

PINNACLE ENTERTAINMENT INC
Form 10-Q/A
October 08, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A Amendment No. 1

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002
Commission file number 001-13641

PINNACLE ENTERTAINMENT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

95-3667491
(IRS Employer Identification No.)

330 North Brand Boulevard, Suite 1100, Glendale, California 91203
(Address of Principal Executive Offices) (Zip Code)

(818) 662-5900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES NO

The number of outstanding shares of the registrant's common stock, as of the close of business on May 8, 2002: 25,904,812.

PINNACLE ENTERTAINMENT, INC.

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EXPLANATORY NOTE

On June 24, 2002, Pinnacle Entertainment, Inc. filed Amendment No. 1 to its Registration Statement on Form S-3/A with the Securities and Exchange Commission (the "SEC"), amending its Registration Statement on Form S-3 originally filed on June 13, 2002. The Company hereby amends and restates Items 1, 2 and 6 of its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 that was originally filed with the SEC on May 15, 2002 (the "Original Filing"), to respond to comments the Company received from the SEC in connection with the Form S-3/A and to make certain other changes, including to conform the presentation in this report with that contained in the Form S-3/A. As discussed in Note 13 of the Company's condensed consolidated financial statements, the Company's reportable segments have been restated to include segment information for the Company's properties and operations on a disaggregated basis.

This report continues to speak as of the date of the Original Filing (except for Note 14 to the Consolidated Financial Statements with respect to subsequent events through the date of this amendment), and we have not updated the disclosures in this report to speak as of a later date. Updated information regarding recent developments is included in the Company's other filings with the SEC and in press releases issued by the Company.

References to "Pinnacle Entertainment," "the Company," "we" or "our" in this report refer to Pinnacle Entertainment, Inc.

PART I

Item 1. Financial Information

PINNACLE ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended March 31,	
	2002	2001
	(in thousands, except per share data unaudited)	
Revenues:		
Gaming	\$ 109,521	\$ 114,262
Food and beverage	7,011	7,363
Truck stop and service station	3,611	4,262
Hotel and recreational vehicle park	3,150	3,124
Other income	3,962	4,996
	<u>127,255</u>	<u>134,007</u>
Expenses:		
Gaming	65,178	66,262
Food and beverage	8,096	9,493
Truck stop and service station	3,322	4,018
Hotel and recreational vehicle park	2,201	2,666
Selling, general and administrative	26,598	28,972
Depreciation and amortization	11,162	12,088
Other operating expenses	2,181	3,165
Re-branding costs, Bossier City	109	0
Pre-opening costs, Belterra Casino Resort	0	198
	<u>118,847</u>	<u>126,862</u>
Operating income	8,408	7,145
Interest income	(634)	(1,848)
Interest expense, net of capitalized interest	12,633	12,307
	<u>(3,591)</u>	<u>(3,314)</u>
Loss before income taxes and change in accounting principle	(3,591)	(3,314)
Income tax benefit	(1,293)	(1,193)
	<u>(2,298)</u>	<u>(2,121)</u>
Loss before change in accounting principle	(2,298)	(2,121)
Cumulative effect of change in accounting principle, net of income tax benefit	56,704	0
	<u>54,406</u>	<u>(2,121)</u>
Net loss	\$ (59,002)	\$ (2,121)
Loss per common share basic		
Loss before change in accounting principle basic	\$ (0.09)	\$ (0.08)
Cumulative effect of change in accounting principle basic	(2.23)	(0.00)
	<u>(2.32)</u>	<u>(0.08)</u>
Net loss per common share basic	\$ (2.32)	\$ (0.08)
Loss per common share diluted		

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Loss before change in accounting principle - diluted	\$ (0.09)	\$ (0.08)
Cumulative effect of change in accounting principle - diluted	(2.23)	(0.00)
	<u> </u>	<u> </u>
Net loss per common share - diluted	\$ (2.32)	\$ (0.08)
	<u> </u>	<u> </u>
Number of shares - basic and diluted	25,444	26,288

See accompanying notes to the condensed consolidated financial statements.

PINNACLE ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2002	December 31, 2001
	(in thousands, except share data, unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 143,550	\$ 153,187
Restricted cash - Argentina	986	3,452
Receivables, net	8,675	9,194
Income tax receivable	6,387	10,587
Prepaid expenses and other assets	18,080	18,407
Deferred income taxes	4,712	4,712
Assets held for sale	18,285	18,285
Current portion of notes receivable	1,000	1,000
	<u>201,675</u>	<u>218,824</u>
Total current assets	201,675	218,824
Property, plant and equipment, net	574,762	576,299
Goodwill	19,558	68,727
Gaming licenses, net of amortization	22,682	36,588
Debt issuance costs, net of amortization	11,367	12,334
Other assets	6,345	6,577
	<u>\$ 836,389</u>	<u>\$ 919,349</u>
	\$ 836,389	\$ 919,349
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 11,371	\$ 16,953
Accrued interest	6,322	17,423
Accrued compensation	15,828	13,737
Other accrued liabilities	32,597	31,887
Current portion of notes payable	3,654	3,654
	<u>69,772</u>	<u>83,654</u>
Total current liabilities	69,772	83,654
Notes payable, less current maturities	492,798	493,493
Deferred income taxes	18,448	22,686
Stockholders' Equity:		
Capital stock		
Preferred \$1.00 par value, authorized 250,000 shares; none issued and outstanding in 2002 and 2001	0	0
Common \$0.10 par value, authorized 40,000,000 shares; 25,443,444 shares issued and outstanding in 2002 and 2001	2,545	2,545
Capital in excess of par value	219,613	219,613
Accumulated other comprehensive loss	(9,573)	(4,430)
Retained earnings	42,786	101,788
	<u>255,371</u>	<u>319,516</u>
Total stockholders' equity	255,371	319,516
	<u>\$ 836,389</u>	<u>\$ 919,349</u>
	\$ 836,389	\$ 919,349

See accompanying notes to the condensed consolidated financial statements.

PINNACLE ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31,	
	2002	2001
	(in thousands unaudited)	
Cash flows from operating activities:		
Net loss	\$ (59,002)	\$ (2,121)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,162	12,088
Cumulative effect of change in accounting principle	56,704	0
Other changes that (used) provided cash:		
Receivables, net	(519)	2,013
Income tax receivable	4,200	0
Prepaid expenses and other assets	559	(212)
Accounts payable	(5,582)	(10,276)
Accrued interest	(11,054)	(11,242)
Accrued compensation	2,091	(2,559)
Accrued liabilities	709	(737)
All other, net	1,088	935
	<u>356</u>	<u>(12,111)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Restricted Cash	977	0
Additions to property, plant and equipment	(10,318)	(10,308)
All other, net	43	101
	<u>(9,298)</u>	<u>(10,207)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Payment of notes payable	(695)	(661)
Common stock options exercised	0	480
Common stock repurchase and retirement	0	(5,344)
	<u>(695)</u>	<u>(5,525)</u>
Net cash used in financing activities		
Decrease in cash and cash equivalents	(9,637)	(27,843)
Cash and cash equivalents at beginning of period	153,187	172,868
	<u>\$ 143,550</u>	<u>\$ 145,025</u>
Cash and cash equivalents at end of period		
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 22,638	\$ 22,735
Cash paid for taxes	149	526
Non-cash transactions:		
Translation rate adjustment restricted cash-Argentina	1,489	0
Translation rate adjustment net assets, excluding restricted cash-Argentina	91	0

See accompanying notes to condensed consolidated financial statements.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

General

Pinnacle Entertainment, Inc. (the Company or Pinnacle Entertainment) 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. 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 required cruising riverboat casinos in southern Louisiana, including the Company's Boomtown New Orleans operations, to remain dockside at all times (see Note 10). 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 fifteenth and final gaming license to be issued in Louisiana at a site in Lake Charles (see Note 5). Pinnacle Entertainment receives lease income from two card clubs in the Los Angeles metropolitan area 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, the Company classified the net book value of Crystal Park Casino to Assets held for sale on the Consolidated Balance Sheet (see Note 4).

The financial information included herein has been prepared in conformity with accounting principles generally accepted in the U.S. as reflected in Amendment No. 2 to the Company's consolidated Annual Report on Form 10-K/A, as filed with the Securities and Exchange Commission, for the year ended December 31, 2001. This Quarterly Report on Form 10-Q/A does not include certain footnotes and financial presentations normally presented annually and should be read in conjunction with Amendment No. 2 to the Company's 2001 Annual Report on Form 10-K/A.

The information furnished herein is unaudited; however, in the opinion of management, it reflects all normal and recurring adjustments necessary to present a fair statement of the financial results for the interim periods. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year end.

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 and Other Intangible Assets

See Note 7 Goodwill and Other Intangible Assets.

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 March 31, 2002 and December 31, 2001 was \$12,439,000 and \$11,472,000, respectively.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of debt issuance costs included in interest expense was \$967,000 and \$919,000 for the three months ended March 31, 2002 and 2001, 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. 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 \$9,221,000 and \$13,098,000 for the three months ended March 31, 2002 and 2001, respectively.

