

STATION CASINOS INC
Form 10-K
March 31, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2002.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
for the transition period from _____ to _____.

Commission file number 000-21640

STATION CASINOS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

88-0136443

(I.R.S. Employer Identification No.)

2411 West Sahara Avenue, Las Vegas, Nevada 89102

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (702) 367-2411

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class
Common Stock, \$0.01 Par Value**

**Name of each exchange on which registered
New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer. Yes No

The aggregate market value of the voting stock held by non-affiliates (all persons other than executive officers or directors) of the registrant as of June 28, 2002, based on the closing price per share of \$17.85 as reported on the New York Stock Exchange was \$709,562,901.

As of March 14, 2003, the registrant has 57,146,370 shares of common stock outstanding.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders to be held May 21, 2003 (which has not been made publicly available as of the date of this filing) are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

Unless the context indicates otherwise, all references to the "Company" refer to Station Casinos, Inc. and all references to "Station", "we", "our", "ours" and "us" refer to Station Casinos, Inc. and its consolidated subsidiaries.

Forward-looking Statements

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

General

We are a gaming and entertainment company that currently owns and operates eight major hotel/casino properties (one of which is 50% owned) and three smaller casino properties (one of which is 50% owned), in the Las Vegas metropolitan area. Our growth strategy includes the master-planned expansion of our existing gaming facilities in Nevada, the development of gaming facilities on certain real estate we own in the Las Vegas valley, as well as the evaluation and pursuit of additional acquisition or development opportunities in Nevada and other gaming markets.

We own and operate Palace Station Hotel & Casino ("Palace Station"), Boulder Station Hotel & Casino ("Boulder Station"), Texas Station Gambling Hall & Hotel ("Texas Station"), Sunset Station Hotel & Casino ("Sunset Station"), Santa Fe Station Hotel & Casino ("Santa Fe Station"), Fiesta Rancho Casino Hotel ("Fiesta Rancho"), Fiesta Henderson Casino Hotel ("Fiesta Henderson"), Wild Wild West Gambling Hall & Hotel ("Wild Wild West") and Wildfire Casino ("Wildfire"). We also own a 50% interest in Green Valley Ranch Station Casino ("Green Valley Ranch Station") and Barley's Casino & Brewing Company ("Barley's"). Each of our casinos caters primarily to local Las Vegas area residents. We market the six "Station" casinos (including Green Valley Ranch Station) together under the Station Casinos' brand and the two "Fiesta" casinos under the Fiesta brand, offering convenience and choices to residents throughout the Las Vegas valley with our strategically located properties.

Operating Strategy

We believe that the following key principles have been integral to our success as a gaming operator and we intend to continue to employ these strategies at each of our properties.

Targeted Customer Base

Our operating strategy emphasizes attracting and retaining customers primarily from the local and repeat visitor markets. Our casino properties attract customers through innovative, frequent and high-profile promotional programs directed towards the local market, focused marketing efforts and

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convenient locations, aggressive marketing to the repeat visitor market and the development of strong relationships with specifically targeted travel wholesalers. Although perceived value initially attracts a customer to our casino properties, actual value generates customer satisfaction and loyalty. We believe that actual value becomes apparent during the customer's visit through an enjoyable, affordable and high-quality entertainment experience. Las Vegas, which is and has been one of the fastest growing cities in the United States, is characterized by a historically strong economy and demographics, which include an increasing number of retirees and other active gaming customers. We believe that our out-of-town patrons are also discerning customers who enjoy our value-oriented, high-quality approach. We believe that our patrons view our hotel and casino product as a preferable alternative to attractions located on the Las Vegas Strip and downtown Las Vegas.

Provide a High-Value Experience

Because we target the repeat customer, we are committed to providing a high-value entertainment experience for our customers in our restaurants, hotels, casinos and other entertainment amenities. We develop regional entertainment destinations for locals that include other amenities such as movie theaters, bowling centers, live entertainment venues and child care facilities. In addition, we believe the value offered by restaurants at each of our casino properties is a major factor in attracting local gaming customers, as dining is a primary motivation for casino visits by many locals. Through their restaurants, each of which has a distinct theme and style of cuisine, our casino properties offer generous portions of high-quality food at reasonable prices. In addition, our operating strategy focuses on slot and video poker machine play. Our target market consists of frequent gaming patrons who seek not only a friendly atmosphere and convenience, but also higher than average payout rates. Because locals and repeat visitors demand variety and quality in their slot and video poker machine play, our casino properties offer the latest in slot and video poker technology, including several games designed exclusively for Station Casinos.

As part of our commitment to providing a quality entertainment experience for our patrons, we are dedicated to ensuring a high level of customer satisfaction and loyalty by providing attentive customer service in a friendly, casual atmosphere. We recognize that consistent quality and a comfortable atmosphere stem from the collective care and friendliness of each employee. We began as a family-run business, and have maintained close-knit relationships among our management and we endeavor to instill among our employees this same sense of loyalty. Toward this end, we take a hands-on approach through active and direct involvement with employees at all levels.

Marketing and Promotion

We employ an innovative marketing strategy that utilizes frequent high profile promotional programs in order to attract customers and establish a high level of name recognition. In addition to aggressive marketing through television, radio and newspaper advertising, we have created and sponsored such promotions as "Paycheck Bonanza" and "Great Giveaway," a popular football season contest. These promotions have become a tradition in the locals' market and have had a positive impact upon our patronage during their respective promotion periods.

We are heavily focused on using cutting edge technology to drive customer traffic with products such as "Xtra Play Cash", "Jumbo Bingo", "Jumbo Poker" and "Sports Connection". We believe that these products create sustainable competitive advantages and distinguish us from our competitive set.

In April 1999, we introduced a unified Boarding Pass player rewards program at our Station properties. The Boarding Pass program allows guests to earn points based on their level of gaming activity. These points can then be redeemed for food, entertainment and merchandise at any of our Station properties. We believe that this "single card", for which the technology was developed in-house, sets us apart from our competition in the Las Vegas locals' market. The Fiesta properties offer a similar player rewards program called the Amigo Club. Members of the Boarding Pass and the Amigo Club can redeem

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points at any of our properties for meals in any of the restaurants, for hotel rooms, movie passes, show tickets or for merchandise in our gift shops.

Casino Properties

Set forth below is certain information as of December 31, 2002, concerning our properties, all of which we own and operate except as otherwise indicated. The properties are more fully described following the table.

Property	Hotel Rooms	Slots(1)	Gaming Tables(2)	Parking Spaces(3)
Casino Properties				
Palace Station	1,021	2,037	46	2,600
Boulder Station	300	2,896	42	4,400
Texas Station	200	2,470	38	5,000
Sunset Station	457	2,847	53	7,100
Santa Fe Station	200	2,133	28	3,750
Green Valley Ranch Station (50% owned)	201	2,212	49	3,600
Fiesta Rancho	100	1,810	21	2,300
Fiesta Henderson	224	1,473	23	2,250
Other Properties				
Wild Wild West	258	233	7	600
Barley's (50% owned)		191	8	
Wildfire (4)		170	6	200

(1) Includes slot and video poker machines and other coin-operated devices.

(2) Generally includes blackjack ("21"), craps, roulette, pai gow poker, mini baccarat, Caribbean stud poker, let it ride, three-card poker and wild hold 'em. The Casino Properties, with the exception of Green Valley Ranch Station, also offer a keno lounge and bingo parlor. The Casino Properties also offer a race and sports book and Wild Wild West and Barley's offer a sports book. Palace Station, Boulder Station, Texas Station and Sunset Station offer a poker room.

(3) Includes covered parking spaces of 1,900 for Palace Station, 1,900 for Boulder Station, 3,500 for Texas Station, 2,900 for Sunset Station, 1,500 for Santa Fe Station, 1,600 for Green Valley Ranch Station and 1,000 for Fiesta Rancho.

(4) We purchased the Wildfire on January 27, 2003.

Palace Station

Palace Station is strategically located on approximately 39 acres at the intersection of Sahara Avenue and Interstate 15, one of Las Vegas' most heavily traveled areas. Palace Station is a short distance from McCarran International Airport and from major attractions on the Las Vegas Strip and downtown Las Vegas. Palace Station features a turn-of-the-20th-century railroad station theme with non-gaming amenities including seven full-service restaurants, several fast-food outlets, a 250-seat entertainment lounge, five additional bars, two swimming pools, an approximately 20,000-square foot banquet and convention center, a 24-hour gift shop and a non-gaming video arcade.

Palace Station's seven full-service restaurants have a total of over 1,300 seats. These restaurants offer a variety of high-quality food at reasonable prices, including the 24-hour Palace Cafe (featuring American and Chinese fare), an all-you-can-eat buffet known as "The Feast," Broiler (a steak and seafood restaurant), Pasta Palace (an Italian restaurant), Guadalajara Bar & Grille (a Mexican restaurant), Jack's

Irish Pub and a 17-seat Oyster Bar. In addition to these restaurants, Palace Station offers various fast-food outlets. Palace Station's guests may also enjoy the Laugh Trax Comedy Club.

Boulder Station

Boulder Station, which opened in August 1994, is strategically located on approximately 46 acres on Boulder Highway and immediately adjacent to the Interstate 515 interchange. We believe that this highly visible location at this well-traveled intersection offers a competitive advantage relative to existing hotels and casinos located on Boulder Highway. Boulder Station is located approximately four miles east of the Las Vegas Strip and approximately four miles southeast of downtown Las Vegas. Boulder Station features a turn-of-the-20th-century railroad station theme with non-gaming amenities including five full-service restaurants, several fast-food outlets, a 750-seat entertainment lounge, seven additional bars, an 11-screen movie theater complex, a Kid's Quest child-care facility, a swimming pool, a non-gaming video arcade and a gift shop.

Boulder Station's five full-service restaurants have a total of over 1,400 seats. These restaurants offer a variety of high-quality meals at reasonable prices. Restaurant themes and menus are similar to Palace Station's, allowing Boulder Station to benefit from the market acceptance and awareness of this product. Restaurants include the 24-hour Boulder Cafe (featuring American and Chinese fare), an all-you-can-eat buffet known as "The Feast," Broiler (a steak and seafood restaurant), Pasta Palace (an Italian restaurant), and Guadalajara Bar & Grille (a Mexican restaurant). In addition to these restaurants, Boulder Station offers various fast-food outlets. Boulder Station's restaurants and bars are located in open settings that are designed to intermingle the dining and gaming experience.

Texas Station

Texas Station, which opened in July 1995, is strategically located on approximately 47 acres at the corner of Lake Mead Boulevard and Rancho Road in North Las Vegas. Texas Station features a friendly, "down-home" Texas atmosphere, highlighted by distinctive early Texas architecture with non-gaming amenities including five full-service restaurants, several fast-food outlets, a Kid's Quest child-care facility, a 300-seat entertainment lounge, a 1,700-seat event center, eight additional bars, an 18-screen movie theater complex, a swimming pool, a non-gaming video arcade, a gift shop, a 60-lane bowling center and approximately 40,000 square feet of meeting and banquet space. The theater complex and adjacent food court provide a competitive advantage for the property and are additional attractions that draw a significant number of patrons to Texas Station.

Texas Station's five full-service restaurants have a total of approximately 1,230 seats. These restaurant facilities offer a variety of high-quality food at reasonable prices, including the 24-hour Texas Cafe, Austin's Steakhouse, San Lorenzo (an Italian restaurant), The Feast Buffet (featuring seven different food stations) and Texas Star Oyster Bar, which has 110 seats. In addition to the Texas Station-themed restaurants, guests may also enjoy the unique features of several bars and lounges including the Martini Ranch, the Whiskey Bar, the Garage Bar, or the Armadillo Honky Tonk. Texas Station also offers a variety of fast-food outlets to enhance the customers' dining selection. The quality and variety of the restaurants offered at the facility are a major draw in the rapidly growing North Las Vegas and Summerlin markets.

Sunset Station

Sunset Station, which opened in June 1997, is strategically located on an approximately 85-acre parcel at the intersection of Interstate 515 and Sunset Road. Multiple access points provide customers convenient access to the gaming complex and parking areas. Situated in a highly concentrated commercial corridor along Interstate 515, Sunset Station has prominent visibility from the freeway and the Sunset commercial corridor. Sunset Station is located approximately nine miles east of McCarran International Airport and approximately seven miles southeast of Boulder Station.

Sunset Station features a Spanish/Mediterranean-style theme with non-gaming amenities including seven full-service restaurants themed to capitalize on the familiarity of the restaurants at our other properties, a 520-seat entertainment lounge and a 4,000-seat outdoor amphitheater, seven additional bars, a gift shop, a non-gaming video arcade, a 13-screen movie theater complex, a Kid's Quest child-care facility, and a swimming pool, as well as several fast-food outlets and franchises.

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Sunset Station's seven full-service restaurants have a total of approximately 2,300 seats featuring "live-action" cooking and simulated patio dining. These restaurant facilities offer a variety of high-quality food at reasonable prices, including the 24-hour Sunset Cafe (featuring American and Chinese fare), Sonoma Cellar (a steakhouse), Costa Del Sol (a seafood restaurant), Capri (an Italian restaurant), Guadalajara Bar & Grille (a Mexican restaurant), The Feast Around the World, a live action buffet featuring Mexican, Italian, barbecue, American and Chinese cuisine and a 65-seat Oyster Bar. Guests may also enjoy the Gaudi Bar, a centerpiece of the casino featuring over 8,000 square feet of stained glass and a water light display. Sunset Station also offers a variety of fast-food outlets to enhance the customers' dining selection.

We have developed only approximately 70 acres of the 85 acres on which Sunset Station is located. We are currently evaluating potential development plans for the undeveloped property. Uses for the land could include a lifestyle entertainment retail center and the development of several pads for various build-to-suit retail, restaurant and entertainment concepts. We have not yet determined the timing and definitive plans for such a development. During 2002, we sold approximately 10 acres of land on which Sunset Station is located.

Santa Fe Station

On October 2, 2000, we purchased substantially all of the assets of the Santa Fe Hotel & Casino for \$205 million and renamed the property "Santa Fe Station." Santa Fe Station is strategically located on approximately 38 acres at the intersection of Interstate 95 and Rancho Road, approximately five miles northwest of Texas Station. Santa Fe Station features a Southwestern theme with non-gaming amenities including three full-service restaurants, several fast food outlets, a gift shop, a non-gaming video arcade, a swimming pool, a 250-seat entertainment lounge, five additional bars, a 60-lane bowling center, a regulation-sized ice skating arena and 10,000 square feet of meeting and banquet facilities.

Santa Fe Station's three full-service restaurants have a total of over 700 seats, and include the 24-hour Santa Fe Cafe, Taos Steakhouse and Memphis Championship Barbecue, which opened in February 2002. Santa Fe Station also offers a variety of fast-food outlets to enhance the customers' dining selection.

Green Valley Ranch Station

Green Valley Ranch Station, located at the intersection of Interstate 215 and Green Valley Parkway in Henderson, Nevada, opened on December 18, 2001. Green Valley Ranch Station is approximately five minutes from McCarran International Airport and seven minutes from the Las Vegas Strip. We jointly developed the project on 40 acres of a 170-acre multi-use commercial development with GCR Gaming. In addition to our 50% ownership, we are also the managing partner of Green Valley Ranch Station and receive a management fee equal to 2% of the property's revenues and approximately 5% of EBITDA.

Green Valley Ranch Station was designed to complement the Green Valley master-planned community. The resort features a Mediterranean-style villa theme with non-gaming amenities including six full-service restaurants, a fast-food court with six quick-serve outlets, a 4,200 square-foot non-gaming arcade, a state-of-the-art spa with outdoor pools, two tennis courts, a 10-screen movie theater, a gift shop and approximately 11,000 square feet of meeting and convention space. Green Valley Ranch Station also offers "Whiskey Beach", an 8-acre complex featuring private poolside cabanas, luxurious open lawn areas, a contemporary poolside bar, three acres of vineyards and an outdoor performance venue.

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Green Valley Ranch Station's six full-service restaurants include Il Fornaio Cucina Italiano (an Italian restaurant), BullShrimp (featuring steak and seafood), Trophy's (a sports bar/restaurant), Fado's Irish Pub, The Original Pancake House and The Feast Around the World, a live action buffet featuring Mexican, Italian, barbecue, American and Chinese cuisine. In addition, Green Valley Ranch Station is opening an Asian restaurant in the second quarter of 2003. Green Valley Ranch Station also offers a variety of fast-food outlets to enhance the customers' dining selection. Guests may also enjoy the Drop Bar, a centerpiece of the casino, and the Whiskey Bar, a 5,300 square-foot nightspot.

Fiesta Rancho

On January 4, 2001, we purchased substantially all of the assets of the Fiesta Casino Hotel for \$170 million and renamed the property Fiesta Rancho in December 2001. Fiesta Rancho is strategically located on approximately 25 acres at the intersection of Lake Mead Boulevard and Rancho Road in North Las Vegas across from Texas Station. Fiesta Rancho features a Southwestern theme with non-gaming amenities including six full-service restaurants, several fast-food outlets, a gift shop, a non-gaming video arcade, a swimming pool, a 970-seat entertainment lounge and five additional bars.

