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**PINNACLE**  
ENTERTAINMENT

2001 Annual Report

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## Financial Highlights

	Year ended December 31,	
(in millions, except per share data)	2001	2000
Revenues	\$ 528.6	\$ 563.1
Net income (loss)	\$ (28.6)	\$ 76.8
Diluted earnings (loss) per share	\$ (1.11)	\$ 2.80

	At December 31,	
(in millions)	2001	2000
Cash and equivalents	\$ 153.2	\$ 172.9
Total assets	\$ 919.3	\$ 961.5
Stockholders' equity	\$ 319.5	\$ 361.2

## Company Profile

Pinnacle Entertainment is a diversified gaming company that owns and operates seven casinos (four with hotels) in Nevada, Mississippi, Louisiana, Indiana and Argentina, and plans to develop a new destination hotel and casino resort in Lake Charles, Louisiana.

Pinnacle Entertainment's casino portfolio consists of the Belterra Casino Resort (opened in October 2000 in Southern Indiana), two Boomtown properties (Boomtown Reno and Boomtown New Orleans), and four Casino Magic properties (Casino Magic Biloxi, Casino Magic Bossier City and two Casino Magic casinos in Argentina). The Company also receives lease income from two card club casinos, both in the Los Angeles metropolitan area. In addition, the Company owns 97 acres of land adjacent to the Hollywood Park Race Track in Inglewood, California.

In October 2001, the Company was selected to receive Louisiana's fifteenth and final gaming license. The proposed project is a premier destination dockside riverboat casino, hotel and golf course resort complex to be located in Lake Charles, Louisiana.

Pinnacle Entertainment's corporate office is located in Glendale, California. The Company's stock is traded on the NYSE under the symbol PNK. Additional information is available by visiting our website at [www.pinnacle-entertainment-inc.com](http://www.pinnacle-entertainment-inc.com), which has links to each of the Company's casino websites.



# Dear Shareholders

May 10, 2002

As I sit here on a flight returning to Los Angeles from an introductory meeting with our regulators in Baton Rouge, I find myself in an unusual situation. As our Company's Chairman, it is appropriate that I communicate with you as part of this Annual Report. However, since I have been with our Company less than a month, my observations are, of necessity, very preliminary in nature.

Having said that, I'm pleased to report that my initial impression, based upon an admittedly brief and intense flurry of activity over the last month, is that our Company is solid and is poised for great things ahead. We are fortunate to have a diverse and promising group of properties. Our balance sheet is leveraged, but acceptably so, with no debt maturities in the next five years and roughly \$150 million of cash. We also have numerous growth opportunities, including a very significant opportunity in Lake Charles.

I would like to share with you my initial impressions of each of our casino resorts so that you can better appreciate why I am so enthusiastic about our Company's future.

The first property I visited as Chief Executive Officer was Belterra. It is a gem in the rolling hills of Southern Indiana. Surrounded by our Tom Fazio-designed golf course, this casino resort is the quality leader in the entire Indiana/Illinois marketplace. Unfortunately, to date it has not been a great investment for our Company. Our total investment in Belterra, which opened in October 2000, is approximately \$230 million. During 2001, the property lost \$5.2 million before depreciation and interest, or \$18.7 million at the operating income level.

In my opinion, the stock market has already "written off" Belterra, even while its recent results have shown great improvement. Our stock consistently traded above \$20.00 per share before Belterra opened. Today, it is at approximately \$11.50 per share. We have approximately 25 million shares outstanding. Hence, the decline in the valuation of our Company since Belterra opened approximates the cost of the property. The disappointing performance of Belterra was certainly a key factor in the decline of our stock price.

Belterra is roughly 45 minutes from Cincinnati, a metropolitan area of approximately two million people. That's terrific, except that we have two competitors that are less than one-half hour from Cincinnati. We are also just one hour from Louisville, but again, we have two competitors closer to that city. So, while we clearly have the best property in the region, we are "locationally challenged" compared to our competitors.

Fortunately, there are millions of potential customers living nearby in Ohio, Kentucky, Indiana and Western Pennsylvania. The total population within 300 miles of Belterra is approximately 45 million. By comparison, some 26 million people live within 300 miles of Las Vegas.

For many of the people in the region, we are only slightly further than our competition. For example, Belterra is two and one-half hours from Columbus, Ohio versus two hours to our principal competition. The Columbus market, as well as Dayton, Akron, Canton and Pittsburgh, have tremendous potential. Californians routinely drive past casinos at the Nevada state line to visit Las Vegas because it offers a better, more exciting experience. Likewise, I believe that the Belterra experience is significantly more attractive than that offered by our competitors and worth the extra distance, especially for those who may be driving two or three hours anyway.

Of course, someone traveling longer distances will prefer to stay overnight. Belterra currently has only 308 guestrooms. Occupancy in recent months has consistently averaged over 90%. Our public spaces can clearly accommodate more overnight guests. Our showroom, for example, can seat 1,750 persons — similar in size to the showrooms of many of the 3,000 guestroom hotels in Las Vegas. Most importantly, there's that beautiful boat with 1,660 gaming positions.

Obviously, we have a great opportunity to build more guestrooms at Belterra. While the return on our original investment has been disappointing, in part because it doesn't have enough rooms relative to the public spaces, the return on an incremental investment in additional rooms should be very good.

We don't have a formal budget yet, but a typical guestroom tower costs roughly \$100,000 to \$120,000 per room. As noted, our existing 308 room resort (including, of course, the casino, golf course and other public areas) cost approximately \$230 million. We should be able to double the number of guestrooms for roughly another \$30 to \$35 million. We hope to have this additional guestroom tower open within two years.

I also visited our property in Bossier City, Louisiana a few days ago. We were one of the first casinos to open in the region and the property had been very successful. Bossier City offers the closest casinos to the Dallas/Fort Worth metropolitan area. In the past few years, however, newer and larger competition opened nearby and our results declined. A decision was made to refurbish and rebrand the facility, converting it to our very successful Boomtown brand.

While this refurbishing and rebranding process can be very disruptive, we've done surprisingly well in the interim. One currently has to pass through a construction site to get into our casino. Most of this construction work will be completed by early July, when the newly western-themed Boomtown Bossier has its grand opening. We are also adding a multi-purpose ballroom to the property, which will be completed in November.

As I mentioned, one of the strengths of our Company is that it does not rely heavily on any one property. Our profit leader at the moment is the wonderful Boomtown New Orleans. Approximately 1.3 million people live in the New Orleans metropolitan area. Of these, some 250,000 live on the Harvey side of the river. We have the only casino on our side of the river.

We have a wonderful riverboat in Harvey, connected to an ample parking area by an attractive "street" of shops and restaurants. It appeals primarily to local residents, so we have not seen a need for guestrooms. However, we control some 54 acres and could add other amenities someday if we decide that we could achieve a good return for such investment.

Biloxi, Mississippi, has evolved in recent years to be one of the larger regional gaming destination resorts. This is the heart of the Gulf Coast, an area with beautiful beaches and golf courses and, except for the occasional hurricane, fine weather.

Our property in Biloxi — the Casino Magic — is small compared to some of the competition, but we've turned that into an advantage. The quality of our guestrooms and facilities is second to none. We've strived for, and I think have succeeded in, having the friendliest and most service-efficient staff. We've provided our guests with good experiences, time after time, and they have rewarded us with their loyalty, making this property one of our best and most consistent performers.

In many ways, our Company's origins are in Reno, where the original Boomtown opened in 1966. I visited the property several years ago when it was little more than a western-themed truck stop and I look forward to visiting it again within the next few days. Significantly expanded and refurbished in 1998, it still caters to truck drivers, but in their own facility, with services and amenities specially designed for this unique segment of the traveling American public. The main Boomtown-Reno facility, however, is now an attractive western-themed roadside resort, offering 318 guestrooms, several restaurants and, of course, a vibrant casino. Our current facilities utilize only 61 acres of the 569 acres of land we own in Reno, implying some "hidden" value and ample opportunities to expand.

We have two small casinos in Argentina, where the economy has become a proverbial basket case. It's difficult to know how to even measure our results at these facilities. Inflation is believed to be running some 10% to 12% per month. Our results measured in pesos have risen sharply, but the peso's value itself has declined even more sharply. The wild gyrations in exchange rates and inflation rates distort any period-to-period financial comparisons.

The good news is that almost all of our expenses are in the same currency — the peso — as our revenues. Although Argentina had relative economic stability in recent years, its long-term currency situation has been anything but stable. Argentineans are somewhat accustomed to living this way. Hence, our customer counts are down only approximately 5% from last year and, by all measures, our operations in that country remain profitable. Such profits these days do not translate into many dollars and, even if they did, currency restrictions limit what can be removed from the country.

As long as I'm mentioning our smaller businesses, I'll note that we also own two card clubs and some 97 acres of surplus land in Los Angeles. Under current California law, every single shareholder of a card club must be licensed, making it essentially impossible for a public company to operate a card club. Hence, our two card clubs are leased to an unrelated individual who pays us rent. One of the card clubs was not performing well and we renegotiated the lease in mid 2001, reducing the rent.

Looking ahead, we have a very big opportunity for growth in Lake Charles, Louisiana. During 2001, we were chosen to receive the 15th and final Louisiana riverboat license. The Lake Charles region offers the closest casinos to Houston, Texas. The Houston metropolitan area has approximately 4.5 million residents, making it one of the largest cities in America. It is significantly closer to Lake Charles than Los Angeles is to Las Vegas and about the same distance as New York City is to Atlantic City or to the casinos in Connecticut.

We have four local competitors in the Lake Charles area. There's a racetrack that recently added a slot machine parlor and is doing very well. There are two small riverboat facilities that are amongst the most profitable properties in their respective chains. Then there's a large and very successful Native American casino located 45 miles east of our site — a full hour further from the Houston area. Taken together — with guesses as to the Native American casino, which does not publicly report its results — we believe that the total annual Lake Charles area casino revenues are significantly less than the revenues of the Shreveport/Bossier City area. That's despite the fact that Houston is similar in size to Dallas/Fort Worth and located significantly closer to Lake Charles than Dallas/Fort Worth is to Shreveport/Bossier City.

Our site in this area is terrific — a full 225 acres nestled along the attractive side of Lake Charles, immediately accessible from Interstate 210. We have begun designing a project that incorporates what we have learned from Belterra, as well as drawing on my prior experience with Mirage Resorts. We also have great local support; our surrounding community voted heavily in favor of our project on April 6, 2002. That election triggered a timetable under our agreement with the Louisiana Gaming Commission that should result in opening this property in mid 2004.

Our Company has had numerous management changes in the past few months. I admit, I'm still stunned at the speed of change myself and I still have much to learn about the Company. I think it is important to pay homage to the great collection of properties, opportunities, management and employees that my predecessors, R. D. Hubbard and Paul Alanis, have assembled. I want to take this chance to wish both of them every success in the future. I will do my utmost to live up to the confidence that our Board of Directors have invested in my leadership, as we continue to build on the foundation that Dee and Paul have established.

On behalf of our Board and our past and current management, I wish to thank our investors, lenders, regulators, customers, employees and communities for their support. I, and the rest of our management team, intend to make certain that your continued support is both warranted and rewarded.

Sincerely,

Daniel R. Lee

*Chairman and  
Chief Executive Officer*



**Daniel R. Lee**



# Boomtown New Orleans



Located in Harvey, Louisiana (approximately 15 miles from downtown New Orleans), this 54-acre facility includes a dockside riverboat casino.

**A three-deck dockside riverboat casino containing:**

**GAMING ASSETS**

- 1,467 slots
- 44 tables

**The 88,000 square-foot pavilion building features:**

**OTHER AMENITIES**

- 3 restaurants
- 500-guest banquet facilities
- Arcade-style amusement center
- Live entertainment nightclub facility
- 1,729 parking spaces

**Market potential**

Boomtown New Orleans draws primarily from the local population of approximately 1.3 million, and has a loyal customer base, with the average customer visiting four times per month.

Beginning in April 2001, new state gaming legislation was introduced that enabled our Boomtown riverboat casino to remain dockside at all times. This eliminates the need for guests to schedule their visits around cruising times. In 2001, we brought new excitement to Boomtown New Orleans by renovating the third floor of the dockside riverboat casino, adding 300 slot machines and extensively remodeling the land-based pavilion building.



# Boomtown Reno



## A 45,000 square-foot casino containing:

### GAMING ASSETS

- 1,477 slots
- 38 tables

### OTHER AMENITIES

- 318 hotel rooms
- 4 restaurants
- 1,351 parking spaces
- Over 10,000 square feet of convention space/meeting rooms
- Truck stop
- RV Park (203 spaces)
- Full-service gas station and mini-mart
- Family Fun Center (16,000 square feet) and 3D theater

## Market potential

Recently remodeled and expanded, Boomtown Reno is adjacent to Interstate 80, the region's major travel artery to and from the Bay Area and other areas of northern California, with a population of over 7 million. Boomtown receives significant visitor traffic from the 10 million cars and trucks passing the property annually, and attracts numerous customers from northern California, particularly on weekends, as well as local customers from the Reno area.

Located in Verdi, Nevada near the California/Nevada state line, approximately nine miles west of Reno, Boomtown Reno is a 569-acre land-based facility that includes 250 additional acres available for development or sale.





With a remodeled pavilion, new restaurants and a new showroom, our Bossier City property will debut as our newest "Boomtown Casino and Hotel" in July 2002.

# Casino Magic Bossier City

Rebranding to Boomtown Bossier City in July 2002



## A dockside riverboat casino containing:

### GAMING ASSETS

- 1,148 slots
- 36 tables

### OTHER AMENITIES

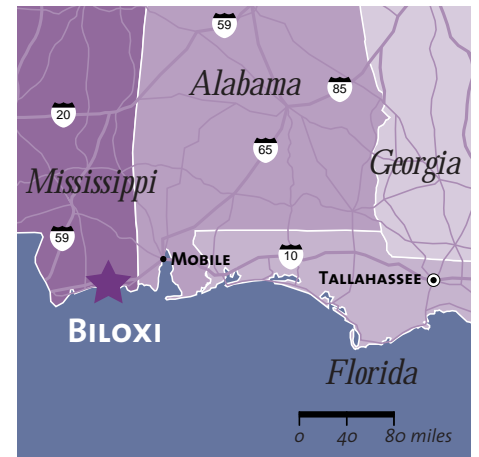
- 188 hotel rooms
- 3 new restaurants under construction
- 2,100 parking spaces, including a multi-level garage
- New multi-purpose showroom under construction

## Market potential

Located in Bossier City, Louisiana and situated directly off Interstate 20, this property enjoys an excellent location in a growing market. In December 2001, a \$25 million expansion and renovation project began, which includes remodeling of all casino space, as well as the existing pavilion building with the creation of all new restaurants and a new multi-purpose showroom. The Company anticipates completing the project by July 2002 and lighting a prominent new \$2.5 million electronic message board on Interstate 20, advertising the new "Boomtown Bossier City" property.



# Casino Magic Biloxi



## 49,260 square feet of gaming space, containing:

### GAMING ASSETS

- 1,312 slots
- 35 tables

### OTHER AMENITIES

- 378 hotel rooms
- 4 restaurants
- 6,600 square-foot convention space
- Health club, spa and salon
- Retail shops
- 1,315 parking spaces

## Market potential

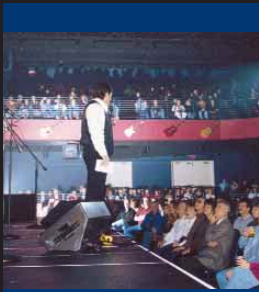
Casino Magic Biloxi is well located on Biloxi's "Casino Row" and is within easy driving distance from three major population centers in the Gulf Coast region, which makes Biloxi a major regional destination market with over \$1 Billion in total market gaming revenue. Casino Magic Biloxi's hotel has won a "four-diamond" rating from AAA, making it the only four-diamond casino hotel in the Gulf Coast region.



Located on the Gulf Coast in Biloxi, Mississippi, this 16-acre dockside gaming facility was acquired in 1998.



# Belterra Casino Resort



This 315-acre destination resort property is located in Switzerland County in southern Indiana, within a one-hour drive from

Cincinnati, Ohio and Louisville, Kentucky and convenient to Lexington, Kentucky and Indianapolis, Indiana. The population within 300 miles of the resort is over 40 million.

## A cruising riverboat containing:

### GAMING ASSETS

- 1,344 slots
- 45 tables

### OTHER AMENITIES

- 308 hotel rooms and penthouse suites
- 6 restaurants, including one aboard the riverboat
- 2,000 parking spaces, including a multi-level garage
- 18-hole Tom Fazio-designed championship golf course
- Spa and health club
- 1,750-seat entertainment showroom
- Retail shops

## Market potential

Belterra received the last gaming license available under Indiana law for the Ohio River region. The hotel and casino opened in October 2000, and its 18-hole championship golf course opened in the summer of 2001. In August 2001, Belterra hosted the nationally televised Belterra Casino Indy 300 auto race held at the nearby Kentucky Speedway. In 2002, Belterra's sponsorship of the Belterra Casino Indy 300 will receive enhanced national network television exposure.



SELECTED FINANCIAL DATA

	For the years ended December 31,				
(in thousands, except per share data)	2001	2000	1999	1998	1997
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenues:					
Gaming	\$ 442,089	\$ 461,901	\$ 536,661	\$ 277,593	\$ 125,030
Food and beverage	30,952	31,920	39,817	30,510	19,894
Hotel, truck stop and service station	35,167	34,512	29,381	17,575	9,570
Other (including racing)	20,433	34,792	80,133	85,825	81,005
	<u>528,641</u>	<u>563,125</u>	<u>685,992</u>	<u>411,503</u>	<u>235,499</u>
Expenses:					
Gaming	259,573	258,346	288,643	146,085	62,104
Food and beverage	38,799	35,180	46,558	38,860	25,745
Hotel, truck stop and service station	28,872	26,963	22,219	14,492	8,325
General, administrative, racing and other	134,494	122,689	171,485	132,400	99,349
Depreciation and amortization	49,450	46,102	51,924	32,121	18,157
(Gain) loss on disposition of assets	(500)	(118,816)	(62,507)	2,221	0
Asset impairment write-down	23,530	0	20,446	0	0
Pre-opening costs, Belterra Casino Resort	610	15,030	3,020	821	0
Terminated merger costs	(464)	5,727	0	0	0
	<u>534,364</u>	<u>391,221</u>	<u>541,788</u>	<u>367,000</u>	<u>213,680</u>
Operating (loss) income	(5,723)	171,904	144,204	44,503	21,819
Interest expense, net	44,832	40,016	57,544	22,518	7,302
(Loss) Income before income taxes, minority interest and extraordinary item	(50,555)	131,888	86,660	21,985	14,517
Minority interest	0	0	1,687	374	(3)
Income tax (benefit) expense	(21,906)	52,396	40,926	8,442	5,850
Net (loss) income before extraordinary item	(28,649)	79,492	44,047	13,169	8,670
Extraordinary item, net of income tax benefit	0	2,653	0	0	0
Net (loss) income	<u>\$ (28,649)</u>	<u>\$ 76,839</u>	<u>\$ 44,047</u>	<u>\$ 13,169</u>	<u>\$ 8,670</u>
Dividends on convertible preferred stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,520
Net (loss) income (allocated) available to common stockholders	<u>(\$28,649)</u>	<u>\$ 76,839</u>	<u>\$ 44,047</u>	<u>\$ 13,169</u>	<u>\$ 7,150</u>
Net (loss) income per common share:					
Basic	\$ (1.11)	\$ 2.92	\$ 1.70	\$ 0.50	\$ 0.33
Diluted	\$ (1.11)	\$ 2.80	\$ 1.67	\$ 0.50	\$ 0.32
<b>OTHER DATA:</b>					
EBITDA (see definition on page 10)	\$ 66,903	\$ 119,947	\$ 157,087	\$ 80,085	\$ 42,459
Cash flows (used in) provided by:					
Operating activities	\$ 36,065	\$ (25,484)	\$ 74,207	\$ 37,224	\$ 14,365
Investing activities	(43,304)	193,277	(51,063)	(136,532)	(16,226)
Financing activities	(12,442)	(118,287)	55,984	119,386	9,609
Capital expenditures	51,783	194,627	58,321	54,605	32,505
<b>BALANCE SHEET DATA (AT DECEMBER 31,):</b>					
Cash, cash equivalents and short-term investments	\$ 156,639 <sup>(a)</sup>	\$ 172,868	\$ 246,790	\$ 47,413	\$ 24,156
Total assets	919,349	961,475	1,045,408	891,339	419,029
Current liabilities	83,654	93,375	145,008	128,592	57,317
Long term notes payable	493,493	497,162	618,698	527,619	132,102
Total liabilities	599,833	600,299	764,532	656,611	195,729
Stockholders' equity	319,516	361,176	280,876	230,976	221,354

<sup>(a)</sup> Includes \$3,452 of cash in Argentina, which at December 31, 2001 could not be transferred out of Argentina.

Pinnacle Entertainment, Inc. (the “Company” or “Pinnacle Entertainment”) is a diversified gaming company that owns and operates seven casinos (four with hotels) in Indiana, Louisiana, Mississippi, Nevada and Argentina and is pursuing the development of a hotel and casino resort in Lake Charles, Louisiana. Pinnacle Entertainment owns and operates through a subsidiary, the Belterra Casino Resort, a hotel and cruising riverboat casino resort that opened in October 2000 in Switzerland County, Indiana, in which the Company owned a 97% interest, until August 2001, at which time the remaining 3% held by a non-voting local partner was purchased by the Company (see Note 9 to the Notes to Consolidated Financial Statements). The Company also owns and operates, through its Boomtown, Inc. (“Boomtown”) subsidiary, land-based gaming operations in Verdi, Nevada (“Boomtown Reno”) and dockside riverboat gaming operations in Harvey, Louisiana (“Boomtown New Orleans”). On April 1, 2001, legislation became effective in Louisiana that requires cruising riverboat casinos in southern Louisiana, including the Company’s Boomtown New Orleans operations, to remain dockside at all times (see Note 7 to the Notes to Consolidated Financial Statements). The Company also owns and operates, through its Casino Magic Corp. (“Casino Magic”) subsidiary, dockside gaming operations in Biloxi, Mississippi (“Casino Magic Biloxi”); dockside riverboat gaming operations in Bossier City, Louisiana (“Casino Magic Bossier City”); and two land-based casinos in Argentina (“Casino Magic Argentina”). The Company is also pursuing the development of a luxury hotel and dockside riverboat casino resort in connection with the 15th and final gaming license to be issued in Louisiana at a site in Lake Charles (see Note 8 to the Notes to Consolidated Financial Statements). Pinnacle Entertainment receives lease income from two card clubs — the Hollywood Park-Casino and Crystal Park Hotel and Casino. The Hollywood Park-Casino is leased from Churchill Downs California Company (“Churchill Downs”), a wholly owned subsidiary of Churchill Downs Incorporated, and subleased to an unaffiliated third party operator. The Crystal Park Hotel and Casino (“Crystal Park Casino”) is owned by the Company and is leased to the same card club operator that leases and operates the Hollywood Park-Casino.

Prior to August 2000, the Company owned and operated dockside gaming facilities in Biloxi, Mississippi (“Boomtown Biloxi”) and in Bay St. Louis, Mississippi (“Casino Magic Bay St. Louis”). In August 2000, the Company completed the sale of these facilities (see Note 11 to the Notes to Consolidated Financial Statements). Prior to June 2000, the Company owned and operated Turf Paradise, Inc. (“Turf Paradise”), a horse racing facility in Phoenix, Arizona. In June 2000, the Company completed the sale of Turf Paradise (see Note 11 to the Notes to Consolidated Financial Statements). Prior to September 1999, the Hollywood Park-Casino was owned and

operated by the Company. In September 1999, the Company completed the sale of the Hollywood Park Race Track in Inglewood, California to Churchill Downs (see Note 11 to the Notes to Consolidated Financial Statements).

The selected financial information for the years 1997 through 2001 was derived from the consolidated financial statements of the Company. Casino Magic was acquired in October 1998 and Boomtown was acquired in June 1997, with both acquisitions accounted for under the purchase method of accounting for a business combination. Casino Magic’s and Boomtown’s financial results for periods prior to their respective acquisitions (see Note 9 to the Notes to Consolidated Financial Statements) are not included in the selected financial data.

Included in the financial data table is a presentation of earnings before interest, taxes, depreciation, amortization and non-recurring items (“EBITDA”). EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States (“GAAP”), but is used by some investors to determine a company’s ability to service or incur indebtedness. EBITDA is not calculated in the same manner by all entities and accordingly, may not be an appropriate measure of comparable performance. EBITDA should not be considered in isolation from, or as a substitute for, net income (loss), cash flows from operations or cash flow data prepared in accordance with GAAP. EBITDA is calculated by adding income taxes, minority interests, net interest expense, depreciation and amortization, extraordinary items and non-recurring items to net income (loss). Non-recurring items include: a) the asset impairment write-downs recorded in the years ended December 31, 2001 and 1999; b) the gain (loss) on disposition of assets recorded in the years ended December 31, 2001, 2000, 1999 and 1998; c) the pre-opening expenses for Belterra Casino Resort recorded in the years ended December 31, 2001, 2000, 1999 and 1998; d) the terminated merger costs recorded in the years ended December 31, 2001 and 2000; e) the extraordinary item for the early extinguishment of the Casino Magic 13% Notes (see Note 14 to the Notes to Consolidated Financial Statements), net of income tax benefit, in the year ended December 31, 2000; f) the Casino Magic Argentina minority interest in the years ended December 31, 1999, 1998 and 1997; and g) the REIT restructuring expenses recorded in the years ended December 31, 1998 and 1997.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with the Company's audited Consolidated Financial Statements and the notes thereto.