Foreign Currency Translation

Statement of Financial Accounting Standards No. 52 Foreign Currency Translation (SFAS No. 52) requires that 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 be translated into U.S. dollars at the average exchange rates prevailing during the period. The resulting translation adjustments are reflected in a separate component of Stockholders' Equity Accumulated Other Comprehensive Loss. 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. However, as a responsive measure to political and economic instability in the latter half of 2001, the Argentine government moved to devalue its currency as of early January 2002. Subsequently, the Argentine peso to U.S. dollar exchange rate has been very volatile and mostly declining, from a rate of 1.65:1.0 in early January 2002 to a rate of 2.80:1.0 as of March 31, 2002.

Accumulated Other Comprehensive Income (Loss)

Statement of Financial Accounting Standards No. 130 Reporting Comprehensive Income (SFAS No. 130) requires that a company disclose other comprehensive income (loss) and the components of such income (loss). The objective of SFAS No. 130 is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Other comprehensive income is the sum of the following: net income (loss) and other comprehensive income (loss), which is defined as all other non-owner changes in equity.

Pursuant to the devaluation of the Argentine peso (see Foreign Currency Translation above), the Company has recorded unrealized foreign currency translation losses as other comprehensive loss in the accompanying financial statements. Comprehensive loss was computed as follows:

	For the three months ended March 31,	
	2002	2001
	(in thousands)	
Net loss	\$ (59,002)	\$ (2,121)
Other comprehensive loss:		
Foreign currency translation loss	(5,143)	0
Comprehensive loss	\$ (64,145)	\$ (2,121)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 cash in Argentina, property, plant and equipment, other long-term assets, deferred tax assets, reserves associated with asset sales, and in determining litigation reserves and other obligations. Actual results could differ from those estimates.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Projects costs include capitalized interest. Capitalized interest is based on project costs at an imputed rate and was \$47,000 and \$226,000 for the three months ended March 31, 2002 and 2001, respectively.

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 Argentina

Restricted cash Argentina at March 31, 2002 and December 31, 2001 consists of cash which cannot be transferred out of Argentina. Argentina continues to experience political and economic disruption that began in the latter part of 2001, including devaluation of its currency and a governmental restriction on transferring any cash out of the country. As such, until the Argentine government restriction on transferring funds out of the country is lifted, cash of Casino Magic Argentina maintained in Argentina will be classified as Restricted Cash Argentina on the Consolidated Balance Sheet. Such funds are available to pay all obligations denominated in the Argentina currency. In addition, due to the inability to transfer cash out of the country, in the first quarter of 2002 the Company took a charge and established a reserve of approximately \$1,150,000 against its restricted cash held in Argentina. This reserve is a reduction of Restricted Cash Argentina in the accompanying Consolidated Balance Sheet as of March 31, 2002.

Pre-Opening Costs

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

Revenue Recognition

In December 1999, Staff Accounting Bulletin 101 Revenue Recognition in Financial Statements (SAB 101) was issued by the Securities and Exchange Commission (SEC). 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 and has not had 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. 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. The Company did not have any derivative or hedging instruments during the three months ended March 31, 2002 and 2001.

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 on 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.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The Company believes the adoption of SFAS No. 143 will not have a material impact on its financial position or results of operations. SFAS No. 143 addresses the diversity in practice for the recognizing of asset retirement obligations (ARO s). 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.

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. The Company believes that the adoption of SFAS No. 144 will not have a material impact on its financial position or results of operations. 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 Accounting Principles Board 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 (APB Opinion No. 30) 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 Financial Accounting Standards Board (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 Adoption of SFAS 144 did not have a material impact on the Company s financial position or results of operation.

Earnings per Share

Basic earnings (loss) per share are based on net income (loss) 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.

The effect of stock options outstanding was not included in the diluted calculations for the periods ended March 31, 2002 and 2001, respectively, since the Company incurred a net loss for those periods. The number of potentially dilutive options was 115,000 and 278,000 for the periods ended March 31, 2002 and 2001, respectively.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Management Restructuring

On April 11, 2002, the Company announced that Daniel R. Lee was elected Chairman of the Board of Directors and named Chief Executive Officer (CEO) of the Company effective April 10, 2002. Mr. Lee replaced R.D. Hubbard as Chairman of the Board, as Mr. Hubbard retired from such position effective April 10, 2002, and replaced Paul R. Alanis as CEO, as Mr. Alanis resigned as CEO and director effective April 10, 2002. In addition, on April 26, 2002, Mr. Hubbard retired as a director, and on April 29, 2002, Mr. Robert T. Manfuso resigned as a director (see Note 14).

Note 3 Property, Plant and Equipment

Property, plant and equipment held at March 31, 2002 and December 31, 2001 consisted of the following:

	March 31, 2002 (a)	December 31, 2001 (a)
	(in thousands)	
Land and land improvements	\$ 106,250	\$ 106,643
Buildings	329,041	327,864
Equipment	201,523	196,708
Vessels and barge	112,392	112,029
Construction in progress	14,963	12,129
	764,169	755,373
Less accumulated depreciation	189,407	179,074
	\$ 574,762	\$ 576,299

(a) Excludes \$18,285,000 of assets held for sale as of March 31, 2002 and December 31, 2001 (see Note 4).

Depreciation expense for the three months ended March 31, 2002 and 2001 was \$10,953,000 and \$10,663,000, respectively.

Note 4 Assets Held For Sale

Assets held for sale at March 31, 2002 and December 31, 2001 consist primarily of 97 acres of surplus land in Inglewood, California and the Crystal Park Casino in Compton, California.

The Company is seeking a buyer of the 97 acres of land owned in Inglewood, California adjacent to the Hollywood Park Race Track and, as such, has classified the \$12,160,000 cost of this land as Assets held for sale on the Consolidated Balance Sheets.

During the fourth quarter of 2001, the Company determined that it would not be able to recover the net book value of the Crystal Park Casino 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. In addition, as the Company had begun seeking a buyer of Crystal Park Casino, the Company classified the \$6,000,000 of estimated net realizable value of this asset as Assets held for sale as of March 31, 2002 and December 31, 2001 on the Consolidated Balance Sheets. The Crystal Park Casino generated net operating losses of (\$27,000) and (\$220,000) for the three months ended March 31, 2002 and 2001, respectively.

Note 5 Expansion and Development**Bossier City**

In December 2001, Casino Magic Bossier City began a \$25,000,000 remodel and expansion project, including remodeling the existing pavilion building and dockside riverboat casino, and building all new restaurants. The Company expects the project will be substantially complete in early July 2002. During the three months ended March 31, 2002, approximately \$4,500,000 was incurred on the project. The Company has also

announced it will be re-branding the facility to Boomtown Bossier City in June or July 2002.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Lake Charles

On April 6, 2002, the voters of Calcasieu Parish, Louisiana, approved the Company's Lake Charles project located in that parish. In October 2001, the Company was selected by the Louisiana Gaming Control Board (the Gaming Control Board) to receive the fifteenth and final gaming license to be issued by the Gaming Control Board. Issuance of the license is subject to a number of remaining conditions, including, but not limited to, building a facility consistent with presentations made to the Gaming Control Board, meeting certain construction milestone dates and satisfying the financing requirements to complete the project (the Lake Charles Conditions). Financing requirements of the Lake Charles Conditions include setting aside \$22,500,000 in a refundable account (which deposit was made in April 2002), and demonstrating the financial resources for the full project once construction commences in late 2002 or early 2003. 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, which is expected to be completed in 2004. The Company is considering various financing options for the development of the proposed project.

In February 2002, the Governor of Louisiana signed a compact with the Jena Band of the Choctaw Indians to allow for the development and operation of a land-based casino in the city of Vinton, Louisiana. Vinton is also in Calcasieu Parish and is 20 miles closer to Houston, Texas, the major market 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 that 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 connection with the project, in 1999 the Company 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. The Company anticipates executing the lease agreement in 2002. The lease calls for annual rental payments of \$815,000, commencing upon opening of the facility, with a maximum annual increase thereafter of 5%. Although the lease payments are not payable until commencement of operations, a portion of the future rent will be accrued during the construction period. 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, including lease payments to date and campaign costs in connection with the vote on April 6, 2002, have been expensed as incurred.

Note 6 Note Receivable and Related Agreements

In 1998, the Company entered into a seven-year loan agreement with a Native American tribe for \$9,618,000, which proceeds were used to construct the Legends Casino in Yakima, Washington. Concurrently, the Company entered into various lease agreements with said tribe, which lease agreements, among other things, provided for cash flow participation from the operations of the casino facility.

In June 2001, the tribe repaid the loan (which amount was approximately \$6,300,000 at such time), and terminated the related lease 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 the repayment and early termination of the related lease agreements, the Company no longer receives interest income nor cash flow participation income.

Note 7 Goodwill and Other Intangible Assets

Goodwill

Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations and, prior to January 1, 2002, was 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 was

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being amortized over the extended life of the concession agreement (see *Gaming Licenses* below). Pursuant to the implementation of SFAS No. 142 (discussed below), there was no goodwill amortization in the three months ended March 31, 2002. Goodwill amortization expense for the three months ended March 31, 2001 was \$710,000. Goodwill as of March 31, 2002 is \$19,558,000 and relates to the current Boomtown locations.