Fiesta Rancho's six full-service restaurants have a total of over 1,100 seats, and include the 24-hour Cafe Fiesta (featuring American fare), Garduno's (a Mexican restaurant), Fiesta Steakhouse, Festival Buffet, Roxy's and Blue Agave Oyster Bar. Fiesta Rancho also offers a variety of

fast-food outlets to enhance the customers' dining selection.

Fiesta Henderson

On January 30, 2001, we purchased substantially all of the assets of The Reserve Hotel & Casino for \$71.8 million. In December 2001, the property was renamed Fiesta Henderson and was re-themed to our Fiesta brand. Fiesta Henderson is strategically located on approximately 46 acres at the intersection of Interstate 215 and Interstate 515. The property features three full-service restaurants, a gift shop, a swimming pool, three bars and lounges and meeting space.

Fiesta Henderson's three full-service restaurants have a total of over 900 seats, and include the 24-hour Baja Beach Cafe (featuring American and Chinese fare), Fuego Steakhouse and the Festival Buffet.

Other Properties

Wild Wild West

Wild Wild West, which we acquired in July 1998, is strategically located on approximately 19 acres on Tropicana Avenue and immediately adjacent to Interstate 15. Wild Wild West offers non-gaming amenities including a full-service restaurant, a bar, a gift shop and a truck plaza.

Barley's

Barley's, which opened in January 1996, is a casino and brew pub located in Henderson, Nevada. We are the managing partner and own a 50% interest in Barley's. Barley's offers non-gaming amenities including a full-service restaurant, a pizza kitchen and a bar.

Wildfire

We purchased the Wildfire in January 2003 for \$8.0 million. The Wildfire is located on Rancho Road in Las Vegas, across from Texas Station. The 20,000 square-foot facility features 170 slot machines, six table games, a sports book, lounge, outdoor patio and a full-service restaurant.

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Expansion Strategy

Selection Criteria

We believe that a highly visible location, convenient access and ample parking are critical factors in attracting local patronage and repeat visitors. Additionally, sites must be large enough to support multi-phased master-planned growth to capitalize on growing demand in incremental stages. We select sites that are located within a dense population base so that the facility cannot be cut-off from its primary market. These sites generally have been adjacent to high-traffic surface streets and interstate highways. We believe that each of our casino properties' locations has provided us with a significant competitive advantage to attract our targeted customer base.

Master-Planned Development

Our expansion strategy includes the master-planned expansion of our existing and future gaming locations. In designing project sites, we plan and engineer for multi-phased facility expansion to accommodate future growth and to allow us to develop dominant properties in each market place. A project's master-planned design typically allows the option of adding hotel rooms, casino space, parking structures and non-gaming entertainment such as movie theaters, additional restaurants, retail shops and various other entertainment venues.

Expansion, Development and Acquisition Opportunities

We continually evaluate the timing and scope of our master-planned developments at each of our properties and may determine from time to time to expand the scope of, improve on or suspend the implementation of our master plans. These decisions are dependent upon the availability of financing, competition and future economic and gaming regulatory environments, many of which are beyond our control. In addition, we have acquired several parcels of land in the Las Vegas valley, which can be used for new development.

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We also evaluate other development and acquisition opportunities in current and emerging gaming markets, including land-based, dockside, riverboat, Native American Indian and Internet gaming opportunities. Our decision whether to proceed with any new gaming development or acquisition opportunity is dependent upon future economic and regulatory factors, the availability of financing and competitive and strategic considerations, many of which are beyond our control.

United Auburn Indian Community

We have entered into a Development Services Agreement and a Management Agreement with the United Auburn Indian Community (the "UAIC"). Pursuant to those agreements, and in compliance with a Memorandum of Understanding entered by the UAIC and Placer County, California, we are developing, with the UAIC, Thunder Valley Casino, a gaming and entertainment facility on 49 acres located approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. On September 17, 2002, the United States Department of the Interior accepted the land into trust on behalf of the UAIC. The acceptance of the land into trust followed the decision of the United States District Court for the District of Washington, D.C., dismissing a lawsuit filed by the cities of Roseville and Rocklin, California, and Citizens for Safer Communities, which challenged the United States Department of the Interior's preliminary decision to accept the land into trust. Immediately following the District Court's decision, the plaintiffs appealed the decision to the Washington, D.C. court of appeals and filed an emergency motion for stay of the District Court's decision. The court of appeals denied the plaintiffs' emergency action. Notwithstanding the denial of the plaintiffs' emergency motion and the acceptance of the land into trust, there can be no assurances that the plaintiffs will not seek other extraordinary remedies and there can be no assurances as to the ultimate outcome of the plaintiffs' pending appeal. Our seven-year Management Agreement to manage Thunder Valley Casino was approved by the National Indian Gaming Commission (the "NIGC") in December 2002. Upon the opening of Thunder Valley

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Casino, we will receive a management fee equal to 24% of the facility's income. We will also receive a development fee equal to 2% of the cost of the project. The development fee is payable upon the opening of the facility.

It is anticipated that Thunder Valley Casino will house between 1,256 and 1,906 Class III slot machines and approximately 100 table games, including a private VIP gaming area. The facility will have numerous dining and entertainment amenities, including a center pit bar, three specialty restaurants, a 500-seat buffet, a food court and parking for over 3,000 vehicles. Construction began on October 26, 2002, and we anticipate that the casino will open in June 2003 with the remainder of the facility to be completed during the fourth quarter of 2003. The cost of the project is expected to be approximately \$215 million. We also assisted the UAIC in obtaining \$142.5 million of financing for the project through a group of lenders, and we provided an unlimited completion guaranty and credit support for all amounts outstanding under such financing. Any amounts required under the completion guaranty are recoverable after the facility has opened. We, along with the UAIC, are currently working on completing the remainder of the financing; however, to the extent the additional funds cannot be raised through third parties, we will fund any shortfall. As of December 31, 2002, we had advanced approximately \$34.5 million to the UAIC for the development of Thunder Valley Casino, which is included as a note receivable on our consolidated balance sheets. Based on the current terms of the credit financing, our advances cannot be repaid prior to the maturity of the credit facility, which is scheduled for January 2009. Our advances to the UAIC are subordinated to the credit facility and carry an interest rate of 10%, which will be recorded upon the opening of the facility. As of December 31, 2002, the accrued interest on our advances to the UAIC was approximately \$2.6 million.

Competition

The gaming industry includes land-based casinos, dockside casinos, riverboat casinos, casinos located on Indian reservations and other forms of legalized gaming. There is intense competition among companies in the gaming industry, many of which have significantly greater resources than we do. Certain states have recently legalized, and several other states are currently considering legalizing, casino gaming in designated areas. Legalized casino gaming in such states and on Indian reservations will provide strong competition to us and could adversely affect our operations, particularly to the extent that such gaming is conducted in areas close to our operations. Indian gaming in California, as it currently exists, has had little, if any impact on our operations to date, although there are no assurances as to future impact. In September 1999 the Governor negotiated, and the Legislature ratified, compacts with 57 Indian tribes that became effective with the passage of Proposition 1A on March 7, 2000. These tribes were allowed to operate slot machines, lottery games, and banking and percentage games (including "21") on Indian lands. The compacts are currently being renegotiated with the state. While the outcome of the negotiations is yet to be determined, the possibility exists that the current facilities operating in California will be allowed to expand. It is not certain how any expansion will affect us; however, because visitors from California make up Nevada's largest visitors market. Increased competition from Indian gaming may result in a decline in our revenues and may have a material adverse effect on our business.

The casino properties face more direct competition from 34 non-restricted gaming locations primarily targeted to the local and the repeat visitor markets. Some of these competitors have completed expansions and existing competitors and new entrants into these markets are in the planning stages or under construction on other projects. Although we have competed strongly in these marketplaces, there can be no assurance that additional capacity will not have a negative impact on our business.

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Our casino properties face competition from all other casinos and hotels in the Las Vegas area, including to some degree, from each other. In addition, our casino properties face competition from all smaller non-restricted gaming locations and restricted gaming locations (locations with 15 or fewer slot machines) in the greater Las Vegas area. As of December 31, 2002, there were 1,381 restricted gaming locations with a total of 13,783 slot machines. We compete with other locals oriented hotel/casinos by focusing on repeat customers and attracting these customers through innovative marketing programs. Our

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value-oriented, high-quality approach is designed to generate repeat business. Additionally, our casino properties are strategically located and designed to permit convenient access and ample parking, which are critical factors in attracting local visitors and repeat patrons. Currently, there are approximately 32 major gaming properties located on or near the Las Vegas Strip, 14 located in the downtown area and several located in other areas of Las Vegas. Major additions, expansions or enhancements of existing properties or the construction of new properties by competitors, could also have a material adverse effect on the businesses of our casino properties. While past additions to capacity have had little, if any, impact on our casino properties' hotel occupancy or casino volume to date, there can be no assurance that hotel occupancy or casino volume will not be adversely affected in the future.

To a lesser extent, our operations compete with gaming operations in other parts of the state of Nevada, such as Reno, Laughlin and Lake Tahoe, riverboat gaming markets in the Midwest and South, facilities in Atlantic City, New Jersey, casinos located on Indian reservations and other parts of the world and with state-sponsored lotteries, on-and-off-track pari-mutuel wagering, card parlors and other forms of legalized gambling.

In 1997, the Nevada legislature enacted Senate Bill 208. This legislation identified certain gaming enterprise districts and classifications of real property wherein gaming development would be permitted throughout the Las Vegas valley. We believe the growth in gaming supply in the Las Vegas locals' market has been, and will continue to be, limited by the provisions of Senate Bill 208.

Regulation and Licensing

Nevada Gaming Regulations

The ownership and operation of casino gaming facilities and the manufacture and distribution of gaming devices in Nevada are subject to: (i) the Nevada Gaming Control Act and the rules and regulations promulgated thereunder (collectively, the "Nevada Act"); and (ii) various local ordinances and regulations. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission ("Nevada Commission"), the Nevada State Gaming Control Board ("Nevada Board"), the City of Las Vegas, the Clark County Liquor and Gaming Licensing Board (the "Clark County Board"), the City of North Las Vegas, the City of Henderson and certain other local regulatory agencies. The Nevada Commission, the Nevada Board, the City of Las Vegas, the Clark County Board, the City of North Las Vegas, the City of Henderson, and certain other local regulatory agencies are collectively referred to as the "Nevada Gaming Authorities".

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things: (i) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity; (ii) the establishment and maintenance of responsible accounting practices and procedures; (iii) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal controls and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (iv) the prevention of cheating and fraudulent practices; and (v) providing a source of state and local revenues through taxation and licensing fees. Change in such laws, regulations and procedures could have an adverse effect on our gaming operations.

Our direct and indirect subsidiaries that conduct gaming operations in Nevada are required to be licensed by the Nevada Gaming Authorities. The gaming licenses require the periodic payment of fees and taxes and are not transferable. Palace Station Hotel & Casino, Inc. ("PSHC"), Boulder Station, Inc. ("BSI"), Texas Station LLC ("TSL"), Sunset Station, Inc. ("SSI"), Tropicana Station, Inc. ("TRSI"), Santa Fe Station, Inc. ("SFSI"), Fiesta Station, Inc. ("FSI"), Rancho Station, LLC ("RSL") and Lake Mead Station, Inc. ("LMSI") have received licenses to conduct nonrestricted gaming operations. In addition, Green Valley Ranch Gaming, LLC ("GVRG") has received licenses to conduct nonrestricted gaming operations at Green Valley Ranch Station Casino. The Company's ownership in GVRG is held through an

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intermediary company known as GV Ranch Station, Inc. ("GVRs"), which is licensed as a member and manager of GVRG. Town Center Amusements, Inc. ("TCAI") has been licensed to conduct nonrestricted gaming operations at Barley's Casino & Brewing Company ("Barley's"), a micro brewery and casino located in Henderson, Nevada. Station Casinos' ownership in TCAI is held through an intermediary company known

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as Green Valley Station, Inc. ("GVSI") which is licensed as a member and manager of TCAI. We also own a minority interest in Fiesta Palms, LLC, d.b.a. Palms Casino Resort, which we hold through our subsidiary, Palms Station, LLC ("PSL"). Station Casinos is registered by the Nevada Commission as a publicly traded corporation (a "Registered Corporation") and has been found suitable to own the stock of PSHC, BSI, SSI, TRSI, GVSI, SFSI, GVRG, FSI, RSL and LMSI. We are also licensed as a manufacturer and distributor. PSHC, BSI, SSI, TRSI, GVSI, SFSI, GVRG, FSI and LMSI are each a corporate gaming licensee and TCAI, TSL, GVRG, RSL and PSL are each a limited liability company licensee (individually a "Gaming Subsidiary" and collectively the "Gaming Subsidiaries") under the terms of the Nevada Act. As a Registered Corporation, Station Casinos is required periodically to submit detailed financial and operating reports to the Nevada Commission and the Nevada Board and furnish any other information, which the Nevada Commission or the Nevada Board may require. No person may become a stockholder or holder of an interest of, or receive any percentage of profits from the Gaming Subsidiaries without first obtaining licenses and approvals from the Nevada Gaming Authorities. Station Casinos and the Gaming Subsidiaries have obtained from the Nevada Gaming Authorities the various registrations, findings of suitability, approvals, permits and licenses (individually, a "Gaming License" and collectively, the "Gaming Licenses") required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, a Registered Corporation, such as Station Casinos or the Gaming Subsidiaries, which hold a license, in order to determine whether such individual is suitable or should be licensed as a business associate of a Registered Corporation or a gaming licensee. Officers, directors and certain key employees of the Gaming Subsidiaries must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Officers, directors and key employees of Station Casinos who are actively and directly involved in gaming activities of the Gaming Subsidiaries may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause, which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities and in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue to have a relationship with Station Casinos or the Gaming Subsidiaries, the companies involved would have to sever all relationships with such person. In addition, the Nevada Commission may require Station Casinos or the Gaming Subsidiaries to terminate the employment of any person who refuses to file the appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

Station Casinos and the Gaming Subsidiaries are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by us and our Gaming Subsidiaries must be reported to or approved by the Nevada Commission and/or the Nevada Board.

If it were determined that the Nevada Act was violated by a Gaming Subsidiary, the gaming licenses it holds could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, Station Casinos, the Gaming Subsidiaries and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate

Palace Station, Boulder Station, Texas Station, Sunset Station, Santa Fe Station, Green Valley Ranch Station, Fiesta Rancho, Fiesta Henderson, Wild Wild West, Wildfire and Barley's and, under certain circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of the premises) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of the Gaming Licenses of the Gaming Subsidiaries or the appointment of a supervisor could (and revocation of any Gaming License would) have a material adverse affect on our gaming operations.

Any beneficial owner of Station Casinos, Inc. voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have their suitability as a beneficial owner of our voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the state of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act provides that persons who acquire beneficial ownership of more than 5% of the voting securities of a Registered Corporation must report the acquisition to the Nevada Commission. The Nevada Act also requires that beneficial owners of more than 10% of the voting securities of a Registered Corporation must apply to the Nevada Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails the written notice requiring such filing. An "institutional investor," as defined in the Nevada Commission's regulations, which acquires beneficial ownership of more than 10%, but not more than 15% of Station Casinos voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes

only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the Board of Directors of Station Casinos, any change in our corporate charter, bylaws, management policies or operations of Station Casinos, or any of its gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include: (i) voting on all matters voted on by stockholders; (ii) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in our management, policies or operations; and (iii) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder who is found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or our Gaming Subsidiaries, we (i) pay that person any dividend or interest upon voting securities of Station Casinos, (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, (iii) pay remuneration in any form to that person for services rendered or otherwise, or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value. Additionally, the Clark County Board has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee.

The Nevada Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a

Registered Corporation if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it: (i) pays to the unsuitable person any dividend, interest, or any distribution whatsoever; (ii) recognizes any voting right by such unsuitable person in connection with such securities; (iii) pays the unsuitable person remuneration in any form; or (iv) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

We are required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, to date, the Nevada Commission has not imposed such a requirement on us.

We may not make a public offering of our securities without the prior approval of the Nevada Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On May 17, 2001, the Nevada Commission granted us prior approval to make public offerings for a period of two years, subject to certain conditions ("Shelf Approval"). The Shelf Approval has been amended several times to reflect the addition of new subsidiaries, most recently on November 19, 2001. However, the Shelf Approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board and must be renewed at the end of the two-year approval period. The Shelf Approval also applies to any affiliated company wholly owned by Station Casinos (an "Affiliate"), which is a publicly traded corporation or would thereby become a publicly traded corporation pursuant to a public offering. The Shelf Approval also includes approval for the Gaming Subsidiaries to guarantee any security issued by, or to hypothecate their assets to secure the payment or performance of any obligations evidenced by a security issued by, Station Casinos or an Affiliate in a public offering under the Shelf Approval. The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. The Shelf Approval also includes approval for us to place restrictions upon the transfer of, and to enter into agreements not to encumber the equity securities of the Gaming Subsidiaries, as applicable, in conjunction with public offerings made under the Shelf Approval. Any representation to the contrary is unlawful. On October 25, 2002, we filed the requisite applications seeking approval for a new Shelf Approval.