### **FORWARD-LOOKING STATEMENTS**

Except for the historical information contained herein, the matters addressed in this Annual Report may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Words such as, but not limited to, "believes," "expects," "anticipates," "estimates," "intends," "plans," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements, which may include, without limitation, statements regarding the Company's expansion plans, cash needs, cash reserves, liquidity, operating and capital expenses, financing options, expense reductions and operating results, are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated by the Company's management. Factors that may cause actual performance of the Company to differ materially from that contemplated by such forward-looking statements include, among others:

- approval of the Calcasieu parish referendum for the Lake Charles project, compliance with the conditions negotiated with the Louisiana Gaming Control Board, completion of the project on time and on budget and the effect of expanded Indian gaming in Louisiana on the Company's decision to proceed with the Lake Charles project (see Note 8 to the Notes to Consolidated Financial Statements);
- the effectiveness of management at the Belterra Casino Resort in containing costs without negatively affecting revenues, customer service or efforts to expand the number of customers visiting the property;
- changes in gaming legislation in each of the states in which the Company operates;
- changes in gaming laws and regulations, including the expansion of casino gaming in states in which the Company operates (or in states bordering the states in which the Company operates), such as the expansion of Indian gaming in California and Louisiana and the introduction of casino gaming in Kentucky, Ohio or Arkansas;
- the effectiveness of the planned capital improvements at Casino Magic Bossier City in drawing additional customers to the property despite significant competition in the local market (see Note 8 to the Notes to Consolidated Financial Statements);
- the effect of current and future weather conditions and other natural events affecting the key markets in which the Company operates;
- the effect of current and future political and economic instability in Argentina on the operations of Casino Magic Argentina and related currency matters (see Note 3 to the Notes to Consolidated Financial Statements);
- the amount and effect of future impairment charges under SFAS No. 142 and SFAS No. 144 (see Note 1 to the Notes to Consolidated Financial Statements);
- overall economic conditions, including the effects of the September 11, 2001 terrorist attacks (and any future terrorist attacks) on travel and leisure expenditures by the Company's customers, as well as increased costs of insurance and higher self-insurance reserves;
- the failure to sell any of the assets held for sale (see Note 5 to the Notes to Consolidated Financial Statements);
- the failure to obtain adequate financing to meet strategic goals, including financing for the Lake Charles project;
- the failure to obtain or retain gaming licenses or regulatory approvals;
- risks associated with substantial indebtedness, leverage, debt service and liquidation;
- loss or retirement of any key executives;
- risks related to pending litigation;
- increased competition by casino operators who have more resources and have built or are building competitive casino properties;
- increases in existing taxes or the imposition of new taxes on gaming revenues or gaming devices;
- other adverse changes in the gaming markets in which Pinnacle Entertainment, Inc. operates;
- the other risks described or referred to in "Risk Factors" and "Factors Affecting Future Operating Results".

The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Annual Report are made pursuant to the Act. For more information on the potential factors which could affect the Company's financial results, please see "Risk Factors" and "Factors Affecting Future Operating Results" below and review the Company's filings with the Securities and Exchange Commission.

## RISK FACTORS

In addition to the other information set forth in this Annual Report for the fiscal year ended December 31, 2001, one should carefully consider the following factors.

*All of the Company's properties are dependent upon retaining existing and attracting new customers within their respective geographical markets.*

The Company is continually developing new and different marketing programs to retain existing and attract new customers to its properties. Such programs include mailing coupons and other direct mail offers to customers, providing complimentary rooms, food and beverage based on the amount wagered in the casino to frequent players, sponsoring gaming tournaments that provide significant rewards to the winners, and other offers that both provide incentives to existing customers and attract new customers. The cost of such programs can be significant and can reduce the overall profitability of the specific location and the Company as a whole. In addition, certain programs may not generate incremental revenue if the customer merely takes advantage of the marketing program for the short-term and does not become a frequent customer.

In addition to competing with other gaming operators in the various markets the Company operates, the Company is competing for customers, and their available discretionary spending resources, with other entertainment and leisure companies and attractions. Such companies and attractions may also offer rewards and incentives that would reduce the number of visits to and/or the amount spent by new and existing customers at the Company's properties.

Finally, further terrorist attacks on the United States or its interests, such as that of September 11, 2001, could have a material adverse effect on the desire of existing and future customers to want to travel and frequent the Company's facilities.

There can be no assurance that the Company will be able to continue to attract a sufficient number of customers necessary to make its operations profitable.

*The Company faces intense competition in all the markets which it operates.*

The Company faces significant competition in each of the jurisdictions in which it has established gaming operations, and such competition is expected to intensify in some of these jurisdictions as new gaming operations enter these markets and existing competitors expand their operations. The Company's properties compete directly with other gaming properties in Indiana, Louisiana, Mississippi, Nevada, and Argentina, as well as in states adjacent to the Company's properties. To a lesser extent, the Company also competes for customers with other casino operators in North American markets, including casinos located on Indian reservations,

and other forms of gaming such as lotteries and internet gaming. Many of the Company's competitors are larger, have substantially greater name recognition and marketing resources as well as access to lower cost sources of financing. Moreover, consolidation of companies in the gaming industry could increase the concentration of large gaming companies in the markets in which the Company operates, and may result in the Company's competitors having even greater resources, name recognition and licensing prospects than such competitors currently enjoy.

Ohio River Valley Market The Company operates the Belterra Casino Resort in the Ohio River Valley market, which competes with four other cruising riverboats. The primary competitors are the Grand Victoria riverboat casino in Rising Sun, operated by Hyatt, the Caesar's riverboat casino in Harrison County, operated by Park Place Entertainment, and the Argosy riverboat casino in Lawrenceburg. Gross gaming revenues in 2001 from the five riverboats in this market grew 11.6% over year 2000.

In addition to competition from existing riverboats in southern Indiana, the property is at risk from the possible legislative approval of casino type gaming in Kentucky. Northern Kentucky is a significant feeder market to the Ohio River Valley riverboat casino operators. Currently legislation is being discussed in Kentucky, which would approve the installation and operation of slot machines at thoroughbred race tracks in the state, including Turfway Park in nearby Florence, Kentucky and other horse racing tracks in the Lexington and Louisville, Kentucky areas. In the event Kentucky were to approve such an expansion of casino type gaming, it would, in all probability, have a material adverse impact on the Company's operations at Belterra Casino Resort.

Bossier City/Shreveport Market The Company operates Casino Magic Bossier City in this market. The property competes directly with four other dockside riverboat gaming facilities, one of which, the Hollywood Casino, opened in December 2000, and another of which, Harrah's Casino, opened a new 500-room hotel tower in January 2001. The largest and most successful is Horseshoe Casino, which has a 606-room luxury hotel and has the largest riverboat, at 62,400 square feet (though all of the casinos in Louisiana are limited to 30,000 square feet of gaming space). Isle of Capri Casinos completed construction of a 305-room hotel in mid-1999. Competition is negatively affecting the Company in this market since the market did not grow as initially anticipated following the opening of the new Hollywood Casino in late 2000 and the new Harrah's hotel tower in early 2001. As such, the additional competition in the market, without the benefit of substantial growth, has caused operators in the market to pursue and draw from the existing customer base and effectively reduce Casino Magic Bossier City's market share. Additionally, if gaming were legalized in jurisdictions near the property where gaming currently is not permitted, the Company could

face additional competition. For example, the Arkansas Attorney General certified for the November 2000 general election ballot at least three ballot initiatives, including a proposed constitutional amendment that would have permitted casino gambling in Arkansas. Although none of the initiatives were approved in the November 2000 election, there can be no assurance that similar initiatives will not be proposed in the future. The Bossier City property could be negatively impacted by the existence of gaming in Arkansas.

New Orleans Market The Company operates its Boomtown New Orleans property in Harvey, Louisiana, approximately ten miles from downtown New Orleans, on the “Westbank” in Jefferson Parish. Boomtown New Orleans directly competes with two other dockside riverboat casinos, Bally’s and Treasure Chest, and Harrah’s Jazz land-based casino and entertainment facility in downtown New Orleans. The Harrah’s Jazz casino has over 100,000 square feet of gaming space and over 3,600 gaming positions compared with Boomtown New Orleans, which has less than 30,000 square feet gaming space and 1,775 gaming positions. Dockside riverboat casinos, including Boomtown New Orleans, are restricted by Louisiana gaming regulations from expanding the gaming space beyond 30,000 square feet.

Lake Charles Market The Company is contemplating the development and operation of a dockside riverboat casino in Lake Charles, Louisiana (see below and Note 8 to the Notes to Consolidated Financial Statements). In February 2002, it was announced that the Governor of Louisiana signed a compact with the Jena Band of Choctaw Indians (the “Choctaw Indians”) to allow for the development and operation of a land-based casino in the city of Vinton, Louisiana (which city is in Calcasieu Parish and is 20 miles closer to Houston, Texas, the major marketing area for casinos in Lake Charles, than the Company’s proposed Lake Charles project). In March 2002, such compact was disapproved by the U.S. Department of the Interior. There can be no assurances the Choctaw Indians will not seek to amend the compact, negotiate a revised compact with the state of Louisiana and seek to resubmit with the Department of the Interior. In the event the Choctaw Indians are successful in obtaining the approval of the Department of the Interior for a new compact for their site in Vinton, Louisiana, the Company believes such facility would have a material adverse effect upon the Company’s decision to develop its proposed Lake Charles project. In the absence of an additional Indian gaming facility in Calcasieu Parish (as one currently exists to the east of the Company’s proposed Lake Charles project), the Company anticipates building a facility similar in design and scope to that of Belterra Casino Resort.

In addition to the existing Indian gaming facility located to the east of the Company’s proposed Lake Charles project, there are four dockside riverboat gaming licenses in the Lake Charles market, operated by two different companies (each

company operating two of the dockside riverboat casinos). The Company believes its proposed Lake Charles casino and resort, if developed to the size and scope initially contemplated, would be superior to the existing dockside riverboat casino facilities.

Finally, competing in the Lake Charles gaming market is a horse race track facility (“Delta Downs”) that was recently renovated to accommodate approximately 1,500 slot machines and various food and beverage outlets. Delta Downs is closer to the Texas border than the Company’s proposed site, yet is not located immediately off Interstate 10, the main thoroughfare between the Lake Charles area and the Houston, Texas market. Although Delta Downs is closer to the main feeder market for the Lake Charles gaming market, the Company believes its proposed Lake Charles project, if developed to the size and scope initially contemplated, would be superior in design and scope to Delta Downs.

Gulf Coast Market The Company operates Casino Magic Biloxi in the Gulf Coast Market. The Mississippi gaming industry is ranked third in the United States, behind Nevada and New Jersey. The Gulf Coast Market for 2001 was estimated to have generated gaming revenues of \$1.15 billion, which was approximately 43% of the revenue generated by the entire Mississippi gaming market. One of the major reasons for the growth was the entry of MGM/Mirage Resorts Beau Rivage Resort, which opened in March 1999. Currently, Mississippi law does not limit the number of gaming licenses that may be granted. Competition is negatively affecting the Company in this market, as operators in the market, including the Company’s Casino Magic Biloxi property, are aggressively marketing their properties to existing and prospective customers. Such marketing programs by competitors have eroded some of Casino Magic Biloxi’s revenues. These same programs implemented by Casino Magic Biloxi can affect such revenue erosion, but do increase the overall marketing expense of the property.

Reno Markets and California, Proposition 1A In Nevada, the Company operates Boomtown Reno and in California, leases the Hollywood Park-Casino and the Crystal Park Casino (both of which are California card clubs) to a third party operator. Indian tribes have operated casinos in California for approximately ten years, and currently there are approximately 40 Indian tribes operating gambling halls, though most are significantly smaller than the typical Las Vegas casino. In March 2000, California voters passed Proposition 1A, a ballot initiative that allows Indian tribes to conduct various gaming activities including horse race wagering, gaming devices (including slot machines), banked card games (as in traditional Las Vegas card games) and lotteries. As a result of the passage of Proposition 1A in California, additional Indian gaming casinos have begun to open, and the Company expects additional Indian gaming casinos will open in the future. Such new competition has begun to impact the Reno market, including

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the Company's Boomtown Reno location, although the property has fared better than most other operators in the market due to its location immediately off of Interstate 80, the main thoroughfare between northern California and northern Nevada. The Company expects further market pressures to affect both the Reno market and Boomtown Reno in the future as more Indian gaming casinos open, which may lower future revenue and cause increased marketing costs to retain and attract customers for Reno gaming facilities, including Boomtown Reno.

Card Clubs The Hollywood Park-Casino and the Crystal Park Casino face significant competition from other card club casinos in neighboring cities, as well as competition from other forms of gaming around southern California, including horse racing and Indian gaming.

Argentina The Company's current concession agreement with the Province of Neuquen provides for the exclusive operation of casinos in the province. However, in the Province of Rio Negro, immediately adjacent to the Province of Neuquen, there is a casino approximately 10 miles from Casino Magic Argentina's Neuquen operations. Although such facility is smaller than Casino Magic Argentina's Neuquen facility, there can be no assurance such facility will not expand its facility and draw additional customers from the Company's casino.

General While the Company believes that it has been able to adequately compete in these markets to date, increasing competition may adversely affect gaming operations in the future. The Company believes that increased legalized gaming in other states, particularly in areas close to its existing gaming properties, such as in Texas, Alabama, Arkansas, Ohio or Kentucky, or the expansion of Indian gaming in or near the states in which the Company operates, could create additional competition for the Company and could adversely affect its operations.

*Loss of land-based, riverboat or dockside facilities from service would adversely affect the Company's operations.*

The Company's riverboat and dockside gaming facilities in Indiana, Louisiana and Mississippi, as well as any additional riverboat casino properties that might be developed or acquired, are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, mechanical failure, extended or extraordinary maintenance, flood, hurricane, snow and ice storms or other severe weather conditions. For cruising riverboats there are additional risks associated with the movement of vessels on waterways, including risks of casualty due to river turbulence and severe weather conditions.

In addition, the Company's Boomtown Reno, Nevada facility is subject to severe winter weather conditions that can cause the closure of Interstate 80 and reduce the amount of customers visiting the property.

Finally, the Company's Casino Magic Argentina operation is subject to continued political and economic instability.

In July 2000, the Miss Belterra was struck by a barge while en route to Vevay, Indiana. The incident caused the opening of the Belterra Casino Resort to be delayed from August 2000 to October 2000. There can be no assurance that the Company's water-based facilities will not be struck by other vessels while on the waterways.

In September 1998, a hurricane struck the Gulf Coast region and Boomtown Biloxi, Boomtown New Orleans, Casino Magic Biloxi, and Casino Magic Bay St. Louis were forced to shut down operations for approximately one week, though none of the properties sustained significant damage. If any of the Company's casinos, be it riverboat, dockside or land-based, cease operations for any period of time, it could adversely affect the Company's results of operations.

Although the Company carries property and business interruption insurance for these types of items, there can be no assurances similar, or other, events will not occur in the future that could cause the loss of service of the Company's facilities.

*The substantial amount of debt of the Company could materially adversely affect the Company's business.*

As of December 31, 2001, the Company had \$497,147,000 of debt, including \$350,000,000 of unsecured 9.25% Notes due February 2007 and \$125,000,000 of unsecured 9.5% Notes due August 2007 (see Note 14 to the Notes to Consolidated Financial Statements). In 2001, cash flow to service the Company's debt was \$45,720,000 (see Note 2 to the Notes to Consolidated Financial Statements), including \$44,250,000 related to the 9.25% and 9.5% Notes. While the Company currently believes that there are sufficient cash and cash-generating resources to meet its debt service obligations during the next year, there can be no assurance that in the future the Company will generate sufficient cash flow from operations or through asset sales to meet its long-term debt service obligations. No assurance can be given that the Company will be able to refinance any of its indebtedness on terms favorable to the Company, or at all. Such debt and the related debt service obligations could have important adverse consequences to the Company, including but not limited to: a) limiting the Company's ability to obtain additional financing; b) requiring a substantial portion of the Company's cash flow from operations to be used for payments on the debt and related interest; c) reducing the Company's ability to use cash flow to fund working capital, capital expenditures and general

corporate requirements; d) limiting the Company's flexibility in planning for, or reacting to, changes in the business and the industry; and, e) restricting the Company's activities compared to those of competitors with less debt or greater resources.

*Limited operating history at the Belterra Casino Resort does not allow the Company to effectively measure various improvements the Company has implemented at the facility.*

The Belterra Casino Resort opened in October 2000 and, through December 31, 2001, has generated a net loss in excess of \$24,500,000, including an EBITDA loss in excess of \$9,300,000 (see "Selected Financial Data" for a definition of EBITDA). The Company attributes the poor performance to, among other things: a) a location that is not easily accessible from local interstate freeways, b) over-staffing in anticipation of higher revenue and a greater number of customers frequenting the property than did in fact visit the facility, c) additional marketing costs to promote the facility (which is customary for new gaming facilities), d) opening the property in October 2000, which is traditionally the slowest period of the year, and e) severe winter weather conditions in the fourth quarter of 2000 and first quarter of 2001.

In an attempt to improve the overall financial performance of the facility, during the fourth quarter of 2001, the Company undertook an aggressive cost containment program at the property, including reducing the property's labor levels (including management positions) to be more consistent with its business levels, eliminating certain marketing programs and reducing operating costs by eliminating and/or combining certain operations. In addition, changes were made in the casino, including the slot machine mix, to become more appealing to the customer. Results of these efforts appear to be positive, however, there can be no assurances such actions will materially improve the long-term profitability of the Belterra Casino Resort.

In addition, there is currently planned the construction of a 3.5 mile roadway from Interstate 71, a main thoroughfare in northern Kentucky, to the Ohio river, which ending point would be approximately 1 mile from the Belterra Casino Resort. It is anticipated the construction would begin in 2003 and be completed in 2004. The cost of the construction is to be borne by the state of Kentucky, which currently has the funds set aside for such construction. In the event the construction is completed, the Company believes this roadway will improve access to its facility; however, there can be no assurances the roadway will be constructed, and if constructed, that such roadway would materially increase the number of customers visiting the Belterra Casino Resort, and therefore improve the financial results of the property.

*Development of the Lake Charles project could exhaust all of the Company's available capital and not provide for a sufficient return.*

The Company has been selected to receive the fifteenth and final gaming license for a proposed project in Lake Charles, Louisiana. Issuance of the license is subject to a number of conditions, which conditions were finalized by the Company and the Gaming Control Board in November 2001 (the "Lake Charles Conditions"). The Lake Charles Conditions include, but are not limited to, the approval of the voters of Calcasieu Parish, where the Lake Charles project is located, currently scheduled for April 6, 2002. There are no assurances such referendum will not be delayed beyond April 2002, and if held, that it will pass.

In addition to the April 6, 2002 Calcasieu Parish vote noted above, other Lake Charles Conditions include, but are not limited to, building a facility consistent with the July 2000 presentation, meeting certain construction milestone dates and satisfying the financing requirements to complete the project (including segregating \$22,500,000 in a refundable "escrow" account upon the voter approval of the project in Calcasieu Parish and demonstrating the Company has available financial resources in cash and credit facility access for the full project amount of \$225,000,000 once construction commences). Construction is scheduled to commence in late 2002. The Company anticipates it will continue to meet each of the Lake Charles Conditions, however there can be no assurances the Company will do so, in which event the Company would not be licensed to operate a casino in Lake Charles, Louisiana.

The proposed project is the construction and operation of a \$225,000,000 (excluding capitalized interest) dockside riverboat casino, hotel and golf course resort complex in Lake Charles, Louisiana. The Company is considering various financing options for the development of the proposed project (and therefore compliance with the financing requirement of the Lake Charles Conditions), including, but not limited to, utilizing the Company's existing credit facility (see Note 14 to the Notes to Consolidated Financial Statements), a new credit facility or other senior debt, leasing arrangements and joint venture arrangements. See "*Competition-Lake Charles Market*" above for a discussion of competition in the Lake Charles market and the possible impact of an expansion of Indian gaming in Louisiana on the Company's decision to proceed with this project.

In the event the Company elects to proceed with the Lake Charles project, the capital required to complete the project is significant. Depending on the source of funding to develop the project (credit facility, leasing arrangements, joint venture partner, etc.), such capital requirement to the Company may exhaust all available capital of the Company. There can be no assurance that, in the event the project is commenced, there will be sufficient capital for other business activities

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of the Company. In addition, there are risks that, once completed, the revenue generated from the new development is not sufficient to pay its expenses, and the Company is required to infuse cash to pay its bills. There can be no assurance such new facility will be able to cover its own cash flow requirements.

*Adverse regulatory changes or changes in the gaming environment in any of the jurisdictions could have a material adverse effect on the Company's operations.*

The Company's ownership and operation of its gaming facilities are subject to extensive state and local gaming regulation, as described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

For more information on the potential factors which could affect the Company's financial results, please see "Forward-Looking Statements" and "Factors Affecting Future Operating Results" and review the Company's filings with the Securities and Exchange Commission.

#### **CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are discussed in Note 1 to the Notes to Consolidated Financial Statements. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to apply significant judgment in defining the estimates and assumptions. Our accounting policies that require significant judgment in determining the appropriate assumptions include policies for insurance reserves, asset disposition reserves, allowances for doubtful accounts, asset impairment and other reserves; valuation of goodwill and long-lived assets; depreciable lives of various assets and the calculation of income tax liabilities. These judgments are subject to an inherent degree of uncertainty. The Company's judgments are based on historical experience of the Company, terms of various past and present agreements and contracts, industry trends, and information available from other sources, as appropriate. There can be no assurance that actual results will not differ from the estimates.

#### **FACTORS AFFECTING FUTURE OPERATING RESULTS**

Goodwill Amortization In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") which are effective July 1, 2001 and January 1, 2002, respectively, for the Company (see Note 1 — "Goodwill" to the Notes to Consolidated Financial Statements). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. With the adoption of SFAS No. 142 on January 1, 2002 (earlier adoption is not permitted), goodwill is no longer amortized over its estimated useful life, which, for the years ended December 31, 2001, 2000 and 1999, was \$2,846,000,

\$3,030,000 and \$2,859,000, respectively. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. The Company is in the process of completing its evaluation of the financial statement impact of adoption of SFAS No. 142 and anticipates there will be an impairment charge recorded in the first quarter of 2002 related to its Casino Magic locations (which unamortized goodwill was \$49,169,000 as of December 31, 2001 — see Note 1 — "Goodwill" to the Notes to Consolidated Financial Statements). In accordance with SFAS No. 142, any such transition related impairment charge would be classified as a cumulative effect of a change in accounting principle. In addition, under the new rules, any future acquired intangible asset will be separately recognized if the benefit of the intangible is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. Intangible assets with definitive lives will be amortized over their useful lives.

Argentina During the second half of 2001, the political and economic condition of Argentina deteriorated, including an increase in the risk of being unable to repatriate funds out of the country, the fall of international reserves, continuous fiscal imbalance, and a decrease in the financial system deposits. In December 2001, these events culminated in the resignation of the then President of the country, the imposition of restrictions on cash withdrawals, the delaying of payment of wages to government employees, and the closing of the banking system from late December to early January 2002. In an effort to stabilize the country, the new government of Argentina decided to devalue the Argentine Peso in early January 2002 (which had been pegged to the U.S. dollar for over ten years), as well as stop all transfers of U.S. dollars out of the country. As a result of the actions taken, pursuant to Statement of Financial Accounting Standards No. 52 *Foreign Currency Translation* ("SFAS No. 52"), the Company recorded a translation loss in a separate component of stockholders' equity in the amount of \$4,430,000 as of December 31, 2001 (see Note 3 to the Notes to Consolidated Financial Statements). At December 31, 2001, total assets of the Company in Argentina were \$11,376,000 or less than 2% of the Company's consolidated assets. The Company anticipates the cumulative translation loss will fluctuate in the future based on changes in the currency exchange rate between the U.S. dollar and the Argentine peso. In addition, the Company reclassified the cash (\$3,452,000) maintained in Argentina as restricted cash at December 31, 2001, until such time as the Argentine government amends its position regarding transferring funds out of the country, as such cash can only be utilized by Casino Magic Argentina and not by Pinnacle Entertainment or any of its other subsidiaries. In February 2002, the government authorized the Central Bank of Argentina to review and approve transfers of cash (after converting pesos to U.S. dollars). There is no assurance the Central Bank will continue to authorize such transfers for Casino Magic Argentina.

The impact of these events to Casino Magic Argentina include a significant reduction in revenue resulting from a decline in customer counts and lower discretionary spending by customers. The Company anticipates the economic instability will continue in 2002 and will therefore continue to adversely impact Casino Magic Argentina operating results in 2002.