Gaming Licenses

Casino Magic Argentina. In connection with the acquisition of Casino Magic, Corp. in 1998 a portion of the purchase price was allocated to a concession agreement to operate two casinos in Argentina. 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 extension agreement whereby the concession contract was extended for an additional ten years, through 2016, provided Casino Magic Argentina, among other things, pays admission taxes, makes annual contributions for scholarships and invests in the development of a new casino facility and related amenities in accordance with the terms of the extension agreement. The dollar-denominated cost of such investment has been reduced significantly as a result of the Argentine government's conversion of all contracts into peso-denominated contracts in January, 2002, and the subsequent devaluation of the Argentine currency.

In accordance with the guidance provided by SFAS No. 142 (See *Implementation of SFAS Nos. 141 and 140* below), the Company is amortizing the capitalized costs of the Argentina concession over the extended life of the concession agreement based on its expectation that it will receive benefits from the concession agreement through 2016, taking into account the following factors: (i) so long as the Company remains in compliance with the requirements of the extension agreement, which are within the Company's control, the Company will be permitted to operate under the concession agreement through 2016; (ii) at the current time, the Company has remained in compliance with the terms of the extension agreement, except for certain delays in the planning and construction schedules which have been approved by the Province; (iii) the Company currently intends, and believes it is able, to continue to perform under the terms of the extension agreement; (iv) no other related assets of the Company limit the useful life of the concession agreement through 2016; (v) at the current time, the Company is not aware of any obsolescence, demand, competition or other economic factors that limit the viability of the Argentina gaming market through 2016, although the Company continues to monitor the ongoing political and economic instability in Argentina; and (vi) the only significant cost that the Company is required to incur in connection with the concession is the construction of a hotel casino, which the Company has the intent and ability to fund.

In connection with the extension of the concession agreement, 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 ten-year extension. Such additional concession agreement cost will be amortized over the extended life of the concession agreement.

The Company has acquired the land to build the new casino, has been paying the required additional taxes and scholarship contributions and, except as described in the next sentence, is in compliance with the other provisions of the concession agreement and extension agreement. Although the Company has not yet met the extension agreement requirement to submit plans and begin construction, the Company has held meetings with the Province authorities, including the governor, and received their approval for the delays (caused by current economic conditions in Argentina) in providing the detail plans and beginning actual construction. The Company currently intends to move forward with the project and does not believe that the Province will change the terms of the extension agreement. However, if the Company determines not to proceed with the capital improvements required by the extension agreement, 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, but is studying the situation in light of the uncertain economic, political and currency situation of Argentina. The unamortized gaming license costs related to Casino Magic Argentina as of March 31, 2002 and December 31, 2001 were \$2,817,000 and \$4,949,000 (which amounts reflect the translation adjustment for Casino Magic Argentina assets and liabilities pursuant to SFAS No. 52 see *Foreign Currency Translation* above), respectively, and amortization expense was \$130,000 and \$237,000 for the three months ended March 31, 2002 and 2001, respectively. Accumulated amortization as of March 31, 2002 and December 31, 2001 was \$1,951,000 and \$3,141,000, respectively.

Casino Magic Bossier City. In connection with the acquisition of Casino Magic Corp. in 1998, a portion of the purchase price was allocated to the Louisiana gaming license which permits the Company to conduct the gaming operations of Casino Magic Bossier City. Through December 31, 2001, the cost of the gaming license was being amortized on the straight-line method over twenty-five years. In connection with the implementation of SFAS No. 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 with an indefinite useful life based on management's assessment that no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of the gaming license. In accordance with the guidance provided by SFAS No. 142, this assessment is based on the following pertinent factors: (i) the Company currently expects to use the gaming

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license indefinitely; (ii) no other related assets of the Company limit the useful life of the gaming license; (iii) the Company believes that it will continue to be able to renew the Bossier City license every five years without substantial cost or material modification, based in part upon the historic renewal experience of the Company and other holders of Louisiana casino licenses; (iv) because the Louisiana gaming industry is relatively mature and stable, and the exclusivity of Louisiana gaming licenses is currently protected by law, the Company believes that there are no known effects of obsolescence, demand, competition or other economic factors that limit the economic life of the Bossier City gaming license; and (v) the Company is not required to make any significant expenditures to maintain the Company's intangible Bossier City license rights.

Based on the classification of the gaming license as a non-amortizing intangible asset and pursuant to the implementation of SFAS No. 142, there was no gaming license amortization expense related to the Casino Magic Bossier City license in the three months ended March 31, 2002. Amortization expense for the three months ended March 31, 2001 was \$401,000. The remaining net book value of the Casino Magic Bossier City gaming license as of March 31, 2002 is \$19,865,000.

Implementation of SFAS No. 141 and 142

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 were effective July 1, 2001 and January 1, 2002, respectively, for the Company. SFAS 141 requires, among other things, that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires, among other things, that goodwill and other intangible assets with indefinite lives no longer be amortized, but rather be subject to at least an annual assessment for impairment by applying a fair-value-based test.

The Company implemented SFAS No. 142 effective January 1, 2002. During the three months ended March 31, 2002, the Company completed its evaluation of the financial statement impact of the adoption of SFAS No. 142 and recorded a transition adjustment impairment charge of \$56,704,000, including a goodwill impairment charge of \$49,169,000 related to the Casino Magic locations and gaming license impairment charge of \$7,535,000 (net of an income tax benefit of \$4,239,000) in the quarter ended March 31, 2002. In accordance with SFAS No. 142, such transition-adjustment charge is classified as a cumulative effect of a change in accounting principle, net of the income tax benefit. The impairment write-downs resulted upon implementation of SFAS No. 142 due to the requirement to apply a fair-value-based test to goodwill and certain other intangibles. Previously, under SFAS No. 121, impairment write-downs were only recognized if the estimated expected future undiscounted cash flows were less than the carrying amount of the asset. As of December 31, 2001, management's estimates of the future undiscounted cash flows expected to result from the Casino Magic locations exceeded their carrying values.

The gaming license impairment charge was determined using the relief from royalty method. This methodology assumes that ownership of the license exempts the property (reporting unit) from paying

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royalties for the privilege to operate a casino. The gaming license is included in the assets of Casino Magic Bossier City and Casino Magic Argentina.

The goodwill impairment results from the calculation of the fair market values of Casino Magic Biloxi, Casino Magic Bossier, and Casino Magic Argentina. These properties' fair values were determined by averaging the values indicated by the market and income approaches. The market approach utilizes an analysis of publicly traded companies considered comparable to the Company with regard to service, performance, and market. The income approach requires a projection of the future discounted earning capacity of the Company. The properties' fair values were allocated to the properties' tangible and intangible assets, net of working capital, until the fair values were completely allocated. The recorded impairment is the resulting difference between the carrying value of the property (including intangible assets) and its fair value net of working capital.

Under these 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 finite lives will be amortized over their useful lives.

The following table sets forth information concerning goodwill and other intangible assets as of March 31, 2002:

	Balance as of December 31, 2001	Less Impairment Losses(a)	Less Foreign Currency Adjustment and Amortization Expense(b)	Balance as of March 31, 2002
(in thousands)				
Goodwill:				
Boomtown New Orleans	\$ 11,140	\$ 0	\$ 0	\$ 11,140
Boomtown Reno	8,418	0	0	8,418
Casino Magic Biloxi	18,609	(18,609)	0	0
Casino Magic Bossier	19,320	(19,320)	0	0
Casino Magic Argentina	11,240	(11,240)	0	0
	<u>\$ 68,727</u>	<u>\$ (49,169)</u>	<u>\$ 0</u>	<u>\$ 19,558</u>
Other intangible assets:				
Casino Magic Bossier City non-amortizing gaming license	\$ 31,639	\$ (11,774)	\$ 0	\$ 19,865
Casino Magic Argentina amortizing gaming license	4,949	0	(2,132)	2,817
	<u>\$ 36,588</u>	<u>\$ (11,774)</u>	<u>\$ (2,132)</u>	<u>\$ 22,682</u>

- (a) The Casino Magic Bossier City gaming license impairment loss of \$11,774,000 is before any income tax benefit from such loss. Net of the income tax benefit of \$4,239,000, the cumulative impairment charges due to the implementation of SFAS 142 are \$56,704,000.
- (b) Reflects the foreign currency translation adjustment of approximately \$2,002,000 and additional accumulated amortization of \$130,000 related to the Casino Magic Argentina gaming license.

Estimated future amortization expense for each of the years ended December 31, 2002, 2003, 2004, 2005 and 2006 for the Casino Magic Argentina gaming license, applying prevailing average peso to dollar exchange rate for the three months ended March 31, 2002 of approximately 2.19 pesos to the dollar to each of the years, is approximately \$520,000. Such amount is subject to change based on fluctuations in the exchange rate between the Argentine peso and the U.S. dollar.

