 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 \$442,000, \$293,000, and \$203,000 for the fiscal years ended March 31, 1997, 1996 and 1995, respectively.

10. 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 with annual adjustments and an annual cash bonus equal to at least 5 percent of the executive's base salary, and supplemental long-term disability and supplemental life insurance benefits in excess of the Company's normal coverage for employees. The Company elected to self-insure with respect to the long-term disability benefits. 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. The expenses related to these plans are included in corporate expenses in the accompanying consolidated statements of operations.

11. Restructuring Charge

In March 1997, the Company introduced a plan designed to reduce costs and improve efficiency of operations. This plan resulted in a one-time charge to earnings in the forth quarter of fiscal 1997 totaling $2,016,000, primarily related to employee severance payments.

12. Income Taxes

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

March 31,	**1997**	1996	1995
Current:			
Federal	**$ 7,708**	$ 4,784	$ 721
State	**(1,834)**	374	(1,053)
	5,874	5,158	(332)
Deferred	**1,741**	9,421	(3,145)
Total income taxes	**$ 7,615**	$14,579	$(3,477)

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

March 31,	**1997**	1996	1995
Federal statutory rate	**35.0%**	35.0%	(35.0%)
State income taxes, net of federal benefit	**(5.5)**	0.6	(6.0)
Meals and entertainment	**0.2**	0.6	4.1
Other, net	**5.9**	0.2	6.5
Effective tax rate	**35.6%**	36.4%	(30.4%)

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

March 31,	**1997**	1996
Deferred tax assets:		
Current:		
Accrued vacation, bonuses and group insurance	**$ 2,981**	$ 2,119
Prepaid gaming taxes	**(1,341)**	(1,177)
Other	**2,261**	1,135
Total current	**3,901**	2,077
Long-term:		
Preopening and other costs, net of amortization	**15,077**	4,485
State deferred taxes	**1,907**	462
Alternative minimum tax credits	**9,000**	4,600
Total long-term	**25,984**	9,547
Total deferred tax assets	**29,885**	11,624
Deferred tax liabilities:		
Long-term:		
Temporary differences related to property and equipment	**(32,583)**	(18,201)
Other	**(1,249)**	(1,122)
Total deferred tax liabilities	**(33,832)**	(19,323)
Net	**$ (3,947)**	$ (7,699)

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 March 31, 1997 relating to recorded tax benefits because all benefits are likely to be realized.

13. Quarterly Financial Information (Unaudited)

	Net revenues	Operating income (loss)	Income (loss) before income taxes	Net Income (loss) applicable to common stock	Earnings (loss) per common share
	(amounts in thousands, except per common share amounts)				
Year ended March 31, 1997					
First quarter	$135,440	$ 22,813	$ 14,581	$ 7,648	$ 0.22
Second quarter	$138,034	$ 23,809	$ 15,847	$ 8,307	$ 0.24
Third quarter	$133,767	$ 21,536	$ 13,789	$ 6,944	$ 0.20
Fourth quarter	$176,274	$(10,035)	$(22,839)	$(16,381)	$(0.46)
Year ended March 31, 1996					
First quarter	$ 94,145	$ 13,043	$ 5,530	$ 3,511	$ 0.12
Second quarter	$119,850	$ 17,666	$ 11,459	$ 7,257	$ 0.21
Third quarter	$122,929	$ 18,969	$ 11,509	$ 7,360	$ 0.21
Fourth quarter	$129,933	$ 19,786	$ 11,553	$ 7,291	$ 0.21
Year ended March 31, 1995					
First quarter	$ 47,672	$ (8,361)	$(11,055)	$ (7,399)	$(0.25)
Second quarter	$ 62,384	$ (6,962)	$(11,428)	$ (7,379)	$(0.25)
Third quarter	$ 83,641	$ 6,295	$ 807	$ 483	$ 0.02
Fourth quarter	$ 96,581	$ 15,416	$ 10,257	$ 6,353	$ 0.22

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 March 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 1997. 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 generally accepted auditing standards. 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 March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Las Vegas, Nevada
April 23, 1997

Market for Company's Common Equity and Related Stockholder Matters

The Company's 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 closing sale price per share of the common stock as reported on the New York Stock Exchange or the Nasdaq National Market as applicable.

	High	Low
Fiscal Year Ending March 31, 1996		
First Quarter	17.50	10.38
Second Quarter	20.00	14.88
Third Quarter	16.00	12.50
Fourth Quarter	15.13	9.75
Fiscal Year Ending March 31, 1997		
First Quarter	16.13	11.63
Second Quarter	14.38	11.00
Third Quarter	12.75	9.50
Fourth Quarter	10.63	8.13

As of May 31, 1997, there were 1,069 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 Operation—Description of Certain Indebtedness and Capital Stock."

Corporate Information

Securities Information

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
3320 West Sahara Avenue
Suite 330
Las Vegas, Nevada 89102-6067

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 10:00AM Pacific Daylight Time, on July 28, 1997, at Sunset Station Hotel & Casino, 1301 West Sunset Road, Henderson, Nevada. June 30, 1997 is the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting of Stockholders.

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 expansion projects of the Company and its subsidiaries. Certain important factors, including, but not limited to, competition from other gaming operations, construction risks, 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 expansion projects of the Company and its subsidiaries are included in the filings of the Company with the Securities and Exchange Commission, including, but not limited to, the Company's Registration Statement on Form S-3 (File No. 333-1102). 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.

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

Other Publicly Traded Securities
New York Stock Exchange
$3.50 Convertible Preferred Stock
(liquidation preference $50.00 per share)

Over-the-Counter
Station Casinos, Inc.
9⅝% Senior Subordinated Notes
Due June 1, 2003

Station Casinos, Inc.
10⅛% Senior Subordinated Notes
Due March 15, 2006

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

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

First Union National Bank
123 South Broad Street
Philadelphia, PA 19109
Trustee for the 9⅝%, 10⅛%, and 9¾% Senior Subordinated Notes

Board of Directors

(beginning left foreground, moving clockwise) Frank J. Fertitta III, Delise F. Sartini, Blake L. Sartini, R. Hal Dean, Lowell H. Lebermann, Jr., Lorenzo J. Fertitta, Glenn C. Christenson

Designed by Curran & Connors, Inc.

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