Belterra Casino Resort In October 2000, the Company opened the Belterra Casino Resort located on 315 acres adjacent to the Ohio River in Switzerland County, Indiana, which is approximately 45 miles southwest of downtown Cincinnati, Ohio. The Belterra Casino Resort features a 15-story, 308-room hotel, a cruising riverboat casino (the "Miss Belterra") with 1,344 slot machines and 45 table games, an 18-hole Tom Fazio-designed championship golf course, which opened in July 2001, six restaurants, a 1,500-seat entertainment venue, a spa, retail areas and other amenities.

Prior to August 2001, the Company owned a 97% interest in the Belterra Casino Resort, with the remaining 3% held by a non-voting local partner. In November 2000, the Company entered into an agreement with the local partner whereby the local partner had the right to require the Company to purchase, for a purchase price determined in accordance with the agreement, its entire ownership interest in the Belterra Casino Resort at any time on or after January 1, 2001. A \$100,000 deposit toward such ultimate purchase price was made by the Company to the partner at that time. In July 2001, the local partner exercised the right to require the Company to purchase the remaining 3% ownership interest held by the partner for approximately \$1,600,000 as calculated in accordance with the agreement. In August 2001, the remaining payment of approximately \$1,500,000 was made to the partner and the Belterra Casino Resort is now wholly owned by the Company.

Legislation regarding Dockside Gaming in Louisiana In March 2001, the state legislature passed a law enabling riverboat casinos to remain dockside at all times and increased the gaming taxes paid to the state of Louisiana from 18.5% to 21.5% of net gaming proceeds effective April 1, 2001 for the nine riverboats in the southern region of the state, including the Company's Boomtown New Orleans property. The gaming tax increase to 21.5% of net gaming proceeds will be phased in over an approximately two-year period for the riverboats operating in parishes bordering the Red River, including the Company's Casino Magic Bossier City property. The phase in included a 1% increase on April 1, 2001, with another 1% on each of April 1, 2002 and 2003.

The Company believes this change in the law will benefit its Boomtown New Orleans operations in the long-term, as increased revenues are expected from casino patrons who

will no longer be required to arrange their plans to coincide with a cruising schedule. The Company also believes the new legislation would benefit the proposed Lake Charles project (see below), as it would enable the Company to build a riverboat casino that would remain dockside at all times and thus compete more effectively with existing operators. Finally, during the nine months ended December 31, 2001, the Company believes the increased gaming taxes had a negative impact at Casino Magic Bossier City, as gaming was already being conducted on a dockside riverboat casino prior to the new legislation.

Lake Charles In November 1999, the Company filed an application for the fifteenth and final gaming license to be issued by the Louisiana Gaming Control Board (the "Gaming Control Board"). In July 2000, the Company was one of three groups that presented their proposed projects to the Gaming Control Board. On October 16, 2001, the Company was selected by the Gaming Control Board to receive the license. In connection with the 1999 application, Pinnacle Entertainment entered into an option agreement with the Lake Charles Harbor and Terminal District (the "District") to lease 225 acres of unimproved land from the District upon which such resort complex would be constructed. The initial lease option was for a six-month period ending January 2000, with three six-month renewal options (all of which have been exercised), at a cost of \$62,500 per six-month renewal option. In June 2001 and again in January 2002, the District agreed to extend the option period for additional six-month terms at a cost of \$62,500 per six-month term. In the event the local referendum noted above is not held prior to the expiration of the current option extension, the Company anticipates requesting an additional lease option extension from the District. These lease option payments are expensed over the option periods. If the lease option were exercised, the annual rental payment would be \$815,000, with a maximum annual increase of 5%, commencing upon opening of the facility. The term of the lease would be for a total of up to 70 years, with an initial term of 10 years and six consecutive renewal options of 10 years each. The lease would require the Company to develop certain on- and off-site improvements at the location. All costs incurred by the Company related to obtaining this license have been expensed as incurred.

Assets Held for Sale Assets held for sale of \$18,285,000 at December 31, 2001 consist primarily of 97 acres of surplus land in Inglewood, California and the Crystal Park Casino card club casino in Compton, California (see "California Card Clubs" below and Note 5 to the Notes to Consolidated Financial Statements). Assets held for sale at December 31, 2000 consist of the 97 acres of surplus land. The Company is marketing the properties to prospective buyers.

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**California Card Clubs** By California state law, a corporation may operate a gambling enterprise in California only if every officer, director and shareholder holds a state gambling license. Only 5% or greater shareholders of a publicly traded racing association, however, must hold a state gambling license. As a practical matter, therefore, public corporations that are not qualified racing associations may not operate gambling enterprises in California. As a result, the Hollywood Park-Casino and Crystal Park Casino, are leased to, and operated by, an unrelated third party. In May 2001, the California Senate passed a bill, the effect of which would have been to permit the Company to operate the Hollywood Park-Casino in Inglewood, California, which was subsequently passed by the California State Assembly. The bill was vetoed by the Governor of California in October 2001. Therefore, the Company anticipates leasing the Hollywood Park-Casino and the Crystal Park Casino to the current operator for the foreseeable future.

In November 2001, the operator of the Crystal Park Casino requested, and the Company granted, a reduction in rent to \$20,000 per month from \$100,000 per month, due to increased card club competition and the overall slowdown in the U.S. economy. In addition, in the fourth quarter 2001, the Company began aggressively seeking buyers for the facility; and accordingly, reclassified the assets as held for sale (see Note 5 to the Notes to Consolidated Financial Statements).

**Overall U.S. Economic Conditions** During the year ended December 31, 2001, the U.S. economy experienced a significant economic slowdown. These economic conditions were further impacted by the tragic events of September 11, 2001. The impact of these adverse conditions to the Company's operations includes fewer guests visiting the properties and spending less while visiting. The Company developed cost control programs at its various locations, including labor and marketing spending reductions, and began implementing those programs in late 2001 at the various locations.

## RESULTS OF OPERATIONS

**Accounting for Customer "Cash-back" Loyalty Programs** In January 2001, the Emerging Issues Task Force ("EITF") reached consensus on Issue 3 addressed in Issue No. 00-22 *Accounting for "Points" and Certain Other Time-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. This EITF pronouncement requires that the cost of the cash back component of the Company's customer loyalty programs be treated as a reduction in revenues. The Company rewards customers with cash, based upon their level of play on certain casino games (primarily slot machines). These costs were previously recorded as a casino expense. The consensus reached on Issue 3 is effective beginning in fiscal quarters ending after February 15, 2001 and was adopted by the Company in the quarter ended March 31, 2001. In connection with the adoption of Issue 3, the Company reclassified (i.e., reduced gaming revenue

and gaming expenses) the cash back component of its customer loyalty programs in the amount of \$21,497,000 and \$20,865,000 related to the year ended December 31, 2000 and 1999, respectively, to be consistent with the year ended December 31, 2001.

**Terminated Merger Agreement** On April 17, 2000, the Company entered into a definitive agreement with PH Casino Resorts ("PHCR"), a newly formed subsidiary of Harveys Casino Resorts, and Pinnacle Acquisition Corporation ("Pinnacle Acq Corp"), a newly formed subsidiary of PHCR, pursuant to which PHCR would have acquired by merger (the "Merger") all of the outstanding capital stock of Pinnacle Entertainment for cash consideration (the "Merger Agreement"). Consummation of the Merger was subject to numerous conditions, including PHCR obtaining the necessary financing for the transaction and regulatory approvals, as well as other conditions. On January 23, 2001, the Company announced that it had been notified by PHCR that PHCR did not intend to extend further the outside closing date (previously extended to January 31, 2001) of the Merger. Since all of the conditions to consummation of the Merger would not be met by such date, the Company, PHCR and Pinnacle Acq Corp mutually agreed that the Merger Agreement would be terminated. The Company does not expect to incur additional costs relating to the terminated Merger Agreement.

**Redemption** On August 15, 2000, the Company redeemed all \$112,875,000 in aggregate principal amount of its then outstanding Casino Magic 13% Notes at the redemption price of 106.5%. Upon deposit of principal, premium and accrued interest for such redemption, Casino Magic Bossier City satisfied all conditions required to discharge its obligations under the indenture. In connection with the redemption, the Company recorded an extraordinary loss, net of federal and state income taxes, of \$2,653,000. The extraordinary loss represents the payment of the redemption premium and the write-off of deferred finance and premium costs, net of the related federal and state income tax benefits (see Note 14 to the Notes to Consolidated Financial Statements).

**Assets Sold** On August 8, 2000, the Company completed the sale of Casino Magic Bay St. Louis and Boomtown Biloxi (the "Mississippi Casinos") and on June 13, 2000, the Company completed the sale of Turf Paradise (see Note 11 to the Notes to Consolidate Financial Statements). The results of operations of the Mississippi Casinos and Turf Paradise are included in the results of operations only until such respective dates.

Revenue, operating results and interest expense has been and will continue to be materially different following the sale of the Mississippi Casinos and Turf Paradise, the redemption of the Casino Magic 13% Notes, the opening of the Belterra Casino Resort and the early termination of the HP Yakama promissory note and related lease agreements.

## **YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000**

**Revenues** Total revenues for the year ended December 31, 2001 decreased by \$34,484,000, or 6.1%, as compared to the year ended December 31, 2000. Contribution to revenues in the year ended December 31, 2000 from the Mississippi Casinos and Turf Paradise properties sold in 2000 was \$104,333,000. When excluding such revenue for the year ended December 31, 2000, total revenues in the year ended December 31, 2001 increased by \$69,849,000, or 15.2%, when compared to the year ended December 31, 2000 due primarily to the revenue at the Belterra Casino Resort, which did not open until late October 2000.

Gaming revenues decreased \$19,812,000, or 4.3%, including \$81,305,000 due to the timing of the sale of the Mississippi Casinos in August 2000. When excluding the results of the Mississippi Casinos from the year-ended December 31, 2000 results, gaming revenues increased by \$61,493,000, or 16.2%. Gaming revenues increased at Belterra Casino Resort by \$79,850,000 and at Boomtown New Orleans by \$6,182,000, while gaming revenues declined at Boomtown Reno by \$2,291,000, at Casino Magic Biloxi by \$1,577,000, at Casino Magic Bossier City by \$18,875,000 and at Casino Magic Argentina by \$1,796,000. The increase in gaming revenues at Belterra Casino Resort is due to the opening of the property in late October 2000 and therefore just over 2 months of operations in the prior year. The increase in gaming revenues at Boomtown New Orleans is primarily attributed to increased coin-in (volume of slot play) and resultant slot revenue in the year ended December 31, 2001, compared to the prior year. During 2001, Boomtown New Orleans renovated the 3rd deck of its dockside riverboat casino and installed 300 new slot machines, and built a new high limit table games area; as well as benefited from dockside legislation that became effective April 1, 2001, which no longer requires the customers to coordinate their schedules with the cruising times of the boat. The decrease in gaming revenue at Boomtown Reno is primarily attributed to an overall reduction in customer volume for the year (including a substantial reduction in September 2001 due to the adverse impact of September 11, 2001 to the Reno market), combined with a reduction in guest spending while visiting the property (although hotel occupancy and food covers were not substantially lower). The decrease in Casino Magic Bossier City gaming revenue is due primarily to lower guest counts, which translated into lower table game drop (volume of table game play) and slot coin-in levels. The reduced guests counts are due primarily to: i) increased competition from the opening of a new casino hotel in December 2000 and the opening of a new hotel tower at another competitor in January 2001; ii) severe winter rainfall in late February and early March, which flooded the

first level of the property's multi-level parking garage until mid-May 2001; and iii) construction disruption to its casino operations from the installation of new slot machines. The decrease in gaming revenue at Casino Magic Argentina is primarily due to the economic and political instability that began in the third quarter of 2001 and culminated in December 2001 with the resignation of the then President of the country, the imposition of restrictions on cash withdrawals by its citizens and the delaying of payment of wages to government employees. These factors, as well as other adverse economic conditions in Argentina, severely impacted the operations in the fourth quarter of 2001 for Casino Magic Argentina, as fewer customers visited the facility and spent less while visiting.

Food and beverage revenues decreased by \$968,000, or 3.0%, including \$7,242,000 due to the timing of the sale of the Mississippi Casinos and Turf Paradise. When excluding the results of the sold operations from the December 31, 2000 year-end results, food and beverage revenue increased \$6,274,000, or 25.4%. Food and beverage revenues increased at Belterra Casino Resort by \$7,055,000, offset by reduced revenues at other of the casino properties due to lower guest counts the various properties experienced.

Truck stop and service station revenue generated at Boomtown Reno decreased by \$1,592,000, or 7.3%, primarily due to a decrease in fuel prices and lower volume in diesel fuel sold in the twelve-month period of 2001 compared to the same period of 2000.

Hotel and recreational vehicle park revenues increased by \$2,247,000, or 17.7%. Contributing to hotel and recreational vehicle park revenues in the December 31, 2000 year-end results was \$1,273,000 due to the timing of the sale of Casino Magic Bay St. Louis in August 2000. When excluding the results of Casino Magic Bay St. Louis from the December 31, 2000 year-end results, hotel and recreational vehicle park revenues increased \$3,520,000, or 30.7%. A majority of the increase, \$3,316,000, is attributed to a full twelve months of operations at the Belterra Casino Resort, which did not open until late October 2000.

Other income decreased by \$4,907,000, or 19.4%, including \$5,061,000 due to the timing of the sale of the Mississippi Casinos and Turf Paradise. When excluding the results of the sold operations from the December 31, 2000 year-end results, other income increased by \$154,000, or less than 1.0%.

Racing revenues declined by \$9,452,000, or 100%, entirely due to the sale of Turf Paradise in June 2000.

**Expenses** Total expenses for the year ended December 31, 2001 increased by \$143,143,000, or 36.6%, as compared to the year ended December 31, 2000. Included in the total expenses for

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the year ended December 31, 2001 are asset impairment losses of \$23,530,000 and asset disposition gains of \$500,000, while included in total expenses for the year ended December 31, 2000 is a gain on the sale of the Mississippi Casinos, Turf Paradise and land in Inglewood, California (see Note 11 to the Condensed Notes to Consolidated Financial Statements) of \$118,816,000. In addition, included in total expenses in 2000 are expenses of the Mississippi Casinos and Turf Paradise of \$84,045,000. Excluding such items from both periods, total expenses for the year ended December 31, 2001 increased by \$85,342,000, or 20.0%, as compared to the year ended December 31, 2000, due primarily to expenses at Belterra Casino Resort, which did not open until late October 2000.

Gaming expenses increased by \$1,227,000, or less than 1.0%. Contributing to the gaming expenses in the December 31, 2000 results was \$43,981,000 due to the timing of the sale of the Mississippi Casinos in August 2000. When excluding the results of the Mississippi Casinos from the results of operations for the December 31, 2000 year-end, gaming expenses increased by \$45,208,000, or 21.1%. Gaming expenses increased \$42,505,000 at Belterra Casino Resort, \$5,187,000 at Boomtown New Orleans and \$1,034,000 at Casino Magic Bossier City, while gaming expenses decreased at Boomtown Reno by \$1,168,000, at Casino Magic Biloxi by \$1,553,000 and at Casino Magic Argentina by \$797,000. The increase in gaming expenses at Belterra Casino Resort is due to the property opening in late October 2000, and therefore just over two months of operations in the year ended December 31, 2000. The increase in gaming expenses at Boomtown New Orleans is consistent with the increased gaming revenues beginning on April 1, 2001, increased gaming taxes (see Note 7 to the Notes to Consolidated Financial Statements) and increased marketing expenses. The increase in gaming expenses at Casino Magic Bossier City is due primarily to the additional marketing costs associated with the intense competition noted above. The decrease in gaming expenses at Boomtown Reno is due primarily to reduced revenue and marketing costs, while the decrease in gaming expenses at Casino Magic Biloxi is consistent with a reduction in gaming revenue, as well as a reduction of approximately 160 employees in the fourth quarter of 2001. The reduction in gaming expenses at Casino Magic Argentina is due primarily to the reduced taxes from the reduced gaming revenue.

Food and beverage expenses increased by \$3,619,000, or 10.3%. Contributing to food and beverage expenses in the year ended December 31, 2000 was \$7,690,000 due to the timing of the sale of the Mississippi Casinos and Turf Paradise. When excluding the results of the sold operations from the results of operations for the year ended December 31, 2000, food and beverage expenses increased \$11,309,000, or 41.1%. Food and beverage expenses increased at Belterra Casino Resort by \$12,913,000 due to the opening of the property

in late October 2000, partially offset by decreases at the Company's other casinos.

Truck stop and service station expenses at Boomtown Reno decreased by \$1,597,000, or 7.9%, due primarily to fewer gallons of gasoline and diesel fuel purchased in the period, as well as reduced fuel costs.

Hotel and recreational vehicle park expenses increased by \$3,506,000, or 52.6%, including \$710,000 due to the timing of the sale of Casino Magic Bay St. Louis. When excluding the results of Casino Magic Bay St. Louis from the results of operations for the year ended December 31, 2000, hotel and recreational vehicle park expenses increased by \$4,216,000, or 70.8%, the majority of which is attributed to Belterra Casino Resort, which opened in late October 2000.

Racing expenses decreased by \$4,133,000, or 100%, entirely due to the sale of Turf Paradise in June 2000.

Selling, general and administrative expenses increased by \$12,357,000, or 11.4%. Contributing to general and administrative expenses in the year ended December 31, 2000 was \$19,440,000 due to the timing of the sale of the Mississippi Casinos and Turf Paradise. When excluding the results of the sold operations from the results of operations for year ended December 31, 2000, selling, general and administrative expenses increased \$31,797,000, or 35.9%, of which, \$27,563,000, is attributed to Belterra Casino Resort and \$4,664,000 was attributed to Casino Magic Bossier City. During the second quarter of 2001, Casino Magic Bossier City took a charge of approximately \$2,600,000 for certain reserves and write-downs related to inventory, accounts receivable and other working capital valuation matters.

Depreciation and amortization increased by \$3,348,000, or 7.3%, due primarily to additional depreciation expense from Belterra Casino Resort, which opened in late October 2000, offset by reduced depreciation expense from the sale of the Mississippi Casinos and Turf Paradise in 2000.

Other operating expenses increased \$3,581,000, or 33.9%, including \$2,501,000 due to the timing of the sale of the Mississippi Casinos and Turf Paradise in 2000. When excluding the results of the sold operations from the results of operations for the year ended December 31, 2000, other operating expenses increased \$6,082,000, or 57.5%, including \$5,669,000 related to the Belterra Casino Resort.

Pre-opening expenses decreased by \$14,420,000, or 95.9%, for the year ended December 31, 2001 from the same period in 2000. Pre-opening costs in 2001 for the Belterra Casino Resort were due to the continuing construction of the Tom Fazio-designed championship golf course, which opened in July 2001.

The gain on disposition of assets of \$500,000 for the year ended December 31, 2001 includes the gain from the early pay-off of the HP Yakama promissory note of \$639,000 (see

Note 6 to the Notes to Consolidated Financial Statements), offset by the loss on disposition of other assets in the period. The gain on disposition of assets of \$118,816,000 for the year ended December 31, 2000 is due primarily to the sale of the Mississippi Casinos in August 2000, Turf Paradise Race Track in June 2000 and the land sales in March 2000 (see Note 11 to the Notes to Consolidated Financial Statements).

The asset impairment loss of \$23,530,000 for the year ended December 31, 2001 is due primarily to the write down of the Crystal Park Casino card club assets of \$20,358,000, the write down of the Boomtown Belle I riverboat casino of \$1,800,000 and assets at Casino Magic Biloxi of \$1,372,000 (see Note 4 to the Notes to Consolidated Financial Statements). The net book values of these assets are classified as "Assets held for sale" on the Consolidated Balance Sheet at December 31, 2001.

Terminated merger costs of \$5,727,000 for the year ended December 31, 2000 relate to the terminated merger with PHCR (see Note 10 to the Notes to Consolidated Financial Statements). Purported class action lawsuits related to the terminated merger were settled in the second quarter of 2001 resulting in a reversal of accrued expenses of \$464,000 for these lawsuits in the year ended December 31, 2001.

Interest income decreased by \$7,583,000, or 60.2%, primarily due to lower investable funds and lower interest rates during the year ended December 31, 2001 compared to the same period of 2000. Interest expense, net of capitalized interest decreased by \$2,767,000, or 5.3%, due primarily to the redemption of the Casino Magic 13% Notes in August 2000 (see Note 14 to the Notes to Consolidated Financial Statements). Capitalized interest was \$482,000 in the year ended December 31, 2001 compared to \$8,148,000 in the year ended December 31, 2000, a decrease of \$7,666,000, or 94.1%, due primarily to the completion of the Belterra Casino Resort in October 2000, while the golf course at Belterra Casino Resort was not completed until early July 2001.

Due to the pre-tax losses for the year ended December 31, 2001, as well as the settlement of certain U.S. Federal income tax matters that were under examination by the I.R.S. relating to Casino Magic and its subsidiaries prior to 1997, resulting in the recording of an income tax benefit of approximately \$3,700,000 in the third quarter 2001, the Company recorded an income tax benefit of \$21,906,000, compared to an income tax expense of \$52,396,000 for the year ended December 31, 2000 (which 2000 amount includes taxes associated with the asset dispositions in 2000 — see Note 11 to the Notes to Consolidated Financial Statements).

The extraordinary loss of \$2,653,000 recorded for the year ended December 31, 2000 related to the early redemption of the Casino Magic 13% Notes (see Note 14 to the Notes to Consolidated Financial Statements).

## **YEAR ENDED DECEMBER 31, 2000, COMPARED TO THE YEAR ENDED DECEMBER 31, 1999**

**Revenues** Total revenues for the year ended December 31, 2000 decreased by \$122,867,000, or 17.93%, as compared to the year ended December 31, 1999. Contribution to revenues in the year ended December 31, 2000 from the Mississippi Casinos and Turf Paradise was \$107,868,000. Contribution to revenues in the year ended December 31, 1999 from the Mississippi Casinos, Turf Paradise, Hollywood Park Race Track and Hollywood Park-Casino was \$260,615,000. When excluding such revenues for both periods, total revenues in the year ended December 31, 2000 increased by \$30,060,000, or 6.8%, when compared to the year ended December 31, 1999.

Gaming revenues decreased by \$74,760,000, or 13.9%, including a decrease of \$87,338,000 due to the timing of the various casino dispositions in 2000 and 1999. When excluding the results of the casino properties sold, gaming revenues increased by \$12,578,000, or 2.8%. Gaming revenues increased at Belterra Casino Resort by \$13,614,000, at Boomtown Reno by \$6,000,000 and at Casino Magic Bossier City by \$2,663,000, while gaming revenues declined at Boomtown New Orleans by \$5,766,000 and at Casino Magic Biloxi by \$3,210,000. The increase in gaming revenue at Belterra Casino Resort is due to the opening of the property in October 2000. Boomtown Reno's higher gaming revenue was primarily due to increased hotel occupancy (occupancy was 87% in 2000 compared to 66% in 1999) and new marketing programs, which translated into an increase in slot coin-in (volume of slot play) and table game drop (volume of table game play), as well as the better than normal winter weather (less snow and fewer road closures due to snow conditions) during the first and fourth quarters of 2000. Casino Magic Bossier City's gaming revenue improved in the first three quarters of the year, primarily due to upgrading the slot machine product mix and to a change in the overall marketing programs at the property. However, gaming revenue at Casino Magic Bossier City declined in the fourth quarter of 2000, primarily due to severe winter storms. The decline in gaming revenues at the New Orleans and Biloxi locations reflects new competition in October 1999 and March 1999, respectively, in each of the markets. At Boomtown New Orleans, gaming revenue was down for the first three quarters of 2000 compared to 1999. However, gaming revenue increased in the fourth quarter of 2000 compared to the fourth quarter of 1999, primarily due to improved slot revenue from recapturing market share lost to competition. Casino Magic Biloxi gaming revenues were down primarily due to table game drop and slot coin-in being down 6.8% and 3.7%, respectively, in 2000 compared to 1999.

Food and beverage revenues decreased by \$7,897,000, or 19.8%, including a decrease of \$12,720,000 due to the timing of the various casino and race track dispositions in 2000 and 1999. When excluding the results of the casino and race track

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properties disposed of, food and beverage revenues increased by \$4,823,000, or 24.3%. Food and beverage revenues increased at Belterra Casino Resort by \$1,444,000, at Boomtown Reno by \$2,516,000 and Casino Magic Biloxi by \$1,008,000, while food and beverage revenue decreased at Casino Magic Bossier City by \$442,000. The increase in food and beverage revenue at Belterra Casino Resorts is due to the property opening in October 2000. The increase in food and beverage revenue at Boomtown Reno is attributed to the improved hotel occupancy, as well as remodels to certain of the restaurants at the property. The increase in food and beverage revenue at Casino Magic Biloxi is attributed to increased volume from the addition of a deli restaurant in May 2000, to the refurbishing of an existing venue in May 2000 and to some pricing increases. The decline in food and beverage revenue at Casino Magic Bossier City is primarily due to the overall change in marketing programs, including new programs which increased the amount of complimentary food and beverage provided to customers.

Truck stop and service station revenue at Boomtown Reno increased by \$4,138,000, or 23.5%, primarily due to increased fuel prices.