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The following table sets forth the pro forma effect of the adoption of SFAS No. 142:

	For the three months ended March 31,	
	2002	2001
	(in thousands, except per share data)	
Pro forma adjusted net loss		
Loss before cumulative effect of change in accounting principle	\$ (2,298)	\$ (2,121)
Reported net loss	\$ (59,002)	\$ (2,121)
Goodwill amortization expense, net of income taxes	0	454
Casino Magic Bossier City gaming license amortization expense, net of income taxes	0	257
Pro forma adjusted net loss	\$ (59,002)	\$ (1,410)
Loss per share basic and diluted		
Per share loss before change in accounting principle	\$ (0.09)	\$ (0.08)
Per share reported net loss	\$ (2.32)	\$ (0.08)
Per share goodwill amortization expense, net of income taxes	0	0.02
Per share Casino Magic Bossier City gaming license amortization expense, net of income taxes	0	0.01
Per share pro forma adjusted net loss	\$ (2.32)	\$ (0.05)
Number of shares basic and diluted	25,444	26,288

Note 8 Secured and Unsecured Notes Payable

Notes payable at March 31, 2002 and December 31, 2001:

	March 31, 2002	December 31, 2001
	(in thousands)	
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	18,382	18,847
Other secured notes payable	2,177	2,407
Other unsecured notes payable	893	893
	496,452	497,147
Less current maturities	3,654	3,654
	\$ 492,798	\$ 493,493

Secured Notes Payable, Bank Credit Facility

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The Company currently maintains a reducing revolving bank credit facility with a syndicate of banks in the amount of \$110,000,000, which facility expires in December 2003 and has scheduled commitment reductions of \$6,667,000 on March 31, 2003 and \$16,667,000 on each of June 30 and September 30, 2003 (the Credit Facility). 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 March 31, 2002 and December 31, 2001, the Company had no outstanding borrowings under the Credit Facility. The Credit Facility has remained unused since February 1999.

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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 2001, the Company and the bank syndicate executed amendments to the Credit Facility that, among other things: (i) amended various financial covenant ratios, (ii) allowed for certain capital expenditures, including the Lake Charles project and Casino Magic Bossier City expansion and renovation project (see Note 5), (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. 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 the Credit Facility or related amendments.

Currently, the Company anticipates it will seek further amendments to the Credit Facility, or terminate the Credit Facility and seek a new bank credit agreement in the second or third quarter of 2002. There can be no assurances the Company will be able to secure a 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 seek an alternative source of financing for its Lake Charles project. All financing for the Company requires various regulatory approvals and there can be no assurances that such approvals can be obtained.

Unsecured 9.25% and 9.5% Notes In February 1999, the Company issued \$350,000,000 of 9.25% Senior Subordinated Notes due 2007 (the 9.25% Notes), and in August 1997, issued \$125,000,000 of 9.5% Senior Subordinated Notes due 2007 (the 9.5% Notes). In January 1999, the Company received the required number of consents to modify selected covenants associated with the 9.5% Notes and entered into the First Supplemental Indenture to the 9.5% Notes. All costs associated with the issuance of the 9.25% Notes, 9.5% Notes and the First Supplemental Indenture to the 9.5% Notes were capitalized and are being amortized over the terms of the 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 guarantee 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, 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.

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 the initial lease term of ten years.

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Note 9 Stock Buyback

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. Since August 1998, the Company has repurchased 1,603,000 shares at a total cost of approximately \$15,360,000. No such stock purchases were made during the three months ended March 31, 2002. Under the Company's most restrictive debt covenants, approximately \$4,600,000 is available to continue the stock buyback program as of March 31, 2002.

Note 10 Louisiana Dockside Gaming Legislation

Effective April 1, 2001, the gaming taxes paid to the state of Louisiana increased from 18.5% to 21.5% of net gaming proceeds for the riverboats in southern Louisiana, including the Company's Boomtown New Orleans property. For the northern Louisiana riverboat casinos operating in parishes bordering the Red River, including the Company's Casino Magic Bossier City property, the gaming tax increase to 21.5% of net gaming proceeds will be phased in over approximately two years. The phase-in included a 1% increase on each of April 1, 2001 and 2002, with another 1% on April 1, 2003.

Note 11 Litigation

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. and LGE's appeal is currently pending before the court. In May 2002, Astoria refiled its state claims in the Civil District Court for the Parish of Orleans, Louisiana. While the Company cannot predict the outcome of this litigation, management intends to vigorously defend this action and does not expect that the litigation will have a material adverse effect on the financial condition or results of operations of the Company.

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

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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. At a March 27, 2002 status conference, the Court lifted the stay on discovery allowing the parties to conduct limited discovery on the manufacturers and casinos where the named plaintiffs played. During the status conference, the presiding judge also indicated that he was withdrawing from the case and that the case will be reassigned to one of the three new judges in the District of Nevada. Such reassignment has not yet occurred.

The claims are not covered under the Company s insurance policies. While the Company cannot predict the outcome of this litigation, management intends to vigorously defend the action.

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

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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 the action.

Skrmetta 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. On March 20, 2002, the third shooting victim filed a complaint in the Circuit Court of Harrison County, Mississippi, Second Judicial District. The allegations in the complaint are substantially similar to those contained in the August 1, 2001 lawsuit. 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

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 was 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.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 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:

Pinnacle Entertainment, Inc.
Consolidating Condensed Financial Information
For the three months ended March 31, 2002 and 2001 and balance sheets as of
March 31, 2002 and December 31, 2001
(in thousands)

	Pinnacle Entertainment, Inc.	(a) Wholly Owned Guarantor Subsidiaries	(b) Wholly Owned Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Pinnacle Entertainment, Inc. Consolidated
As of and for the three months ended March 31, 2002					
Balance Sheet					
Current assets	\$ 130,755	\$ 64,537	\$ 6,383	\$ 0	\$ 201,675
Property, plant and equipment, net	21,223	552,438	1,101	0	574,762
Other non-current assets	11,367	34,917	2,817	10,851	59,952
Investment in subsidiaries	491,170	560	0	(491,730)	0
Inter-company	143,813	30,144	0	(173,957)	0
	<u>\$ 798,328</u>	<u>\$ 682,596</u>	<u>\$ 10,301</u>	<u>\$ (654,836)</u>	<u>\$ 836,389</u>
Current liabilities	\$ 20,806	\$ 45,682	\$ 3,284	\$ 0	\$ 69,772
Notes payable, long-term	491,497	1,301	0	0	492,798
Other non-current liabilities	30,654	0	0	(12,206)	18,448
Inter-company	0	167,501	6,456	(173,957)	0
Equity	255,371	468,112	561	(468,673)	255,371
	<u>\$ 798,328</u>	<u>\$ 682,596</u>	<u>\$ 10,301</u>	<u>\$ (654,836)</u>	<u>\$ 836,389</u>
Statement of Operations					
Revenues:					
Gaming	\$ 0	\$ 107,638	\$ 1,883	\$ 0	\$ 109,521
Food and beverage	0	6,858	153	0	7,011
Equity in subsidiaries	(16,063)	422	0	15,641	0
Other	1,500	9,209	14	0	10,723
	<u>(14,563)</u>	<u>124,127</u>	<u>2,050</u>	<u>15,641</u>	<u>127,255</u>
Expenses:					
Gaming	0	64,596	582	0	65,178
Food and beverage	0	7,957	139	0	8,096
Administrative and other	4,539	29,921	(49)	0	34,411

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Depreciation and amortization	604	10,382	176	0	11,162
	<u>5,143</u>	<u>112,856</u>	<u>848</u>	<u>0</u>	<u>118,847</u>
Operating income (loss)	(19,706)	11,271	1,202	15,641	8,408
Interest expense (income), net	11,994	10	(5)	0	11,999
	<u>(31,700)</u>	<u>11,261</u>	<u>1,207</u>	<u>15,641</u>	<u>(3,591)</u>
Income (loss) before taxes	(31,700)	11,261	1,207	15,641	(3,591)
Management fee & inter-company interest expense (income)	(4,843)	4,843	0	0	0

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Pinnacle Entertainment, Inc.	(a) Wholly Owned Guarantor Subsidiaries	(b) Wholly Owned Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Pinnacle Entertainment, Inc. Consolidated
Income tax (benefit) expense	(2,078)	0	785	0	(1,293)
Income (loss) before cumulative effect of a change in accounting principle	(24,779)	6,418	422	15,641	(2,298)
Cumulative effect of change in accounting principle	34,223	22,481	0	0	56,704
Net income (loss)	\$ (59,002)	\$ (16,063)	\$ 422	\$ 15,641	\$ (59,002)
Statement of Cash Flows					
Net cash (used in) provided by operating activities	\$ (5,028)	\$ 4,590	\$ 794	\$ 0	\$ 356
Net cash used in investing activities	902	(10,200)	0	0	(9,298)
Net cash used in financing activities	(466)	(229)	0	0	(695)

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pinnacle Entertainment, Inc.
Consolidating Condensed Financial Information
For the three months ended March 31, 2002 and 2001 and balance sheets as of
March 31, 2002 and December 31, 2001
(in thousands)