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Changes in control of Station Casinos through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby such person obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada Board and the Nevada Commission that they meet a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada corporate gaming licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (i) assure the financial stability of corporate gaming licensees and their affiliates;

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(ii) preserve the beneficial aspects of conducting business in the corporate form; and (iii) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before a Registered Corporation can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of re-capitalization proposed by the Registered Corporation's Board of Directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purpose of acquiring control of the Registered Corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Nevada licensee's respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon either: (i) a percentage of the gross revenues received; (ii) the number of gaming devices operated; or (iii) the number of table games operated. A casino entertainment tax is also paid by casino operations where entertainment is furnished in connection with the serving or selling of food or refreshments or the selling of any merchandise. Nevada licensees that hold a license as an operator of a slot route, or manufacturer's or distributor's license also pay certain fees and taxes to the state of Nevada.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons (collectively, "Licensees"), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada Board of their participation in such foreign gaming. The revolving fund is subject to increase or decrease at the discretion of the Nevada Commission. Thereafter, licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enter into associations that are harmful to the state of Nevada or its ability to collect gaming taxes and fees, or employ, contract with or associate with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the grounds of unsuitability or whom a court in the state of Nevada has found guilty of cheating. The loss or restriction of our gaming licenses in Nevada would have a material adverse effect on our business and could require us to cease gaming operations in Nevada.

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Nevada Liquor Regulations

The sale of alcoholic beverages at Palace Station, Wildfire and Santa Fe Station is subject to licensing, control and regulation by the City of Las Vegas. The sale of alcoholic beverages at Boulder Station and Wild Wild West is subject to licensing control and regulation by the Clark County Board. Texas Station and Fiesta Rancho are subject to licensing control and regulation of the City of North Las Vegas. Sunset Station, Green Valley Ranch Station, Fiesta Henderson and Barley's are subject to the licensing control and regulation of the City of Henderson and the Department of Treasury, Bureau of Alcohol, Tobacco and Firearms, as applicable. All licenses are revocable and are not transferable. The agencies involved have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could (and revocation would) have a material adverse effect on the operations of the Gaming Subsidiaries.

Native American Indian Gaming

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The terms and conditions of management contracts and the operation of casinos and all gaming on Native American Indian land in the United States are subject to the Indian Gaming Regulatory Act of 1988 ("IGRA"), which is administered by the National Indian Gaming Commission ("NIGC") and the gaming regulatory agencies of tribal governments. IGRA is subject to interpretation by the NIGC and may be subject to judicial and legislative clarification or amendment.

IGRA requires NIGC approval of management contracts for Class II and Class III gaming as well as the review of all agreements collateral to the management contracts. The management contract relating to the Company's proposed casino for the United Auburn Indian Community was approved by the NIGC. The NIGC will not approve a management contract if a director or a 10% shareholder of the management company: (i) is an elected member of the Indian tribal government which owns the facility purchasing or leasing the games; (ii) has been or is convicted of a felony gaming offense; (iii) has knowingly and willfully provided materially false information to the NIGC or the tribe; (iv) has refused to respond to questions from the NIGC; or (v) is a person whose prior history, reputation and associations pose a threat to the public interest or to effective gaming regulation and control, or create or enhance the chance of unsuitable activities in gaming or the business and financial arrangements incidental thereto. In addition, the NIGC will not approve a management contract if the management company or any of its agents have attempted to unduly influence any decision or process of tribal government relating to gaming, or if the management company has materially breached the terms of the management contract or the tribe's gaming ordinance, or a trustee, exercising due diligence, would not approve such management contract. A management contract can be approved only after the NIGC determines that the contract provides, among other things, for: (i) adequate accounting procedures and verifiable financial reports, which must be furnished to the tribe; (ii) tribal access to the daily operations of the gaming enterprise, including the right to verify daily gross revenues and income; (iii) minimum guaranteed payments to the tribe, which must have priority over the retirement of development and construction costs; (iv) a ceiling on the repayment of such development and construction costs and (v) a contract term not exceeding five years and a management fee not exceeding 30% of net revenues (as determined by the NIGC); provided that the NIGC may approve up to a seven year term and a management fee not to exceed 40% of net revenues if the NIGC is satisfied that the capital investment required, and the income projections for the particular gaming activity require the larger fee and longer term. There is no periodic or ongoing review of approved contracts by the NIGC. The only post-approval action that could result in possible modification or cancellation of a contract would be as the result of an enforcement action taken by the NIGC based on a violation of the law or an issue affecting suitability.

IGRA established three separate classes of tribal gaming—Class I, Class II and Class III. Class I includes all traditional or social games solely for prizes of minimal value played by a tribe in connection with celebrations or ceremonies. Class II gaming includes games such as bingo, pull-tabs, punchboards, instant bingo and non-banked card games (those that are not played against the house), such as poker. Class III gaming is casino-style gaming and includes banked table games such as blackjack, craps and

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roulette, and gaming machines such as slots, video poker, lotteries and pari-mutuel wagering. Thunder Valley Casino may provide Class II gaming and, as limited by the tribal-state compact, Class III gaming.

IGRA prohibits all forms of Class III gaming unless the tribe has entered into a written agreement with the state that specifically authorizes the types of Class III gaming the tribe may offer (a "tribal-state compact"). These compacts provide, among other things, the manner and extent to which each state will conduct background investigations and certify the suitability of the manager, its officers, directors, and key employees to conduct gaming on tribal lands. The Company has been licensed by the relevant tribal gaming authorities to manage Thunder Valley Casino.

Title 25, Section 81 of the United States Code states that "no agreement shall be made by any person with any tribe of Indians, or individual Indians not citizens of the United States, for the payment or delivery of any money or other thing of value... in consideration of services for said Indians relative to their lands... unless such contract or agreement be executed and approved" by the Secretary or his or her designee. An agreement or contract for services relative to Native American Indian lands which fails to conform with the requirements of Section 81 is void and unenforceable. All money or other thing of value paid to any person by any Native American Indian or tribe for or on his or their behalf, on account of such services, in excess of any amount approved by the Secretary or his or her authorized representative will be subject to forfeiture. We believe that we have complied with the requirements of section 81 with respect to our management contracts for Thunder Valley Casino and intend to comply with Section 81 with respect to any other contract to manage casinos located on Native American Indian land in the United States.

Native American Indian tribes are sovereign with their own governmental systems, which have primary regulatory authority over gaming on land within the tribes' jurisdiction. Therefore, persons engaged in gaming activities, including the Company, are subject to the provisions of tribal ordinances and regulations on gaming. These ordinances are subject to review by the NIGC under certain standards established by IGRA. The NIGC may determine that some or all of the ordinances require amendment, and that additional requirements, including additional licensing requirements, may be imposed on us. We have received no such notification regarding the Thunder Valley Casino. The possession of valid licenses from the United Auburn Indian Community are ongoing conditions of our agreements with the tribe.

General Gaming Regulations in Other Jurisdictions

If we become involved in gaming operations in any other jurisdictions, such gaming operations will subject us and certain of our officers, directors, key employees, stockholders and other affiliates ("Regulated Persons") to strict legal and regulatory requirements, including mandatory licensing and approval requirements, suitability requirements, and ongoing regulatory oversight with respect to such gaming operations. Such legal and regulatory requirements and oversight will be administered and exercised by the relevant regulatory agency or agencies in each jurisdiction (the "Regulatory Authorities"). Station Casinos and the Regulated Persons will need to satisfy the licensing, approval and suitability requirements of each jurisdiction in which we seek to become involved in gaming operations. These requirements vary from jurisdiction to jurisdiction, but generally concern the responsibility, financial stability and character of the owners and managers of gaming operations as well as persons financially interested or involved in gaming operations. In general, the procedures for gaming licensing, approval and finding of suitability require Station Casinos and each Regulated Person to submit detailed personal history information and financial information to demonstrate that the proposed gaming operation has adequate financial resources generated from suitable sources and adequate procedures to comply with the operating controls and requirements imposed by law and regulation in each jurisdiction, followed by a thorough investigation by such Regulatory Authorities. In general, Station Casinos and each Regulated Person must pay the costs of such investigation. An application for any gaming license, approval or finding of suitability may be denied for any cause that the Regulatory Authorities deem reasonable. Once obtained, licenses and approvals may be subject to periodic renewal and generally are not transferable. The Regulatory Authorities may at any time revoke, suspend, condition, limit or restrict a license, approval or

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finding of suitability for any cause that they deem reasonable. Fines for violations may be levied against the holder of a license or approval and in certain jurisdictions, gaming operation revenues can be forfeited to the state under certain circumstances. There can be no assurance that we will obtain all of the necessary licenses, approvals and findings of suitability or that our officers, directors, key employees, other affiliates and certain other stockholders will satisfy the suitability requirements in one or more jurisdictions, or that such licenses, approvals and findings of suitability, if obtained, will not be revoked, limited, suspended or not renewed in the future.

Failure by Station Casinos to obtain, or the loss or suspension of, any necessary licenses, approval or findings of suitability would prevent us from conducting gaming operations in such jurisdiction and possibly in other jurisdictions. We may be required to submit detailed financial and operating reports to Regulatory Authorities.

The laws, regulations and procedures pertaining to gaming are subject to the interpretation of the Regulatory Authorities and may be amended. Any changes in such laws, regulations, or their interpretations could have a material adverse effect on our operations.

Economic Risks

Our properties draw a substantial number of customers from the Las Vegas valley, as well as certain geographic areas, including Southern California, Arizona and Utah. Adverse economic conditions in any of these regions could have a significant adverse effect on our business, financial condition and results of operations. Since all of our properties are located in the Las Vegas valley, any terrorist activities or disasters in or around Southern Nevada could have a significant adverse effect on our business, financial condition and results of operations.

Our properties use significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy have been experienced, the substantial increases in the cost of electricity, natural gas and gasoline in the United States during 2001 and 2002 have and may continue to negatively affect our operating results. In addition, energy price increases in the regions that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation and spending at our properties, which could negatively impact revenues.

The gaming industry represents a significant source of tax revenue, particularly to the State of Nevada and its counties and municipalities. From time to time, various state and federal legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. The Nevada legislature is currently considering various proposals to increase taxes on our operations. While the final tax bill has not yet been enacted, it is likely that we will be subject to increased taxes, however, the magnitude of any increase in taxes is yet to be determined.

Employees

As of February 28, 2003, we had approximately 10,200 employees, which includes Green Valley Ranch Station and Barley's. From time to time, certain of our employees are contacted by unions and we engage in discussions with such employees regarding establishment of collective bargaining agreements. In 1998, approximately 12 of our employees voted to be represented by a union. While we are faced with such movements by employees from time to time, we do not believe that such movements will have any broad-based impact on our employees;

however there can be no assurances to that effect. We believe that we have good relationships with our employees.

Available Information

Station Casinos, Inc. is a reporting company under the Securities Exchange Act of 1934, as amended, and files annual reports, quarterly reports, proxy statements and other documents with the SEC. The public may read and copy any of our filings at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because we make filings to the SEC electronically, access to this information is available at the SEC's Internet website (www.sec.gov). This site contains reports and other information regarding issuers that file electronically with the SEC. We also make available, free of charge, through our Internet website (www.stationcasinos.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 2. PROPERTIES

All of the property that we own and lease is subject to a lien to secure borrowings under our Revolving Facility.

Palace Station is situated on approximately 39 acres located on the west side of Las Vegas, Nevada. We own 26 acres and lease the remaining 13 acres pursuant to five long-term ground leases with unaffiliated third parties.

Boulder Station is situated on approximately 46 acres located on the east side of Las Vegas, Nevada. We own 19 acres and lease the remaining 27 acres from KB Enterprises, a company owned by Frank J. Fertitta, Jr. and Victoria K. Fertitta (the "Related Lessor"), the parents of Frank J. Fertitta III, Chairman of the Board and Chief Executive Officer of the Company and Lorenzo J. Fertitta, the President of the Company. The lease has a maximum term of 65 years, ending in June 2058. The lease provides for monthly payments of \$135,525 through June 2003. In July 2003, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return for comparably situated property or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. In July 2008, and every ten years thereafter, the rent will be adjusted by a cost of living factor. Pursuant to the ground lease, we have an option, exercisable at five-year intervals with the next option in June 2003, to purchase the land at fair market value. We believe that the terms of the ground lease are as fair to us as could be obtained from an independent third party.

Texas Station is situated on approximately 47 acres located in North Las Vegas, Nevada. We lease this land from Texas Gambling Hall & Hotel, Inc., a company owned by the Related Lessor. The lease has a maximum term of 65 years, ending in July 2060. The lease provides for monthly rental payments of \$287,500 through June 2005. In July 2005, and every ten years thereafter, the rent will be adjusted by a cost of living factor. In July 2010, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return being realized for owners of comparable land in Clark County or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, we have an option, exercisable at five-year intervals with the next option in May 2005, to purchase the land at fair market value. We believe that the terms of the ground lease are as fair to us as could be obtained from an independent third party.

Sunset Station is situated on approximately 85 acres located in the Green Valley/Henderson area of Las Vegas, Nevada.

Santa Fe Station is situated on approximately 38 acres that we own on the northwest side of Las Vegas, Nevada.

Green Valley Ranch Station, a 50% owned joint venture, is situated on approximately 40 acres of a 170-acre multi-use commercial development and is located in Henderson, Nevada approximately six miles southwest of Sunset Station.

Fiesta Rancho is situated on approximately 25 acres that we own in North Las Vegas, Nevada across from Texas Station.

Fiesta Henderson is situated on approximately 46 acres that we own in Henderson, Nevada.

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We currently own or lease five sites, which have been acquired for potential gaming projects, consisting of 151 acres, with options on an additional 66 acres adjacent to two of the sites, in the Las Vegas valley and 98 acres near the Thunder Valley Casino in Sacramento, California.

ITEM 3. LEGAL PROCEEDINGS

Station Casinos and our subsidiaries are defendants in various lawsuits relating to routine matters incidental to our business. As with all litigation, no assurance can be provided as to the outcome of the following matters and litigation inherently involves significant costs.

Poulos/Ahearn Case

On April 26, 1994, a suit seeking status as a class action lawsuit was filed by plaintiff, William H. Poulos, et al., as class representative, in the United States District Court, Middle District of Florida, naming 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Station Casinos. On May 10, 1994, a lawsuit alleging substantially identical claims was filed by another plaintiff, William Ahearn, et al., as class representative, in the United States District Court, Middle District of Florida, against 48 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Station Casinos and most of the other major hotel/casino companies. The lawsuits allege that the defendants have engaged in a course of fraudulent and misleading conduct intended to induce persons to play such games based on a false belief concerning how the gaming machines operate, as well as the extent to which there is an opportunity to win. The two lawsuits have been consolidated into a single action, and have been transferred to the United States District Court for the District of Nevada (the "Nevada District Court"). On September 26, 1995, a lawsuit alleging substantially identical claims was filed by plaintiff, Larry Schreier, et al., as class representative, in the Nevada District Court, naming 45 manufacturers, distributors, and casino operators of video poker and electronic slot machines, including the Company. Motions to dismiss the Poulos/Ahearn and Schreier cases were filed by defendants. On April 17, 1996, the Poulos/Ahearn lawsuits were dismissed, but plaintiffs were given leave to file Amended Complaints on or before May 31, 1996. On May 31, 1996, an Amended Complaint was filed, naming William H. Poulos, et al., as plaintiff. Defendants filed a motion to dismiss. On August 15, 1996, the Schreier lawsuit was dismissed with leave to amend. On September 27, 1996, Schreier filed an Amended Complaint. Defendants filed motions to dismiss the Amended Complaint. In December 1996, the Court consolidated the Poulos/Ahearn, the Schreier, and a third case not involving the Company and ordered all pending motions be deemed withdrawn without prejudice, including Defendants' Motions to Dismiss the Amended Complaints. The plaintiffs filed a Consolidated Amended Complaint on February 13, 1997. On or about December 19, 1997, the Court issued formal opinions granting in part and denying in part the defendants' motion to dismiss. In so doing, the Court ordered plaintiffs to file an amended complaint in accordance with the Court's orders in January of 1998. Accordingly, plaintiffs amended their complaint and filed it with the Nevada District Court in February 1998. The Company and all other defendants continue to deny the allegations contained in the amended complaint filed on behalf of plaintiffs. The plaintiffs are seeking compensatory, special, consequential, incidental, and punitive damages in unspecified amounts. On June 25, 2002, the Nevada District Court denied plaintiffs' motion for class certification. On July 11, 2002, plaintiffs filed a petition for permission to appeal such class certification ruling with the United States Court of Appeals for the Ninth Circuit. On August 15, 2002, the

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Ninth Circuit granted plaintiffs' petition for permission to appeal such class certification ruling. While no assurances can be made with respect to any litigation, the Company believes that the plaintiffs' claims are without merit and does not expect that the lawsuits will have a material adverse effect on the Company's financial position or results of operations.

Fitzgerald's Sugar Creek, Inc. v. Kansas City Station Corp., et al.