Hotel and recreational vehicle park revenues increased by \$993,000, or 8.5%, including a decrease of \$524,000 due to the timing of the sale of Casino Magic Bay St. Louis. Hotel and recreational vehicle park revenue increased by \$480,000 at the Belterra Casino Resort (which property opened in October 2000), by \$399,000 at Boomtown Reno (consistent with improved hotel occupancy noted above) and by \$1,062,000 at Casino Magic Biloxi (hotel occupancy increased to 86% in 2000 compared to 82% in 1999), while such revenues decreased by \$424,000 at Casino Magic Bossier City. The decline in hotel revenue at Casino Magic Bossier City is primarily due to the overall change in marketing programs, which new programs increased the number of complimentary hotel rooms provided to customers.

Other income increased by \$416,000, or 1.7%, including a decrease of \$3,268,000 due to the timing of the various casino and race track dispositions in 2000 and 1999. When excluding the results of the casino and race track properties disposed of, other income increased by \$3,684,000, or 22.2%, primarily due to an increase in the percentage of net revenues (as defined in the relevant agreements between the Company and the Yakama Indian Nation) received from the Yakama Indian Nation, as well as to proceeds from the settlement of a 1998 business interruption insurance claim.

Racing revenues declined by \$45,757,000, or 82.9%, entirely due to the disposition of Turf Paradise in June 2000 and Hollywood Park Race Track in September 1999.

Expenses Total expenses for the year ended December 31, 2000 decreased by \$150,567,000, or 26.8%, as compared to the year ended December 31, 1999. Included in total expenses for the twelve months ended December 31, 2000, is a gain on the disposition of assets of \$118,816,000 (see Note 11 to the Notes to Consolidated Financial Statements), as well as expenses of \$87,580,000 associated with the operations of such assets sold. Included in total expenses for the twelve months ended December 31, 1999, is a gain on the disposition of assets of \$62,507,000, an impairment loss of \$20,446,000 (see Note 11 to the Notes to Consolidated Financial Statements) and expenses of \$214,529,000 associated with the operations of the properties sold or disposed of in 2000 and 1999. When excluding such gains, impairment write-down and other expenses, total expenses for the twelve months ended December 31, 2000 increased by \$53,137,000, or 14.4%, as compared to the twelve months ended December 31, 1999.

Gaming expenses decreased by \$30,297,000, or 10.5%, including \$47,537,000 due to the timing of the various casino dispositions in 2000 and 1999. When excluding the gaming expenses attributed to such casino properties disposed of, gaming expenses increased \$17,240,000, or 7.2%. Gaming expenses increased at the Belterra Casino Resort by \$9,421,000, at Boomtown Reno by \$2,622,000, at Casino Magic Bossier City by \$3,068,000, at Casino Magic Biloxi by \$1,558,000 and at Boomtown New Orleans by \$1,011,000. The increased gaming expense at Belterra Casino Resort reflects the opening of the facility in October 2000, while at Boomtown Reno and Casino Magic Bossier City, the increases are consistent with the increased gaming revenue. The increased gaming expenses at Casino Magic Biloxi and Boomtown New Orleans reflect the competitive environments within which each operate, and the costs to compete in their respective markets.

Food and beverage expenses decreased by \$11,378,000, or 24.4%, including \$16,269,000 due to the timing of the various casino and race track dispositions in 2000 and 1999. When excluding food and beverage expenses attributed to such casino and race track properties disposed of, food and beverage expenses increased by \$4,891,000, or 21.6%. Food and beverage expenses increased at Belterra Casino Resort by \$2,842,000 (consistent with the October 2000 opening of the property) and at Boomtown Reno by \$1,296,000, consistent with the overall increase in food and beverage revenue. At Casino Magic Biloxi, food and beverage expenses increased by \$1,197,000, primarily due to the overall increase in revenue, as well as an increase in marketing costs to compete in the Biloxi gaming market. At Casino Magic Bossier City, food and beverage costs declined \$627,000, which was primarily due to the lower food and beverage revenue.

Truck stop and service station expenses at Boomtown Reno increased by \$4,004,000, or 24.6%, primarily due to increased fuel costs.

Hotel and recreational vehicle park expenses increased by \$740,000, or 12.5%, primarily due to increased costs at Belterra Casino Resort of \$1,169,000 (which property opened in October 2000), offset by reduced costs at Casino Magic Bossier City of \$354,000, consistent with the lower hotel revenue.

Racing expenses decreased by \$18,561,000, or 81.8%, entirely due to the disposition of Turf Paradise in June 2000 and Hollywood Park Race Track in September 1999.

Selling, general and administrative expenses decreased by \$26,892,000, or 19.9%, including a reduction in expenses of \$32,674,000 due to the timing of the various casino and race track dispositions in 2000 and 1999. When excluding selling, general and administrative expenses attributed to such casino and race track dispositions in 2000 and 1999, selling, general and administrative expenses increased \$5,782,000, or 7.0%, including \$6,113,000 attributed to the Belterra Casino Resort, which opened in October 2000.

Depreciation and amortization decreased by \$5,822,000, or 11.2%, including \$8,304,000 due to the timing of the various casino and race track dispositions in 2000 and 1999. When excluding such casino and race track properties from depreciation and amortization expenses, depreciation and amortization increased by \$2,482,000, or 6.5%, including \$2,294,000 attributed to the Belterra Casino Resort.

Other operating expenses decreased by \$3,343,000, or 24.0%, including a reduction in other operating expenses of \$3,420,000 due to the timing of the various casino and race track dispositions in 2000 and 1999.

Pre-opening costs for the Belterra Casino Resort increased \$12,010,000, from \$3,020,000 to \$15,030,000, primarily due to the pre-opening costs incurred for a new gaming facility, including hiring and training employees and marketing costs.

The gain on disposition of assets of \$118,816,000 in 2000 is primarily due to the sale of the Mississippi Casinos in August 2000, the sale of Turf Paradise in June 2000 and the sale of surplus land in March 2000 (see Note 11 to the Notes to Consolidated Financial Statements), partially offset by a loss of \$902,000 on the disposition of assets. The gain on disposition of assets of \$62,507,000 and impairment write-down of \$20,446,000 in the year ended December 31, 1999 is primarily due to the disposition of the Hollywood Park Race Track and Hollywood Park-Casino in September 1999 (see Note 11 to the Notes to Consolidated Financial Statements).

Terminated merger costs of \$5,727,000 relate to the terminated merger with PHCR including the proposed settlement of litigation relating to the merger (see Note 10 to the Notes to Consolidated Financial Statements).

Interest income increased by \$4,677,000, or 59.0%, primarily due to higher investable funds and higher interest rates during the year ended December 31, 2000 compared to the same period of 1999. Interest expense, net of capitalized interest, decreased by \$12,851,000, or 19.6%, due primarily to additional capitalized interest in 2000 for Belterra Casino Resort and lower interest expense in 2000 from the redemption of the Casino Magic 13% Notes in August 2000 (see Note 14 to the Notes to Consolidated Financial Statements).

Income tax expense increased \$11,470,000, or 28.0%, including income tax of approximately \$48,021,000 recorded in 2000 associated with asset dispositions, compared to income tax of approximately \$22,000,000 recorded in 1999 associated with asset dispositions (see Note 11 to the Notes to Consolidated Financial Statements).

The extraordinary loss of \$2,653,000 for the year ended December 31, 2000 relates to the redemption of the Casino Magic 13% Notes in August 2000 (see Note 14 to the Notes to Consolidated Financial Statements).

#### **LIQUIDITY, CAPITAL RESOURCES AND OTHER FACTORS INFLUENCING FUTURE RESULTS**

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At December 31, 2001, the Company had cash and cash equivalents, all of which had original maturities of less than ninety days, of \$153,187,000 compared to \$172,868,000 at December 31, 2000. The Consolidated Statements of Cash Flows detailing changes in the cash balances is on page 30.

Operating activities generated net cash of \$36,065,000 in the year ended December 31, 2001 compared with net cash uses of \$25,484,000 in the twelve months of 2000. In the twelve-month period ending December 31, 2001, the net cash flow from operations was generated primarily from: i) earnings before interest, taxes, depreciation, amortization and non-recurring items ("EBITDA" see "Selected Financial Data" for a definition of EBITDA) of \$66,903,000, ii) cash income tax refunds in excess of \$24,000,000, and iii) cash provided by receivables, prepaids and other assets of \$4,542,000; offset by uses of cash for: i) interest payments on the 9.5% and 9.25% Notes of approximately \$44,250,000, ii) the restriction of cash in Argentina of \$3,452,000 (see Note 3 to the Notes to Consolidated Financial Statements), and iii) cash used for accounts payable and accrued liabilities of \$12,735,000. In the same twelve-month period last year, the cash used in operations was \$25,484,000, which included additional EBITDA from operations sold in 2000 (see Note 11 to the Notes to Consolidated Financial Statements), offset by

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cash interest payments (the 9.5% Notes, 9.25% Notes and Casino Magic Bossier City 13% Notes — see Note 14 to the Notes to Consolidated Financial Statements), income taxes in 2000 and 1999 on asset dispositions, pre-opening costs attributed to Belterra Casino Resort (which opened in October 2000) and terminated merger costs.

Net cash used by investing activities of \$43,304,000 in the year ended December 31, 2001 is primarily attributed to the addition of property, plant and equipment of \$51,783,000. The additions during the year ended December 31, 2001 include completion of the Tom Fazio-championship golf course at Belterra Casino Resort (which opened in July 2001), construction costs associated with the build out of the high-limit table games area, purchase of new slot machines and remodeling of the pavilion building at Boomtown New Orleans, purchase of player tracking systems at various of the Company properties and the purchase of approximately 14 acres of leased land at Crystal Park Casino. Net cash provided by investing activities of \$193,277,000 in the year ended December 31, 2000 includes proceeds of \$123,428,000 from the maturity of short term investments and the receipt of \$266,925,000 from the sale of property, plant and equipment (such receipts primarily from the various asset sales in 2000 — see Note 11 to the Notes to Consolidated Financial Statements), offset by the use of cash of \$194,627,000 for the additions of property, plant and equipment (the primary additions attributed to the Belterra Casino Resort, which opened in October 2000).

Net cash used in financing activities of \$12,442,000 in the year ended December 31, 2001 is due primarily to the payment of \$9,820,000 for the purchase of the Company's common stock (in August 1998, the Company announced its intention to repurchase and retire up to 20%, or approximately 5,256,000 shares, of its then issued and outstanding common stock on the open market or in negotiated transactions; in February 2001, the Company announced its intention to continue to make purchases under this program — see Note 3 to the Notes to Consolidated Financial Statements). The net cash used in financing activities in the twelve months of 2000 of \$118,287,000 is primarily due to the redemption of the Casino Magic Bossier City 13% Notes in August 2000 (see Note 14 to the Notes to Consolidated Financial Statements).

As discussed in Note 14 to the Notes to Consolidated Financial Statements, the Company has a bank credit facility with a syndicate of banks in the amount of \$110,000,000, with scheduled commitment reductions of \$6,667,000 on March 31, 2003 and \$16,667,000 on each of June 30 and September 30, 2003 and which expires December 31, 2003 (the "Credit Facility"). As of December 31, 2001, the Company had no outstanding borrowings under the Credit Facility, and has not utilized the Credit Facility since February 1999. The Company does not anticipate making any borrowing under this facility in 2002 and maintains the facility to satisfy the

requirements of the Louisiana Gaming Control Board that the Company has financing available to complete the Lake Charles project (see Note 8 to the Notes to Consolidated Financial Statements).

Interest rates on borrowings under the Credit Facility are determined by adding a margin, which is based upon the Company's debt to cash flow ratio (as defined in the Credit Facility), to either the LIBOR rate or Prime Rate (at the Company's option). The Company also pays a quarterly commitment fee on the unused balance of the Credit Facility. The Credit Facility allows for interest rate swap agreements or other interest rate protection agreements. Presently, the Company does not use such financial instruments.

In November 2001, the Company and the bank syndicate executed Amendment No. 6 to the Credit Facility, which, among other things, (i) amended various financial covenant ratios to be more consistent with current operations, (ii) allowed for certain capital expenditures, including \$25,000,000 related to Casino Magic Bossier City, (iii) suspended any additional stock repurchase activity until April 1, 2002 and, (iv) required the Company to utilize its cash (other than working capital and casino cash) prior to drawing on the facility. In July 2001, the Company and the bank syndicate executed Amendment No. 5 to the Credit Facility, which, among other things, (i) amended various financial covenant ratios to be more consistent with operations (therefore reflective of the operations sold in 1999 and 2000, as well as the opening of the Belterra Casino Resort in October 2000), and (ii) allowed for the necessary capital spending for the Lake Charles opportunity. An additional amendment to the Credit Facility will be necessary to obtain approval from the bank syndicate for capital projects not specifically provided for in either Amendment No. 5 or Amendment No. 6 to the Credit Facility.

As noted above, the Company was selected by the Gaming Control Board to receive a license for the construction and operation of a dockside riverboat casino in Lake Charles, Louisiana, and must stay in compliance with the Lake Charles Conditions, including satisfying certain financing requirements throughout the project. Currently, the Company anticipates it will not meet all of the financial covenant ratios specified in the Credit Facility in June 2002 and therefore will need to seek another amendment to the Credit Facility. In the event the Company is not successful in negotiating an amendment to the Credit Facility, the Company anticipates it will terminate the Credit Facility and secure a new bank credit agreement; however, there are no assurances the Company will be able to secure such new facility under terms and conditions favorable to the Company. In the event the Company is not successful in securing a new bank credit facility, the Company will need to secure an alternative source of financing for its Lake Charles project. There is no assurance the Louisiana Gaming Control Board will approve such alternative method of financing.

The Company believes available cash, cash to be generated by potential asset sales, cash flow from operations and availability under the Credit Facility is sufficient to build the Lake Charles facility (subject to statements above regarding the need to amend the Credit Facility and, if the Company is unable to effect such amendment, then subject to the Company's ability to secure a new bank credit agreement), should the Company move forward with the project. As part of the Credit Facility, the Company is contractually obligated to utilize cash other than working capital and casino cash before drawing on the Credit Facility.

In addition to the Credit Facility, the Company is considering various financing options for the development of the proposed Lake Charles project, including, but not limited to, a new credit facility or other senior debt, leasing arrangements and joint venture arrangements.

Regardless of future changes to the Credit Facility, the Company currently believes that its available cash and cash equivalents at December 31, 2001 of over \$153,000,000 and cash flow from operations in 2002 will be sufficient to finance working capital needs, make necessary debt service payments and finance the capital spending requirements for at least the next twelve months and fund the \$22,500,000 "escrow" requirement for the Lake Charles project (see Note 8 to the Notes to Consolidated Financial Statements). In addition, the Company also currently believes that cash requirements of its existing operations beyond the next twelve months will consist of debt service requirements and capital spending (including continued capital spending for the Lake Charles project, if commenced), which the Company expects to be met by then-existing cash, cash flows from operations and borrowing capacity under the existing Credit Facility (subject to statements above regarding the need to amend the Credit Facility and, if the Company is unable to effect such amendment, then subject to the Company's ability to secure a new bank credit agreement).

In addition to the above anticipated uses of resources, the Company may use a portion of existing resources to (i) reduce its outstanding debt obligations prior to their scheduled maturities, (ii) make capital improvements at other existing properties, and/or (iii) develop or acquire other casino properties or companies. To the extent cash is used for these purposes, the Company's cash reserves will be diminished and the Company may require additional capital to finance any such activities, including the debt service and capital improvements. Additional capital may be generated through internally generated cash flow, future borrowings (including amounts available under the Credit Facility), asset sales and/or lease transactions. There can be no assurance, however, that such capital will be available on terms acceptable to the Company.

## **MARKET RISKS**

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The Company's primary exposures to market risk (or the risk of loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates) are with respect to the foreign currency exchange rate with Argentina due to the devaluation of the Argentine Peso in January 2002 (see Note 3 to the Notes to Consolidated Financial Statements), as well as potential interest rate risk associated with the long-term floating interest rate on borrowings under the Credit Facility (see Note 14 to the Notes to Consolidated Financial Statements). Total assets of Casino Magic Argentina at December 31, 2001 were \$14,287,000 (including \$3,452,000 of Argentine Peso cash translated to U.S. Dollars), or less than 2% of consolidated assets of the Company. The Company does not anticipate that these assets will significantly increase in the next twelve months. At December 31, 2001, the Company had no outstanding borrowings under the Credit Facility.

**TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF PINNACLE ENTERTAINMENT, INC.:**

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We have audited the accompanying consolidated balance sheets of Pinnacle Entertainment, Inc., (a Delaware corporation, formerly Hollywood Park, Inc.) and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 Pinnacle Entertainment, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.



ARTHUR ANDERSEN LLP

Los Angeles, California

February 4, 2002

# CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(in thousands, except per share data)</i>	<i>For the years ended December 31,</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
<b>REVENUES:</b>			
Gaming	\$ 442,089	\$ 461,901	\$ 536,661
Food and beverage	30,952	31,920	39,817
Truck stop and service station	20,190	21,782	17,644
Hotel and recreational vehicle park	14,977	12,730	11,737
Other income	20,433	25,340	24,924
Racing	0	9,452	55,209
	<u>528,641</u>	<u>563,125</u>	<u>685,992</u>
<b>EXPENSES:</b>			
Gaming	259,573	258,346	288,643
Food and beverage	38,799	35,180	46,558
Truck stop and service station	18,703	20,300	16,296
Hotel and recreational vehicle park	10,169	6,663	5,923
Racing	0	4,133	22,694
Selling, general and administrative	120,335	107,978	134,870
Depreciation and amortization	49,450	46,102	51,924
Other operating expenses	14,159	10,578	13,921
Pre-opening costs, Belterra Casino Resort	610	15,030	3,020
Gain on disposition of assets, net of losses	(500)	(118,816)	(62,507)
Asset impairment write-down	23,530	0	20,446
Terminated merger costs	(464)	5,727	0
	<u>534,364</u>	<u>391,221</u>	<u>541,788</u>
<b>OPERATING (LOSS) INCOME</b>	<u>(5,723)</u>	<u>171,904</u>	<u>144,204</u>
Interest income	(5,021)	(12,604)	(7,927)
Interest expense, net	49,853	52,620	65,471
(Loss) income before minority interest, income taxes and extraordinary item	(50,555)	131,888	86,660
Minority interest	0	0	1,687
Income tax (benefit) expense	(21,906)	52,396	40,926
<b>NET (LOSS) INCOME BEFORE EXTRAORDINARY ITEM</b>	<u>(28,649)</u>	<u>79,492</u>	<u>44,047</u>
Extraordinary item, net of income tax benefit	0	2,653	0
<b>NET (LOSS) INCOME</b>	<u>\$ (28,649)</u>	<u>\$ 76,839</u>	<u>\$ 44,047</u>
Net (loss) income per common share — basic			
Net (loss) income before extraordinary item	\$ (1.11)	\$ 3.02	\$ 1.70
Extraordinary item, net of income tax benefit	0.00	(0.10)	0.00
Net (loss) income per common share — basic	<u>\$ (1.11)</u>	<u>\$ 2.92</u>	<u>\$ 1.70</u>
Net (loss) income per common share — diluted			
Net (loss) income before extraordinary item	\$ (1.11)	\$ 2.90	\$ 1.67
Extraordinary item, net of income tax benefit	0.00	(0.10)	0.00
Net (loss) income per common share — diluted	<u>\$ (1.11)</u>	<u>\$ 2.80</u>	<u>\$ 1.67</u>
Number of shares — basic	25,814	26,335	25,966
Number of shares — diluted	25,814	27,456	26,329

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

	<i>December 31,</i>	
<i>(in thousands, except share data)</i>	<i>2001</i>	<i>2000</i>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 153,187	\$ 172,868
Restricted cash	3,452	0
Receivables, net of allowance for doubtful accounts of \$2,365 and \$2,737 as of December 31, 2001 and 2000, respectively	9,194	19,007
Income tax receivable	10,587	0
Prepaid expenses and other assets	18,407	18,425
Deferred income taxes	4,712	0
Assets held for sale	18,285	12,164
Current portion of notes receivable	1,000	2,393
Total current assets	<u>218,824</u>	<u>224,857</u>
Notes receivable	0	6,604
Property, plant and equipment, net	576,299	593,718
Goodwill, net of amortization	68,727	71,263
Gaming licenses, net of amortization	36,588	38,934
Debt issuance costs, net of amortization	12,334	15,847
Other assets	6,577	10,252
	<u>\$ 919,349</u>	<u>\$ 961,475</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 16,953	\$ 19,349
Accrued interest	17,423	17,997
Accrued compensation	13,737	16,668
Other accrued liabilities	31,887	31,594
Deferred income taxes	0	4,335
Current portion of notes payable	3,654	3,432
Total current liabilities	<u>83,654</u>	<u>93,375</u>
Notes payable, less current maturities	493,493	497,162
Deferred income taxes	22,686	9,762
Stockholders' Equity:		
Capital stock —		
Preferred — \$1.00 par value, authorized 250,000 shares; none issued and outstanding in 2000 and 1999	0	0
Common — \$0.10 par value, authorized 40,000,000 shares; 25,443,444 and 26,434,302 shares issued and outstanding in 2001 and 2000	2,545	2,644
Capital in excess of par value	219,613	228,095
Accumulated other comprehensive loss	(4,430)	0
Retained earnings	101,788	130,437
Total stockholders' equity	<u>319,516</u>	<u>361,176</u>
	<u>\$ 919,349</u>	<u>\$ 961,475</u>

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF  
CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2001, 2000 and 1999

<i>(in thousands)</i>	<i>Common Stock</i>	<i>Capital in Excess of Par Value</i>	<i>Comprehensive (loss)/income</i>	<i>Retained Earnings (Accumulated Deficit)</i>	<i>Total Stockholders' Equity</i>
<b>BALANCE AS OF DECEMBER 31, 1998</b>	\$ 2,580	\$ 218,375	\$ 470	\$ 9,551	\$ 230,976
Net income	0	0	0	44,047	44,047
Executive stock option compensation	0	828	0	0	828
Common stock options exercised	44	4,335	0	0	4,379
Tax benefit associated with exercised common stock options	0	1,116	0	0	1,116
Investment in stock — unrealized holding gain	0	0	(470)	0	(470)
<b>BALANCE AS OF DECEMBER 31, 1999</b>	2,624	224,654	0	53,598	280,876
Net income	0	0	0	76,839	76,839
Executive stock option compensation	0	414	0	0	414
Common stock options exercised	20	2,302	0	0	2,322
Tax benefit associated with exercised common stock options	0	725	0	0	725
<b>BALANCE AS OF DECEMBER 31, 2000</b>	2,644	228,095	0	130,437	361,176
Net (loss) income	0	0	0	(28,649)	(28,649)
Repurchase and retirement of common stock	(110)	(9,710)	0	0	(9,820)
Executive stock option compensation	0	414	0	0	414
Common stock options exercised	11	469	0	0	480
Foreign currency translation loss	0	0	(4,430)	0	(4,430)
Tax benefit associated with exercised common stock options	0	345	0	0	345
<b>BALANCE AS OF DECEMBER 31, 2001</b>	<u>\$ 2,545</u>	<u>\$ 219,613</u>	<u>\$ (4,430)</u>	<u>\$ 101,788</u>	<u>\$ 319,516</u>

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	<i>For the years ended December 31,</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income	\$(28,649)	\$ 76,839	\$ 44,047
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	49,450	46,102	51,924
Net gain on disposition of assets	(500)	(118,816)	(62,507)
Asset impairment writedown	23,530	0	20,446
Other changes that (used) provided cash, net of the effects of the purchase and disposition of businesses:			
Restricted cash	(3,452)	0	0
Receivables, net	6,991	(2,017)	(2,242)
Income tax receivable	(10,587)	0	0
Prepaid expenses and other assets	(2,495)	(7,168)	(4,780)
Accounts payable	(2,396)	(1,747)	(10,948)
Accrued liabilities	(10,339)	(8,351)	(16,254)
Accrued interest	(574)	(8,083)	9,344
Income taxes	14,556	(6,271)	38,393
All other, net	530	4,028	6,784
Net cash provided by (used in) operating activities	36,065	(25,484)	74,207
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to property, plant and equipment	(51,783)	(194,627)	(58,321)
Capitalized interest	(481)	(8,148)	(1,359)
Receipts from disposition of property, plant and equipment, net	324	266,925	140,083
Principal collected on notes receivable	8,636	5,699	5,283
Proceeds from (purchase of) short term investments	0	123,428	(120,249)
Payment to buy-out minority interest in subsidiaries	0	0	(16,500)
Net cash (used in) provided by investing activities	(43,304)	193,277	(51,063)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Redemption of Casino Magic 13% Notes	0	(112,875)	0
Write-off of unamortized premium and debt costs associated with the Casino Magic 13% Notes, net	0	(3,340)	0
Payment of notes payable	(3,447)	(5,119)	(15,566)
Proceeds from secured Bank Credit Facility	0	0	17,000
Payment of secured Bank Credit Facility	0	0	(287,000)
Proceeds from issuance of 9.25% Notes	0	0	350,000
Increase in debt issuance costs	0	0	(15,309)
Common stock repurchase and retirement	(9,820)	0	0
Other financing activities, net	825	3,047	6,859
Net cash (used in) provided by financing activities	(12,442)	(118,287)	55,984
(Decrease) increase in cash and cash equivalents	(19,681)	49,506	79,128
Cash and cash equivalents at the beginning of the period	172,868	123,362	44,234
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 153,187</b>	<b>\$ 172,868</b>	<b>\$ 123,362</b>

See accompanying notes to the consolidated financial statements.