	Pinnacle Entertainment, Inc.	(a) Wholly Owned Guarantor Subsidiaries	(b) Wholly Owned Non- Guarantor Subsidiaries	Consolidating and Eliminating Entries	Pinnacle Entertainment, Inc. Consolidated
For the three months ended					
March 31, 2001					
Statement of Operations					
Revenues:					
Gaming	\$ 0	\$ 109,453	\$ 4,809	\$ 0	\$ 114,262
Food and beverage	0	7,009	354	0	7,363
Equity in subsidiaries	10,956	1,154	0	(12,110)	0
Other	1,500	10,852	30	0	12,382
	<u>12,456</u>	<u>128,468</u>	<u>5,193</u>	<u>(12,110)</u>	<u>134,007</u>
Expenses:					
Gaming	0	64,952	1,310	0	66,262
Food and beverage	0	9,218	275	0	9,493
Administrative and other	4,394	33,026	1,599	0	39,019
Depreciation and amortization	683	10,767	359	279	12,088
	<u>5,077</u>	<u>117,963</u>	<u>3,543</u>	<u>279</u>	<u>126,862</u>
Operating income (loss)	7,379	10,505	1,650	(12,389)	7,145
Interest expense (income), net	10,979	(451)	(69)	0	10,459
Income (loss) before taxes	(3,600)	10,956	1,719	(12,389)	(3,314)
Income tax expense (benefit)	(1,758)	0	565	0	(1,193)
Net income (loss)	<u>\$ (1,842)</u>	<u>\$ 10,956</u>	<u>\$ 1,154</u>	<u>\$ (12,389)</u>	<u>\$ (2,121)</u>
Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ (27,323)	\$ 13,772	\$ 1,161	\$ 279	\$ (12,111)
Net cash provided by (used in) investing activities	(215)	(8,877)	(1,115)	0	(10,207)
Net cash provided by (used in) financing activities	(5,324)	(201)	0	0	(5,525)
As of December 31, 2001					
Balance Sheet					
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

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Inter-company	156,082	20,360	0	(176,442)	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 881,240	\$ 706,896	\$ 14,287	\$ (683,074)	\$ 919,349
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </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> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$ 881,240	\$ 706,896	\$ 14,287	\$ (683,074)	\$ 919,349
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (a) The following subsidiaries are treated as guarantors of both the 9.5% Notes and 9.25% Notes for all periods presented: Belterra Resort Indiana LLC, Boomtown, Inc., Boomtown Hotel & Casino, Inc., Louisiana I Gaming, Louisiana Gaming Enterprises, Inc., HP/Compton, Inc., Casino Magic Corp., Biloxi Casino Corp., Casino One Corporation, Crystal Park Hotel and Casino Development Company, LLC, Casino Magic of Louisiana, Corp., Casino Parking, Inc. and St. Louis Casino Corp.
- (b) The following subsidiaries are treated as wholly owned non-guarantors of both the 9.5% Notes and the 9.25% Notes for all periods presented: Casino Magic Neuguen S.A. and its subsidiary Casino Magic Support Services.

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Segment Information

Subsequent to the issuance of the Company's consolidated financial statements for the period ended March 31, 2002, management of the Company determined that it should have disaggregated its segments into a separate segment for each of the U.S. properties, a segment for foreign operations (Casino Magic Argentina), a segment for card club leases and a segment for sold operations. Previously, such segments had been aggregated and presented as one reportable segment. Accordingly, the following information pertaining to the Company's operating segments has been restated to present such disaggregated segment disclosures.

The following table reconciles the Company's segment activity to its consolidated results of operations and financial position as of and for the three months ended March 31, 2002 and 2001.

	For the three months ended March 31,	
	2002	2001
(in thousands)		
Revenues and expenses		
<i>Boomtown New Orleans</i>		
Revenues	\$ 26,700	\$ 25,742
Expenses, excluding depreciation and amortization	19,703	18,336
Depreciation and amortization	1,553	1,413
Net operating income Boomtown New Orleans	\$ 5,444	\$ 5,993
<i>Casino Magic Biloxi</i>		
Revenues	\$ 22,900	\$ 22,715
Expenses, excluding depreciation and amortization	17,699	18,284
Depreciation and amortization	1,860	1,665
Net operating income Casino Magic Biloxi	\$ 3,341	\$ 2,766
<i>Casino Magic Bossier City</i>		
Revenues	\$ 27,183	\$ 32,528
Expenses, excluding depreciation and amortization	22,729	27,457
Depreciation and amortization	1,927	2,122
Net operating income Casino Magic Bossier City	\$ 2,527	\$ 2,949
<i>Belterra Casino Resort</i>		
Revenues	\$ 28,467	\$ 26,195
Expenses, excluding depreciation and amortization	26,084	26,010
Depreciation and amortization	3,242	2,990
Net operating loss Belterra Casino Resort	\$ (859)	\$ (2,805)
<i>Boomtown Reno</i>		
Revenues	\$ 18,395	\$ 19,112
Expenses, excluding depreciation and amortization	16,025	16,745
Depreciation and amortization	1,800	1,997

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Net operating income Boomtown Reno	\$ 570	\$ 370
<i>Casino Magic Argentina</i>		
Revenues	\$ 2,050	\$ 5,193
Expenses, excluding depreciation and amortization	1,822	3,184
Depreciation and amortization	176	359
Net operating income Casino Magic Argentina	\$ 52	\$ 1,650
<i>Card Clubs</i>		
Revenues	\$ 1,560	\$ 1,800
Expenses, excluding depreciation and amortization	59	(431)
Depreciation and amortization	604	1,542
Net operating income Card clubs	\$ 897	\$ 689
<i>Sold Properties</i>		
Revenues	\$ 0	\$ 722
Expenses, excluding depreciation and amortization	0	15
Depreciation and amortization	0	0
Net operating income Sold properties	\$ 0	\$ 707
<i>Total Reportable Segments</i>		
Revenues	\$ 127,255	\$ 134,007
Expenses, excluding depreciation and amortization	104,121	109,600
Depreciation and amortization	11,162	12,088
Net operating income Total reportable segments	\$ 11,972	\$ 12,319
Reconciliation to Consolidated Net Income		
Total net operating income for reportable segments	\$ 11,972	\$ 12,319
Unallocated income and expenses		
Corporate expense	3,564	5,174
Interest income	(634)	(1,848)
Interest expense, net of capitalized interest	12,633	12,307
Loss before income taxes and change in accounting principle	(3,591)	(3,314)
Income tax benefit	(1,293)	(1,193)
Loss before change in accounting principle	(2,298)	(2,121)
Cumulative effect of change in accounting principle, net of income tax benefit	56,704	0
Net loss	\$ (59,002)	\$ (2,121)
	March 31, 2002	December 31, 2001
	(in thousands)	
Total Assets		
Boomtown New Orleans	\$ 84,026	\$ 85,632
Casino Magic Biloxi	105,183	109,053
Casino Magic Bossier City	120,176	129,127

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Belterra Casino Resort	223,868	226,228
Boomtown Reno	89,508	91,479
Casino Magic Argentina	10,300	20,417
Card Clubs	29,497	29,988
Corporate	173,831	227,425
	<u> </u>	<u> </u>
Total Reportable Segments and Corporate	\$ 836,389	\$ 919,349
	<u> </u>	<u> </u>

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Subsequent Events

Indiana Gaming Commission. On April 11, 2002, the Company announced that the Indiana Gaming Commission had begun an investigation into the Company's regulatory compliance at Belterra Casino Resort. The investigation was initiated as a result of allegations of harassment in a lawsuit filed by two former employees of Belterra Casino Resort. On August 5, 2002, the Company entered into a settlement agreement with the Indiana Gaming Commission. It agreed, among other things, to pay a fine of \$2,260,000; suspend gaming operations at Belterra Casino Resort for a 3-day period beginning at 6:00 p.m. on October 6, 2002 to 12:01 p.m. on October 9, 2002; pay wages, tips, taxes and community development fees that are estimated would have been paid during the three-day closure period; build a new 300 guest-room tower at Belterra Casino Resort by July 2004; and establish a new compliance committee of the Company's Board of Directors.

The Company also placed \$5,000,000 into an escrow account to ensure the completion of the new guest-room tower by July 2004, at which time the funds will be returned to the Company. In the event the Company does not complete the tower by July 2004 (subject to extension for events beyond the Company's control upon approval by the Indiana Gaming Commission), the \$5,000,000 escrowed funds will be paid to the gaming commission.

Indiana Gaming Taxes. Effective July 1, 2002, the state of Indiana passed a law that increases gaming taxes for casino riverboats in Indiana that continue to cruise, but also allows riverboat operators to opt to cease cruising and remain dockside. Customers generally prefer the convenience of dockside operation because access to the casino is not tied to a cruising schedule. The Company also believes that there are significant marketing and cost advantages to remaining dockside. Belterra Casino Resort began dockside operation on August 1, 2002, which was the first date permitted by Indiana law. The Indiana dockside riverboats are now taxed in accordance with a new graduated tax structure. Based on its Belterra Casino Resort's recent results, the Company believes that at current revenue levels the graduated tax structure results in an overall tax rate for the property similar to the prior tax schedule.

Development commitments. On April 6, 2002, the voters of Calcasieu Parish, Louisiana approved the Company's Lake Charles project located in such parish. Additionally, subsequent to quarter-end, management revised the scope and established cost of its Lake Charles project. The project is expected to feature approximately 1,000 deluxe guest-rooms, an integrated casino, a golf course and numerous food and beverage,

PINNACLE ENTERTAINMENT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entertainment and retail amenities. It will be located on 225 acres that the Company has the option to lease for 70 years. The Company expects to commence construction in early 2003 and anticipates the total cost of the project, including pre-opening expense and capitalized interest will be approximately \$325,000,000. The project is expected to be completed in 2004.

The Company intends to begin construction at Belterra Casino Resort of a new 300 guest-room hotel tower in early 2003 and complete construction in 2004, at a projected cost of \$30,000,000.