On December 20, 2000, the Company and Kansas City Station Corporation were named as defendants in an action styled *Fitzgerald Sugar Creek, Inc. v. Kansas City Station Corp., et al.*, No. 00CV230480 (Circuit Court of Jackson County, Missouri). The plaintiff alleges that the defendants are liable for unspecified actual and punitive damages and other relief, based on alleged tortious interference with the plaintiff's business expectancy of receiving a Missouri gaming license in the Kansas City metropolitan area. The allegations of the petition appear to be based on the same issues involved in the investigation by the Missouri Gaming Commission related to activities of Michael Lazaroff, an attorney who formerly represented the Company in Missouri. The plaintiff also alleged claims based on fraudulent concealment and civil conspiracy. The Company and its subsidiary responded to this lawsuit on January 19, 2001 and moved to remove the case to bankruptcy court in Nevada. On March 29, 2001, the United States Bankruptcy Court for the Western District of Missouri remanded the case to the Circuit Court of Jackson County, Missouri. On April 19, 2001, defendants filed a motion to dismiss plaintiff's petition. On August 10, 2001, the Circuit Court (1) granted that motion to dismiss as to the civil conspiracy claim, and (2) denied that motion to dismiss as to the tortious interference with business expectancy and fraudulent concealment claims. On November 21, 2001, Philip Griffith and the City of Sugar Creek, Missouri (the "City") were added as plaintiffs in this case. The new plaintiffs also allege claims for tortious interference with business expectancy and fraudulent concealment. On December 17, 2001, defendants filed a motion to dismiss all of Griffith's and the City's claims. On March 15, 2002, the Circuit Court denied that motion to dismiss in its entirety. While no assurances can be made with respect to any litigation, the Company believes that the

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plaintiff's claims are without merit and does not expect that the lawsuit will have a material adverse effect on the Company's financial position or results of operations.

Harrah's Litigation

On July 13, 2001, the Company and five of its major operating subsidiaries were named as defendants in a lawsuit brought by Harrah's Entertainment, Inc. and Harrah's Operating Company, Inc. in the United States District Court, District of Nevada (CV-S-01-0825-PMP-RJJ). The plaintiffs allege that the Company and its subsidiaries are liable for unspecified actual and punitive damages, and they seek injunctive and other relief, based on allegations that the Company's "Boarding Pass Rewards Program" infringes on various patents held by the plaintiffs. On October 5, 2001, the Company and the subsidiaries filed their answer and counterclaim. On April 4, 2002, plaintiffs filed an amended complaint, which added an affiliate of the Company as an additional defendant. On April 22, 2002, the Company and its subsidiaries and affiliate filed their amended answer and counterclaim. The amended counterclaim seeks a declaratory judgment that plaintiffs' patents (1) are not infringed by the Company's and the subsidiaries' actions, (2) are invalid under federal patent law, and (3) are rendered unenforceable due to plaintiffs' inequitable conduct. In January 2003, both the Company and plaintiffs filed motions for summary judgment. The District Court, however, has yet to rule on those motions. While no assurances can be made with respect to any litigation, the Company believes that the plaintiffs' claims are without merit and does not expect that the lawsuit will have a material adverse effect on its financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the New York Stock Exchange under the symbol "STN". The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock as reported on the New York Stock Exchange.

	<u>High</u>	<u>Low</u>
Year Ending December 31, 2002		
First Quarter	\$ 17.03	\$ 10.80
Second Quarter	19.20	15.95
Third Quarter	18.10	11.21
Fourth Quarter	19.20	15.21
Year Ending December 31, 2001		
First Quarter	\$ 16.00	\$ 12.80
Second Quarter	17.43	13.15
Third Quarter	16.45	7.50
Fourth Quarter	11.75	7.51

As of March 14, 2003, there were 592 holders of record of our common stock and the closing price of our common stock was \$19.86.

We have never paid cash dividends on any shares of our common stock. We do not intend to pay cash dividends in the foreseeable future so that we may reinvest our earnings in the development of our business. There is currently proposed legislation at the Federal level that would eliminate the double taxation of dividends. If this legislation passes, we would consider paying dividends in the future. The payment of dividends in the future will be at the discretion of our Board of Directors. Restrictions imposed by our debt instruments and other agreements limit the payment of dividends (see "Management's Discussion and Analysis of Financial Condition and Results of Operations Description of Certain Indebtedness and Capital Stock").

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The following table lists all equity compensation plans that provide for the award of our securities or the grant of options as of December 31, 2002:

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	12,192,594	\$ 10.34	410,905
Equity compensation plans not approved by shareholders (a)	1,340,950	\$ 12.89	1,086,920
Total	13,533,544	\$ 10.59	1,497,825

(a) On December 7, 1999, our Board of Directors approved the 1999 Stock Compensation Program which includes the 1999 Compensatory Stock Option Plan providing for the majority of the grants of nonqualified stock options to employees who are not officers or directors of the Company and the 1999 Share Plan which grants shares of the Company's common stock to employees based on their length of service with the Company. A maximum of 2,500,000 shares of common stock has been reserved for issuance under the 1999 Stock Compensation Program.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as of and for the Transition Period 1998 and for our fiscal years ended December 31, 1999, 2000, 2001 and 2002 have been derived from consolidated financial statements which, except for 1998 and 1999, are contained elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data set forth below are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, the notes thereto and other financial and statistical information included elsewhere in this Annual Report on Form 10-K.

	For the years ended December 31,				Transition Period 1998(c)
	2002	2001(a)	2000(b)	1999	
	(amounts in thousands, except per share data)				
Operating Results:					
Net revenues	\$ 792,865	\$ 836,857	\$ 990,060	\$ 940,663	\$ 640,869
Operating costs and expenses, excluding the following items	638,164	689,770	782,351	776,163	547,507
Impairment loss (d)	8,791	4,001		137,435	30,011
Preopening expenses (e)		6,413	3,858		
Gain on sale of properties (f)		1,662	41,731		
Missouri/Nevada investigations and fines (g)			4,388		
Operating income	145,910	138,335	241,194	27,065	63,351
Earnings from joint ventures	11,293	2,504	1,618	1,806	1,345

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For the years ended December 31,

Operating income and earnings from joint ventures	157,203	140,839	242,812	28,871	64,696
Other expense	(107,447)	(110,376)	(95,503)	(92,483)	(79,335)
Income (loss) before income taxes and cumulative effect of change in accounting principle	49,756	30,463	147,309	(63,612)	(14,639)
Income tax (provision) benefit	(18,508)	(11,094)	(53,804)	20,665	2,542
Cumulative effect of change in accounting principle (h)	(13,316)				
Preferred stock dividends				(1,811)	(5,434)
Net income (loss) applicable to common stock	\$ 17,932	\$ 19,369	\$ 93,505	\$ (44,758)	\$ (17,531)
Basic earning (loss) per common share	\$ 0.31	\$ 0.34	\$ 1.55	\$ (0.76)	\$ (0.33)
Diluted earnings (loss) per common share	\$ 0.30	\$ 0.32	\$ 1.48	\$ (0.76)	\$ (0.33)
Balance Sheet Data:					
Total assets	\$ 1,598,347	\$ 1,656,122	\$ 1,440,428	\$ 1,276,273	\$ 1,531,925
Long-term debt	1,165,722	1,237,090	989,625	942,480	1,147,266
Stockholders' equity	270,678	248,904	288,887	216,801	269,406

- (a) On January 4, 2001, we purchased substantially all of the assets of the Fiesta Casino Hotel and renamed the property Fiesta Rancho in December 2001. On January 30, 2001, we purchased substantially all of the assets of The Reserve Hotel & Casino and renamed the property Fiesta Henderson in December 2001. On September 30, 2001, we sold our slot route management services subsidiary, Southwest Gaming Services, Inc. On December 18, 2001, we opened Green Valley Ranch Station. (See Note 1 to the Consolidated Financial Statements in this Annual Report on Form 10-K).
- (b) On October 2, 2000, we purchased substantially all of the assets of the Santa Fe Hotel & Casino and renamed the property Santa Fe Station. On December 20, 2000, we sold substantially all of the assets of Station Casino St. Charles and Station Casino Kansas City. (See Note 1 to the Consolidated Financial Statements in this Annual Report on Form 10-K).
- (c) On November 6, 1998 we filed a Form 8-K announcing a change in our fiscal year end from March 31 of each year to December 31 of each year. This change is effective for the nine-month period ended December 31, 1998 (the "Transition Period 1998").
- (d) During the year ended December 31, 2002, we recorded an impairment loss of approximately \$8.8 million, of which approximately \$3.9 million was related to the write-down of certain assets related to our investment in an Internet, intra-state gaming platform and related technology and approximately \$4.9 million, which was related to the write-off of our option to invest in the Internet wagering business with Kerzner Interactive (see Note 6 to the Consolidated Financial Statements in this Annual Report on Form 10-K). During the year ended December 31, 2001, we recorded an impairment loss of approximately \$4.0 million related to a 34-acre parcel, near the intersection of Martin Luther King Jr. Drive and Craig Road in North Las Vegas (see Note 6 to the Consolidated Financial Statements in this Annual Report on Form 10-K). During the year ended December 31, 1999, we recorded an impairment loss of approximately \$137.4 million, of which \$125.2 million was related to the write-down of assets at Station Casino St. Charles based on our near-term investment objectives. The balance of the impairment loss in 1999 resulted primarily from our determination to sell a 40-acre parcel of land in Henderson, Nevada, to reflect the value of the land as a non-gaming site. During the Transition Period 1998, we recorded an impairment loss of approximately \$30.0 million, which was related to assets at the Station Casino St. Charles facility, including a riverboat that was no longer in use, capitalized project costs associated with various parcels of land determined to have no value and several parcels of land that were being held for future development, as well as several parcels of land in Nevada and Texas that were originally purchased for defensive or development purposes.

- (e) Preopening expenses for the year ended December 31, 2001 were approximately \$6.4 million, which included costs incurred prior to the acquisitions of Fiesta Rancho and Fiesta Henderson and costs incurred prior to the opening of Green Valley Ranch Station. Preopening expenses during the year ended December 31, 2000 were approximately \$3.9 million, which included costs incurred prior to the acquisitions of Santa Fe Station, Fiesta Rancho and Fiesta Henderson, the expansion project at Texas Station and costs incurred prior to the opening of Green Valley Ranch Station.
- (f) During the year ended December 31, 2001, we sold Southwest Gaming Services, Inc., a wholly owned subsidiary, to Blake L. Sartini, our former executive vice-president and chief operating officer, and recorded a gain on the sale of approximately \$1.7 million. During the year ended December 31, 2000, we sold substantially all of the assets of the Missouri Operations for approximately \$488 million and recorded a gain on the sale of approximately \$41.7 million. (See Note 1 to the Consolidated Financial Statements in this Annual Report on Form 10-K).
- (g) During the year ended December 31, 2000, we recorded approximately \$4.4 million in costs related to litigation and fines stemming from investigatory proceedings in Missouri and Nevada.
- (h) The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", in June 2001. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon the adoption of SFAS No. 142. We implemented SFAS No. 142 on January 1, 2002 and tested for impairment in accordance with the provisions of SFAS No. 142 in the first quarter of 2002. As a result of an independent third party appraisal, we recorded an impairment loss of \$13.3 million, net of the applicable tax benefit, related to the acquisition of Fiesta Rancho, which is shown as a cumulative effect of a change in accounting principle in our consolidated statements of operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and the financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Results of Operations

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

	Year ended December 31, 2002	Percent change	Year ended December 31, 2001	Percent change	Year ended December 31, 2000
Net revenues total	\$ 792,865	(5.3)%	\$ 836,857	(15.5)%	\$ 990,060
Major Las Vegas Operations (a)	768,813	(3.6)%	797,213	27.0 %	627,968
Missouri Operations (a)				(100.0)%	315,422
Other Operations and Corporate (a)	24,052	(39.3)%	39,644	(15.1)%	46,670
Operating income (loss) total	\$ 145,910	5.5 %	\$ 138,335	(42.6)%	\$ 241,194
Major Las Vegas Operations (a)	185,170	7.3 %	172,539	4.5 %	165,138
Missouri Operations (a)				(100.0)%	102,882
Other Operations and Corporate (a)	(39,260)	(14.8)%	(34,204)	(27.5)%	(26,826)
Cash flows provided by (used in):					
Operating activities	\$ 130,259	9.3 %	\$ 119,186	(27.2)%	\$ 163,696
Investing activities	(60,948)	87.5 %	(487,148)	(6,776.9)%	7,296
Financing activities	(76,089)	(142.7)%	178,095	1,394.1 %	11,920

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(a)

The Major Las Vegas Operations include the accounts of: Palace Station, Boulder Station, Texas Station, Sunset Station, Santa Fe Station (since October 2, 2000), Fiesta Rancho (since January 4, 2001) and Fiesta Henderson (since January 30, 2001). The Missouri Operations (sold December 20, 2000) included the accounts of: Station Casino St. Charles and Station Casino Kansas City. Other Operations and Corporate includes the accounts of Wild Wild West, our management fees from Barley's and Green Valley Ranch Station (since December 18, 2001), Southwest Gaming (sold September 30, 2001) and Corporate expense.

The results of operations for the year ended December 31, 2001 were substantially different from that of the year ended December 31, 2000, due to the impact of various transactions. On December 20, 2000, we completed the sale of substantially all of the assets of the Missouri Operations for approximately \$488 million. We purchased substantially all of the assets of Santa Fe Station (formerly Santa Fe Hotel & Casino) for approximately \$205 million, Fiesta Rancho (formerly Fiesta Casino Hotel) for \$170 million and Fiesta Henderson (formerly The Reserve Hotel & Casino) for \$71.8 million on October 2, 2000, January 4, 2001 and January 30, 2001, respectively. In addition, we sold our slot route operations, Southwest Gaming, on September 30, 2001, and opened Green Valley Ranch Station, a 50% joint venture, on December 18, 2001. Consolidated net revenues, operating income and operating margin all declined for the year ended December 31, 2001 as compared to the year ended December 31, 2000, as the contributions from the three acquired properties were less than those of the Missouri Operations.

Net Revenues

Consolidated net revenues for the year ended December 31, 2002 decreased 5.3% to \$792.9 million as compared to \$836.9 million for the year ended December 31, 2001. The decrease in consolidated net revenues was due in part to the prior year including the operations of Southwest Gaming, which was sold on September 30, 2001. In addition, revenues at Sunset Station declined due to the impact from Green Valley Ranch Station, which opened on December 18, 2001, and is accounted for under the equity method.

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Combined net revenues from our Major Las Vegas Operations decreased 3.6% to \$768.8 million for the year ended December 31, 2002 as compared to \$797.2 million for the year ended December 31, 2001. The decline in revenues was due in large part to a decline in revenues at Sunset Station due to the impact from Green Valley Ranch Station. Total net revenues from all properties that we manage (including Green Valley Ranch Station) increased by 10.4% over the same period.

For the year ended December 31, 2001, as compared to the year ended December 31, 2000, net revenues for our Major Las Vegas Operations increased 27.0% to \$797.2 million due to the acquisitions of Santa Fe Station, Fiesta Rancho and Fiesta Henderson. Same-store (Palace Station, Boulder Station, Texas Station and Sunset Station) net revenues for the year ended December 31, 2001 declined 3.7% as compared to the year ended December 31, 2000. The terrorist attacks on September 11, 2001 significantly impacted our business for the last four months of 2001. In particular, we experienced a substantial decline in revenues subsequent to those events. Although revenues have recovered substantially, the amounts of revenue generated during each customer visit was lower than in recent years. In addition to the events of September 11, 2001, we faced many other challenges, including the integration of the three newly acquired hotel/casinos, softer general economic conditions, higher utility costs, new competition in west Las Vegas which had an impact on Texas Station, continued road construction near Palace Station, construction necessary to transition The Reserve to a Fiesta-branded property and competitive supply increases on the Boulder Strip and surrounding areas.

Operating Income/Operating Margin

Our operating income was impacted by certain charges/credits in each year that affect the ability to analyze year-to-year comparisons. The following table identifies these charges/credits (dollars in thousands):

	Years ended December 31,		
	2002	2001	2000
Operating income	\$ 145,910	\$ 138,335	\$ 241,194
<i>Operating margin</i>	18.4%	16.5%	24.4%
Certain charges/credits:			
Impairment loss	\$ 8,791	\$ 4,001	\$
Preopening expenses		6,413	3,858
Gain on sale of properties		(1,662)	(41,731)
Missouri/Nevada investigations and fines			4,388

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	Years ended December 31,		
	2002	2001	2000
Operating income, excluding certain charges/credits	\$ 154,701	\$ 147,087	\$ 207,709
<i>Operating margin, excluding certain charges/credits</i>	19.5%	17.6%	21.0%

Consolidated operating income, excluding certain charges/credits, increased 5.2% in the year ended December 31, 2002 as compared to the year ended December 31, 2001. This increase is due to an aggressive cost containment program we implemented as part of our continued focus on operating efficiencies and realizing synergies from the three acquired properties and the opening of Green Valley Ranch Station. As a result, our consolidated operating margin, excluding certain charges/credits, improved 1.9 percentage points in the year ended December 31, 2002 as compared to the prior year.