**NOTE 1****Summary of Significant Accounting Policies***General*

Pinnacle Entertainment, Inc. (the "Company" or "Pinnacle Entertainment") is a diversified gaming company that owns and operates seven casinos (four with hotels) in Indiana, Louisiana, Mississippi, Nevada and Argentina and is pursuing the development of a hotel and casino resort in Lake Charles, Louisiana. Pinnacle Entertainment owns and operates through a subsidiary, the Belterra Casino Resort, a hotel and cruising riverboat casino resort in Switzerland County, Indiana, in which the Company owned a 97% interest, until August 2001, at which time the remaining 3% held by a non-voting local partner was purchased by the Company (see Note 9). The Company also owns and operates, through its Boomtown, Inc. ("Boomtown") subsidiary, land-based gaming operations in Verdi, Nevada ("Boomtown Reno") and dockside riverboat gaming operations in Harvey, Louisiana ("Boomtown New Orleans"). On April 1, 2001, legislation became effective in Louisiana that requires cruising riverboat casinos in southern Louisiana, including the Company's Boomtown New Orleans operations, to remain dockside at all times (see Note 7). The Company also owns and operates, through its Casino Magic Corp. ("Casino Magic") subsidiary, dockside gaming operations in Biloxi, Mississippi ("Casino Magic Biloxi"); dockside riverboat gaming operations in Bossier City, Louisiana ("Casino Magic Bossier City"); and two land-based casinos in Argentina ("Casino Magic Argentina"). The Company is also pursuing the development of a luxury hotel and dockside riverboat casino resort in connection with the 15th and final gaming license to be issued in Louisiana at a site in Lake Charles (see Note 8). Pinnacle Entertainment receives lease income from two card clubs — the Hollywood Park-Casino and Crystal Park Hotel and Casino. The Hollywood Park-Casino is leased from Churchill Downs California Company ("Churchill Downs"), a wholly owned subsidiary of Churchill Downs Incorporated, and subleased to an unaffiliated third party operator. The Crystal Park Hotel and Casino ("Crystal Park Casino") is owned by the Company and is leased to the same card club operator that leases and operates the Hollywood Park-Casino. In the fourth quarter of 2001, in connection with the reclassification of the net book value to "Assets held for sale" on the Consolidated Balance Sheet and reductions to rent payable to the Company from the third-party operator, the Company wrote-down the Crystal Park Casino card club asset to its estimated fair value (see Notes 4 and 5).

Prior to August 2000, the Company owned and operated dockside gaming facilities in Biloxi, Mississippi ("Boomtown Biloxi") and in Bay St. Louis, Mississippi ("Casino Magic Bay St. Louis"). In August 2000, the Company completed the sale of these facilities (see Note 11). Prior to June 2000, the Company owned and operated Turf Paradise, Inc. ("Turf Paradise"), a horse racing facility in Phoenix, Arizona. In June 2000, the Company completed the sale of Turf Paradise (see Note 11).

Prior to September 1999, the Hollywood Park-Casino was owned and operated by the Company. In September 1999, the Company completed the sale of the Hollywood Park Race Track in Inglewood, California to Churchill Downs (see Note 11).

*Principles of Consolidation*

The consolidated financial statements include the accounts of Pinnacle Entertainment and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

*Goodwill*

Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations and is being amortized on a straight-line basis over 40 years, except for the goodwill related to the acquisition of the 49% minority partner in Casino Magic Argentina, which is being amortized over the extended life of the concession agreement (see "-Gaming Licenses" below). Unamortized goodwill as of December 31, 2001 was \$68,727,000, including \$10,709,000 attributed to the Casino Magic Argentina minority partner purchase in October 1999, \$38,460,000 attributed to the Casino Magic Corp purchase in October 1998 and \$19,558,000 attributed to the Boomtown, Inc. purchase in June 1997 (see Note 9). Accumulated amortization as of December 31, 2001 and 2000 was \$13,863,000 and \$11,017,000, respectively. In August 2000, in connection with the sale of the two casinos in Mississippi (see Note 11), the Company wrote off approximately \$13,128,000 of unamortized goodwill associated with these properties.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") which are effective July 1, 2001 and January 1, 2002, respectively, for the Company. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. With the adoption of SFAS No. 142 on January 1, 2002 (earlier adoption is not permitted), goodwill is no longer amortized over its estimated useful life, which, for the years ended December 31, 2001, 2000 and 1999, was \$2,846,000, \$3,030,000 and \$2,859,000, respectively. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. The Company is in the process of completing its evaluation of the financial statement impact of adoption of SFAS No. 142 and anticipates there will be an impairment charge recorded in the first quarter of 2002 related to its Casino Magic locations. In accordance with SFAS No. 142, any such transition related impairment charge would be classified as a cumulative effect of a change in accounting principle. In addition, under the new rules, any future acquired intangible asset will be separately recognized if the benefit of the intangible is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. Intangible assets with definitive lives will be amortized over their useful lives.

*Gaming Licenses*

In 1994, Casino Magic acquired a twelve-year concession agreement to operate two casinos in Argentina, and capitalized the costs related to obtaining the concession agreement. Such costs are being amortized, based on the straight-line method, over the extended life of the concession agreement. The exclusive concession contract with the Province of Neuquen, Argentina was originally scheduled to expire in December 2006; however in August 2001, the Company and the Province entered into an agreement whereby the concession contract will be extended for an additional fifteen years if Casino Magic Argentina invests in the development of a new casino facility and related amenities in accordance with the terms of the agreement. In connection with such extension, in August 2001, the Company reclassified a \$2,276,000 receivable from the Province of Neuquen to Gaming Licenses on the Consolidated Balance Sheet, as the Company agreed to not pursue the collection of such receivable as additional consideration for the fifteen-year extension. Such additional concession agreement cost will be amortized over the extended life of the concession agreement. In the event the Company determines not to proceed with the capital improvements, the amortization period for the concession agreement will be reduced to be consistent with a December 2006 expiration date. The Company has not made any change to the planned capital improvements at this time. The unamortized gaming license costs related to Casino Magic Argentina as of December 31, 2001 and 2000 were \$4,949,000 (which amount reflects the translation adjustment for Casino Magic Argentina assets and liabilities pursuant to SFAS No. 52 as of December 31, 2001 — see Note 3) and \$5,693,000, respectively, and amortization expense was \$1,006,000, \$952,000 and \$949,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

In 1996, Casino Magic acquired a Louisiana gaming license to conduct the gaming operations of Casino Magic Bossier City. Casino Magic allocated a portion of the purchase price to the gaming license and, through December 31, 2001, was amortizing the cost, based on the straight-line method, over twenty-five years. Accumulated amortization as of December 31, 2001 and 2000 was \$8,423,000 and \$6,821,000, respectively. In connection with the implementation of SFAS 142, effective January 1, 2002, the Company no longer amortizes the gaming license as the Company has classified such asset as a non-amortizing intangible asset. As such, pursuant to FAS 142, the gaming license asset maintained by Casino Magic Bossier City will be subject to at least an annual assessment for impairment by applying a fair-value-based test. The unamortized gaming license costs related to Casino Magic Bossier City as of December 31, 2001 and 2000 were \$31,639,000 and \$33,241,000, respectively, and amortization expense was \$1,602,000 for each of the years ended December 31, 2001, 2000 and 1999.

*Amortization of Debt Issuance Costs*

Debt issuance costs incurred in connection with long-term debt and bank financing are capitalized and amortized, based on the straight-line method which approximates the effective interest method, to interest expense during the period the debt or loan commitments are outstanding. Accumulated amortization as of December 31, 2001 and 2000 was \$11,472,000 and \$8,967,000, respectively. During the twelve months ended December 31, 2000, the Company wrote off \$2,429,000 of unamortized debt issuance costs associated with the Casino Magic 13% Notes in connection with the redemption of such notes (see Note 14).

Amortization of debt issuance costs included in interest expense was \$3,742,000, \$3,062,000 and \$2,449,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

*Gaming Revenues and Promotional Allowances*

Gaming revenues at the Belterra, Boomtown and Casino Magic properties consist of the difference between gaming wins and losses, and in 1999 while the Company operated the Hollywood Park-Casino, consisted of fees collected from patrons on a per seat or per hand basis. Revenues in the accompanying statements of operations exclude the retail value of food and beverage, hotel rooms and other items provided to patrons on a complimentary basis. The estimated cost of providing these promotional allowances (which is included in gaming expenses) was \$50,216,000, \$45,713,000 and \$41,341,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

*Racing Revenues and Expenses*

During the period in which the Company operated horse race tracks, the Company recorded pari-mutuel revenues, admissions, food and beverage and other racing income associated with racing on a daily basis, except for prepaid admissions, which were recorded ratably over the racing season. Expenses associated with racing revenues were charged against income in those periods in which racing revenues were recognized. Other racing expenses were recognized as they occurred throughout the year.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (iii) the reported amounts of revenues and expenses during the reporting period. The Company uses estimates in evaluating the recoverability of property, plant and equipment, other long-term assets, deferred tax assets, reserves associated with asset sales, and in determining litigation and other obligations. Actual results could differ from those estimates.

### *Property, Plant and Equipment*

Additions to property, plant and equipment are recorded at cost. Projects in excess of \$10,000,000 include capitalized interest. Capitalized interest is based on project costs at an imputed rate and was \$481,000, \$8,148,000 and \$1,359,000 in fiscal 2001, 2000 and 1999, respectively. Depreciation and amortization are provided based on the straight-line method over the assets' estimated useful lives as follows:

	<i>Years</i>
Land improvements	3 to 25
Buildings	5 to 40
Vessels and Barges	25 to 31
Equipment	3 to 10

Maintenance, repairs and assets purchased below \$2,500 (or a group of like-type assets purchased below \$5,000) are charged to expense, and betterments are capitalized. The costs of property sold or otherwise disposed of and their associated accumulated depreciation are eliminated from both the property and accumulated depreciation accounts.

### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash, certificates of deposit and short-term investments with original maturities of 90 days or less.

### *Restricted Cash*

Restricted cash at December 31, 2001 consists of the cash of Casino Magic Argentina maintained in Argentina, translated from the Argentine peso to the U.S. dollar. As discussed below in Note 3, Argentina experienced political and economic disruption in the latter part of 2001, including the devaluation of its currency and the governmental restriction of transferring any cash out of the country. As such, all assets, including cash, have been translated to U.S. dollars from the Argentine peso, and, until such time as the restriction of transferring funds out of the country has been lifted, cash of Casino Magic Argentina maintained in Argentina will be classified as Restricted Cash on the Consolidated Balance Sheet as it can only be utilized by Casino Magic Argentina and not by Pinnacle Entertainment or any of its other subsidiaries.

### *Income Taxes*

The Company accounts for income taxes under Statement of Financial Accounting Standards 109, *Accounting for Income Taxes* ("SFAS No. 109"), whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date.

### *Stock-Based Compensation*

The Company accounts for its stock-based compensation under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and follows the disclosure provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 *Accounting for Stock-Based Compensation*.

### *Segment Information*

Statement of Financial Accounting Standards No. 131 *Disclosures about Segments of an Enterprise and Related Information* ("SFAS No. 131") was effective for years beginning after December 15, 1997, and has been adopted by the Company for all periods presented in these consolidated financial statements. SFAS No. 131 establishes guidelines for public companies in determining operating segments based on those used for internal reporting to management. Based on these guidelines, the Company reports information under a single gaming segment.

### *Pre-opening Costs*

The Company's policy has been to expense pre-opening costs as incurred, in accordance with Statement of Position 98-5 *Reporting on the Costs of Start-Up Activities*.

### *Foreign Currency Translation*

Statement of Financial Accounting Standards No. 52 *Foreign Currency Translation* ("SFAS No. 52") requires all assets and liabilities of a company's foreign subsidiaries be translated into U.S. dollars at the exchange rate in effect at the end of the period, and revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation adjustments are reflected in a separate component of stockholders' equity. Prior to December 31, 2001, the Company had no such translation adjustments, as the Argentine peso, the local currency for the Company's Casino Magic Argentina subsidiary, was pegged to the U.S. dollar. Effective with the devaluation of the Argentine peso in early January 2002, the Company recorded a translation loss at December 31, 2001 as a separate component of stockholders' equity — see Note 3.

### *Revenue Recognition*

In December 1999, Staff Accounting Bulletin 101 Revenue Recognition in Financial Statements ("SAB 101"), issued by the Securities and Exchange Commission ("SEC"), was issued and became effective beginning the fourth quarter of fiscal years beginning after December 15, 1999. SAB 101 summarizes certain of the SEC staff's views in applying accounting principles generally accepted in the United States to revenue recognition in financial statements. Implementation of SAB 101 did not have a material impact on the Company's financial position and results of operations.

### *Derivative Instruments and Hedging Activities*

In June 1998, Statement of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133") was issued. SFAS No. 133 establishes

accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, Statement of Financial Accounting Standards No. 137 *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133* (“SFAS No. 137”) was issued. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company did not have any derivative or hedging instruments during the years ended December 31, 2001, 2000 and 1999.

#### *Accounting for Customer “Cash-back” Loyalty Programs*

In January 2001, the Emerging Issues Task Force (“EITF”) reached consensus on Issue 3 addressed in Issue No. 00-22 *Accounting for “Points” and Certain Other Time-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*. This EITF pronouncement requires that the cost of the cash back component of the Company’s customer loyalty programs be treated as a reduction in revenues. The Company rewards customers with cash, based upon their level of play on certain casino games (primarily slot machines). These costs were previously recorded as a casino expense. The consensus reached on Issue 3 was effective beginning in fiscal quarters ending after February 15, 2001 and was adopted by the Company in the quarter ended March 31, 2001. In connection with the adoption of Issue 3, the Company reclassified (i.e., reduced gaming revenue and gaming expense) the cash back component of its customer loyalty programs in the amount of \$21,497,000 and \$20,865,000 related to the years ended December 31, 2000 and 1999 to be consistent with the year ended December 31, 2001.

#### *Accounting for Asset Retirement Obligations*

In June 2001, Statement of Financial Accounting Standards No. 143 *Accounting for Asset Retirement Obligations* (“SFAS No. 143”) was issued. SFAS No. 143 addresses the diversity in practice for the recognizing asset retirement obligations (“ARO”). SFAS No. 143 requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for ARO’s, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 will be effective for financial statements for fiscal years beginning after June 15, 2002, although early adoption is encouraged. The Company believes the adoption of SFAS No. 143 will not have a material impact on its financial position or results of operations.

#### *Long-lived Assets*

The Company periodically reviews the propriety of the carrying amount of long-lived assets and the related intangible assets as well as the related amortization period to determine whether current events or circumstances warrant adjustments to the carrying value and/or to the estimates of useful lives. This evaluation consists of comparing asset carrying values to the Company’s projection of the undiscounted cash flows over the remaining lives of the assets, in accordance with Statement of Financial Accounting Standards No. 121 *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of* (“SFAS No. 121”). Based on its review, other than the asset impairment write-downs noted in Note 4, the Company believes that, as of December 31, 2001 and 2000, there were no significant impairments of its long-lived assets or related intangible assets. In September 1999, an impairment write-down of the Hollywood Park-Casino was recorded (see Note 11).

#### *Accounting for the Impairment or Disposal of Long-lived Assets*

In August 2001, Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-lived Assets* (“SFAS No. 144”) was issued. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30 *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* for the disposal of a segment of a business. Because SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB Opinion No. 30, two accounting models existed for long-lived assets to be disposed. The FASB decided to establish a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. The FASB also decided to resolve significant implementation issues related to SFAS No. 121. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 31, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of SFAS No. 144 generally are to be applied prospectively. The Company believes that the adoption of SFAS No. 144 will not have a material impact on its financial position or results of operations.

#### *Earnings per Share*

Basic earnings per share are based on net income less preferred stock dividend requirements divided by the weighted average common shares outstanding during the period. Diluted earnings per share assume exercise of in-the-money stock options (those options with exercise prices at or below weighted average market price for the periods presented) outstanding at the beginning of the year or at the date of the issuance, unless the assumed exercises are antidilutive.

### Reclassifications

Certain reclassifications have been made to the 2000 and 1999 amounts to be consistent with the 2001 financial statement presentation.

## NOTE 2

### Supplemental Disclosure of Cash Flow Information

(in thousands)	For the years ended December 31,		
	2001	2000	1999
Cash paid during the year for:			
Interest	\$ 45,720	\$ 56,248	\$ 58,943
Income taxes	1,996	64,600 <sup>(a)</sup>	6,223

<sup>(a)</sup> The increase in taxes paid in 2000 is due primarily to the gain on asset dispositions in 2000 and 1999 (see Note 11).

## NOTE 3

### Stockholders' Equity and Casino Magic Argentina Currency Devaluation

During the second half of 2001, the political and economic condition of Argentina deteriorated, including an increase in the risk of being unable to repatriate funds out of the country, the fall of international reserves, the continuous fiscal imbalance, and the decrease in the financial system deposits. In December 2001, these events culminated in the resignation of the then President of the country, the imposition of restrictions on cash withdrawals, the delaying of payment of wages to government employees and the closing of the banking system from late December 2001 to January 11, 2002. In an effort to stabilize the country, the new government of Argentina elected to devalue the Argentine Peso in early January 2002 (which had been pegged to the U.S. dollar for over ten years), as well as stop all transfers of U.S. dollars out of the country.

As a result of the actions taken, the Company recorded a translation loss in the amount of \$4,430,000 and reflected such loss as Accumulated Other Comprehensive Loss, a separate component of stockholders' equity, as of December 31, 2001. In accordance with EITF Topic 0-12, Foreign Currency Translation — Selection of an Exchange Rate When Trading is Temporarily Suspended, the Company recorded a translation loss based upon applying the open market exchange rate of 1.65 pesos to the U.S. Dollar, the approximate rate when the foreign exchange markets opened on January 11, 2002, to the assets and liabilities as of December 31, 2001. (Total assets of Casino Magic Argentina at December 31, 2001 were \$14,287,000, including the \$3,452,000 of restricted cash maintained in Argentina and \$2,911,000 of cash maintained outside the country). The Company anticipates such translation loss will fluctuate in the future based on changes in the currency exchange rate between the Argentine Peso and the U.S. Dollar.

In September 1998, the Company granted 817,500 stock options (625,000 at an exercise price of \$10.1875 and 192,500 at an exercise price of \$18.00) outside of the Company's 1993 and 1996 Stock Option Plans (see Note 17) to four executives hired on January 1, 1999. Of these grants, 613,125 (420,625 at

an exercise price of \$10.1875 and 192,500 at an exercise price of \$18.00) were made subject to shareholder approval, which approval was granted at the shareholder meeting held May 25, 1999 (the "Measurement Date") at which time the stock price was \$14.13. Accounting Principles Board Opinion No. 25 requires that compensation be determined as of the Measurement Date based on the excess of the quoted market price over the exercise price of the stock and charged over the service period of the executives in their employment agreements or option vesting period, whichever is shorter. As the employment service period for the executives expired in 2001, there will be no future charges. Compensation related to these options for the years ended December 31, 2001, 2000 and 1999, was \$414,000, \$414,000 and \$828,000, respectively.

In August 1998, the Company announced its intention to repurchase and retire up to 20%, or approximately 5,256,000 shares, of its then issued and outstanding common stock on the open market or in negotiated transactions. In February 2001, the Company announced its intention to continue to make purchases under this program. During the year ended December 31, 2001, the Company repurchased 1,103,000 shares at a cost of approximately \$9,820,000. Over the life of the program, the Company has repurchased 1,603,000 shares at a total cost of approximately \$15,360,000. Effective with Amendment No. 6 to the Credit Facility (see Note 14), the Company agreed to suspend additional stock repurchase activity until April 1, 2002. Under the Company's most restrictive debt covenants, approximately \$3,000,000 is otherwise available to continue the stock buyback program at December 31, 2001.

## NOTE 4

### Asset Impairment Write-downs

During the fourth quarter of 2001, under provisions of SFAS No. 121, the Company determined that it would not be able to recover the net book value of the Crystal Park Casino card club on an undiscounted cash flow basis, as it agreed to reduce the rent payable to the Company to \$20,000 per month from \$100,000 a month, effective October 1, 2001. As such, the Company recorded an impairment write-down of the long-lived assets comprising the Crystal Park Casino card club of \$20,358,000 representing the difference between its net book value of \$26,358,000 and its estimated fair value less estimated costs to sell. Fair value was determined by management based on current real estate and market conditions in Compton, California. In addition, as the Company has begun aggressively seeking a buyer of Crystal Park Casino, the Company reclassified the net book value to "Assets held for sale" as of December 31, 2001, as the Company committed to a disposal plan in the fourth quarter of 2001 (see Note 5).

In addition, during the fourth quarter of 2001, under provisions of SFAS No. 121, the Company determined it would not be able to recover the net book value of the Boomtown Belle I

(the original cruising riverboat casino operated at Boomtown New Orleans) based on recent offers to purchase the cruising riverboat casino. As such, the Company recorded an impairment write-down of approximately \$1,808,000, representing the difference between its net book value of \$1,932,000 and its estimated fair value less estimated selling costs. Fair value was based on the most recent offer to purchase the asset for salvage value. In addition, the Company reclassified the net book value to "Assets held for sale" as of December 31, 2001, as the Company committed to a disposal plan in the fourth quarter of 2001 (see Note 5).

Also, during the fourth quarter of 2001, the Company committed to a sale of a breakwater asset at Casino Magic Biloxi to a local fishery entity for a nominal amount, as well as wrote-down certain other assets at Casino Magic Biloxi, and as such recorded asset impairment charges of approximately \$1,364,000.

#### **NOTE 5**

##### **Assets Held For Sale**

Assets held for sale at December 31, 2001 consists primarily of 97 acres of surplus land in Inglewood, California and the Crystal Park Casino in Compton, California (see Note 4), and at December 31, 2000 consists of the 97 acres of surplus land in Inglewood, California.

As noted below (see Note 11), in September 1999, the Company sold 240 acres of land in conjunction with the sale of the Hollywood Park Race Track and Casino in Inglewood, California and in March 2001, sold another 42 acres of surplus land. As of December 31, 2001, the Company continues to seek a buyer of the remaining 97 acres of land owned in Inglewood, California, and as such, has classified the land as held for sale on the Consolidated Balance Sheets since December 2000. In April 2000, the Company announced it had entered into an agreement for the sale of the 97 acres for \$63,050,000 in cash. In April 2001, the Company announced the prospective buyer had elected to terminate the agreement. The Company continues to market the property to prospective buyers.

#### **NOTE 6**

##### **HP Yakama**

In 1998, the Company, through its wholly owned subsidiary HP Yakama, Inc. ("HP Yakama"), loaned approximately \$9,618,000 to the Tribal Gaming Corporation (the "Tribal Corporation") to construct the Legends Casino in Yakima, Washington. The Tribal Corporation gave HP Yakama a promissory note for the \$9,618,000, payable in 84 equal monthly installments at a 10% rate of interest.

Pursuant to a seven year Master Lease between HP Yakama and the Confederated Tribes and Bands of the Yakama Indian Nation (the "Tribes"), HP Yakama was required to pay the Tribes monthly rent of \$1,000. HP Yakama and the Tribal Corporation concurrently entered into a corresponding

seven-year Sublease, under which the Tribal Corporation owed rent to HP Yakama. Such rent under the Sublease was initially set at 28% of Net Revenues (as defined in the relevant agreements), and decreased to 22% over the seven-year term of the lease.

In June 2001, the Company received an early pay-off of the promissory note (which amount was approximately \$6,300,000 at such time) and related Master Lease and Sublease agreements for a cumulative amount of approximately \$8,490,000. After deducting for cash participation receivables through June 30, 2001, and certain closing costs, the Company's pre-tax gain from the transaction (which was recorded in the second quarter of 2001) was approximately \$639,000. Effective with this early termination of the promissory note and related lease agreement, the Company no longer receives interest income nor cash flow participation income for the sublease agreements.

#### **NOTE 7**

##### **Louisiana Dockside Gaming Legislation**

In March 2001, the Louisiana state legislature passed a law enabling riverboat casinos to remain dockside at all times and increased the gaming taxes paid to the state of Louisiana from 18.5% to 21.5% of net gaming proceeds effective April 1, 2001 for the nine riverboats in the southern region of the state, including the Company's Boomtown New Orleans property. The gaming tax increase to 21.5% of net gaming proceeds will be phased in over an approximately two-year period for the riverboats operating in parishes bordering the Red River, including the Company's Casino Magic Bossier City property. The phase-in included a 1% increase on April 1, 2001, with another 1% on each of April 1, 2002 and 2003.