Land sale commitment. On June 17, 2002, the Company announced it had signed an agreement to sell 60 of the remaining 97 acres of land held for sale located in Inglewood, California for a total sales price of \$36,000,000, before income taxes. The sale is expected to close in approximately twelve months and is subject to a number of conditions, including the necessary entitlements to develop the property.

Stock compensation plans. At the annual shareholders meeting held on June 18, 2002, the shareholders approved a new stock option plan that provides for the issuance of one million shares. In addition, the shareholders approved the grant of an option to purchase 515,000 shares of stock to Mr. Lee, the Company's newly elected chairman of the Board and Chief Executive Officer.

See also Note 2 regarding management changes and Note 5 regarding voter approval of the Lake Charles Project, all of which occurred after March 31, 2002.

Item 2. 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 Annual Report on Form 10-K (including all amendments thereto on Form 10-K/A) for the year ended December 31, 2001, and other filings with the Securities and Exchange Commission.

Forward-Looking Statements

Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q/A 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, operating results and pending regulatory matters, 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:

- continued compliance with the conditions negotiated with the Louisiana Gaming Control Board in connection with the Company's proposed Lake Charles project, completion of the project on time and on budget and the effect of expanded Native American gaming in Louisiana on the Company's decision to proceed with the Lake Charles project (see Note 5 to the Condensed 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;

- settlement of the harassment lawsuits and the investigation of the Indiana Gaming Commission, and any related fine, suspension of Belterra Casino Resort's license, or other serious disciplinary action, and other charges (see Note 14 to the Condensed Consolidated Financial Statements);

- 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 those states), such as the expansion of Native American gaming in California and Louisiana and the potential introduction of casino gaming in Alabama, Arkansas, Kentucky, Ohio or Texas;

- 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 5 to the Condensed 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 1 Foreign Currency Translation to the Condensed Consolidated Financial Statements);

- the amount and effect of future impairment charges under SFAS No. 142;

the failure to sell any of the assets held for sale (see Note 4 to the Condensed 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 obtain adequate financing to meet strategic goals, including financing for the Lake Charles project (see Notes 5 and 8 to the Condensed Consolidated Financial Statements);

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 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 the Company 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 Quarterly Report on Form 10-Q/A 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

The following is a summary list of some of the risk factors relating to the Company. In addition to the other information set forth in this Quarterly Report on Form 10-Q/A for the three months ended March 31, 2002, one should carefully consider the risk factors as disclosed in the Company's Annual Report on Form 10-K (including all amendments thereto on Form 10-K/A) for the year ended December 31, 2001 for additional detail regarding these and other risk factors.

All of the Company's properties are dependent upon retaining existing and attracting new customers within their respective geographical markets, particularly in the Mississippi and Louisiana gaming markets since it operates three facilities in these markets and is pursuing development of the Lake Charles project in western Louisiana.

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

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

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

Limited operating history at the Belterra Casino Resort does not allow the Company to measure effectively various improvements the Company has implemented at the facility in an effort to improve its operating results.

Development of the Lake Charles project could not provide for a sufficient return.

Financing for the Company's capital spending plans may not be acceptable to lenders or the Company.

The Company faces extensive regulatory oversight from gaming authorities and any adverse regulatory changes or changes in the gaming environment in any of the jurisdictions the Company operates could have a material adverse effect on the Company's operations.

The Company is currently subject to litigation and in the future could be subject to additional litigation, all of which is time consuming and can divert resources and attention of management.

Due to the risks associated with any construction project, the Company may not be able to complete expansion projects and new construction projects on time, on budget or as planned.

The Company experiences quarterly fluctuations in operating results due to seasonality of the Company's business, including the stronger summer months and weaker winter months.

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

Critical Accounting Policies

Our significant accounting policies are discussed in Note 1 to the Condensed Consolidated Financial Statements. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires us to apply significant judgment in defining the estimates and assumptions. Our accounting policies that require significant judgment in determining the appropriate assumptions include, among others, policies for:

insurance reserves, asset disposition reserves, allowances for doubtful accounts, and other reserves;

impairment of long-lived assets

valuation of goodwill, intangible assets 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. Our judgments are based on our historical experience, terms of various past and present agreements and contracts, industry trends, and information available from other sources, as appropriate. We cannot assure you that actual results will not differ from the estimates.

Results of Operations

The following table highlights our results of operations in recent periods.

	For the three months ended March 31,	
	2002	2001
(in thousands)		
Revenues		
Boomtown New Orleans	\$ 26,700	\$ 25,742
Casino Magic Biloxi	22,900	22,715
Boomtown Bossier City	27,183	32,528
Belterra Casino Resort	28,467	26,195
Boomtown Reno	18,395	19,112
Casino Magic Argentina	2,050	5,193
Card Clubs	1,560	1,800
	<u>127,255</u>	<u>133,285</u>
Sold properties(a)	0	722
	<u>\$ 127,255</u>	<u>\$ 134,007</u>
Operating income (loss)		
Boomtown New Orleans	\$ 5,444	\$ 5,993
Casino Magic Biloxi	3,341	2,766
Boomtown Bossier City(b)	2,527	2,949
Belterra Casino Resort(b)	(859)	(2,805)
Boomtown Reno	570	370
Casino Magic Argentina	52	1,650
Card Clubs	897	689
Corporate	(3,564)	(5,174)
	<u>8,408</u>	<u>6,438</u>
Sold properties(a)	0	707
	<u>\$ 8,408</u>	<u>\$ 7,145</u>
Non-recurring and unusual items, by location		
Re-branding costs, Boomtown Bossier City	\$ 109	\$ 0
Pre-opening costs, Belterra Casino Resort	0	198
	<u>\$ 109</u>	<u>\$ 198</u>
Non-recurring and unusual items	<u>\$ 109</u>	<u>\$ 198</u>

Revenue by Property as a % of Total Revenue

Boomtown New Orleans	21.0%	19.2%
Casino Magic Biloxi	18.0%	17.0%
Boomtown Bossier City	21.3%	24.3%
Belterra Casino Resort	22.4%	19.5%
Boomtown Reno	14.5%	14.3%
Casino Magic Argentina	1.6%	3.9%
Card Clubs	1.2%	1.3%

	100.0%	99.5%
Sold Properties	0.0%	0.5%

	100.0%	100.0%
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Operating margins(c)

Boomtown New Orleans	20.4%	23.3%
Casino Magic Biloxi	14.6%	12.2%
Boomtown Bossier City	9.3%	9.1%
Belterra Casino Resort	-3.0%	-10.7%
Boomtown Reno	3.1%	1.9%
Casino Magic Argentina	2.5%	31.8%
Card Clubs	57.5%	38.3%
Corporate	-2.8%	-3.9%

	6.6%	4.8%
Sold Properties	0.0%	97.9%

	6.6%	5.3%
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- (a) Includes income from the Legends Casino, a Native American casino in Yakima, Washington, under various lease agreements with the tribe. These lease agreements were terminated in June 2001.
- (b) Operating income (loss) include the non-recurring and unusual items.
- (c) Operating margin by property is calculated by dividing operating income (loss) by location by revenue by location.

Three Months Ended March 31, 2002 Compared to the Three Months Ended March 31, 2001

Operating Results

Excluding properties we have sold, our total revenues declined by 4.5% in the quarter ended March 31, 2002 from the year-earlier period, while total operating income increased by 30.6%. Each property's contribution to these results is as follows:

At *Boomtown New Orleans*, we added approximately 300 slot machines and a new high-limit table games area in the third quarter of 2001, while also renovating other parts of the facility. The Louisiana gaming regulations were also modified so that Boomtown New Orleans operated as a dockside, rather than cruising, facility since April 1, 2001. Primarily as a result of these factors, revenues at Boomtown New Orleans increased by \$958,000, or 3.7%, in the recent quarter versus the year-earlier period. However, the same legislation requiring dockside operation also increased state gaming taxes at Boomtown New Orleans from 18.5% to 21.5% of net gaming proceeds. Primarily as a result of this tax increase, the property's operating income in the quarter decreased by 9.2% from the year-earlier period. In the first quarter of 2002, compared to the year-earlier period, we also incurred additional staffing costs, marketing costs and depreciation charges of approximately \$319,000, \$138,000 and \$141,000, respectively, at the property related to the casino renovation and expansion.

At *Casino Magic Biloxi*, revenues in the quarter were approximately flat with the prior year period. Cost containment programs implemented in late 2001 allowed an increase in operating income in the quarter of 20.8% from the year-earlier period. Operating margins (calculated by dividing operating income by revenues) improved to 14.6% in the recent quarter from 12.2% in the year-earlier period.

At *Boomtown Bossier City*, revenues declined by 16.4% in the quarter from the year-earlier period, primarily due to the elimination of expensive marketing programs undertaken to maintain market share in the first quarter of 2001. In addition, in late 2001, we began a \$25 million expansion, renovation and re-branding project that caused construction disruption in the quarter and reduced overall guest counts and related revenues. Reduced costs, primarily due to the elimination of the prior year's marketing programs of approximately \$4,000,000 and staffing reductions of approximately \$300,000, partially offset the reduction in revenues. In addition, the property incurred re-branding costs of \$109,000 in the first quarter of 2002. As a result, operating income in the quarter declined by 14.3% from the year-earlier period. The construction activity and marketing costs related to the re-branding to *Boomtown* is expected to be substantially completed in July 2002.