Consolidated operating income, excluding certain charges/credits, declined 29.2% in the year ended December 31, 2001 as compared to the year ended December 31, 2000. This decrease was primarily due to the operating income for the three acquired properties being less than those of the Missouri Operations. Same-store operating income, excluding certain charges/credits, decreased 18.8% to \$136.1 million for the year ended December 31, 2001 from \$167.6 million in the prior year. The decrease in same-store operating income is due to the same factors mentioned above for net revenues.

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Consolidated operating margin, excluding certain charges/credits, decreased 3.4 percentage points in the year ended December 31, 2001 as compared to the year ended December 31, 2000. Same-store operating margin, excluding certain charges/credits, decreased 4.3 percentage points for the year ended December 31, 2001 as compared to the prior year. We implemented a cost reduction program in response to the decline in revenue during the year; however, there is a delayed effect to any such program. As a result, expenses represented a much higher percentage of revenues for the year ended December 31, 2001 than has historically been the case. In addition, depreciation and amortization expense increased 9.8% over the prior year, which negatively affected the operating margin.

The following table highlights our various sources of revenues and expenses as compared to prior years (dollars in thousands):

	Year ended December 31, 2002	Percent change	Year ended December 31, 2001	Percent change	Year ended December 31, 2000
Casino revenues	\$ 638,113	(3.2)%	\$ 659,276	(18.4)%	\$ 807,880
Casino expenses	258,383	(10.2)%	287,637	(22.8)%	372,826
<i>Margin</i>	59.5%		56.4%		53.9%
Food and beverage revenues	\$ 133,811	(4.4)%	\$ 139,983	2.0%	\$ 137,198
Food and beverage expenses	78,738	(8.1)%	85,719	2.2%	83,879
<i>Margin</i>	41.2%		38.8%		38.9%
Room revenues	\$ 48,579	2.1%	\$ 47,558	2.8%	\$ 46,260
Room expenses	19,000	(1.5)%	19,289	17.5%	16,416
<i>Margin</i>	60.9%		59.4%		64.5%
Other revenues	\$ 40,790	(34.4)%	\$ 62,179	(5.6)%	\$ 65,865
Other expenses	16,276	(54.3)%	35,620	(3.9)%	37,077
Management fees	\$ 4,853	616.8%	\$ 677	31.2%	\$ 516
Selling, general and administrative expenses	\$ 161,038	(3.0)%	\$ 165,977	(8.7)%	\$ 181,833
<i>Percent of net revenues</i>	20.3%		19.8%		18.4%
Corporate expense	\$ 31,946	23.1%	\$ 25,952	(3.8)%	\$ 26,974
<i>Percent of net revenues</i>	4.0%		3.1%		2.7%
Earnings from joint ventures	\$ 11,293	351.0%	\$ 2,504	54.8%	\$ 1,618

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Casino. Casino revenues decreased 3.2% for the year ended December 31, 2002 as compared to the year ended December 31, 2001, due to the same factors affecting the combined net revenues for our Major Las Vegas Operations. The casino profit margin increased 3.1 percentage points for the year ended December 31, 2002 as compared to the year ended December 31, 2001. We were able to increase our casino profit margin, despite the revenue decline, by taking advantage of our size and scale and due to aggressive cost containment efforts throughout all areas of the casino, particularly marketing through the use of technology with products such as the Boarding Pass Card, "Xtra Play Cash" and "Jumbo Bingo".

Casino revenues decreased 18.4% for the year ended December 31, 2001 as compared to the year ended December 31, 2000, due to the same factors affecting consolidated net revenues. The casino profit margin increased to 56.4% for the year ended December 31, 2001 as compared to 53.9% for the year ended December 31, 2000. This increase can be attributed primarily to gaming taxes in Missouri that are significantly higher than in Nevada, which caused the Missouri Operations to have a comparatively lower profit margin.

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Food and Beverage. Food and beverage revenues decreased 4.4% for the year ended December 31, 2002 as compared to the year ended December 31, 2001. Notwithstanding the decrease in food and beverage revenue, the food and beverage net profit margin increased 2.4 percentage points over the same periods. We were able to increase our food and beverage net profit margin, despite the decline in revenues, by taking advantage of economies of scale in terms of purchasing power as well as implementing additional cost cutting measures. Food covers declined by 1.4% for the year ended December 31, 2002 as compared to the year ended December 31, 2001. The reduction in food covers was due to generally soft economic conditions, as well as additional competition in the market from new restaurants. Average ticket prices decreased 3.9% over the same periods, which was due primarily to selected menu price reductions.

Food and beverage revenues increased 2.0% for the year ended December 31, 2001 as compared to the year ended December 31, 2000, due to the net addition of restaurants resulting from the purchase of the three new properties and to the sale of the Missouri Operations. Food and beverage net profit margin remained relatively consistent for the year ended December 31, 2001 as compared to the year ended December 31, 2000. Same-store food covers declined 7.4% for the year ended December 31, 2001 as compared to the year ended December 31, 2000. The reduction in food covers was due to additional competition in the market from new restaurants and the same factors discussed previously that affected net revenues. The decline in same-store food covers was offset somewhat by a 1.2% increase in the average ticket price over the same periods, which was due to selected menu price increases.

Room. Room revenues increased 2.1% for the year ended December 31, 2002 as compared to the year ended December 31, 2001. Room occupancy increased to 91% from 88%, while the average daily room rate decreased to \$50 from \$52 over the same periods.

Room revenues increased 2.8% for the year ended December 31, 2001 as compared to the year ended December 31, 2000. The increase is primarily due to the addition of 324 rooms as a result of the acquisition of Santa Fe Station, Fiesta Rancho and Fiesta Henderson, net of the loss of 200 rooms from the sale of Station Casino Kansas City.

The same-store room occupancy remained unchanged at 90% for the years ended December 31, 2001 and 2000. The same-store average daily room rate decreased to \$54 for the year ended December 31, 2001 as compared to \$57 for the year ended December 31, 2000. The events of September 11, 2001 had a significant impact on room revenues from a room rate standpoint. While occupancy returned to normal levels, room rates remain lower than in prior years.

Other. Other revenues primarily include income from the gift shops, bowling, entertainment, leased outlets and arcades. Other revenues decreased 34.4% for the year ended December 31, 2002 as compared to the year ended December 31, 2001. This decrease was due primarily to the sale of Southwest Gaming on September 30, 2001, which provided slot route revenues of approximately \$22.9 million for the year ended December 31, 2001. Also included in other revenues for the year ended December 31, 2002, were insurance proceeds of approximately \$1.6 million. Other operating expenses decreased 54.3% for the year ended December 31, 2002 as compared to the same period in the prior year. The decrease in other operating expenses was due primarily to the sale of Southwest Gaming mentioned above.

Other revenues decreased 5.6% for the year ended December 31, 2001 as compared to the year ended December 31, 2000. The decrease in other revenues was primarily due to the sale of Southwest Gaming on September 30, 2001, in addition to the same factors mentioned above for consolidated net revenues.

Management Fees. We are the managing partner for both Barley's and Green Valley Ranch Station and receive a management fee equal to 10% of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") from Barley's and 2% of revenues and approximately 5% of EBITDA from Green Valley Ranch Station. For the year ended December 31, 2002, management fees increased to approximately \$4.9 million, as compared to \$0.7 million for the year ended December 31, 2001, and

\$0.5 million for the year ended December 31, 2000. The increase in management fees is directly related to Green Valley Ranch Station, which opened on December 18, 2001.

Selling, General and Administrative ("SG&A"). SG&A as a percentage of net revenues increased to 20.3% in the year ended December 31, 2002 as compared to 19.8% in the year ended December 31, 2001. A large portion of these costs are fixed and, as a result, as revenues declined the percentage of SG&A to net revenues increased. SG&A expenses decreased 3.0% to \$161.0 million for the year ended December 31, 2002, from \$166.0 million for the year ended December 31, 2001. The decrease in SG&A expenses is a result of an aggressive cost containment program in addition to taking advantage of economies of scale in terms of marketing, purchasing power, advertising and promotions, which was offset somewhat by an increase in energy costs.

SG&A as a percentage of net revenues increased to 19.8% in the year ended December 31, 2001 as compared to 18.4% in the year ended December 31, 2000. We implemented a cost reduction program in response to the decline in revenue during the year; however, there is a delayed effect to any such program. As a result, expenses represented a much higher percentage of revenues for the year than has historically been the case. Also, a large portion of these costs are fixed and, as a result, as revenues declined the percentage of SG&A to net revenues increased. SG&A expenses also increased due to the significant increase in energy costs over the prior year.

Corporate Expense. Corporate expense as a percentage of net revenues increased to 4.0% in the year ended December 31, 2002 as compared to 3.1% in the year ended December 31, 2001. Corporate expense as a percentage of net revenues increased to 3.1% in the year ended December 31, 2001 as compared to 2.7% in the year ended December 31, 2000. A large portion of these corporate expenses are fixed, which causes an increase in the percentage of net revenues as revenues decline. In addition, during the year ended December 31, 2002, we experienced an increase in litigation costs, which included approximately \$3.8 million related to the Harrah's patent litigation, as well as an increase in incentive compensation as compared to the prior year. During the year ended December 31, 2001, we also experienced an increase of approximately \$0.8 million in litigation costs as well as an increase of approximately \$0.4 million in charitable contributions as compared to the year ended December 31, 2000.

Depreciation and Amortization. Depreciation and amortization increased 4.6% in the year ended December 31, 2002 to \$72.8 million as compared to \$69.6 million in the year ended December 31, 2001. The increase is due primarily to capital spent throughout 2001, which included the retheming of The Reserve to a Fiesta-branded property, the completion of the expansion project at Santa Fe Station and the purchase of new slot machines and a new slot system. This increase was offset partially due to a portion of the original equipment at Sunset Station having been fully depreciated during 2002.

Depreciation and amortization increased 9.8% in the year ended December 31, 2001 to \$69.6 million, as compared to \$63.3 million in the year ended December 31, 2000. This increase is due in part to the expansion project at Texas Station, which was completed in December 2000 and the purchase of new slot machines and other related equipment in 2001. The increase in depreciation expense for the three acquired properties was offset by a reduction from the sale of the Missouri Operations.

Impairment Loss. We recorded an impairment loss of \$8.8 million and \$4.0 million in the years ended December 31, 2002 and 2001, respectively, to adjust the carrying value of our other assets to their estimated fair value. In the year ended December 31, 2002, approximately \$3.9 million of the impairment loss related to the write-down of certain assets related to our investments in an Internet, intra-state gaming platform and related technology. In May 2002, the Nevada Gaming Commission communicated that it had general concerns regarding the security and reliability of Internet gaming platforms. The impairment of these assets was based upon our decision to no longer pursue Nevada-based Internet gaming activities as a result of the uncertainty of regulatory approval of these types of activities. As a result, all of the hardware,

software and internal development costs that we had incurred were written off in 2002, as they were deemed to have no value.

In addition, approximately \$4.9 million of the impairment loss was related to our option to invest in the Internet wagering business. In February 2002, we announced that we intended to purchase a 50% interest in Kerzner Interactive Limited (formerly SunOnline Limited) ("Kerzner Interactive"), a wholly owned subsidiary of Kerzner International Limited (formerly Sun International Hotels Limited) ("Kerzner"). Kerzner Interactive was to be the exclusive vehicle for both Kerzner and us to pursue the Internet wagering business. In July 2002, we converted our agreement to acquire a 50% interest in Kerzner Interactive into an option to do so, and paid \$4.5 million for such option. Kerzner has

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decided to discontinue Kerzner Interactive, as it targeted Internet wagering only from jurisdictions that permitted online gaming. As these jurisdictions became more restrictive in their acceptance of Internet gaming, the market size was reduced and competition intensified, resulting in a substantial decrease in the probability of achieving profitability in the short-to-medium term. As a result, we have written-off the option payment and other costs related to this investment.

In the year ended December 31, 2001, we recorded an impairment loss with respect to a 34-acre parcel, near the intersection of Martin Luther King Jr. Drive and Craig Road in North Las Vegas. This impairment loss was necessary because, after evaluating all of our options, we determined not to develop a casino on this site. The assets included capitalized rent and design costs, which had no value after we made the decision not to develop a gaming facility on this parcel. As of December 31, 2002, gaming is not permitted on this site due to zoning restrictions.

Preopening Expenses. Preopening expenses for the year ended December 31, 2001 were \$6.4 million, which included costs incurred prior to the acquisitions of Fiesta Rancho and Fiesta Henderson and costs incurred prior to the opening of Green Valley Ranch Station. Preopening expenses during the year ended December 31, 2000 were \$3.9 million, which included costs incurred prior to the acquisitions of Santa Fe Station, Fiesta Rancho and Fiesta Henderson, the expansion project at Texas Station and costs incurred prior to the opening of Green Valley Ranch Station.

Gain On Sale of Properties. On September 30, 2001, we sold Southwest Gaming Services, Inc. ("Southwest Gaming"), our wholly owned subsidiary, to Blake L. Sartini, our former executive vice-president and chief operating officer. We transferred our stock in Southwest Gaming to Mr. Sartini in exchange for our common stock valued at approximately \$8.4 million. We recorded a gain on the sale of \$1.7 million in the year ended December 31, 2001. The gain reflected the difference between the carrying value of our investment in the Southwest Gaming assets to be distributed of \$6.7 million and the fair value of our common stock of \$8.4 million, which was based on its average trading price for five days before September 30, 2001, the transaction closing date.

On December 20, 2000, we completed the sale of substantially all of the assets of the Missouri Operations for approximately \$488 million. We recorded a gain on the sale of \$41.7 million in the year ended December 31, 2000.

Missouri/Nevada Investigations and Fines. During the year ended December 31, 2000, we recorded \$4.4 million in costs related to litigation and fines stemming from investigatory proceedings in Missouri and Nevada.

Earnings From Joint Ventures. We jointly own a 50% interest in Green Valley Ranch Station and Barley's. For the year ended December 31, 2002, we recorded \$11.3 million as our share of the earnings from these joint ventures. We recorded our share of the earnings from these joint ventures of \$2.5 million and \$1.6 million for the years ended December 2001 and December 2000, respectively. The earnings from joint ventures increased as a result of the opening of Green Valley Ranch Station on December 18, 2001.

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Interest Expense, net. Interest costs incurred (expensed and capitalized) decreased 10.1% to \$98.9 million in the year ended December 31, 2002 as compared to \$110.0 million in the year ended December 31, 2001. This decrease is directly related to a decrease of \$80.6 million in total long-term debt from the prior year (excluding the interest rate swap mark-to-market adjustment). The decrease in interest expense was also related to a decrease in the average cost of debt to 8.08% for the year ended December 31, 2002 from 8.80% for the year ended December 31, 2001, which is directly related to the interest rate swaps that have converted a portion of our fixed-rate debt to a floating rate. The net effect of the interest rate swaps resulted in a reduction in interest expense of \$10.7 million for the year ended December 31, 2002 as compared to a reduction of \$4.9 million in the year ended December 31, 2001.

Interest costs incurred (expensed and capitalized) increased 10.9% to \$110.0 million in the year ended December 31, 2001 as compared to \$99.2 million in the year ended December 31, 2000. This increase is directly related to an increase of \$242.0 million in total long-term debt from the prior year (excluding the interest rate swap mark-to-market adjustment), resulting from the addition of \$400.0 million in 8³/₈% senior notes, which was offset by the elimination of \$198.0 million in 10¹/₈% senior subordinated notes. The increase in interest expense was tempered somewhat by a decrease in the average cost of debt to 8.80% for the year ended December 31, 2001 from 9.56% for the year ended December 31, 2000.

Interest Expense from Joint Ventures. For the years ended December 31, 2002 and 2001, we recorded \$6.3 million and \$0.2 million, respectively, in interest expense related to our unconsolidated joint ventures. The increase in interest expense from joint ventures is directly related to the opening of Green Valley Ranch Station on December 18, 2001.

Loss on Early Retirement of Debt. The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", in April 2002. SFAS No. 145 changed the criteria for reporting any gain or loss resulting from the extinguishment of debt as an extraordinary item. Such gains and losses must be analyzed to determine if they meet the criteria for extraordinary item classification based on the event being both unusual and infrequent. We adopted SFAS No. 145 in 2002, and have reclassified

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prior period losses on early retirement of debt as an item in other non-operating income (expense), rather than classified as an extraordinary item shown net of the applicable tax benefit.

During the year ended December 31, 2002, we recorded a loss on early retirement of debt of approximately \$5.8 million, of which approximately \$1.4 million relates to the write-off of the unamortized loan costs on our previous revolving facility (see "Liquidity and Capital Resources Description of Certain Indebtedness and Capital Stock"). The remaining \$4.4 million relates to the redemption of our \$150 million 9³/₄% senior subordinated notes on October 18, 2002. We recorded a charge of approximately \$10.1 million to reflect the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem our \$150 million 9³/₄% senior subordinated notes, which was partially offset by approximately \$5.7 million from the adjusted basis of the debt as a result of the fair value hedge termination that was tied directly to our \$150 million 9³/₄% senior subordinated notes.