#### **NOTE 8**

##### **Expansion and Development**

###### *Casino Magic Bossier City*

In the third quarter of 2001, based on continued competitive market conditions and the slower than anticipated growth of the Shreveport/Bossier City gaming market, the Company elected to amend its prior expansion plans for the Casino Magic Bossier City facility. Such construction now consists of a \$25,000,000 renovation and expansion project and includes remodeling of the existing pavilion building and dockside riverboat casino, all new restaurants and a new multi-purpose showroom. In addition, the Company's Credit Facility was amended in November 2001 (see Note 14) to allow for such \$25,000,000 improvement. Such renovation and expansion commenced in December 2001 and is expected to be substantially completed in early July 2002. Concurrently with the completion of the renovation and expansion project, the Company anticipates re-branding the facility to "Boomtown Bossier City".

### *Lake Charles*

In November 1999, the Company filed an application for the fifteenth and final gaming license to be issued by the Louisiana Gaming Control Board (the "Gaming Control Board"). In July 2000, the Company was one of three groups that presented their proposed projects to the Gaming Control Board. On October 16, 2001, the Company was selected by the Gaming Control Board to receive the license. Issuance of the license is subject to a number of conditions, which conditions were finalized by the Company and the Gaming Control Board in November 2001 (the "Lake Charles Conditions"). The Lake Charles Conditions include, but are not limited to, the approval of the voters of Calcasieu Parish, where the Lake Charles project is located, currently scheduled for April 6, 2002. There are no assurances such referendum will not be delayed beyond April 2002, and if held, that it will pass.

In addition to the April 6, 2002 Calcasieu Parish vote noted above, other Lake Charles Conditions include, but are not limited to, building a facility consistent with the July 2000 presentation, meeting certain construction milestone dates and satisfying the financing requirements to complete the project (including segregating \$22,500,000 in a refundable "escrow" account upon the voter approval of the project in Calcasieu Parish and demonstrating the financial resources in cash and available credit facility access for the full project amount of \$225,000,000 once construction commences in the second half of 2002). The Company anticipates it will continue to meet each of the Lake Charles Conditions, however there can be no assurances the Company will do so, in which event the Company would not be licensed to operate a casino in Lake Charles, Louisiana.

The proposed project is the construction and operation of a \$225,000,000 (excluding capitalized interest) dockside riverboat casino, hotel and golf course resort complex in Lake Charles, Louisiana. The Company is considering various financing options for the development of the proposed project (and therefore compliance with the financing requirement of the Lake Charles Conditions), including, but not limited to, utilizing the Company's existing credit facility (see Note 14 to the Notes to Consolidated Financial Statements), a new credit facility or other senior debt, leasing arrangements and joint venture arrangements.

In February 2002, the Governor of Louisiana signed a compact with the Jena Band of Choctaw Indians (the "Choctaw Indians") to allow for the development and operation of a land-based casino in the city of Vinton, Louisiana (which city is in Calcasieu Parish and is 20 miles closer to Houston, Texas, the major marketing area for casinos in Lake Charles, than the Company's proposed Lake Charles project). In March 2002, such compact was disapproved by the U.S. Department of the Interior. In the absence of an additional Indian gaming

facility in Calcasieu Parish (as one currently exists to the east of the Company's proposed Lake Charles project), the Company anticipates building a facility similar in design and scope to that of Belterra Casino Resort.

In connection with the 1999 application noted above, Pinnacle Entertainment entered into an option agreement with the Lake Charles Harbor and Terminal District (the "District") to lease 225 acres of unimproved land from the District upon which such resort complex would be constructed. The initial lease option was for a six-month period ending January 2000, with three six-month renewal options (all of which have been exercised), at a cost of \$62,500 per six-month renewal option. In June 2001 and again in January 2002, the District agreed to extend the option period for additional six-month terms at a cost of \$62,500 per six-month term. In the event the local referendum noted above is not held prior to the expiration of the current option extension, the Company anticipates requesting an additional lease option extension from the District. These lease option payments are expensed over the option periods. If the lease option were exercised, the annual rental payment would be \$815,000, with a maximum annual increase of 5%, commencing upon opening of the facility. The term of the lease would be for a total of up to 70 years, with an initial term of 10 years and six consecutive renewal options of 10 years each. The lease would require the Company to develop certain on- and off-site improvements at the location. All costs incurred by the Company related to obtaining this license have been expensed as incurred.

### **NOTE 9**

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#### **Acquisitions**

##### *Purchase of Belterra Casino Resort Minority Interest*

Prior to August 2001, the Company owned a 97% interest in the Belterra Casino Resort which opened in October 2000, with the remaining 3% held by a non-voting local partner. In November 2000, the Company entered into an agreement with the local partner whereby the local partner had the right to require the Company to purchase, for a purchase price determined in accordance with the agreement, its entire ownership interest in the Belterra Casino Resort at any time on or after January 1, 2001. A \$100,000 deposit toward such ultimate purchase price was made by the Company to the partner at that time. In July 2001, the local partner exercised the right to require the Company to purchase the remaining 3% ownership interest held by the partner for approximately \$1,600,000 as calculated in accordance with the agreement. In August 2001, the remaining payment of approximately \$1,500,000 was made to the partner and, as such, the Belterra Casino Resort is now wholly owned by the Company.

*Purchase of Casino Magic Argentina Minority Interest*

On October 8, 1999, the Company purchased the 49% minority interest not owned by the Company in Casino Magic Argentina for \$16,500,000 in cash. The \$12,300,000 purchase price paid in October 1999 in excess of the then minority interest was allocated to goodwill and, through December 31, 2001, was being amortized over the extended life of the concession agreement, as described in Note 1 "Goodwill". Consistent with the implementation of SFAS No. 142 (see Note 1 "Goodwill"), goodwill will no longer be amortized, but instead will be subject to at least an annual assessment for impairment by applying a fair-value-based test. In the case of the goodwill recorded for the Casino Magic Argentina minority interest purchase, and to the extent there remains any goodwill after implementation of SFAS No. 142, such fair-value-based test will be impacted in the event the Company elects to not invest capital in Casino Magic Argentina and, as such, the concession contract is not extended beyond December 2006 (see Note 1 "Gaming Licenses").

*Casino Magic Acquisition*

On October 15, 1998, the Company acquired Casino Magic, Corp. (the "Casino Magic Merger"). As a result of the Casino Magic Merger, Casino Magic became a wholly owned subsidiary of the Company. The Casino Magic Merger was accounted for under the purchase method of accounting for a business combination. The purchase price of the Casino Magic Merger was allocated to identifiable assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Assets acquired and liabilities assumed were, when necessary, written up or down to their fair market values based on financial analyses, which considered the impact of general economic, financial and market conditions. The Casino Magic Merger generated certain excess acquisition costs over the fair value of the net assets acquired, which was recorded as goodwill and was being amortized over 40 years. Pursuant to the implementation of SFAS No. 142 (see Note 1 "Goodwill"), the remaining unamortized goodwill of \$38,460,000 will no longer be amortized. As noted above, the Company is in the process of completing its evaluation of the financial statement impact of adoption of SFAS No. 142 and anticipates there will be an impairment charge recorded in the first quarter of 2002 related to its Casino Magic locations.

*Boomtown Acquisition*

On June 30, 1997, the Company acquired Boomtown, Inc. (the "Boomtown Merger"). As a result of the Boomtown Merger, Boomtown became a wholly owned subsidiary of the Company. The Boomtown Merger was accounted for under the purchase method of accounting for a business combination. The purchase price of the Boomtown Merger was allocated to identifiable assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Assets acquired

and liabilities assumed were, when necessary, written up or down to their fair market values based on financial analyses, which considered the impact of general economic, financial and market conditions. The Boomtown Merger generated certain excess acquisition cost over the fair value of the net assets acquired, which was recorded as goodwill and was being amortized over 40 years. Pursuant to the implementation of FAS 142 (see Note 1 "Goodwill"), the remaining unamortized goodwill of \$19,558,000 will no longer be amortized. As noted above, the Company is in the process of completing its evaluation of the financial statement impact of adoption of SFAS No. 142 and does not anticipate there will be an impairment charge recorded related to its Boomtown locations. As such, the remaining unamortized goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test.

**NOTE 10****Terminated Merger Agreement**

In April 2000, the Company entered into a definitive agreement with PH Casino Resorts ("PHCR"), a newly formed subsidiary of Harveys Casino Resorts, and Pinnacle Acquisition Corporation ("Pinnacle Acq Corp"), a newly formed subsidiary of PHCR, pursuant to which PHCR would have acquired by merger (the "Merger") all of the outstanding capital stock of Pinnacle Entertainment for cash consideration (the "Merger Agreement"). Consummation of the Merger was subject to numerous conditions, including PHCR obtaining the necessary financing for the transaction and regulatory approvals.

In January 2001, the Company announced that it had been notified by PHCR that PHCR did not intend to further extend the outside closing date (previously extended to January 31, 2001) of the Merger. Since all of the conditions to consummation of the Merger would not be met by such date, the Company, PHCR and Pinnacle Acq Corp mutually agreed that the Merger Agreement would be terminated.

**NOTE 11****Assets Sold***Casino Sales*

In August 2000, the Company completed the sale of two of its casinos in Mississippi, Casino Magic Bay St. Louis and Boomtown Biloxi, to subsidiaries of Penn National Gaming, Inc. ("Penn National") for \$195,000,000 in cash. The after-tax gain from these sales was approximately \$35,538,000. Condensed results of operations before income taxes for the Casino Magic Bay St. Louis and Boomtown Biloxi casinos from January 1, 2000 to August 8, 2000 (the date of sale) and for the year ended December 31, 1999 were as follows:

<i>(in thousands)</i>	<i>For the 221 days ended August 8, 2000</i>	<i>For the year ended December 31, 1999</i>
Revenues <sup>(a)</sup>	\$ 93,668	\$ 150,897
Expenses	<u>76,417</u>	<u>125,408</u>
Operating income	17,251	25,489
Interest expense, net	90	86
Income before income taxes	<u>\$ 17,161</u>	<u>\$ 25,403</u>

<sup>(a)</sup> Revenues for the 221 days ended August 8, 2000 include proceeds from the settlement of a business interruption claim of approximately \$1,204,000 related to hurricane damage and casino closure in September 1998.

#### *Turf Paradise Sale*

In June 2000, the Company completed the sale of Turf Paradise to a company owned by a private investor for \$53,000,000 in cash. The after-tax gain from this sale was approximately \$21,262,000. The condensed results of operations before income taxes for Turf Paradise from January 1, 2000 to June 13, 2000 (the date of sale) and for the year ended December 31, 1999 were:

<i>(in thousands)</i>	<i>For the 165 days ended June 13, 2000</i>	<i>For the year ended December 31, 1999</i>
Revenues	\$ 10,665	\$ 17,644
Expenses	<u>7,628</u>	<u>13,819</u>
Operating income	3,037	3,825
Interest expense, net	49	—
Income before income taxes	<u>\$ 3,086</u>	<u>\$ 3,825</u>

#### *Land Sale*

In March 2000, the Company announced it had completed the sale of approximately 42 acres of surplus land in Inglewood, California to Home Depot, Inc. for \$24,200,000 in cash. The after tax gain from this sale was approximately \$15,322,000.

#### *Dispositions of Hollywood Park Race Track and Hollywood Park-Casino*

In September 1999, the Company completed the dispositions of the Hollywood Park Race Track and Hollywood Park-Casino to Churchill Downs for \$117,000,000 in cash and \$23,000,000 in cash, respectively. Churchill Downs acquired the race track, 240 acres of related real estate and the Hollywood Park-Casino. The Company then entered into a 10-year leaseback of the Hollywood Park-Casino at an annual lease rate of \$3,000,000 per annum, with a 10-year renewal option. The Company then subleased the facility to a third party operator for a lease payment of \$6,000,000 per year. The initial term of the sublease was for a one-year period. In September 2000, the Company renewed the sublease until the earlier of December 31, 2001 or the expiration or early termination of the Company's lease with Churchill Downs. In December 2001, the Company further renewed the sublease until December 31, 2002.

The disposition of the Hollywood Park Race Track and related real estate was accounted for as a sale and resulted in a pre-tax gain of \$61,522,000. The disposition of the Hollywood Park-Casino was accounted for as a financing transaction and therefore not recognized as a sale for accounting purposes as the Company subleased the Hollywood Park-Casino to a third-party operator. During the third quarter of 1999, under the provisions of SFAS No. 121, the Company determined that it would not be able to recover the net book value of the Hollywood Park-Casino on an undiscounted cash flow basis. The Company recorded an impairment write-down of the long-lived assets comprising the Hollywood Park-Casino of \$20,446,000 representing the difference between its net book value of \$43,400,000 and its estimated fair value. Fair value was determined based on an independent appraisal. Due to competitive conditions in the California casino market, sublease rentals were projected to decline over the ten-year lease term. Pursuant to accounting guidelines, the Company recorded a long-term debt obligation of \$23,000,000 for the Hollywood Park-Casino (see Note 14). The Hollywood Park-Casino building will continue to be depreciated over its estimated useful life.

Due to the disposition of the Hollywood Park Race Track and Hollywood Park-Casino in September 1999, there are no results of operations for the years ended December 31, 2001 and 2000 for these facilities. As discussed above, effective with the disposition of the Hollywood Park-Casino, the Company receives lease income from the operator of the facility, which was \$6,000,000 in 2001 and 2000 and is included in other revenue.

The condensed results of operations before income taxes for the Hollywood Park Race Track and Hollywood Park-Casino from January 1, 1999 to September 10, 1999 (the date of sale) was:

<i>(in thousands)</i>	<i>For the 253 days ended September 10, 1999</i>
Revenues	\$ 86,235
Expenses	<u>73,019</u>
Operating income	13,216
Interest expense <sup>(a)</sup>	0
Income before income taxes	<u>\$ 13,216</u>

<sup>(a)</sup> No interest expense was specifically identified for these operations.

**NOTE 12**

**Income Taxes**

The composition of the Company's income tax expense (benefit) for the years ended December 31, 2001, 2000 and 1999 was as follows:

<i>(in thousands)</i>	<i>Current</i>	<i>Deferred</i>	<i>Total</i>
<b>YEAR ENDED DECEMBER 31, 2001:</b>			
U.S. Federal	\$ (3,866)	\$ (16,200)	\$ (20,066)
State	(607)	(2,546)	(3,153)
Foreign	1,313	0	1,313
	<u>\$ (3,160)</u>	<u>\$ (18,746)</u>	<u>\$ (21,906)</u>
<b>YEAR ENDED DECEMBER 31, 2000:</b>			
U.S. Federal	\$ 52,545	\$ (10,119)	\$ 42,426
State	8,249	(2,125)	6,124
Foreign	2,353	0	2,353
	<u>\$ 63,147</u>	<u>\$ (12,244)</u>	<u>\$ 50,903<sup>(a)</sup></u>
<b>YEAR ENDED DECEMBER 31, 1999:</b>			
U.S. Federal	\$ 10,986	\$ 21,963	\$ 32,949
State	2,392	3,137	5,529
Foreign	2,448	0	2,448
	<u>\$ 15,826</u>	<u>\$ 25,100</u>	<u>\$ 40,926</u>

<sup>(a)</sup> Includes \$1,493,000 of tax benefit of extraordinary item.

The following table reconciles the Company's income tax expense to the federal statutory tax rate of 35%:

<i>(in thousands)</i>	<i>For the years ended December 31,</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>
Federal income tax expense (benefit) at the statutory rate	\$ (17,694)	\$ 46,161	\$ 29,741
State income taxes, net of federal tax benefits	(2,781)	6,124	5,529
Non-deductible impairment write-down on Hollywood Park-Casino (see Note 11)	0	0	7,157
Other expenses (income)	3,173	111	(1,501)
Reduction in valuation allowance	(4,604)	0	0
Income tax expense (benefit) before extraordinary item	(21,906)	52,396	40,926
Tax benefit of extraordinary item	0	(1,493)	0
Income tax (benefit) expense	<u>\$ (21,906)</u>	<u>\$ 50,903</u>	<u>\$ 40,926</u>

At December 31, 2001 and 2000, the tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

<i>(in thousands)</i>	<i>2001</i>	<i>2000</i>
<b>CURRENT DEFERRED TAX ASSETS (LIABILITIES):</b>		
Workers' compensation insurance reserve	\$ 487	\$ 819
General liability insurance reserve	75	436
Vacation and sick pay accrual	1,390	2,230
Sale of Hollywood Park Race Track & Casino	0	1,739
Sale of Mississippi Casinos and Turf Paradise	0	(12,555)
Legal and merger reserves	1,840	2,146
Other	920	850
Net current deferred tax assets/(liabilities)	<u>\$ 4,712</u>	<u>\$ (4,335)</u>
<b>NON-CURRENT DEFERRED TAX ASSETS (LIABILITIES):</b>		
Net operating loss carry-forwards	\$ 9,042	\$ 19,969
Excess tax basis over book value of acquired assets	11,736	11,736
Asset impairment writedowns	9,454	0
Los Angeles revitalization zone tax credits	9,967	11,717
Less valuation allowance	(27,396)	(32,000)
Depreciation, amortization and pre-opening expenses	(38,223)	(30,042)
Other	2,734	8,858
Net non-current deferred tax liabilities	<u>\$ (22,686)</u>	<u>\$ (9,762)</u>

Prior to 2000, the Company earned a substantial amount of California tax credits related to the ownership and operation of the Hollywood Park Race Track and Hollywood Park-Casino as well as the ownership of the Crystal Park Card Club Casino, which were located in the Los Angeles Revitalization Tax Zone (LARZ). As of December 31, 2001, the Company had approximately \$9,967,000 of Los Angeles Revitalization Zone ("LARZ") tax credits. The LARZ tax credits can only be used to reduce certain California tax liabilities and cannot be used to reduce federal tax liabilities. A valuation allowance has been recorded with respect to the LARZ tax credits because the Company may not generate enough income subject to California tax to utilize the LARZ tax credits before they expire. The amount subject to carry-forward of these unused California tax credits (net of valuation allowance) was approximately \$967,000. The LARZ credits will expire between 2007 to 2012.

As of December 31, 2001, the Company had federal net operating loss ("NOL") of approximately \$22,326,000 comprised principally of NOL carry-forwards acquired in the Casino Magic Merger. The NOL carry-forwards expire on various dates through 2018. Under the provision of Internal Revenue Code (Section 382) and the regulations promulgated thereunder, the utilization of NOL carry-forwards to reduce tax liability is restricted under certain circumstances. Events which cause such a limitation, include, but are not limited to, certain changes in the ownership of a corporation. The 1998 acquisition of Casino Magic resulted in such limitation and, accordingly, the Company's use of Casino Magic's NOL carry-forwards is subject to restrictions imposed by Section 382 of the Internal Revenue Code.

## NOTE 13

### Property, Plant and Equipment

Property, plant and equipment held at December 31, 2001 and 2000 consisted of the following:

<i>(in thousands)</i>	December 31,	
	2001 <sup>(a)</sup>	2000 <sup>(a)</sup>
Land and land improvements	\$ 106,643	\$ 96,249
Buildings	327,864	353,902
Equipment	196,708	183,523
Vessel and barges	112,029	105,829
Construction in progress	12,129	2,404
	<u>755,373</u>	<u>741,907</u>
Less accumulated depreciation	<u>179,074</u>	<u>148,189</u>
	<u>\$ 576,299</u>	<u>\$ 593,718</u>

<sup>(a)</sup> Excludes \$18,285,000 and \$12,164,000 of assets held for sale as of December 31, 2001 and 2000, respectively (see Note 5).

## NOTE 14

### Secured and Unsecured Notes Payable

Notes payable at December 31, 2001 and 2000 consisted of the following:

<i>(in thousands)</i>	December 31,	
	2001	2000
Secured notes payable, Credit Facility	\$ 0	\$ 0
Unsecured 9.25% Notes	350,000	350,000
Unsecured 9.5% Notes	125,000	125,000
Hollywood Park-Casino debt obligation	18,847	20,745
Other secured notes payable	2,407	3,259
Other unsecured notes payable	893	1,590
	<u>497,147</u>	<u>500,594</u>
Less current maturities	<u>3,654</u>	<u>3,432</u>
	<u>\$ 493,493</u>	<u>\$ 497,162</u>

#### Secured Notes Payable, Bank Credit Facility

Under the terms of the 1998 bank credit facility with a syndicate of banks, expiring in 2003 (the "Credit Facility"), the Company chose in May of 1999 to reduce the amount available under the facility from \$300,000,000 to \$200,000,000. Effective April 2, 2001, July 2, 2001 and October 1, 2001, the commitment amount of the Credit Facility was automatically reduced by \$10,000,000 on each such date, such that, in connection with the scheduled commitment reductions, the commitment balance at October 1, 2001 was \$170,000,000. In November 2001, the Company chose to further reduce the amount available under the facility to \$110,000,000. Remaining scheduled commitment reductions are \$6,667,000 on March 31, 2003 and \$16,667,000 on each June 30 and September 30, 2003. The Credit Facility also provides for letters of credit up to \$30,000,000 and swing line loans of up to \$10,000,000.

As of December 31, 2001 and 2000, the Company had no outstanding borrowings under the Credit Facility. The Credit Facility has remained unused since February 1999.

Interest rates on borrowings under the Credit Facility are determined by adding a margin, which is based upon the Company's debt to cash flow ratio (as defined in the Credit Facility), to either the LIBOR rate or Prime Rate (at the Company's option). The Company also pays a quarterly commitment fee on the unused balance of the Credit Facility. The Credit Facility allows for interest rate swap agreements or other interest rate protection agreements. Presently, the Company does not use such financial instruments.

In November 2001, the Company and the bank syndicate executed Amendment No. 6, which, among other things: (i) amended various financial covenant ratios to be more consistent with current operations (therefore, reflective of the economic uncertainty enhanced by the tragedies of September 11, 2001), (ii) allowed for certain capital expenditures, including \$25,000,000 related to Casino Magic Bossier City (see Note 8), (iii) suspended any additional stock repurchase activity until April 1, 2002 and, (iv) required the Company to utilize its cash (other than working capital and casino cash) prior to drawing on the facility. In July 2001, the Company and the bank syndicate executed Amendment No. 5, which, among other things: (i) amended various financial covenant ratios to be more consistent with operations (therefore reflective of the operations sold in 1999 and 2000, as well as the opening of the Belterra Casino Resort in October 2000), and (ii) allowed for the necessary capital spending for the Lake Charles project (see Note 8). An additional amendment to the Credit Facility will be necessary to obtain approval from the bank syndicate for capital projects not specifically provided for in either Amendment No. 5 or No. 6. Costs associated with Amendment No. 5 and 6 have been deferred and amortized over the remaining life of the bank credit facility.

#### Unsecured 9.25% and 9.5% Notes

In February of 1999, the Company issued \$350,000,000 of 9.25% Senior Subordinated Notes due 2007 (the "9.25% Notes"), the proceeds from which were used to pay the outstanding borrowings on the Credit Facility, to fund current capital expenditures, and for other general corporate purposes.

In August of 1997, the Company issued \$125,000,000 of 9.5% Senior Subordinated Notes due 2007 (the "9.5% Notes"). On January 29, 1999, the Company received the required number of consents to modify selected covenants associated with the 9.5% Notes. Among other things, the modifications lowered the required minimum consolidated coverage ratio for debt assumption and increased the size of allowed borrowings under the Credit Facility. The Company paid a consent fee of \$50 per \$1,000 principal amount of the 9.5% Notes which, combined with other transactional expenses, is being amortized over the remaining term of the 9.5% Notes.

The 9.25% and 9.5% Notes are redeemable, at the option of the Company, in whole or in part, on the following dates, at the following premium-to-face values:

9.25% Notes redeemable:		9.5% Notes redeemable:	
After February 14,	at a premium of	After July 31,	at a premium of
2003	104.625%	2002	104.750%
2004	103.083%	2003	102.375%
2005	101.542%	2004	101.188%
2006	100.000%	2005	100.000%
2007	maturity	2006	100.000%
		2007	maturity

Both the 9.25% and the 9.5% Notes are unsecured obligations of the Company, guaranteed by all material restricted subsidiaries of the Company, as defined in the indentures. The Casino Magic Argentina subsidiaries do not guaranty the debt. The indentures governing the 9.25% and 9.5% Notes, as well as the Credit Facility, contain certain covenants limiting the ability of the Company and its restricted subsidiaries to incur additional indebtedness, issue preferred stock, pay dividends or make certain distributions, repurchase equity interests or subordinated indebtedness (including the Company's common stock — see Note 3), create certain liens, enter into certain transactions with affiliates, sell assets, issue or sell equity interests in its subsidiaries, or enter into certain mergers and consolidations.

#### Redemption of Casino Magic 13% Notes and Extraordinary Item

In August of 1996, Casino Magic of Louisiana, Corp. ("Casino Magic of Louisiana") issued \$115,000,000 of 13% First Mortgage Notes due 2003 (the "Casino Magic 13% Notes"), with contingent interest equal to 5% of Casino Magic Bossier City's adjusted consolidated cash flows (as defined by the indenture).

On August 15, 2000, the Company redeemed all \$112,875,000 in aggregate principal amount of its then outstanding Casino Magic 13% Notes at the redemption price of 106.5%. Upon deposit of principal, premium and accrued interest for such redemption, Casino Magic of Louisiana satisfied all conditions required to discharge its obligations under the indenture. In connection with the redemption, in August 2000, the Company recorded an extraordinary loss of \$2,653,000, net of federal and state income taxes, or \$0.10 per basic and diluted share. The extraordinary loss represents the payment of the redemption premium and the write-off of deferred finance and premium costs, net of the related federal and state income tax benefit of \$1,493,000. Following the redemption, Casino Magic of Louisiana became a guarantor of the Credit Facility, the 9.25% Notes and the 9.5% Notes.