At the *Belterra Casino Resort*, revenues increased by \$2,272,000, or 8.7%, in the quarter from the year-earlier period. Operating income in the quarter improved by \$1,946,000. These improvements were primarily due to more effective marketing programs, milder winter weather, a normal maturation of the property which opened in late October 2000, a redesigned casino gaming floor and careful attention to operating costs, including staffing levels. Included in the 2001 operating loss was \$198,000 of pre-opening expenses associated with the golf course that opened in July 2001.

At *Boomtown Reno*, gaming revenue for the quarter ended March 31, 2002 approximately equaled the gaming revenues of the same quarter of last year. However, the property offers, as an amenity, two large gas stations that sell fuel at only a small profit margin. Due primarily to declines in fuel prices, overall revenues at the property declined by 3.8% from the year-earlier quarter. A small decline in depreciation charges was the principle factor causing a \$200,000 increase in operating income in this seasonally slow quarter.

Casino Magic Argentina revenues and operating income in the quarter declined by 60.5% and 96.8%, respectively, from the year-earlier quarter primarily due to the adverse economic and political conditions in that country. The number of customers visiting the facility declined by approximately 5% in the quarter. Although revenues denominated in Argentine pesos climbed over the prior year period, we believe that reflects significant inflation in Argentina rather than an improvement in business at the local level.

The steep decline in the value of the peso vis-à-vis the dollar was a major cause of the declines in dollar-denominated revenues and operating income of these facilities.

Revenues from *Card clubs* declined in the quarter ended March 31, 2002 from the year-earlier period primarily due to a reduction in lease income from the Crystal Park card club. Operating income increased in the recent quarter from the year-earlier period primarily because, in the fourth quarter of 2001, we reclassified the Crystal Park assets as held for sale and therefore those assets are no longer being depreciated. See *Factors Affecting Future Operating Results Assets Held For Sale* below.

Corporate Costs

Corporate costs declined by \$1,610,000, or 31.1%, in the quarter from the year-earlier period, primarily due to a \$308,000 reduction in consulting contracts and a \$802,000 reduction in payroll and compensation costs.

Sold Properties

The reduction in revenues and operating income from sold properties during the quarter ended March 31, 2002 versus the year-earlier period reflected the termination in June, 2001 of our various lease agreements with a Native American tribe under which we derived income from the Legends Casino in Yakima, Washington. See *Factors Affecting Future Operating Results Assets Sold* below.

Interest Income and Expense

Interest income in the quarter decreased by \$1,214,000, or 65.7%, from the year-earlier quarter, primarily due to the early repayment of a promissory note from a Native American casino, lower investment funds and lower interest rates.

Interest expense, net of capitalized interest, increased by \$326,000, or 2.6%, due primarily to the reduction of amounts capitalized of \$179,000. On average, we had less invested in new construction during the recent quarter than we had in the prior year quarter. The recent period had certain improvements being made at our Boomtown Bossier City property, while the prior year period had principally Belterra's golf course under construction.

Change in Accounting Principle

The charge in the recent quarter for the cumulative change in accounting principle of \$56,704,000 related to the write-down of goodwill and other intangible assets. This charge reflected the adoption of SFAS 142 as of January 1, 2002. See Note 7 to the Condensed Consolidated Financial Statements contained in our Form 10-Q/A for the quarter ended March 31, 2002.

Liquidity and Capital Resources

At March 31, 2002, we had \$143,550,000 of cash and cash equivalents, with all of our cash equivalents being marketable securities having remaining terms of less than 90 days. Our cash and cash equivalents at December 31, 2001 was \$153,187,000. Of our cash at March 31, 2002, approximately \$45,000,000 was in casino cages, slot machines, operating accounts or otherwise used in day-to-day operations. Also, under our agreement with the Louisiana Gaming Control Board on our Lake Charles project, in April 2002 approximately \$22.5 million of our excess cash was placed in a separate account owned by us to help fund the project. If we withdraw funds from this account other than for construction of our proposed Lake Charles facility, then the Louisiana Gaming Control Board may choose to not issue a gaming license to us for that facility.

Our working capital (current assets less current liabilities) was \$131,903,000 at March 31, 2002 versus \$135,170,000 at December 31, 2001.

In the quarter ended March 31, 2002, we added property, plant and equipment of \$10,318,000, principally reflecting our expansion and renovation project in Bossier City. Our cash flow from operations tends to be lower in the first and third quarters than in the second and fourth quarters, reflecting the payment dates of our two senior subordinated bond issues. During the quarter, our cash flow from operations was only \$356,000. As a result of our investment in our properties and the timing of our cash flow from operations, our cash and cash equivalents declined by \$9,637,000 in the quarter from our cash and cash equivalents at December 31, 2001.

In the quarter ended March 31, 2001, we added property, plant and equipment of \$10,308,000, which included construction of the golf course at Belterra Casino Resort (which opened in July 2001), construction costs associated with the expansion project at Boomtown New Orleans and the purchase of leased land underlying Crystal Park Casino. Cash used in operations in the quarter was \$12,111,000, which included cash interest payments on our two senior subordinated bond issues of \$22,125,000 and cash used for working capital of \$10,836,000 (a majority of the working capital use being due to the establishment of normal working capital and payment of construction payables at the Belterra Casino Resort, which opened in late October 2000). As a result of our investment in our properties and negative cash flow from operations in the quarter, our cash and cash equivalents declined by \$27,843,000 in the quarter from our cash and cash equivalents at December 31, 2000.

We currently have a \$110 million bank credit facility (the Credit Facility) with a syndicate of banks, none of which was drawn at March 31, 2002. The Credit Facility contains certain conditions that must be satisfied, modified or waived in order for us to borrow under the facility. At present, we anticipate that the ratio of our cash flow to net debt (as defined in the bank loan agreements) will have to be modified or waived

as of June 30, 2002 in order for us to borrow under the facility. The Credit Facility matures in December, 2003.

As noted above, we were selected by the Louisiana 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, we anticipate we will either extensively modify the current Credit Facility or terminate the Credit Facility and secure a new bank credit agreement. There are no assurances we will be able to secure such new facility under terms and conditions favorable to us. In the event we are not successful in securing a new bank credit facility, we will need to secure an alternative source of financing for our Lake Charles project. The alternative sources of financing we are considering include, but are not limited to, a new bank credit facility or other senior debt, leasing arrangements, issuance of equity and joint venture arrangements. There can be no assurance the Louisiana Gaming Control Board or other regulatory agency will approve such alternative method of financing. Should the Louisiana Gaming Control Board not approve an alternative method of financing, we would likely not complete the project. All costs incurred through March 31, 2002 to obtain the license have been expensed and we have less than \$50,000 of capital expenditures as of March 31, 2002. In addition, the \$22.5 million of funds set aside in April 2002 would be returned to us without any loss of funds or restrictions.

Our debt consists principally of two issues of senior subordinated indebtedness: \$350 million of 9.25% Senior Subordinated Notes due February 2007, and \$125 million of 9.50% Senior Subordinated Notes due August 2007. The 9.50% notes become callable at a premium over their face amount on August 1, 2002; the 9.25% notes become callable at a premium over their face amount on February 15, 2003. Such premiums decline periodically as the bonds near their respective maturities. Neither series of notes has any required sinking fund or other principal payments prior to their maturities in 2007. Both series of notes permit us to have up to \$350 million of senior indebtedness, none of which is currently outstanding.

We believe 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 we are unable to effect such amendment, then subject to our ability to secure a new bank credit agreement or secure alternative sources of financing, should we move forward with the project).

Regardless of future changes to the Credit Facility, we currently believe that our available cash and cash equivalents at March 31, 2002 of over \$143,000,000 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. In addition, we also currently believe that our current cash resources are sufficient to meet the requirements of our existing operations beyond the next twelve months. Funding for the Lake Charles project and other material projects may require additional financing.

In addition to the above anticipated uses of resources, we may use a portion of existing resources to (i) make capital improvements at other existing properties, (ii) reduce our outstanding debt obligations at or prior to their scheduled maturities, and/or (iii) develop or acquire other casino properties or companies. To the extent cash is used for these purposes, our cash reserves will be diminished and we 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 us.

Other Supplemental Data

Management believes EBITDA, which we define as earnings before net interest expense, provision for income taxes, depreciation, amortization and cumulative effect of change in accounting principle, to be a relevant and useful measure to compare operating results between our properties and between accounting periods. EBITDA is not a measure of financial performance under the promulgations of the accounting profession, known as generally accepted accounting principles or GAAP. Nevertheless, we believe some investors use EBITDA to help determine a company's ability to service or incur indebtedness and to estimate a company's underlying cash flow from operations before capital costs, taxes and maintenance capital expenditures. EBITDA is one of several comparative tools used by management to assist in the evaluation of operating performance and to measure cash flow generated by ongoing operations. Below is a reconciliation of operating income (loss), as presented in the

Results of Operations table above, to EBITDA. Operating income (loss) and EBITDA reflect the \$109,000 and \$198,000 of non-recurring and unusual items listed in the Results of Operations table above for the three months ended March 31, 2002 and 2001, respectively.