During the year ended December 31, 2001, we recorded a loss on early retirement of debt of \$12.7 million related to the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem our \$198.0 million 10¹/₈% senior subordinated notes which were due in 2006.

Change in Accounting Principle. The FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", in June 2001. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon the adoption of SFAS No. 142. We implemented SFAS No. 142 on January 1, 2002 and tested for impairment in accordance with the provisions of SFAS No. 142 in the first quarter of 2002. As a result of an independent third party appraisal, we recorded an impairment loss of \$13.3 million,

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net of the applicable tax benefit, related to the acquisition of Fiesta Rancho, which is shown as a cumulative effect of a change in accounting principle in our consolidated statements of operations.

Liquidity and Capital Resources

During the year ended December 31, 2002, we generated cash flows from operating activities of \$130.3 million. In addition, we sold approximately \$13.1 million of land, property and equipment during 2002, received approximately \$15.3 million in proceeds from the termination of two interest rate swaps (see "Description of Certain Indebtedness and Capital Stock") and received approximately \$12.3 million from the exercise of stock options. At December 31, 2002, we had total available borrowings of \$365.0 million under the Revolving Facility, of which \$177.2 million was outstanding. We had \$59.3 million in cash and cash equivalents as of December 31, 2002.

During the year ended December 31, 2002, total capital expenditures were \$20.1 million, of which approximately \$1.3 million was related to the expansion at Santa Fe Station and \$18.8 million was for maintenance capital expenditures and various other projects. In addition to capital expenditures, we advanced approximately \$24.1 million to the United Auburn Indian Community (the "UAIC") for the development of the Thunder Valley Casino project (see "Future Development"), paid approximately \$5.5 million in construction contracts and purchased approximately \$4.9 million in land held for development during 2002. We also purchased approximately 743,000 shares of our common stock for approximately \$10.2 million.

Our primary cash requirements for 2003 are expected to include (i) \$58.6 million for the remaining balance of the purchase price for the 73 acres of land at Charleston Boulevard and Interstate 215 (see "Future Development"), (ii) approximately \$25 million to \$30 million for maintenance capital expenditures, (iii) approximately \$7.0 million to conclude the purchase of the Wildfire Casino (see "Future Development"), (iv) principal and interest payments on indebtedness, (v) other strategic land purchases throughout the Las Vegas area and (vi) opportunistic repurchases of our common stock. Our capital requirements during 2003 may also include amounts necessary to fund the development of the Thunder Valley Casino project with the UAIC. In addition, we have in the past, and may in the future, make acquisitions, complete master-planned expansions, complete other development projects and enter into joint ventures. While we have not entered into any agreement with respect to any such future acquisition or joint venture other than as disclosed in this report, our capital requirements during 2003 may include amounts necessary to permit us to pursue such expansion activities.

We believe that cash flows from operations, borrowings under the Revolving Facility and existing cash balances will be adequate to satisfy our anticipated uses of capital during 2003. However, we are continually evaluating our financing needs. If more attractive financing alternatives or expansion, development or acquisition opportunities become available to us, we may amend our financing plans assuming such financing would be permitted under our existing debt agreements (See "Description of Certain Indebtedness and Capital Stock") and other applicable agreements.

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Off Balance Sheet Arrangements

As of December 31, 2002, we have certain off-balance sheet arrangements that affect our financial condition, liquidity and results of operations, which include a limited make-well agreement for \$44.0 million (which has been reduced to \$42.8 million as of December 31, 2002) related to the financing at Green Valley Ranch Station (see "Description of Certain Indebtedness and Capital Stock Green Valley Ranch Station"), a make-well agreement for an undetermined amount and completion guaranty related to the financing of the Thunder Valley Casino project (see "Future Development United Auburn Indian Community") and an interest rate swap with a notional amount of \$50.0 million (see "Description of Certain Indebtedness and Capital Stock Senior and Senior Subordinated Notes").

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The following table summarizes our contractual obligations and commitments (amounts in thousands):

	Contractual obligations			
	Long-term debt (a)	Operating leases (b)	Other long-term obligations (c)	Total contractual cash obligations
As of December 31,				
2003	\$ 122	\$ 13,406	\$ 10,548	\$ 24,076
2004		13,403	7,222	20,625
2005		12,029	3,374	15,403
2006		11,817	1,622	13,439
2007	177,200	11,806	69	189,075
Thereafter	973,669	624,462		1,598,131
	\$ 1,150,991	\$ 686,923	\$ 22,835	\$ 1,860,749

(a) See Note 7 to the Consolidated Financial Statements in this Annual Report on Form 10-K.

(b) See Note 8 to the Consolidated Financial Statements in this Annual Report on Form 10-K.

(c) Other long-term obligations are comprised of employment contracts.

Future Development

United Auburn Indian Community

We have entered into a Development Services Agreement and a Management Agreement with the UAIC. Pursuant to those agreements, and in compliance with a Memorandum of Understanding entered by the UAIC and Placer County, California, we are developing, with the UAIC, Thunder Valley Casino, a gaming and entertainment facility on 49 acres located approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. On September 17, 2002, the United States Department of the Interior accepted the land into trust on behalf of the UAIC. The acceptance of the land into trust followed the decision of the United States District Court for the District of Washington, D.C., dismissing a lawsuit filed by the cities of Roseville and Rocklin, California, and Citizens for Safer Communities, which challenged the United States Department of the Interior's preliminary decision to accept the land into trust. Immediately following the District Court's decision, the plaintiffs appealed the decision to the Washington, D.C. court of appeals and filed an emergency motion for stay of the District Court's decision. The court of appeals denied the plaintiffs' emergency action. Notwithstanding the denial of the plaintiffs' emergency motion and the acceptance of the land into trust, there can be no assurances that the plaintiffs will not seek other extraordinary remedies and there can be no assurances as to the ultimate outcome of the plaintiffs' pending appeal. Our seven-year Management Agreement to manage Thunder Valley Casino was approved by the National Indian Gaming Commission in December 2002. Upon the opening of Thunder Valley Casino, we will receive a management fee equal to 24% of the facility's income. We will also receive a development fee equal to 2% of the cost of the project. The

development fee is payable upon the opening of the facility.

It is anticipated that Thunder Valley Casino will house between 1,256 and 1,906 Class III slot machines and approximately 100 table games, including a private VIP gaming area. The facility will have numerous dining and entertainment amenities, including a center pit bar, three specialty restaurants, a 500-seat buffet, a food court and parking for over 3,000 vehicles. Construction began on October 26, 2002, and we anticipate that the casino will open in June 2003 with the remainder of the facility to be completed during the fourth quarter of 2003. The cost of the project is expected to be approximately \$215 million. We also assisted the UAIC in obtaining \$142.5 million of financing for the project through a group of lenders, and we provided an unlimited completion guaranty and credit support for all amounts outstanding under such financing. Any amounts required under the completion guaranty are recoverable after the facility has opened. We, along with the UAIC, are currently working on completing the remainder of the financing:

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however, to the extent the additional funds cannot be raised through third parties, we will fund any shortfall. As of December 31, 2002, we had advanced approximately \$34.5 million to the UAIC for the development of Thunder Valley Casino, which is included as a note receivable on our consolidated balance sheets. Based on the current terms of the credit financing, our advances cannot be repaid prior to the maturity of the credit facility, which is scheduled for January 2009. Our advances to the UAIC are subordinated to the credit facility and carry an interest rate of 10%, which will be recorded upon the opening of the facility. As of December 31, 2002, the accrued interest on our advances to the UAIC was approximately \$2.6 million.

Wildfire Casino

We purchased the Wildfire Casino in January 2003 for \$8.0 million, which was funded with borrowings from our Revolving Facility. The Wildfire Casino is located on Rancho Road in Las Vegas, across from Texas Station. The 20,000 square-foot facility features 170 slot machines, six table games, a sports book, lounge, outdoor patio and a full-service restaurant.

Land Acquisition

We have acquired certain parcels of land in the Las Vegas valley and in Sacramento, California as part of our development activities. Our decision on whether to proceed with any new gaming opportunity is dependent upon future economic and regulatory factors, the availability of financing and competitive and strategic considerations. As many of these considerations are beyond our control, no assurances can be made that we will be able to secure additional, acceptable financing in order to proceed with any particular project. As of December 31, 2002, we had \$102.2 million of land held for development that consists primarily of five sites that are owned or leased, which comprise 151 acres in the Las Vegas valley and 98 acres in the Sacramento area near the Thunder Valley Casino project. In addition, we have options to purchase a total of 66 acres adjacent to two of the sites in the Las Vegas valley. The Rhodes Ranch site consists of two parcels totaling 73 acres (we own 41 acres and have an option to purchase 32 acres), located at the intersection of Durango Road and the Southern Beltway/Interstate 215 located in the southwest quadrant of Las Vegas. The Boulder/Tropicana site is a 68-acre site consisting of two parcels at the intersection of Boulder Highway and Tropicana Avenue in eastern Las Vegas. We are leasing (with an option to purchase) 34 acres of the site and hold an option to purchase the adjacent 34-acre parcel. We also own a 49-acre gaming-entitled parcel in southwest Las Vegas at the intersection of Flamingo Road and Interstate 215 and a 27-acre gaming-entitled parcel at the intersection of Boulder Highway and Nellis Boulevard.

In July 2002, we entered into an agreement that gives us the right to acquire approximately 73 acres of land in the Summerlin master-planned community in Las Vegas, Nevada. The land is located on Charleston Boulevard at the Interstate 215/Charleston interchange. The purchase price for the land is approximately \$65 million. We exercised our option to purchase the property and made a payment of \$6.4 million in October 2002, which will be fully applicable to the purchase price. We anticipate completing the purchase during the second quarter of 2003; however, no assurances can be made that the purchase will actually be completed.

Regulation and Taxes

We are subject to extensive regulation by the Nevada gaming authorities and will be subject to regulation, which may or may not be similar to that in Nevada, by any other jurisdiction in which we may conduct gaming activities in the future, including the National Indian Gaming Commission and tribal gaming agency of the UAIC. Changes in applicable laws or regulations could have a significant impact on our operations.

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The gaming industry represents a significant source of tax revenue, particularly to the State of Nevada and its counties and municipalities. From time to time, various state and federal legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. The Nevada legislature is currently considering various proposals to increase taxes on our operations. While the final tax bill has not been enacted, it is likely that we will be subject to increased taxes; however, the magnitude of any increase in taxes is yet to be determined.

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

Description of Certain Indebtedness and Capital Stock

Revolving Facility

In September 2002, we completed financing on a new \$365.0 million revolving credit facility (the "Revolving Facility"). The Revolving Facility contains no principal amortization and matures in September 2007. The Borrowers are our major operating subsidiaries and the Revolving Facility is secured by substantially all of our assets. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility), as selected by us. The margin above such rates, and the fee on the unfunded portions of the Revolving Facility, will vary quarterly based on our combined consolidated ratio of debt to Adjusted EBITDA (each, as defined in the Revolving Facility). As of December 31, 2002, the Borrowers' margin above the Eurodollar Rate on borrowings under the Revolving Facility was 2.25%. The maximum margin for Eurodollar Rate borrowings is 2.50%. The maximum margin for Alternate Base Rate borrowings is 1.25%. As of December 31, 2002, the fee for the unfunded portion of the Revolving Facility was 0.50%.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.25 to 1.00 for each quarter and a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.50 to 1.00 for each quarter. As of December 31, 2002, the Borrowers' funded debt to Adjusted EBITDA ratio was 0.73 to 1.00 and the fixed charge coverage ratio was 3.05 to 1.00. In addition, the Revolving Facility has financial and other covenants, which state that the maximum consolidated funded debt to Adjusted EBITDA ratio can be no more than 5.50 to 1.00 through June 30, 2003, which reduces to 5.00 to 1.00 on September 30, 2003 through June 30, 2005, to 4.75 to 1.00 on September 30, 2005 through December 31, 2005, to 4.50 to 1.00 on March 31, 2006 through June 30, 2006 and to 4.00 to 1.00 on September 30, 2006. Other covenants limit prepayments of indebtedness or rent (including subordinated debt other than re-financings meeting certain criteria), limitations on asset dispositions, limitations on dividends, limitations on indebtedness, limitations on investments and limitations on capital expenditures. As of December 31, 2002, our consolidated funded debt to Adjusted EBITDA ratio was 4.83 to 1.00. We have pledged the stock of all of our major subsidiaries.

Senior and Senior Subordinated Notes

In 2001, we completed offerings for a total of \$400.0 million of senior notes due in February 2008 (the "Senior Notes"). The Senior Notes bear interest at a rate equal to $8\frac{3}{8}\%$ per annum and were priced at par. The indentures governing the Senior Notes contain substantially the same covenants as our senior subordinated notes as well as a limitation on liens we can incur. The proceeds from the Senior Notes were used to repay amounts outstanding on our previous revolving facility and to redeem our \$198.0 million $10\frac{1}{8}\%$ senior subordinated notes, which were due in 2006. As a result of the redemption, we recorded a loss on early retirement of debt of approximately \$12.7 million in 2001.

We have \$573.7 million, net of unamortized discount of \$1.2 million, of senior subordinated notes outstanding as of December 31, 2002, \$199.9 million of these notes bear interest, payable semi-annually, at

a rate of $8\frac{7}{8}\%$ per year and \$375.0 million of these notes bear interest, payable semi-annually, at a rate of $9\frac{7}{8}\%$ per year (collectively the "Notes"). The indentures governing the Notes and Senior Notes (the "Indentures") contain certain customary financial and other covenants, which limit our and our subsidiaries' ability to incur additional debt and to pay dividends. At December 31, 2002, our Consolidated Coverage Ratio (as defined in the Indentures) was 2.26 to 1.00. The Indentures provide that we may not incur additional indebtedness, other than specified types of indebtedness, unless the Consolidated Coverage Ratio is at least 2.00 to 1.00. In the event our Consolidated Coverage Ratio is below 2.00 to 1.00, the covenant limits our ability to incur additional indebtedness for borrowings under the Revolving Facility not to exceed the greater of \$200 million or 1.5 times Operating Cash Flow (as defined) for the four most recent quarters, plus \$15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures significantly restricts our ability to pay dividends on our capital stock. The Indentures also give the holders of the Notes the right to require us to purchase the Notes at 101% of the principal amount of the

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Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the Indentures) of the Company.

During 2001, we entered into various interest rate swaps with members of our bank group to manage interest expense. The interest rate swaps have converted a portion of our fixed-rate debt to a floating rate. As of December 31, 2002, we had one remaining interest rate swap agreement with a total notional amount of \$50.0 million in which we pay a floating rate at December 31, 2002 of approximately 3.76% and receive a fixed rate at December 31, 2002 of approximately 8.38%. The interest rate swap terminates in 2008. The net effect of all of the interest rate swaps resulted in a reduction in interest expense of \$10.7 million and \$4.9 million for the years ended December 31, 2002 and 2001, respectively.

On October 18, 2002, we redeemed our \$150 million 9³/₄% senior subordinated notes. The redemption was funded with proceeds from the Revolving Facility. We recorded a charge of approximately \$10.1 million during the year ended December 31, 2002, to reflect the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem our \$150 million 9³/₄% senior subordinated notes. This charge was partially offset by approximately \$5.7 million from the adjusted basis of the debt as a result of the fair value hedge termination that was tied directly to our \$150 million 9³/₄% senior subordinated notes, as discussed below. In addition, we recorded a loss on early retirement of debt of approximately \$1.4 million in 2002 to reflect the write-off of the unamortized loan costs on our previous revolving facility.

In September 2002, we terminated an interest rate swap with a notional amount of \$150 million, which was due to terminate in 2007. The interest rate swap was terminated at its market value and, as a result, we received approximately \$5.8 million. This interest rate swap was tied directly to our \$150 million 9³/₄% senior subordinated notes. The mark-to-market adjustment was amortized as a reduction of interest expense over the original contract life of the interest rate swap. When our \$150 million 9³/₄% senior subordinated notes were redeemed on October 18, 2002, the adjusted basis of the debt as a result of the fair value hedge termination of approximately \$5.7 million was included in the calculation of the net loss on the early retirement of the related debt.

In December 2002, we terminated an interest rate swap with a notional amount of \$100 million, which was due to terminate in 2010. The interest rate swap was terminated at its market value and, as a result, we received approximately \$9.5 million. This interest rate swap was tied directly to our \$375 million 9³/₄% senior subordinated notes. The mark-to-market adjustment will be amortized as a reduction of interest expense over the original contract life of the interest rate swap and as of December 31, 2002, the remaining balance of \$9.4 million is included in long-term debt.

The interest rate swaps that we entered into qualify for the "shortcut" method allowed under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which allows for an assumption of no ineffectiveness. As such, there is no income statement impact from changes in the fair value of the hedging instruments. Instead, the fair value of the instrument is recorded as an asset or liability on the

Company's balance sheet with an offsetting adjustment to the carrying value of the related debt. In accordance with SFAS No. 133, we recorded assets of \$5.3 million and \$5.5 million as of December 31, 2002 and 2001, respectively, representing the fair value of the interest rate swaps and a corresponding increase in long-term debt, as these interest rate swaps are considered highly effective under the criteria established by SFAS No. 133.