#### Hollywood Park-Casino Debt Obligation

In connection with the disposition of the Hollywood Park-Casino to Churchill Downs in September 1999, the Company recorded a long-term lease obligation of \$23,000,000. Annual lease payments to Churchill Downs of \$3,000,000 are applied as a reduction of principal and interest expense. The debt obligation is being amortized, based on a mortgage interest method, over 10 years (the initial lease term with Churchill Downs).

#### Annual Maturities

As of December 31, 2001, annual maturities of secured and unsecured notes payable (including the long-term lease obligation related to the Hollywood Park-Casino) are as follows:

(in thousands)

YEAR ENDING DECEMBER 31:	
2002	\$ 3,654
2003	2,416
2004	2,343
2005	2,474
2006	2,564
Thereafter	483,696
	<u>\$ 497,147</u>

#### NOTE 15

##### Long Term Lease Obligations

The Company has certain long term lease obligations, including corporate office space (approximately 10,000 square feet), land at Belterra Casino Resort, office equipment and gaming equipment. Minimum lease payments required under operating leases that have initial terms in excess of one year as of December 31, 2001 are as follows:

Period (in thousands)

2002	\$ 7,384
2003	5,697
2004	4,784
2005	4,413
2006	4,177
Thereafter	48,663
	<u>\$ 75,118</u>

Total rent expense for these long-term lease obligations for the years ended December 31, 2001, 2000 and 1999 was \$9,488,000, \$7,281,000 and \$6,481,000, respectively.

#### NOTE 16

##### Slot Participation Expense

The Company is also a party to a number of slot participation arrangements at its various casinos (which arrangements are customary for casino operations). The arrangements consist of either a fix rent agreement on a per day basis, or a percentage of slot machine gaming revenue, generally payable at month-end. Slot participation expense was \$9,539,000, \$7,048,000 and \$6,746,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

#### NOTE 17

##### Stock Option Plans

The Company has three stock option plans (the "Stock Option Plans") that provide for the granting of stock options to officers and key employees. The objectives of these plans include attracting and retaining the best personnel, providing for additional performance incentives, and promoting the success of the Company. In 2001, the shareholders of the Company adopted the 2001 Stock Option Plan (the "2001 Plan"), which provides for the issuance of up to 900,000 shares. Except for the provisions governing the number

of shares issuable under the 2001 Plan and except for the provisions which reflect changes in tax and securities laws, the provisions of the 2001 Plan are substantially similar to the provisions of the prior plan adopted in 1993. In 1996, the shareholders of the Company adopted the 1996 Stock Option Plan (the "1996 Plan"), which provides for the issuance of up to 900,000 shares. Except for the provisions governing the number of shares issuable under the 1996 Plan and except for the provisions which reflect changes in tax and securities laws, the provisions of the 1996 Plan are substantially similar to the provisions of the prior plan adopted in 1993.

The Stock Options Plans are administered and terms of option grants are established by the Board of Directors' Compensation Committee. Under the terms of the Stock Option Plans, options alone, or coupled with stock appreciation rights, may be granted to select key employees, directors, consultants and advisors of the Company. Options become exercisable ratably over a vesting period as determined by the Compensation Committee and expire over terms not exceeding ten years from the date of grant, one month after termination of employment, or six months after the death or permanent disability of the optionee. The purchase price for all shares granted under the Stock Option Plans shall be determined by the Compensation Committee, but in the case of incentive stock options, the price will not be less than the fair market value of the common stock at the date of grant.

As of December 31, 2001, the 2001 Plan is the only plan with stock option awards available for grant; all of the 900,000 shares eligible for issuance under the 1996 Plan and all of the 625,000 shares eligible for issuance under the 1993 stock option plan have been granted. Of the 900,000 shares eligible for issuance under the 2001 Plan, approximately 165,000 have been granted. In addition, 585,000 shares (all of which are vested and have a weighted average exercise price of \$8.56 per share) of Pinnacle Entertainment common stock are issuable upon exercise of options granted under pre-merger stock option plans of Boomtown. In addition, 174,000 shares (all of which are vested and have a weighted average exercise price of \$23.03 per share) of Pinnacle Entertainment common stock are issuable upon exercise of options granted under pre-merger stock options plans of Casino Magic.

On September 10, 1998, the Company granted 817,500 options (625,000 at an exercise price of \$10.1875, and 192,500 at an exercise price of \$18.00) outside of the 1993 and 1996 Plans to the executive management team hired as of January 1, 1999 (see Note 3). As of December 31, 2001, none of these options were exercised.

The following table summarizes information related to shares under option and shares available for grant under the Company's 2001, 1996 and 1993 plans:

	Number of Shares	Weighted Average Exercise Price
Options outstanding at December 31, 1998	1,644,321 <sup>(a)</sup>	\$ 12.02
Granted	298,500	\$ 12.30
Exercised, expired or forfeited	(253,478)	\$ 11.72
Options outstanding at December 31, 1999	1,689,343	\$ 12.08
Granted	0	\$ 0.00
Exercised, expired or forfeited	(116,259)	\$ 13.53
Options outstanding at December 31, 2000	1,573,084	\$ 12.13
Granted	595,000	\$ 9.85
Exercised, expired or forfeited	(127,583)	\$ 8.62
<b>Options outstanding at December 31, 2001</b>	<b>2,040,501</b>	<b>\$ 11.52</b>
Options exercisable at:		
December 31, 2001	1,326,257	\$ 12.20
December 31, 2000	995,912	\$ 12.23
December 31, 1999	701,926	\$ 11.90

<sup>(a)</sup> Includes 817,500 options issued outside of the 1993 and 1996 Plans.

The following table summarizes information about stock options under the 2001, 1996 and 1993 plans outstanding as of December 31, 2001:

Range of Exercise Price	Outstanding		Exercisable	
	Number of Shares at 12/31/01	Weighted Average Exercise Price	Number of Shares at 12/31/01	Weighted Average Exercise Price
\$6.70 to \$10.19	1,190,633	\$ 9.71	824,638	\$ 10.03
\$10.65 to \$14.75	614,501	\$ 12.54	297,502	\$ 14.20
\$14.81 to \$20.25	235,367	\$ 18.03	204,117	\$ 18.03
	<b>2,040,501</b>	<b>\$ 11.52</b>	<b>1,326,257</b>	<b>\$ 12.20</b>

The weighted average remaining contractual life of the outstanding options under the Company's 2001, 1996 and 1993 plans as of December 31, 2001 is approximately 7.18 years.

#### Accounting for Stock-Based Compensation

The Company estimated the fair market value of stock options using an option-pricing model taking into account, as of the date of grant, the exercise price and expected life of the option, the then current price of the underlying stock and its expected volatility, expected dividend on the stock, and the risk-free interest rate for the expected term of the options.

In computing the stock-based compensation, the following assumptions were made:

	Risk-Free Interest Rate	Original Expected Life	Expected Volatility	Expected Dividends
Options granted in the following periods:				
1997	5.0%	3 years	47.8%	None
1998	4.5%	3 to 10 years	40.1%	None
1999	4.6%	10 years	47.3%	None
2001	4.7%	7 years	50.4%	None

The following sets forth the unaudited pro forma financial results related to the Company's employee stock-based compensation plans, with respect to the options estimated fair value, based on the Company's stock price at the grant date:

	<i>For the years ended December 31,</i>		
<i>(in thousands, except per share data)</i>	2001	2000	1999
Net (loss) income before extraordinary item and stock-based compensation expense	\$ (28,649)	\$ 79,492	\$ 44,047
Stock-based compensation expense	2,748	1,187	1,510
Pro forma net (loss) income, before extraordinary item	(31,397)	78,305	42,537
Extraordinary item, net of taxes	0	2,653	0
Pro forma net (loss) income	<u>\$ (31,397)</u>	<u>\$ 75,652</u>	<u>\$ 42,537</u>
Pro forma net (loss) income per common share — basic			
Pro forma net (loss) income before extraordinary income	\$ (1.22)	\$ 2.97	\$ 1.64
Extraordinary item, net of tax benefit	0.00	(0.10)	0.00
Pro forma net (loss) income per share — basic	<u>\$ (1.22)</u>	<u>\$ 2.87</u>	<u>\$ 1.64</u>
Pro forma net (loss) income per common share — diluted			
Pro forma net (loss) income before extraordinary income	\$ (1.22)	\$ 2.85	\$ 1.62
Extraordinary item, net of tax benefit	0.00	(0.10)	0.00
Pro forma net (loss) income per share — diluted	<u>\$ (1.22)</u>	<u>\$ 2.75</u>	<u>\$ 1.62</u>
Number of shares — basic	25,814	26,335	25,966
Number of shares — diluted	25,814	27,456	26,329

#### **NOTE 18**

##### **Employee Benefit Plans**

The Company offers a 401(k) Investment Plan (the "401(k) Plan") which is subject to the provisions of the Employee Retirement Income Security Act of 1994. The 401(k) Plan is available to all employees of the Company (except those covered by collective bargaining agreements) who have completed a minimum of 500 hours of service. Employees may contribute up to 18% of pretax income (subject to the legal limitation of \$10,500 for 2001). The Company offers discretionary matching, and for the years ended December 31, 2001, 2000 and 1999 matching contributions to the 401(k) Plan totaled \$567,000, \$1,027,000 and \$1,437,000, respectively.

Prior to the sale of the Hollywood Park Race Track in September of 1999, the Company contributed to several collectively-bargained multi-employer pension and retirement plans, which were administered by unions, and to a pension plan covering non-union employees, administered by an association of race track owners. Amounts charged to pension cost and contributed to these plans for the year ended December 31, 1999 totaled \$948,000. Contributions to the collectively-bargained plans were determined in accordance with the provisions of

negotiated labor contracts and generally based upon the number of employee hours or days worked. Contributions to the non-union plans were based on the covered employees' compensation. It is management's belief that no withdrawal liability existed for these plans at the time of the sale of the race track.

On January 1, 2000, the Company instituted a nonqualified Executive Deferred Compensation Plan (the "Deferred Plan") to permit certain key employees to defer receipt of current compensation in order to provide retirement benefits on behalf of such employees. The Company does not make matching contributions to the Deferred Plan. As a nonqualified plan (as defined by the Internal Revenue Code), all deferred compensation remains within the general assets of the Company and would be subject to claims of general creditors in the unlikely case of insolvency. The Company has the right to amend, modify or terminate the Deferred Plan.

#### **NOTE 19**

##### **Related Party Transactions**

In June 1998, the Company and R.D. Hubbard Enterprises, Inc. ("Hubbard Enterprises"), which is wholly owned by Mr. Hubbard, (the Company's Chairman) entered into a new Aircraft Time Sharing Agreement. A prior agreement was entered into in November 1993. The June 1998 Aircraft Time Sharing Agreement is identical to the prior agreement in all respects, except for the type of aircraft covered by the agreement. The June 1998 Aircraft Time Sharing Agreement expired on December 31, 1999, and now automatically renews each month unless written notice of termination is given by either party at least two weeks before a renewal date. The Company reimburses Hubbard Enterprises for expenses incurred as a result of the Company's use of the aircraft, which totaled approximately \$55,000 in 2001, \$97,000 in 2000 and \$176,000 in 1999.

Timothy J. Parrott (a director and member of the Executive Committee, and, as of October 2000, a member of the Audit Committee of the Company's Board of Directors) purchased 270,738 shares of Boomtown common stock in connection with Boomtown's 1988 acquisition of Boomtown Hotel & Casino, Inc. (which operates Boomtown Reno). Mr. Parrott paid an aggregate purchase price for the common stock of \$222,000, of which \$1,000 was paid in cash and \$221,000 was paid by a promissory note secured by a pledge to Boomtown of all of the shares owned by Mr. Parrott. As of October 31, 1998, Mr. Parrott resigned his position as Chairman of Boomtown, and the Company retained him as a consultant to provide services relating to gaming and other business issues. For such services, Mr. Parrott was retained for a three-year period, which period expired in October 2001, with an annual retainer of \$350,000 with health and disability benefits equivalent to those he received as Chairman of Boomtown. Mr. Parrott's \$221,000 note was forgiven in three equal parts on each anniversary of the consulting agreement.

Marlin Torguson, who beneficially owned approximately 21.5% of the then outstanding common shares of Casino Magic, agreed, in connection with the Casino Magic acquisition, to vote his Casino Magic shares in favor of the acquisition by the Company. In addition, Mr. Torguson agreed to continue to serve as an employee of Casino Magic for three years following the acquisition, and during such three year period, not to compete with the Company or Casino Magic in any jurisdiction in which either the Company or Casino Magic operates. The Company appointed Mr. Torguson to its Board of Directors. The Company issued to Mr. Torguson 60,000 shares of the Company's common stock as compensation for his three-year service as an employee, and paid him \$300,000 for each year, during the three-year period, which period expired in October 2001, for his non-compete agreement. In addition, the Company issued Mr. Torguson 30,000 options to acquire the Company's common stock as of the October 15, 1998, acquisition of Casino Magic, priced at the closing price of the Company's common stock on that date. All of the foregoing payments have been made to Mr. Torguson as of December 31, 2001.

## **NOTE 20**

### **Commitments and Contingencies**

#### *Employment and Severance Agreement*

The Company has an employment agreement with one officer, which grants the employee the right to receive his annual salary for up to the balance of the contract period, plus extension of certain benefits and the immediate vesting of certain stock options, if the employee terminates the contract for good reason (as defined in the employment agreement) or if the Company terminates the employee without cause (as defined in the employment agreement). In the event of a change in control (as defined in the employment agreement), the employee is entitled to receive one full year's salary plus the maximum bonus payable, plus extension of certain benefits and the immediate vesting of all stock options. At December 31, 2001, the maximum contingent liability for salary and incentive compensation under this agreement was approximately \$600,000.

#### *Legal*

##### *Astoria Entertainment Litigation*

In November 1998, Astoria Entertainment, Inc. filed a complaint in the United States District Court for the Eastern District of Louisiana. Astoria, an unsuccessful applicant for a license to operate a riverboat casino in Louisiana, attempted to assert a claim under the Racketeer Influenced and Corrupt Organizations ("RICO") statutes, seeking damages allegedly resulting from its failure to obtain a license. Astoria named several companies and individuals as defendants, including Hollywood Park, Inc. (the predecessor to Pinnacle Entertainment), Louisiana Gaming Enterprises, Inc. ("LGE"), a wholly owned subsidiary of the Company, and an employee of Boomtown, Inc. The Company believed the RICO claim against it had no

merit and, indeed, Astoria voluntarily dismissed its RICO claim against Hollywood Park, LGE, and the Boomtown employee.

On March 1, 2001, Astoria amended its complaint. Astoria's amended complaint added new legal claims, and named Boomtown, Inc. and LGE as defendants. Astoria claims that the defendants (i) conspired to corrupt the process for awarding licenses to operate riverboat casinos in Louisiana, (ii) succeeded in corrupting the process, (iii) violated federal and Louisiana antitrust laws, and (iv) violated the Louisiana Unfair Trade Practices Act. The amended complaint asserts that Astoria would have obtained a license to operate a riverboat casino in Louisiana, but for these alleged improper acts. On August 21, 2001, the court dismissed Astoria's federal claims with prejudice and its state claims without prejudice. On September 21, 2001, Astoria appealed those dismissals to the U.S. Court of Appeals for the Fifth Circuit. On October 3, 2001, Boomtown, Inc. and LGE filed a cross-appeal on the grounds that the state claims should have been dismissed with prejudice. Astoria subsequently voluntarily dismissed its appeal. Boomtown Inc.'s and LGE's appeal is currently pending before the court.

#### *Poulos Lawsuit*

A class action lawsuit was filed on April 26, 1994, in the United States District Court, Middle District of Florida (the "Poulos Lawsuit"), naming as defendants 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Casino Magic. The lawsuit alleges that the defendants have engaged in a course of fraudulent and misleading conduct intended to induce people to play such games based on false beliefs concerning the operation of the gaming machines and the extent to which there is an opportunity to win. The suit alleges violations of the Racketeer Influenced and Corrupt Organization Act ("RICO"), as well as claims of common law fraud, unjust enrichment and negligent misrepresentation, and seeks damages in excess of \$6 billion. On May 10, 1994, a second class action lawsuit was filed in the United States District Court, Middle District of Florida (the "Ahern Lawsuit"), naming as defendants the same defendants who were named in the Poulos Lawsuit and adding as defendants the owners of certain casino operations in Puerto Rico and the Bahamas, who were not named as defendants in the Poulos Lawsuit. The claims in the Ahern Lawsuit are identical to the claims in the Poulos Lawsuit. Because of the similarity of parties and claims, the Poulos Lawsuit and Ahern Lawsuit were consolidated into one case file (the "Poulos/Ahern Lawsuit") in the United States District Court, Middle District of Florida. On December 9, 1994 a motion by the defendants for change of venue was granted, transferring the case to the United States District Court for the District of Nevada, in Las Vegas. In an order dated April 17, 1996, the court granted motions to dismiss filed by Casino Magic and other defendants

and dismissed the Complaint without prejudice. The plaintiffs then filed an amended Complaint on May 31, 1996 seeking damages against Casino Magic and other defendants in excess of \$1 billion and punitive damages for violations of RICO and for state common law claims for fraud, unjust enrichment and negligent misrepresentation.

At a December 13, 1996 status conference, the Poulos/Ahern Lawsuit was consolidated with two other class action lawsuits (one on behalf of a smaller, more defined class of plaintiffs and one against additional defendants) involving allegations substantially identical to those in the Poulos/Ahern Lawsuit (collectively, the "Consolidated Lawsuits") and all pending motions in the Consolidated Lawsuits were deemed withdrawn without prejudice. The plaintiffs in the Consolidated Lawsuits filed a consolidated amended complaint on February 14, 1997, which the defendants moved to dismiss. On December 19, 1997, the court granted the defendants' motion to dismiss certain allegations in the RICO claim, but denied the motion as to the remainder of such claim; granted the defendants' motion to strike certain parts of the consolidated amended complaint; denied the defendants' remaining motions to dismiss and to stay or abstain; and permitted the plaintiffs to substitute one of the class representatives. On January 9, 1998, the plaintiffs filed a second consolidated amended complaint containing claims nearly identical to those in the previously dismissed complaints. The defendants answered, denying the substantive allegations of the second consolidated amended complaint. On March 19, 1998, the magistrate judge granted the defendants' motion to bifurcate discovery into "class" and "merits" phases. "Class" discovery was completed on July 17, 1998. The magistrate judge recommended denial of the plaintiffs' motion to compel further discovery from the defendants, and the court affirmed in part. "Merits" discovery is stayed until the court decides the motion for class certification filed by the plaintiffs on March 18, 1998, which motion the defendants opposed. In January 2001, the plaintiffs filed a supplement to their motion for class certification. On March 29, 2001, defendants filed their response to plaintiffs' supplement to motion for class certification. The hearing on plaintiffs' Motion for Class Certification was held November 15, 2001. The Court has not issued a ruling on this motion.

The claims are not covered under the Company's insurance policies. While the Company cannot predict the outcome of this litigation, management believes that the claims are without merit and does not expect that the lawsuit will have a materially adverse effect on the financial condition or results of operations of the Company.

#### *Casino America Litigation*

On or about September 6, 1996, Casino America, Inc. commenced litigation in the Chancery Court of Harrison County, Mississippi, Second Judicial District, against Casino Magic Corp., and James Edward Ernst, its then Chief Executive

Officer. In the complaint, as amended, the plaintiff claims, among other things, that the defendants (i) breached the terms of an agreement they had with the plaintiff; (ii) tortiously interfered with certain of the plaintiff's contracts and business relations; and (iii) breached covenants of good faith and fair dealing they allegedly owed to the plaintiff, and seeks compensatory damages in an amount to be proven at trial as well as punitive damages. On or about October 8, 1996, the defendants interposed an answer, denying the allegations contained in the Complaint. On June 26, 1998, defendants filed a motion for summary judgment, as well as a motion for partial summary judgment on damages issues. Thereafter, the plaintiff, in July of 1998, filed a motion to reopen discovery. The court granted the plaintiff's motion, in part, allowing the parties to conduct additional limited discovery. On November 30, 1999, the matter was transferred to the Circuit Court for the Second Judicial District for Harrison County, Mississippi. On October 19, 2001, the Court denied defendant's motion for summary judgment. On October 22, 2001, the Court granted defendant's motion for partial summary judgment, in part, requiring plaintiff to modify its method of calculating damages. On October 24, 2001, the defendants were granted a continuance in order to allow additional discovery to be conducted on plaintiff's revised damage claims. Trial has been set for November 12, 2002. The Company's insurer has essentially denied coverage of the claim against Mr. Ernst under the Company's directors and officers insurance policy, but has reserved its right to review the matter as to tortious interference at or following trial. The Company believes that the insurer should not be permitted to deny coverage, although no assurances can be given that the insurer will change its position. While the Company cannot predict the outcome of this action, management believes the lawsuit will not have a material adverse effect and intends to vigorously defend this action.

#### *Skrimetta Lawsuit*

A suit was filed on August 14, 1998 in the Circuit Court of Harrison County, Mississippi by the ground lessor of property underlying the Boomtown Biloxi land based improvements in Biloxi, Mississippi (the "Project"). The lawsuit alleged that the plaintiff agreed to exchange the first two years' ground rentals for an equity position in the Project based upon defendants' purported assurances that a hotel would be constructed as a component of the Project. Plaintiff sought recovery in excess of \$4,000,000 plus punitive damages. At trial of the matter in March 2000, the judge granted the Company's motion to dismiss the case. On April 26, 2000, plaintiff appealed the court's dismissal to the Mississippi Supreme Court. On February 7, 2002, the Mississippi Supreme Court affirmed the judgment of the lower court.

#### *Casino Magic Biloxi Patron Shooting Incident*

On January 13, 2001, three Casino Magic Biloxi patrons were shot, sustaining serious injuries as a result of a shooting incident involving another Casino Magic Biloxi patron, who then killed himself. Several other patrons sustained minor injuries while attempting to exit the casino. On August 1, 2001, two of the casino patrons shot during the January 13, 2001 incident filed a complaint in the Circuit Court of Harrison County, Mississippi, Second Judicial District. The complaint alleges that Biloxi Casino Corp. failed to exercise reasonable care to keep its patrons safe from foreseeable criminal acts of third persons and seeks unspecified compensatory and punitive damages. The Plaintiffs filed an amended complaint on August 17, 2001. The amended complaint added an allegation that Biloxi Casino Corp. violated a Mississippi statute by serving alcoholic beverages to the perpetrator who was allegedly visibly intoxicated and that Biloxi Casino Corp.'s violation of the statute was the proximate cause of or contributing cause to Plaintiffs' injuries. While the Company cannot predict the outcome of the litigation, the Company believes that Biloxi Casino Corp. is not liable for any damages arising from the incident and the Company, together with its applicable insurers, intends to vigorously defend this lawsuit.

#### *Actions by Greek Authorities*

In 1995, a Dutch subsidiary of Casino Magic Corp., Casino Magic Europe B.V. ("CME"), performed management services for Porto Carras Casino, S.A. ("PCC"), a joint venture in which CME had a minority interest. Effective December 31, 1995, CME with the approval of PCC, assigned its interests and obligations under the PCC management agreement to a Greek subsidiary, Casino Magic Hellas S.A. ("Hellas"). Hellas issued invoices to PCC for management fees which accrued during 1995, but had not been billed by CME.

In September 1996, local Greek tax authorities in Thessaloniki assessed a penalty of approximately \$3,500,000 against Hellas, and an equal amount against PCC, arising out of the presentation and payment of the invoices. The Thessaloniki tax authorities asserted that the Hellas invoices were fictitious, representing an effort to reduce the taxable income of PCC.

PCC and Hellas each appealed their respective assessments. The assessment of the fine against PCC was overturned by the Administrative court of Thessaloniki on December 11, 2000. The court determined that the actions taken by Hellas and PCC were not fictitious but constituted a legitimate business transaction and accordingly overturned the assessment of the fine. The taxing authorities may appeal the court's decision. Hellas's appeal was dismissed for technical procedural failures and has not been reinstated; presumably, however, the rationale of the court in the PCC fine matter would apply equally to the Hellas fine matter.

Under Greek law, shareholders are not liable for the liabilities of a Greek company in which they hold shares, even if the

entity is later liquidated or dissolved, and assessments such as these generally are treated as liabilities of the company. Additionally, all of PCC's stock was sold to an unrelated company in December of 1996, and the buyer assumed all of PCC's liabilities. Therefore, management does not expect that this matter will have a materially adverse effect on the financial condition or results of operations of the Company.

In June 2000, Greek authorities issued a warrant to appear at a September 29, 2000 criminal proceeding to Marlin Torguson (a member of the Company's board of directors and Chairman of the Board of Casino Magic since its inception) and Robert Callaway (former Associate General Counsel for the Company and, prior to its acquisition by the Company, Casino Magic's General Counsel). They were charged under Greek law, and convicted in absentia, as being culpable criminally for corporate misconduct based solely on their status as alleged executive board members of PCC. The Company is advised that they are not, and have never been, managing (active) executive directors of PCC. Accordingly, the Company believes that they were improperly named in the proceedings. The defendants have a right of appeal for a de novo trial under Greek law.