	Operating Income (Loss)	Depreciation And Amortization	EBITDA
	(in thousands)		
For the three months ended March 31, 2002			
Boomtown New Orleans	\$ 5,444	\$ 1,553	\$ 6,997
Casino Magic Biloxi	3,341	1,860	5,201
Boomtown Bossier City	2,527	1,927	4,454
Belterra Casino Resort	(859)	3,242	2,383
Boomtown Reno	570	1,800	2,370
Casino Magic Argentina	52	176	228
Card Clubs	897	576	1,473
Corporate	(3,564)	28	(3,536)
	<u>\$ 8,408</u>	<u>\$ 11,162</u>	<u>\$ 19,570</u>
	Operating Income (Loss)	Depreciation And Amortization	EBITDA
	(in thousands)		
For the three months ended March 31, 2001			
Boomtown New Orleans	\$ 5,993	\$ 1,413	\$ 7,406
Casino Magic Biloxi	2,766	1,665	4,431
Boomtown Bossier City	2,949	2,122	5,071
Belterra Casino Resort	(2,805)	2,990	185
Boomtown Reno	370	1,997	2,367
Casino Magic Argentina	1,650	359	2,009
Card Clubs	689	968	1,657
Corporate	(5,174)	574	(4,600)
	<u>6,438</u>	<u>12,088</u>	<u>18,526</u>
Sold properties	<u>707</u>	<u>0</u>	<u>707</u>
	<u>\$ 7,145</u>	<u>\$ 12,088</u>	<u>\$ 19,233</u>

EBITDA is not calculated in the same manner by all companies and accordingly, may not be an appropriate measure for comparing performance amongst different companies. 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. A reconciliation from net income (loss) to EBITDA is as follows:

	For the three months ended March 31	
	2002	2001
	(in thousands)	
Net loss	\$ (59,002)	\$ (2,121)
Cumulative effect of change in account principle	56,704	0
Loss before cumulative effect of change in accounting principle	(2,298)	(2,121)
Income tax benefit	(1,293)	(1,193)
Loss before cumulative effect of change in accounting principle and income taxes	(3,591)	(3,314)
Interest expense, net of capitalized interest	12,633	12,307
Interest income	(634)	(1,848)
Operating income	8,408	7,145
Depreciation and amortization	11,162	12,088
EBITDA	\$ 19,570	\$ 19,233

Factors Affecting Future Operating Results

Indiana Gaming Commission

On April 11, 2002, the Company announced that the Indiana Gaming Commission had begun an investigation into the Company's regulatory compliance at Belterra Casino Resort (see Note 14 to the Condensed Consolidated Financial Statements).

Goodwill Amortization

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS No. 142), which was effective January 1, 2002 for the Company (see Note 7 to the Condensed Consolidated Financial Statements). With the adoption of SFAS No. 142 on January 1, 2002 (earlier adoption was not permitted), goodwill is no longer amortized over its estimated useful life, which amortization expense for the three months ended March 31, 2001 was \$710,000. Rather, goodwill is subject to at least an annual assessment for impairment by applying a fair-value-based test.

Gaming License Amortization

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. With the adoption of SFAS 142 on January 1, 2002, and based on the classification of the gaming license as a non-amortizing intangible asset, the gaming license is no longer amortized, which amortization expense for the three months ended March 31, 2001 was \$401,000. Rather, the Casino Magic Bossier City gaming license asset is subject to at least an annual assessment for impairment by applying a fair-value-based test.

Argentina

During the second half of 2001, the political and economic condition of Argentina deteriorated, culminating in December 2001 with the resignation of the then President of the country, the imposition of restrictions on cash withdrawals 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 place restrictions on all transfers of U.S. dollars out of the country.

During the three months ended March 31, 2002, the political and economic condition of Argentina did not improve, and accordingly, the currency exchange rate of the Argentine peso to the U.S. dollar has deteriorated from an initial free market rate of approximately 1.65 Argentine pesos to the U.S. dollar in early January 2002 to a rate of approximately 2.80 as of March 31, 2002 and a weighted average rate of approximately 2.19 for the three months ended March 31, 2002.

The Company continues to classify the cash (\$986,000 net of reserves) maintained in Argentina as restricted cash at March 31, 2002, due to recent actions taken by the government of Argentina to restrict all U.S. currency transfers out of the country.

The impact of these events to Casino Magic Argentina includes a reduction in revenue resulting from a decline in customer counts and lower discretionary spending by customers. The Company anticipates the economic instability will continue throughout the remainder of 2002 and will therefore continue to impact adversely Casino Magic Argentina's operating results in 2002. At March 31, 2002, assets in Argentina were \$6,770,000 or less than 1% of the Company's consolidated assets.

Legislation Regarding Dockside Gaming in Louisiana

Effective April 1, 2001, the gaming taxes paid to the state of Louisiana increased from 18.5% to 21.5% of net gaming proceeds for the riverboats in the southern region of the state, including the Company's Boomtown New Orleans property. For the northern Louisiana riverboat casinos operating in parishes bordering the Red River, including the Company's Casino Magic Bossier City property, the gaming tax increase to 21.5% of net gaming proceeds will be phased in over approximately two years. The phase-in included a 1% increase on each of April 1, 2001 and 2002, with another 1% on April 1, 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 are no longer required to arrange their plans to coincide with a cruising schedule. The Company also believes the new legislation will benefit the proposed Lake Charles project (see below), as it will enable the Company to build a riverboat casino that will remain dockside at all times and thus compete more effectively with existing operators. Finally, the Company believes the increased gaming taxes have 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.

Bossier City Expansion and Re-branding

In December 2001, Casino Magic Bossier City began a \$25,000,000 remodel and expansion project, including remodeling the existing pavilion building and dockside riverboat casino, and building all new restaurants. The Company expects the project will be substantially complete in early July 2002. During the three months ended March 31, 2002, approximately \$4,500,000 was incurred on the project. The Company believes operations during said quarter were adversely impacted by construction disruption to the facility, including the closure of various food and beverage venues and the redirecting of customer walkways to accommodate construction activity. The Company anticipates such construction disruption will continue in the quarter ended June 30, 2002. In addition, the Company has announced the re-branding of the facility to

Boomtown Bossier City effective in June or July 2002, which re-branding costs incurred in the three months ended March 31, 2002 were \$109,000. The Company anticipates such costs will increase in the quarter ended June 30, 2002, with some final expenses likely in the quarter ended September 30, 2002. Total re-branding expenses in 2002 are expected to be approximately \$1 million.

Lake Charles

On April 6, 2002, the voters of Calcasieu Parish, Louisiana, approved the Company's Lake Charles project located in that parish. As previously announced, in October 2001, the Company was selected by the Louisiana Gaming Control Board (the "Gaming Control Board") to receive the fifteenth and final gaming license to be issued by the Gaming Control Board. In connection with the project, in 1999 the Company 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. The Company anticipates executing the lease agreement in 2002. The lease calls for annual rental payments of \$815,000, commencing upon opening of the facility, with a maximum annual increase thereafter of 5%. Although the lease payments are not payable until commencement of operations, a portion of the future rent will be accrued during the construction period. 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 including lease payments to date and obtaining voter approval on April 6, 2002 have been expensed as incurred.

In February 2002, the Governor of Louisiana signed a compact with the Jena Band of the Choctaw Indians to allow for the development and operation of a land-based casino in the city of Vinton, Louisiana. Vinton is also in Calcasieu Parish and is 20 miles closer to Houston, Texas, the major market for casinos in Lake Charles, than the Company's proposed Lake Charles projects. In March 2002, such compact was disapproved by the U.S. Department of the Interior. There can be no assurances that 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.

Projects such as the Bossier City expansion and renovation and the Lake Charles project (both noted above) include numerous risks that could require substantial changes to proposed plans or otherwise alter the time frames or budgets initially contemplated. Such risks include the ability to secure all required permits and resolution of potential land use issues, as well as risks typically associated with any construction project, including possible shortages of materials or skilled labor, unforeseen engineering or environmental or geological problems, work stoppages, weather interference and unanticipated cost overruns. There can be no assurances that the Company will be able to complete either project on time or on budget.

Assets Held for Sale

Assets held for sale of \$18,285,000 at March 31, 2002 and December 31, 2001 consist primarily of 97 acres of surplus land in Inglewood, California and the Crystal Park Casino in Compton, California (see Note 4 to the Condensed Notes to Consolidated Financial Statements). 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 seeking buyers for the facility, and accordingly, reclassified the assets as held for sale (see Note 4 to the Condensed Consolidated Financial Statements).

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.1*	Employment Agreement dated as of April 10, 2002 by and between Pinnacle Entertainment, Inc. and Daniel R. Lee.
10.2*	Nonqualified Stock Option Agreement dated as of April 10, 2002 by and between Pinnacle Entertainment, Inc. and Daniel R. Lee.
10.3*	Nonqualified Stock Option Agreement dated as of April 10, 2002 by and between Pinnacle Entertainment, Inc. and Daniel R. Lee.
11*	Statement re Computation of Per Share Earnings
99.1**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 CEO.
99.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 CFO.

* Filed with the quarterly report on Form 10-Q for the three months ended March 31, 2002 filed on May 15, 2002.

** Filed herewith

(b) Reports on Form 8-K: None