Green Valley Ranch Station

Green Valley Ranch Station, located at the intersection of Interstate 215 and Green Valley Parkway in Henderson, Nevada, opened on December 18, 2001. It is owned by a 50/50 joint venture between GCR Gaming and us. We developed the project on 40 acres of a 170-acre multi-use commercial development. We are the managing partner of Green Valley Ranch Station and receive a management fee equal to 2% of the property's revenues and approximately 5% of EBITDA, as defined in the operating agreement. Management fees earned in connection with Green Valley Ranch Station were approximately \$4.6 million and \$0.3 million for the years ended December 31, 2002 and 2001, respectively.

During the third quarter of 2001, we completed financing for Green Valley Ranch Station. The financing was completed with a group of banks, and originally provided for borrowings up to \$165.0 million at a margin above the LIBOR rate of up to 250 basis points. The available borrowings have reduced to \$150.3 million as of December 31, 2002. Also during the third quarter of 2001, Green Valley Ranch Station entered into an agreement to swap the majority of this floating rate to a fixed rate that will approximate 6.9% during the term of the loan. The loan required a completion guaranty and a limited make-well of \$44.0 million, if necessary (based on operating results of the property). Pursuant to the make-well agreement, if Green Valley Ranch Station fails to comply with the Fixed Charge Coverage Ratio or the Leverage Ratio (both as defined in the Green Valley Ranch credit agreement), the partners will be required to make cash equity contributions in such amounts as required, which will result in pro forma compliance with the covenants. Both the completion guaranty and make-well are joint and several obligations of each partner, with GCR Gaming's obligation collateralized. We were not required to make any payments related to the completion

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guaranty. As of December 31, 2002, we had contributed approximately \$0.6 million for obligations related to the make-well agreement. The make-well agreement will terminate upon achieving a debt to Adjusted EBITDA (as defined) ratio of less than or equal to 3.00 to 1.00 and producing Adjusted EBITDA before management fees of at least \$42.0 million. As of December 31, 2002, the debt to Adjusted EBITDA ratio was 3.97 to 1.00. The outstanding balance of the Green Valley Ranch Station revolving credit facility as of December 31, 2002, was approximately \$145.3 million. In addition to the bank financing, Green Valley Ranch Station has secured equipment and other financing which had an outstanding balance of approximately \$30.0 million as of December 31, 2002.

On December 31, 2001, Green Valley Ranch Station entered into an interest rate swap that is matched to a portion of its revolving facility, which terminates on December 29, 2006. At December 31, 2002, the notional amount was \$106.5 million, and decreases by varying amounts each quarter until it reaches \$20.0 million on September 29, 2006 through the termination date. In March 2002, Green Valley Ranch Station entered into an additional interest rate swap that terminates on March 28, 2007, and is matched to a portion of its equipment financing. The notional amount of this interest rate swap at December 31, 2002 was \$25.5 million and decreases by \$1.5 million each quarter. The interest rate swaps have converted a portion of Green Valley Ranch Station's floating rate debt to a fixed rate. As of December 31, 2002, Green Valley Ranch Station was paying a weighted average fixed rate of 4.33% on the interest rate swaps and was receiving a weighted average floating rate based on three-month LIBOR of 1.38%. These interest rate swaps were also priced to have no value at inception. As a result of the mark-to-market valuation of the interest rate swaps as of December 31, 2002, we recorded approximately \$1.7 million for our share of the Green Valley Ranch Station interest rate swaps in accumulated other comprehensive loss in our consolidated balance sheets.

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Common Stock

We are authorized to issue up to 135 million shares of our common stock, \$0.01 par value per share, 66,689,773 shares of which were issued and 8,730,872 shares were held in treasury as of December 31, 2002. Each holder of our common stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of our common stock have no cumulative voting, conversion, redemption or preemptive rights or other rights to subscribe for additional shares other than pursuant to the Rights Plan described below. Subject to any preferences that may be granted to the holders of our preferred stock, each holder of common stock is entitled to receive ratably, such dividends as may be declared by our Board of Directors out of funds legally available therefore, as well as any distributions to the stockholders and, in the event of liquidation, dissolution or winding up of the Company, is entitled to share ratably in all of our assets that remain after payment of liabilities.

Preferred Stock

We are authorized to issue up to 5 million shares of our preferred stock, \$0.01 par value per share of which none were issued. The Board of Directors, without further action by the holders of our common stock, may issue shares of preferred stock in one or more series and may fix or alter the rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of preferred stock. Except as described above, our Board of Directors, without further stockholder approval, may issue shares of preferred stock with rights that could adversely affect the rights of the holders of our common stock. The issuance of shares of preferred stock under certain circumstances could have the effect of delaying or preventing a change of control of the Company or other corporate action.

Treasury Stock

We are authorized to repurchase up to approximately 19.5 million shares of our common stock. During the year ended December 31, 2002, we repurchased approximately 743,000 shares of our common stock for approximately \$10.2 million. As of December 31, 2002, we had acquired approximately 8.7 million shares at a cost of approximately \$109.5 million.

In July 2000, we entered into an equity forward contract that allowed for shares of our common stock to be purchased by a financial institution and held on our behalf. In January 2001, we closed out the contract and purchased 3.2 million shares for approximately \$46.0 million. On September 30, 2001, we acquired approximately 1.0 million shares of our common stock at a cost of \$8.4 million as a result of the sale of Southwest Gaming.

Put Warrants

During 2000, we sold put warrants on 2.2 million shares of our common stock. One of the contracts for 1.1 million shares expired on its own terms and the premium received at the inception of the contract was recorded in additional paid-in capital on our consolidated balance sheets. The other contract for 1.1 million shares in 2000 was extended and ultimately settled in cash later in 2000. The net cash obtained from

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the premiums received at inception and the extension, net of the cash paid to settle the contract, was approximately \$2.1 million and was recorded in additional paid-in capital.

In 2001, we sold put warrants on a total of 215,000 shares of our common stock and later in 2001, upon exercise of the put warrants on their respective maturity dates, purchased the shares for \$2.6 million. The purchase of the put warrants is included in treasury stock on our consolidated balance sheets.

The put warrants that were issued in 2000 and 2001 were European style options, which contained maturities of either three or six months. The contracts did not require us to deliver registered shares or to

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post any collateral. We were paid a put premium on each put warrant that was issued. All of the put contracts gave us the option of a net-cash settlement or settlement in our own shares (either physical settlement or net-share settlement) and were recorded as equity instruments, therefore, no gains or losses were recorded in our consolidated financial statements.

Rights Plan

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

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

Critical Accounting Policies

Significant Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Certain of our accounting policies, including the determination of bad debt reserves, the estimated useful lives assigned to our assets, asset impairment, insurance reserves, purchase price allocations made in connection with our acquisitions and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, terms of existing contracts, observance of trends in the gaming industry and information available from other outside sources. There can be no assurance that actual results will not differ from our estimates. To provide an understanding of the methodology we apply, our significant accounting policies and basis of presentation are discussed where appropriate in this discussion and analysis and in the notes to our consolidated financial statements.

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Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. This SFAS applies to all entities and applies to all legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 will be effective for our 2003 financial statements. We believe that this SFAS will not have a significant impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for 2002 financial statements and has not had a material effect on our financial position or results of operations.

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", in April 2002. See "Results of Operations *Loss on Early Retirement of Debt*".

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan, as previously required under Emerging Issues Task Force Issue 94-3. A fundamental conclusion reached by the FASB in this statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. We believe that this SFAS will not have a significant impact on our results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS Nos. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others", which is being superseded. The provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are generally effective for financial statements of interim or annual periods ending after December 15, 2002. We will adopt Interpretation No. 45 in 2003 and we believe that this Interpretation will not have a significant impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have elected to continue to account for stock-based employee compensation using the intrinsic value method under APB Opinion 25 (see Note 10 to the Consolidated Financial Statements in this Annual Report on Form 10-K).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our long-term debt. We attempt to limit our exposure to interest rate risk by managing the mix of our long-term fixed-rate borrowings and short-term borrowings under the Revolving Facility. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility) as selected by us. However, the amount of outstanding borrowings is expected to fluctuate and may be reduced from time to time. The Revolving Facility matures in September 2007.

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The following table provides information about our long-term debt at December 31, 2002 (see also "Description of Certain Indebtedness and Capital Stock") (amounts in thousands):

	Maturity date	Face amount	Carrying value	Estimated fair value
Revolving Facility at a weighted average interest rate of approximately 4.3%	September 2007	\$ 177,200	\$ 177,200	\$ 177,200
8 ³ / ₈ % senior notes	February 2008	400,000	400,000	424,000
9 ⁷ / ₈ % senior subordinated notes	July 2010	375,000	373,769	406,875
8 ⁷ / ₈ % senior subordinated notes	December 2008	199,900	199,900	208,396
Other notes, interest at 8.0%	June 2003	122	122	122
Market value of interest rate swaps		14,731	14,731	14,731
Total		\$ 1,166,953	\$ 1,165,722	\$ 1,231,324

We are also exposed to market risk in the form of fluctuations in interest rates and their potential impact upon our debt. This market risk is managed by utilizing derivative financial instruments in accordance with established policies and procedures. We evaluate our exposure to market risk by monitoring interest rates in the marketplace, and do not utilize derivative financial instruments for trading purposes. Our derivative financial instruments consist exclusively of interest rate swap agreements. Interest differentials resulting from these agreements are recorded on an accrual basis as an adjustment to interest expense. Interest rate swaps related to debt are matched with specific fixed-rate debt obligations.

The following table provides information about our financial instruments that are sensitive to changes in interest rates (amounts in thousands):

	As of December 31,						
	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt (including current portion):							
Fixed-rate	\$ 122	\$	\$	\$	\$	\$ 973,669	\$ 973,791
Average interest rate	8.00%					9.05%	9.05%
Variable-rate	\$	\$	\$	\$	\$ 177,200	\$	\$ 177,200
Average interest rate						4.26%	4.26%
Interest rate swaps:							
Notional amount	\$	\$	\$	\$	\$	\$ 50,000	\$ 50,000
Average payable rate						3.76%	3.76%
Average receivable rate						8.38%	8.38%

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ITEM 8. FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Station Casinos, Inc. and subsidiaries (the "Company") (a Nevada corporation) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Station Casinos, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles", and recorded a cumulative effect of a change in accounting principle in the first quarter of 2002.

Deloitte & Touche LLP

Las Vegas, Nevada
January 29, 2003

STATION CASINOS, INC.**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,339	\$ 66,117
Receivables, net	10,992	15,452
Income tax receivable	4,431	2,403
Inventories	4,875	4,454
Prepaid gaming tax	13,260	14,265

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	December 31,	
Prepaid expenses	5,765	6,080
Deferred income tax	3,847	4,262
Total current assets	102,509	113,033
Property and equipment, net	1,046,051	1,106,102
Goodwill and other intangibles, net	167,498	189,095
Land held for development	102,205	98,876
Investments in joint ventures	75,209	72,012
Note receivable	34,487	10,401
Other assets, net	70,388	66,603
Total assets	\$ 1,598,347	\$ 1,656,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 122	\$ 332
Accounts payable	8,534	26,661
Accrued payroll and related	25,666	19,556
Construction contracts payable		5,534
Accrued interest payable	15,356	17,559
Accrued progressives	6,098	6,209
Accrued group insurance	6,761	7,509
Accrued expenses and other current liabilities	26,262	25,446
Total current liabilities	88,799	108,806
Long-term debt, less current portion	1,165,600	1,236,758
Deferred income tax, net	52,777	40,453
Other long-term liabilities, net	20,493	21,201
Total liabilities	1,327,669	1,407,218
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par value \$0.01; authorized 135,000,000 shares; 66,689,773 and 65,349,368 shares issued	454	441
Treasury stock, 8,730,872 and 7,987,882 shares, at cost	(109,462)	(99,248)
Additional paid-in capital	316,714	300,254
Deferred compensation restricted stock	(20,232)	(19,510)
Accumulated other comprehensive loss	(1,695)	
Retained earnings	84,899	66,967
Total stockholders' equity	270,678	248,904
Total liabilities and stockholders' equity	\$ 1,598,347	\$ 1,656,122

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

STATION CASINOS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	For the years ended December 31,		
	2002	2001	2000
Operating revenues:			
Casino	\$ 638,113	\$ 659,276	\$ 807,880
Food and beverage	133,811	139,983	137,198
Room	48,579	47,558	46,260
Other	40,790	62,179	65,865
Management fees	4,853	677	516
	<u>866,146</u>	<u>909,673</u>	<u>1,057,719</u>
Gross revenues	866,146	909,673	1,057,719
Promotional allowances	(73,281)	(72,816)	(67,659)
	<u>792,865</u>	<u>836,857</u>	<u>990,060</u>
Operating costs and expenses:			
Casino	258,383	287,637	372,826
Food and beverage	78,738	85,719	83,879
Room	19,000	19,289	16,416
Other	16,276	35,620	37,077
Selling, general and administrative	161,038	165,977	181,833
Corporate expense	31,946	25,952	26,974
Depreciation and amortization	72,783	69,576	63,346
Impairment loss	8,791	4,001	
Preopening expenses		6,413	3,858
Gain on sale of properties		(1,662)	(41,731)
Missouri/Nevada investigations and fines			4,388
	<u>646,955</u>	<u>698,522</u>	<u>748,866</u>
Operating income	145,910	138,335	241,194
Earnings from joint ventures	11,293	2,504	1,618
	<u>157,203</u>	<u>140,839</u>	<u>242,812</u>
Operating income and earnings from joint ventures	157,203	140,839	242,812
Other income (expense):			
Interest expense, net	(96,689)	(97,142)	(94,098)
Interest expense from joint ventures	(6,272)	(199)	
Loss on early retirement of debt	(5,808)	(12,732)	(840)
Other	1,322	(303)	(565)
	<u>(107,447)</u>	<u>(110,376)</u>	<u>(95,503)</u>
	49,756	30,463	147,309

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For the years ended December 31,

Income before income taxes and cumulative effect of change in accounting principle				
Income tax provision	(18,508)	(11,094)	(53,804)	
Income before cumulative effect of change in accounting principle	31,248	19,369	93,505	
Cumulative effect of change in accounting principle, net of applicable income tax benefit of \$7,170	(13,316)			
Net income	\$ 17,932	\$ 19,369	\$ 93,505	
Basic and diluted earnings per common share:				
Income before cumulative effect of change in accounting principle:				
Basic	\$ 0.54	\$ 0.34	\$ 1.55	
Diluted	\$ 0.51	\$ 0.32	\$ 1.48	
Net income:				
Basic	\$ 0.31	\$ 0.34	\$ 1.55	
Diluted	\$ 0.30	\$ 0.32	\$ 1.48	
Weighted average common shares outstanding:				
Basic	57,845	57,693	60,519	
Diluted	60,730	60,037	63,116	

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

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STATION CASINOS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands)

	Common stock	Treasury stock	Additional paid-in capital	Deferred compensation-restricted stock	Accumulated other comprehensive loss	Retained earnings (accumulated deficit)	Total stockholders' equity
Balances, December 31, 1999	\$ 424	\$ (11,862)	\$ 282,294	\$ (7,432)	\$ (716)	\$ (45,907)	\$ 216,801
Exercise of stock options	3		3,146				3,149
Cancellation of restricted stock			(631)	631			
Amortization of deferred compensation				751			751
Purchase of treasury stock, at cost (2,384 shares)		(30,020)					(30,020)
Sale of put warrants			2,085				2,085
Other			1,900				1,900
Asset held for sale market valuation adjustment					716		716
Net income						93,505	93,505
Balances, December 31, 2000	427	(41,882)	288,794	(6,050)		47,598	288,887
Exercise of stock options	1		1,431				1,432
Issuance of restricted stock	13		15,116	(15,129)			
Cancellation of restricted stock			(189)	189			
Amortization of deferred compensation				1,480			1,480
		(49,145)					(49,145)

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	Common stock	Treasury stock	Additional paid-in capital	Deferred compensation-restricted stock	Accumulated other comprehensive loss	Retained earnings (accumulated deficit)	Total stockholders' equity
Purchase of treasury stock, at cost (3,470 shares)							
Sale of Southwest Gaming		(8,440)					(8,440)
Other		219	(4,898)				(4,679)
Net income						19,369	19,369
Balances, December 31, 2001	441	(99,248)	300,254	(19,510)		66,967	248,904
Exercise of stock options	11		12,322				12,333
Issuance of restricted stock	2		3,693	(3,695)			
Amortization of deferred compensation				2,973			2,973
Purchase of treasury stock, at cost (743 shares)		(10,214)					(10,214)
Green Valley Ranch Station interest rate swap market valuation adjustment, net of income taxes					(1,695)		(1,695)
Other			445				445
Net income						17,932	17,932
Balances, December 31, 2002	\$ 454	\$ (109,462)	\$ 316,714	\$ (20,232)	\$ (1,695)	\$ 84,899	\$ 270,678