Upon being notified of the convictions, the Company's compliance committee suspended Mr. Callaway and Mr. Torguson from their respective duties, other than to assist in the investigation of actions described above, and sought the resignation of Mr. Torguson from the Company board of directors. At the time that the Greek court overturned the PCC fine, and based upon (1) the determination of the court that the Hellas/PCC transaction was a legitimate transaction and (2) the fact that neither Mr. Torguson nor Mr. Callaway were properly named, the compliance committee reinstated Messrs. Torguson and Callaway. In February 2001, Mr. Callaway left the employ of the Company.

During the first quarter of 2001, the Greek taxing authorities appealed the December 11, 2000 decision by the Administrative Court of Thessaloniki overturning the assessment of the fine against PCC. No hearing date on such appeal has been set.

On March 30, 2001, appeals on behalf of Marlin Torguson and Robert Callaway were filed. The hearing before the three-member Court of Misdemeanors of Thessaloniki has been set for October 24, 2002.

The Company has been advised that the resolution of the related civil penalties may sometimes resolve criminal issues in Greece. The Company is actively working to resolve the civil and criminal actions related to this matter.

#### *Other*

The Company is party to a number of other pending legal proceedings, though management does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material effect on the Company's financial results.

**NOTE 21**
**Unaudited Quarterly Information;  
Supplementary Financial Information**

The following is a summary of unaudited quarterly financial data for the years ended December 31, 2001 and 2000:

(in thousands, except per share data)	2001			
	Dec. 31,	Sept. 30,	June 30,	Mar. 31,
Revenues	\$ 123,767	\$ 139,264	\$ 131,603	\$ 134,007
Loss (gain) on asset impairment/ disposition, net	\$ 23,530	\$ 81	\$ (581)	\$ 0
Pre-opening costs, Belterra Casino Resort	\$ 0	\$ 0	\$ 412	\$ 198
Terminated merger	\$ 0	\$ 0	\$ (464)	\$ 0
Operating (loss) income	\$ (22,879)	\$ 7,390	\$ 2,621	\$ 7,145
Net (loss) income	\$ (22,244)	\$ 1,003	\$ (5,287)	\$ (2,121)

**Per Share Data**

Net (loss) income per share – basic & diluted <sup>(a)</sup>	\$ (0.87)	\$ 0.04	\$ (0.20)	\$ (0.08)
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(in thousands, except per share data)	2000			
	Dec. 31,	Sept. 30,	June 30,	Mar. 31,
Revenues	\$ 123,144	\$ 141,029	\$ 158,906	\$ 161,543
Loss (gain) on asset impairment/ disposition, net	\$ 566	\$ (59,941)	\$ (35,587)	\$ (23,854)
Pre-opening costs, Belterra Casino Resort	\$ 1,721	\$ 7,853	\$ 3,713	\$ 1,743
Terminated merger	\$ 724	\$ 2,878	\$ 1,500	\$ 625
Operating (loss) income	\$ (1,214)	\$ 71,319	\$ 54,768	\$ 47,031
Net (loss) income before extraordinary item	\$ (6,141)	\$ 37,489	\$ 26,232	\$ 21,912
Extraordinary item, net of taxes	0	2,653	0	0
Net (loss) income	\$ (6,141)	\$ 34,836	\$ 26,232	\$ 21,912

**Net (loss) income per common share — basic<sup>(a)</sup>**

Net (loss) income before extraordinary item	\$ (0.23)	\$ 1.42	\$ 1.00	\$ 0.83
Extraordinary item, net of tax benefit	0.00	(0.10)	0.00	0.00
Net (loss) income per share — basic	\$ (0.23)	\$ 1.32	\$ 1.00	\$ 0.83

**Net income per common share — diluted<sup>(a)</sup>**

Net (loss) income before extraordinary item	\$ (0.23)	\$ 1.37	\$ 0.96	\$ 0.80
Extraordinary item, net of tax benefit	0.00	(0.10)	0.00	0.00
Net (loss) income per share — diluted	\$ (0.23)	\$ 1.27	\$ 0.96	\$ 0.80

<sup>(a)</sup> Net (loss) income per share calculations for each quarter are based on the weighted average number of shares outstanding during the respective periods; accordingly, the sum of the quarters may not equal the full year (loss) income per share.

Below are the material unusual and infrequent occurring items that impacted the 2001 and 2000 quarterly financial results:

- In December 2001, the Company wrote down certain assets, including a card club in Compton, California, a riverboat casino in Harvey, Louisiana and a breakwater reef in Biloxi, Mississippi, and accordingly recorded asset impairment charges of \$23,530,000 (see Note 4).
- In June 2001, the Company received an early pay-off of the promissory note related to the HP Yakama operations and payment for the early termination of the Master Lease and Sublease, and after deducting for cash participation receivables through June 30, 2001, and certain closing costs, the Company's pre-tax gain from the transaction was approximately \$639,000 (see Note 6).
- In June 2001, the Company opened the Tom Fazio-designed championship golf course at Belterra Casino Resort, and in October 2000, the Company opened the Belterra Casino Resort. Pre-opening costs associated with the completion of the golf course in 2001 and the development and construction of the resort in 2000 were \$610,000 and \$15,030,000 for the years ended December 31, 2001 and 2000, respectively.
- In August 2000, the Company completed the sale of two of its casinos in Mississippi for \$195,000,000 in cash and an after-tax gain of \$35,538,000, in June 2000, the Company completed the sale of Turf Paradise for \$53,000,000 in cash and an after-tax gain of \$21,262,000, and in March 2000, the Company completed the sale of 42 acres of surplus land for \$24,200,000 in cash and an after-tax gain of \$15,322,000 (see Note 11).
- In August 2000, the Company redeemed all of the outstanding Casino Magic 13% Notes at a redemption price of 106.5%. In connection with the redemption, the Company recorded an extraordinary loss of \$2,653,000, which amount represents the payment of the redemption premium and the write-off of deferred finance and premium costs, net of the related income tax benefit (see Note 14).
- In April 2000, the Company entered into the Merger Agreement, which agreement was subsequently terminated in January 2001. In 2001, the Company recovered \$464,000 of costs due to the settlement of the Purported Class Action Lawsuits (see Note 20) and, in 2000, the Company incurred costs of \$5,727,000 in connection with the terminated merger (see Note 10). The Company does not expect to incur additional costs relating to the terminated merger.

**NOTE 22**
**Fair Value of Financial Instruments**

Due to the short-term maturity of financial instruments classified as current assets and liabilities, the fair value approximates the carrying value. It is not practical to estimate the fair value of long term receivables and long-term debt instruments, other than the 9.25% Notes and 9.5% Notes, because there are no quoted market prices for transactions of a similar nature.

Based on quoted market values at December 31, 2001, the fair values of the 9.5% and 9.25% Notes are approximately \$107,500,000 and 297,500,000, respectively, compared to book values as of December 31, 2001 of \$125,000,000 and \$350,000,000, respectively.

**NOTE 23****Consolidating Condensed Financial Information**

The Company's subsidiaries (excluding Casino Magic Argentina and certain non-material subsidiaries) have fully and unconditionally guaranteed the payment of all obligations under the 9.25% Notes and the 9.5% Notes. Separate financial statements and other disclosures regarding the subsidiary guarantors are not included herein because management has determined that such information is not material to investors. In lieu thereof, the Company includes the following:

	<i>As of and for the year ended December 31, 2001</i>				
<i>(in thousands)</i>	<i>Pinnacle Entertainment, Inc.</i>	<i>Wbolly Owned Guarantor Subsidiaries<sup>(a)</sup></i>	<i>Wbolly Owned Non-Guarantor Subsidiaries<sup>(b)</sup></i>	<i>Consolidating and Eliminating Entries</i>	<i>Pinnacle Entertainment, Inc. Consolidated</i>
<b>BALANCE SHEET</b>					
Current assets	\$ 140,407	\$ 70,992	\$ 7,425	\$ 0	\$ 218,824
Property, plant and equipment, net	21,753	552,633	1,913	0	576,299
Other non-current assets	20,796	57,631	4,949	40,850	124,226
Investment in subsidiaries	542,202	5,280	0	(547,482)	0
Inter-company	156,082	20,360	0	(176,442)	0
	<u>\$ 881,240</u>	<u>\$ 706,896</u>	<u>\$ 14,287</u>	<u>\$ (683,074)</u>	<u>\$ 919,349</u>
Current liabilities	\$ 34,816	\$ 46,223	\$ 2,615	\$ 0	\$ 83,654
Notes payable, long term	492,016	1,477	0	0	493,493
Other non-current liabilities	34,892	0	0	(12,206)	22,686
Inter-company	0	170,050	6,392	(176,442)	0
Equity	319,516	489,146	5,280	(494,426)	319,516
	<u>\$ 881,240</u>	<u>\$ 706,896</u>	<u>\$ 14,287</u>	<u>\$ (683,074)</u>	<u>\$ 919,349</u>
<b>STATEMENT OF OPERATIONS</b>					
Revenues:					
Gaming	\$ 0	\$ 423,487	\$ 18,602	\$ 0	\$ 442,089
Food and beverage	0	29,524	1,428	0	30,952
Equity in subsidiaries	(16,308)	4,622	0	11,686	0
Other	6,000	49,471	129	0	55,600
	<u>\$ (10,308)</u>	<u>\$ 507,104</u>	<u>\$ 20,159</u>	<u>\$ 11,686</u>	<u>\$ 528,641</u>
Expenses:					
Gaming	0	254,589	4,984	0	259,573
Food and beverage	0	37,665	1,134	0	38,799
Administrative and other	15,119	164,451	6,972	0	186,542
Depreciation and amortization	2,684	44,203	1,447	1,116	49,450
	<u>17,803</u>	<u>500,908</u>	<u>14,537</u>	<u>1,116</u>	<u>534,364</u>
Operating income (loss)	(28,111)	6,196	5,622	10,570	(5,723)
Interest expense (income), net	46,129	(984)	(313)	0	44,832
Income (loss) before management fee, intercompany interest expense (income) and taxes	(74,240)	7,180	5,935	10,570	(50,555)
Management fee & intercompany interest expense (income)	(23,488)	23,488	0	0	0
Income tax expense	(23,219)	0	1,313	0	(21,906)
Net income (loss)	<u>\$ (27,533)</u>	<u>\$ (16,308)</u>	<u>\$ 4,622</u>	<u>\$ 10,570</u>	<u>\$ (28,649)</u>
<b>STATEMENT OF CASH FLOWS</b>					
Net cash provided by (used in) operating activities	\$ (11,862)	\$ 48,297	\$ (1,486)	\$ 1,116	\$ 36,065
Net cash provided by (used in) investing activities	(264)	(41,461)	(1,579)	0	(43,304)
Net cash provided by (used in) financing activities	(11,591)	(851)	0	0	(12,442)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of and for the year ended December 31, 2000

<i>(in thousands)</i>	<i>Pinnacle Entertainment, Inc.</i>	<i>Wholly Owned Guarantor Subsidiaries <sup>(a)</sup></i>	<i>Wholly Owned Non-Guarantor Subsidiaries <sup>(b)</sup></i>	<i>Consolidating and Eliminating Entries</i>	<i>Pinnacle Entertainment, Inc. Consolidated</i>
<b>BALANCE SHEET</b>					
Current assets	\$ 146,941	\$ 67,931	\$ 9,985	\$ 0	\$ 224,857
Property, plant and equipment, net	23,969	567,714	2,035	0	593,718
Other non-current assets	24,309	70,927	5,693	41,971	142,900
Investment in subsidiaries	560,204	6,539	0	(566,743)	0
Inter-company	162,213	100,074	0	(262,287)	0
	<u>\$ 917,636</u>	<u>\$ 813,185</u>	<u>\$ 17,713</u>	<u>\$ (787,059)</u>	<u>\$ 961,475</u>
Current liabilities	\$ 43,115	\$ 50,683	(\$423)	\$ 0	\$ 93,375
Notes payable, long term	494,729	2,433	0	0	497,162
Other non-current liabilities	18,615	(2,447)	5,800	(12,206)	9,762
Inter-company	0	256,490	5,797	(262,287)	0
Equity	361,177	506,026	6,539	(512,566)	361,176
	<u>\$ 917,636</u>	<u>\$ 813,185</u>	<u>\$ 17,713</u>	<u>\$ (787,059)</u>	<u>\$ 961,475</u>
<b>STATEMENT OF OPERATIONS</b>					
Revenues:					
Gaming	\$ 0	\$ 441,503	\$ 20,398	\$ 0	\$ 461,901
Food and beverage	1,056	29,300	1,564	0	31,920
Racing	9,452	0	0	0	9,452
Equity in subsidiaries	63,703	5,150	0	(68,853)	0
Other	6,157	53,565	130	0	59,852
	<u>80,368</u>	<u>529,518</u>	<u>22,092</u>	<u>(68,853)</u>	<u>563,125</u>
Expenses:					
Gaming	0	252,565	5,781	0	258,346
Food and beverage	892	32,952	1,336	0	35,180
Racing	4,133	0	0	0	4,133
Administrative and other	24,351	135,928	5,997	0	166,276
(Gain) loss on disposition of assets	(119,718)	902	0	0	(118,816)
Depreciation and amortization	3,336	39,798	1,573	1,395	46,102
	<u>(87,006)</u>	<u>462,145</u>	<u>14,687</u>	<u>1,395</u>	<u>391,221</u>
Operating income (loss)	167,374	67,373	7,405	(70,248)	171,904
Interest expense (income), net	39,279	1,017	(280)	0	40,016
Income (loss) before taxes and extraordinary item	128,095	66,356	7,685	(70,248)	131,888
Income tax expense	49,861	0	2,535	0	52,396
Net income (loss) before extraordinary item	78,234	66,356	5,150	(70,248)	79,492
Extraordinary item, net of income taxes	0	2,653	0	0	2,653
Net income (loss)	<u>\$ 78,234</u>	<u>\$ 63,703</u>	<u>\$ 5,150</u>	<u>\$ (70,248)</u>	<u>\$ 76,839</u>
<b>STATEMENT OF CASH FLOWS</b>					
Net cash provided by (used in) operating activities	\$ (333,857)	\$ 303,312	\$ 3,757	\$ 1,304	\$ (25,484)
Net cash provided by (used in) investing activities	388,466	(194,008)	(1,181)	0	193,277
Net cash provided by (used in) financing activities	(5,119)	(113,168)	0	0	(118,287)

As of and for the year ended December 31, 1999

<i>(in thousands)</i>	<i>Pinnacle Entertainment, Inc.</i>	<i>Wholly Owned Guarantor Subsidiaries <sup>(a)</sup></i>	<i>Wholly Owned Non-Guarantor Subsidiaries <sup>(b)</sup></i>	<i>Consolidating and Eliminating Entries</i>	<i>Pinnacle Entertainment, Inc. Consolidated</i>
<b>BALANCE SHEET</b>					
Current assets	\$ 220,216	\$ 188,330	\$ 28,928	\$ 0	\$ 437,474
Property, plant and equipment, net	36,671	311,165	89,879	0	437,715
Other non-current assets	28,369	40,788	44,599	56,463	170,219
Investment in subsidiaries	340,840	86,215	0	(427,055)	0
Inter-company	239,469	173,002	31,493	(443,964)	0
	<u>\$ 865,565</u>	<u>\$ 799,500</u>	<u>\$ 194,899</u>	<u>\$(814,556)</u>	<u>\$1,045,408</u>
Current liabilities	\$ 75,933	\$ 52,159	\$ 16,916	\$ 0	\$ 145,008
Notes payable, long term	502,421	3,393	112,884	0	618,698
Other non-current liabilities	(7,165)	83	20,114	(12,206)	826
Inter-company	13,500	406,437	24,031	(443,968)	0
Equity	280,876	337,428	20,954	(358,382)	280,876
	<u>\$ 865,565</u>	<u>\$ 799,500</u>	<u>\$ 194,899</u>	<u>\$(814,556)</u>	<u>\$1,045,408</u>
<b>STATEMENT OF OPERATIONS</b>					
Revenues:					
Gaming	\$ 33,638	\$ 356,833	\$ 146,190	\$ 0	\$ 536,661
Racing	39,714	15,495	0	0	55,209
Food and beverage	8,073	27,823	3,921	0	39,817
Equity in subsidiaries	78,679	42,974	0	(121,653)	0
Other	6,661	44,324	3,320	0	54,305
	<u>166,765</u>	<u>487,449</u>	<u>153,431</u>	<u>(121,653)</u>	<u>685,992</u>
Expenses:					
Gaming	18,241	188,434	81,968	0	288,643
Racing	15,843	6,851	0	0	22,694
Food and beverage	11,060	31,237	4,261	0	46,558
Administrative and other	34,124	114,633	25,273	0	174,030
(Gain) loss on disposition of assets	(42,828)	767	0	0	(42,061)
Depreciation and amortization	5,295	35,480	9,664	1,485	51,924
	<u>41,735</u>	<u>377,402</u>	<u>121,166</u>	<u>1,485</u>	<u>541,788</u>
Operating income (loss)	125,030	110,047	32,265	(123,138)	144,204
Interest expense, net	41,030	(1,460)	17,974	0	57,544
Income (loss) before minority interests and taxes	84,000	111,507	14,291	(123,138)	86,660
Minority interests	0	1,687	0	0	1,687
Income tax expense	38,469	10	2,447	0	40,926
Net income (loss)	<u>\$ 45,531</u>	<u>\$ 109,810</u>	<u>\$ 11,844</u>	<u>\$(123,138)</u>	<u>\$ 44,047</u>
<b>STATEMENT OF CASH FLOWS</b>					
Net cash provided by (used in) operating activities	\$ 592	\$ 56,861	\$ 19,632	(\$1,762)	\$ 75,323
Net cash provided by (used in) investing activities	897	(49,100)	(2,860)	0	(51,063)
Net cash provided by (used in) financing activities	66,941	(3,149)	(8,924)	0	54,868

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<sup>(b)</sup> The following subsidiaries are treated as guarantors of both the 9.5% Notes and 9.25% Notes for all periods presented: Turf Paradise, Inc. (through June 13, 2000), Hollywood Park Food Services, Inc. (through September 10, 1999), Hollywood Park Fall Operating Company (through September 10, 1999) and, with respect to the 9.25% Notes, Hollywood Park Operating Company (through September 10, 1999) (it was a co-obligor on the 9.5% Notes through September 10, 1999), Belterra Resorts LLC, Boomtown, Inc., Boomtown Hotel & Casino, Inc., Bay View Yacht Club, Inc. (through August 8, 2000), Louisiana — I Gaming, Louisiana Gaming Enterprises, Inc., Boomtown Hoosier, Inc., HP Casino, Inc., HP Yakama, Inc., HP Consulting, Inc. and HP/Compton, Inc. The following subsidiaries were treated as guarantors for periods beginning on October 15, 1998, when the Casino Magic Merger was consummated: Casino Magic Corp., Mardi Gras Casino Corp. (through August 8, 2000), Biloxi Casino Corp., Bay St. Louis Casino Corp., Casino Magic Finance Corp., Casino Magic American Corp., and Casino One Corporation. Crystal Park Hotel and Casino Development Company, LLC and Mississippi — I Gaming L.P. (through August 8, 2000) were treated as wholly owned guarantors for periods beginning in January 1998 and October 1998, respectively, when the Company acquired the outstanding minority interests therein and they became wholly owned subsidiaries. Jefferson Casino Corporation and Casino Magic of Louisiana, Corp. were treated as wholly owned guarantors upon the redemption of the Casino Magic 13% Notes in August 2000 (see Note 14).

<sup>(b)</sup> Prior to the redemption of the Casino Magic 13% Notes on August 15, 2000, (see Note 14), Jefferson Casino Corporation and Casino Magic of Louisiana, Corp. were wholly owned non-guarantors of the 9.5% and 9.25% Notes. Upon redemption of the Casino Magic 13% Notes, Jefferson Casino Corporation and Casino Magic of Louisiana, Corporation became guarantors of the 9.5% and 9.25% Notes (see note (a) above). Prior to October 1999, Casino Magic Neuquen S.A. and its subsidiary Casino Magic Support Services were non-wholly owned non-guarantors to the 9.5% and 9.25% Notes. In October 1999, Casino Magic Neuquen S.A. and its subsidiary Casino Magic Support Services became wholly owned subsidiaries of the Company, but remain non-guarantors of the 9.5% and 9.25% Notes.

## MARKET INFORMATION

The Company's common stock is listed on the New York Stock Exchange and is traded under the name Pinnacle Entertainment, Inc., identified by the symbol "PNK". Prior to February 28, 2000, the Company's common stock was traded on the New York Stock Exchange under the name Hollywood Park, Inc., identified by the symbol "HPK".

The following table sets forth the high and low closing sales prices per common share of the Company's common stock on the New York Stock Exchange.

	Price Range	
	High	Low
<b>2001</b>		
First Quarter	\$ 13.81	\$ 9.70
Second Quarter	10.60	7.35
Third Quarter	8.99	5.95
Fourth Quarter	7.23	5.50
<b>2000</b>		
First Quarter	\$ 23.50	\$ 16.63
Second Quarter	20.81	18.63
Third Quarter	22.06	19.38
Fourth Quarter	22.81	12.69

As of March 22, 2002, there were 2,929 stockholders of record of the Company's common stock.

## DIVIDENDS

The Company did not pay any dividends in 2001 or 2000. Payments of future dividends would be at the discretion of the Company's Board of Directors and would depend upon, among other things, future earnings, operational and capital requirements, the overall financial condition of the Company and general business conditions. The Board of Directors does not anticipate paying any cash dividends on the Company's common stock in the foreseeable future.

# Corporate Information

## Directors

Daniel R. Lee <sup>(a)</sup>

Chairman of the Board

James L. Martineau <sup>(b)</sup>

Director

*Chairman, Genesis Portfolio Partners, LLC  
(start-up company development)*

Gary G. Miller <sup>(c)</sup>

Director

*Chairman of the Board & CEO, Four Star Golf, Inc.  
(golf management)*

Michael Ornest <sup>(c)</sup>

Director

*Private Investor*

Timothy J. Parrott <sup>(a,c)</sup>

Director

*Chief Executive Officer, On Stage Entertainment  
(entertainment production company)*

Lynn P. Reitnouer <sup>(a,b)</sup>

Director

*Partner, Crowell Weedon & Co.  
(stock brokerage)*

Marlin Torguson

Director

*Private Investor*

<sup>(a)</sup> Member of the Executive Committee

<sup>(b)</sup> Member of the Compensation Committee

<sup>(c)</sup> Member of the Audit Committee

## Executive Officers

Daniel R. Lee

Chief Executive Officer

G. Michael Finnigan

President and Chief Executive Officer  
of Realty Investment Group, Inc. (wholly  
owned subsidiary of the Company)

Wade W. Hundley

Executive Vice President and  
Chief Operating Officer

Bruce C. Hinckley

Senior Vice President, Chief Financial  
Officer and Treasurer

Loren Ostrow

Senior Vice President, Secretary and  
General Counsel

## Annual Meeting of Stockholders

June 18, 2002 9:00 AM PDT

Glendale Hilton  
100 West Glenoaks  
Glendale, CA 91202

## Securities Information

Pinnacle Entertainment, Inc. stock trades  
on the New York Stock Exchange under the  
symbol PNK.

## Transfer Agent and Registrar

American Stock Transfer, Inc.  
59 Maiden Lane  
New York, NY 10038  
(877) 770-0800  
www.amstock.com

## Trustee of Senior Subordinated Notes

The Bank of New York  
5 Penn Plaza, 13th Floor  
New York, NY 10001

## Annual Report on Form 10-K

Upon written request, the Company's Annual  
Report on Form 10-K for the fiscal year ended  
December 31, 2001, which has been filed with  
the Securities and Exchange Commission, is  
available free of charge.

## Corporate Offices

Pinnacle Entertainment, Inc.  
330 North Brand Boulevard, Suite 1100  
Glendale, CA 91203  
(818) 662-5900

## Web Sites

www.pinnacle-entertainment-inc.com  
www.casinomagic.com  
www.boomtowncasinos.com  
www.belterraresortcasino.com

## Certified Public Accountants

Andersen LLP  
Los Angeles, CA

## Legal Counsel

Irell & Manella LLP  
Los Angeles, CA



Photo: Joe Vericker/PhotoBureau Inc.

In April 2002, Pinnacle rewarded the employee of the year of each property with a trip to New York City. Besides touring Manhattan, they dined at Tavern on the Green, saw a Broadway Show and met with President Clinton at his offices.

Pictured, left to right is:

(Standing) Pinnacle's Chief Operating Officer Wade Hundley, Irvine Levine from Casino Magic-Bossier, Pinnacle's CEO Dan Lee, (seated) Maxine Levine CM-Bossier, Tia and Joseph Robertson BT-New Orleans, Glenda Jones and Jackie Freeman CM-Biloxi, and Anna Fletcher and Stewart Belterra Casino Resort. Abel and Bonnie Hernandez from BT-Reno had a delayed flight, missing the photo, but participated in all of the other activities.