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

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STATION CASINOS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	For the years ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 17,932	\$ 19,369	\$ 93,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	72,783	69,576	63,346
Cumulative effect of change in accounting principle	20,486		
Loss on early retirement of debt	5,808	12,732	840
Amortization of debt discount and issuance costs	4,082	6,376	2,979
Impairment loss	8,791	4,001	
Gain on sale of properties		(1,662)	(41,731)
Changes in assets and liabilities:			
Decrease (increase) in receivables, net	2,432	10,944	(19,613)
Decrease (increase) in inventories and prepaid expenses	856	(3,666)	432
Increase in deferred income tax	12,739	12,103	56,430
(Decrease) increase in accounts payable	(18,156)	4,939	9,873
Increase (decrease) in accrued expenses and other current liabilities	3,992	(15,274)	(321)

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	For the years ended December 31,		
	2019	2018	2017
Other, net	(1,486)	(252)	(2,044)
Total adjustments	112,327	99,817	70,191
Net cash provided by operating activities	130,259	119,186	163,696
Cash flows from investing activities:			
Capital expenditures	(20,138)	(449,888)	(358,763)
Proceeds from sale of land, property and equipment	13,123	12,900	511,576
Purchase of land held for development	(4,925)	(15,094)	(79,596)
Investments in joint ventures	(615)	(23,228)	(58,837)
Note receivable	(24,086)	(4,565)	(3,607)
Accrued construction contracts payable		5,534	5,476
Payments on construction contracts	(5,534)	(5,476)	(750)
Other, net	(18,773)	(7,331)	(8,203)
Net cash (used in) provided by investing activities	(60,948)	(487,148)	7,296
Cash flows from financing activities:			
Borrowings (payments) under bank facility with maturity dates less than three months, net	(25,900)	14,100	(313,300)
Borrowings under bank facility, maturity dates greater than three months	135,000	30,000	
Payments under bank facility, maturity dates greater than three months	(40,000)		
Principal payments on notes payable	(3,560)	(5,690)	(13,695)
Proceeds from the issuance of senior notes/senior subordinated notes		400,000	373,522
Redemption of senior subordinated notes	(155,685)	(206,247)	
Proceeds from termination of interest rate swaps	15,303		
Purchase of treasury stock	(10,214)	(49,145)	(30,020)
Exercise of stock options	12,333	1,432	3,149
Debt issuance costs	(3,665)	(8,110)	(11,721)
Other, net	299	1,755	3,985
Net cash (used in) provided by financing activities	(76,089)	178,095	11,920
Cash and cash equivalents:			
(Decrease) increase in cash and cash equivalents	(6,778)	(189,867)	182,912
Balance, beginning of year	66,117	255,984	73,072
Balance, end of year	\$ 59,339	\$ 66,117	\$ 255,984
Supplemental cash flow disclosures:			
Cash paid for interest, net of \$2,065, \$10,918 and \$3,849 capitalized	\$ 92,553	\$ 91,255	\$ 93,582
Cash (received) paid for income taxes, net	\$ (2,567)	\$ (17,288)	\$ 16,550
Supplemental disclosure of non-cash items:			
Equipment purchases financed by debt	\$	\$ 200	\$
Sale of Southwest Gaming	\$	\$ 8,440	\$

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

STATION CASINOS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Basis of Presentation

Basis of Presentation and Organization

Station Casinos, Inc. (the "Company"), a Nevada corporation, is a gaming company that currently owns and operates eight major hotel/casino properties (one of which is 50% owned) and two smaller casino properties (one of which is 50% owned) in the Las Vegas metropolitan area. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Palace Station Hotel & Casino, Inc. ("Palace Station"), Boulder Station, Inc. ("Boulder Station"), Texas Station, LLC ("Texas Station"), Sunset Station, Inc. ("Sunset Station"), Santa Fe Station, Inc. ("Santa Fe Station"), Fiesta Station, Inc. ("Fiesta Rancho"), Lake Mead Station, Inc. ("Fiesta Henderson") and Wild Wild West Gambling Hall & Hotel ("Wild Wild West"). The Company also owns a 50% interest in Barley's Casino & Brewing Company ("Barley's") and Green Valley Ranch Gaming, LLC ("Green Valley Ranch Station"), and a 6.7% interest in the Palms Casino Resort, which are accounted for under the equity method. The Company is the managing partner for both Barley's and Green Valley Ranch Station. Green Valley Ranch Station opened on December 18, 2001. All significant intercompany accounts and transactions have been eliminated.

Acquisitions

On October 2, 2000, the Company purchased substantially all of the assets of the Santa Fe Hotel & Casino from Santa Fe Gaming Corporation and Santa Fe Hotel, Inc. for \$205 million and renamed the property Santa Fe Station. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated based on estimated fair values at the date of acquisition. A total of approximately \$113.3 million, representing the excess of acquisition cost over the estimated fair value of the tangible net assets, was allocated to goodwill. Goodwill amortization was based on a 40-year life until January 1, 2002, at which time amortization ceased upon the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" (see *Goodwill and Other Intangibles*).

On January 4, 2001, the Company purchased substantially all of the assets of the Fiesta Casino Hotel from Fiesta Hotel Corporation, Los Pueblos, Inc. and Joe G. Maloof & Co., Inc. for \$170 million and renamed the property Fiesta Rancho in December 2001. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated based on estimated fair values at the date of acquisition. A total of approximately \$78.9 million, representing the excess of acquisition cost over the estimated fair value of the tangible net assets, was allocated to goodwill and other intangibles of which \$73.9 million represented goodwill and was amortized based on a 40-year life until January 1, 2002, at which time amortization ceased upon the adoption of SFAS No. 142. The remaining \$5.0 million was allocated to other intangibles, which are being amortized over five years (see *Goodwill and Other Intangibles*).

On January 30, 2001, the Company purchased substantially all of the assets of The Reserve Hotel & Casino from Ameristar Casinos, Inc. for \$71.8 million and renamed the property Fiesta Henderson in December 2001. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated based on estimated fair values at the date of acquisition.

The following unaudited pro forma information has been prepared assuming that these acquisitions had occurred on January 1, 2000. Pro forma information is not required for 2001, as the properties were purchased at the beginning of 2001. This pro forma information is not indicative of what would have

occurred had these acquisitions been made as of January 1, 2000 (unaudited, amounts in thousands, except per share data).

	For the year ended December 31, 2000	
Net revenues	\$	1,213,510
Net income	\$	81,146
Basic earnings per common share	\$	1.34

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	For the year ended December 31, 2000	
	<hr/>	
Diluted earnings per common share	\$	1.29

Sale of Properties

Until December 20, 2000, the Company owned and operated St. Charles Riverfront Station, Inc. ("Station Casino St. Charles") located in St. Charles, Missouri and Kansas City Station Corporation ("Station Casino Kansas City") located in Kansas City, Missouri. On December 20, 2000, the Company sold substantially all of the assets of Station Casino St. Charles and Station Casino Kansas City (collectively the "Missouri Properties") to Ameristar Casinos, Inc. for an aggregate purchase price of approximately \$488 million and recorded a gain of \$41.7 million. Net revenues and operating income for the Missouri Properties was approximately \$315.4 million and \$102.9 million, respectively for the year ended December 31, 2000.

Until September 30, 2001, the Company also owned and provided slot route management services in southern Nevada. On September 30, 2001, the Company sold Southwest Gaming Services, Inc. ("Southwest Gaming") to Blake L. Sartini, its former executive vice-president and chief operating officer. The Company transferred its stock in Southwest Gaming to Mr. Sartini in exchange for Station Casinos' common stock valued at approximately \$8.4 million. The Company recorded a gain of \$1.7 million in the year ended December 31, 2001. The gain reflected the difference between the carrying value of the Company's investment in the Southwest Gaming assets to be distributed of \$6.7 million and the fair value of Station Casinos' common stock of \$8.4 million, which was based on its average trading price for five days before September 30, 2001, the transaction closing date. Net revenues and operating income for Southwest Gaming for the nine months ended September 30, 2001 were approximately \$22.9 million and \$1.6 million, respectively. Net revenues and operating income for Southwest Gaming for the year ended December 31, 2000 were approximately \$26.8 million and \$1.3 million, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

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

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Inventories

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

Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, receivables and accounts payable approximates fair value primarily because of the short maturities of these instruments. The fair value of the Revolving Facility approximates the carrying amount of the debt due to the short-term nature of the underlying borrowings. The fair value of the Company's other long-term debt is estimated based on the quoted market prices for the same or similar issues (see Note 7).

Property and Equipment

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

The Company evaluates its property and equipment and other long-lived assets for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair market value less costs of disposal. Fair market value for assets to be disposed of is generally estimated based

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on comparable asset sales, solicited offers or a discounted cash flow model. For assets to be held and used, the Company reviews fixed assets for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the Company compares the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model. The consolidated financial statements reflect all adjustments required by SFAS No. 144 as of December 31, 2002.

Capitalization of Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. Interest capitalization ceases once the project is substantially complete or no longer undergoing construction activities to prepare it for its intended use. When no debt is specifically identified as being incurred in connection with such construction projects, the Company capitalizes interest on amounts expended on the project at the Company's weighted average cost of borrowed money. Interest capitalized was approximately \$2.1 million, \$10.9 million and \$3.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Goodwill and Other Intangibles

The FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", in June 2001. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon the adoption of SFAS No. 142. The Company implemented SFAS No. 142 on January 1, 2002 and tested for

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impairment in accordance with the provisions of SFAS No. 142 in the first quarter of 2002 and will annually perform such test. As a result of an independent third party appraisal, the Company recorded an impairment loss of \$13.3 million, net of the applicable tax benefit, related to the acquisition of Fiesta Rancho, which is shown as a cumulative effect of a change in accounting principle in the Company's consolidated statements of operations. Fiesta Rancho was purchased in early 2001, and there were no events or changes in circumstances ("triggering events") during the course of 2001 that would have indicated the recoverability of the carrying amount of the property should be assessed. As a result, there was no requirement to test for impairment under the provisions of SFAS No. 121, which was the primary literature regarding the impairment of an asset prior to the adoption of SFAS No. 142. Also, in connection with the acquisition of Fiesta Rancho, the Company acquired the customer list and is amortizing it over five years. The customer list was valued at \$5.0 million at the time of the purchase and as of December 31, 2002, had a net book value of approximately \$3.5 million. The amortization expense related to the customer list for the year ended December 31, 2002, was approximately \$1.2 million and is expected to remain the same in future periods until fully amortized.

The following tables illustrates what the effect of adopting SFAS No. 142 would have had on net income and earnings per common share for the years ended December 31, 2001 and 2000, adjusted to exclude amortization expense related to goodwill that is no longer being amortized (amounts in thousands):

	December 31,	
	2001	2000
Net income as reported	\$ 19,369	\$ 93,505
Goodwill amortization, net of applicable income tax benefit	3,062	570
Adjusted net income	\$ 22,431	\$ 94,075
Basic earnings per common share as reported	\$ 0.34	\$ 1.55
Goodwill amortization, net of applicable income tax benefit	0.05	0.01
Adjusted basic earnings per common share	\$ 0.39	\$ 1.56
Diluted earnings per common share reported	\$ 0.32	\$ 1.48
Goodwill amortization, net of applicable income tax benefit	0.05	0.01

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	December 31,	
	_____	_____
	_____	_____
Adjusted diluted earnings per common share	\$ 0.37	\$ 1.49
	_____	_____

Debt Issuance Costs

Debt issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the expected terms of the related debt agreements and are included in other assets on the Company's consolidated balance sheets.

Preopening Expenses

Preopening expenses have been expensed as incurred. The construction phase typically covers a period of 12 to 24 months. The majority of preopening costs are incurred in the three months prior to opening. During the year ended December 31, 2001, the Company incurred preopening expenses of

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\$6.4 million, which included costs incurred prior to the acquisitions of Fiesta Rancho and Fiesta Henderson and costs incurred prior to the opening of Green Valley Ranch Station. During the year ended December 31, 2000, the Company incurred preopening expenses of \$3.9 million, which included costs incurred prior to the acquisitions of Santa Fe Station, Fiesta Rancho and Fiesta Henderson, the expansion project at Texas Station and costs incurred prior to the opening of Green Valley Ranch Station.

Interest Rate Swaps

From time to time, the Company uses interest rate swaps and similar financial instruments to assist in managing interest incurred on its long-term debt. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as a reduction of, or addition to, interest expense as incurred over the life of the swap or similar financial instrument (see Notes 7 and 8).

Revenues and Promotional Allowances

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

	For the years ended December 31,		
	_____	_____	_____
	2002	2001	2000
	_____	_____	_____
Food and beverage	\$ 59,781	\$ 59,398	\$ 51,545
Room	3,023	3,482	3,126
Other	2,899	2,634	3,242
	_____	_____	_____
Total	\$ 65,703	\$ 65,514	\$ 57,913
	_____	_____	_____

The Company's Boarding Pass player rewards program (the "Program") allows customers to redeem points earned from their gaming activity at all Station properties for complimentary food, beverage, rooms, entertainment and merchandise. At the time redeemed, the retail value of complimentary under the Program are recorded as revenue with a corresponding offsetting amount included in promotional allowances. The cost associated with complimentary food, beverage, rooms, entertainment and merchandise redeemed under the Program is recorded in casino costs and expenses.

Related Party Transactions

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The Company has entered into various related party transactions, which consist primarily of lease payments related to ground leases at Boulder Station and Texas Station and consulting agreements with certain members of its Board of Directors. The expenses related to these related party transactions were approximately \$5.1 million, \$5.1 million and \$5.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. During the year ended December 31, 2001, the Company recorded a related party gain of approximately \$1.7 million for the sale of Southwest Gaming to the Company's former executive vice-president and chief operating officer (see Sale of Properties). During the year ended December 31, 2002, the Company recorded hotel revenue from a related party of approximately \$0.3 million related to a wholesale travel agent.

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Earnings Applicable to Common Stock

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

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

	For the years ended December 31,		
	2002	2001	2000
Weighted average common shares outstanding (used in calculation of basic earnings per share)	57,845	57,693	60,519
Potential dilution from the assumed exercise of stock options	2,885	2,344	2,597
Weighted average common and common equivalent shares outstanding (used in calculation of diluted earnings per share)	60,730	60,037	63,116

The number of antidilutive stock options as of December 31, 2002, 2001 and 2000 was 0.2 million, 5.5 million and 0.1 million, respectively.

Stock-Based Employee Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock-based employee compensation programs. Accordingly, compensation expense recognized was different than what would have been otherwise recognized under the fair value based method defined in SFAS No. 123, "Accounting for Stock-Based Compensation". Had compensation expense for the plans been determined in accordance with SFAS No. 123, the effect on the Company's net income and basic and diluted earnings per common share would have been as follows (amounts in thousands, except per share data):

	For the years ended December 31,		
	2002	2001	2000
Net income:			
As reported	\$ 17,932	\$ 19,369	\$ 93,505
Stock-based compensation expense reported in net income	289		
Stock-based compensation expense under fair value method	(4,894)	(5,219)	(3,556)
Pro forma net income	\$ 13,327	\$ 14,150	\$ 89,949
Earnings per common share:			
Basic as reported	\$ 0.31	\$ 0.34	\$ 1.55

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	For the years ended December 31,		
Basic pro forma	0.23	0.25	1.49
Diluted as reported	\$ 0.30	\$ 0.32	\$ 1.48
Diluted pro forma	0.22	0.24	1.43

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

	For the years ended December 31,		
	2002	2001	2000
Expected dividend yield			
Expected stock price volatility	56.34%	52.00%	52.00%
Risk-free interest rate	3.82%	4.03%	6.12%
Expected average life of options (years)	4.42	3.83	4.36
Weighted average fair value per option granted	\$ 6.69	\$ 4.73	\$ 6.68

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

Operating Segments

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", requires separate financial information be disclosed for all operating segments of a business. The Company believes that it meets the "economic similarity" criteria established by SFAS No. 131, and as a result, the Company aggregates all of its properties into one operating segment. All of our properties offer the same products, cater to the same customer base, are all located in the greater Las Vegas, Nevada area, have the same regulatory and tax structure, share the same marketing techniques and are all directed by a centralized management structure.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. This SFAS applies to all entities and applies to all legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 will be effective for the Company's 2003 financial statements. The Company believes that this SFAS will not have a significant impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for 2002 financial statements and has not had a material effect on the Company's financial position or results of operations.

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", in April 2002. SFAS No. 145 changed the criteria for reporting any gain or loss resulting from the extinguishment of debt as an extraordinary item. Such gains and losses must be analyzed to determine if they meet the criteria for extraordinary item classification based on the event being both unusual and infrequent. The Company adopted SFAS No. 145 in 2002, and

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has reclassified prior period losses on early retirement of debt as an item in other non-operating income (expense), rather than classified as an extraordinary item shown net of applicable tax benefit.

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In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan, as previously required under Emerging Issues Task Force Issue 94-3. A fundamental conclusion reached by the FASB in this statement is that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that this SFAS will not have a significant impact on its results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS Nos. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others", which is being superseded. The provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are generally effective for financial statements of interim or annual periods ending after December 15, 2002. The Company will adopt Interpretation No. 45 in 2003 and believes that this Interpretation will not have a significant impact on its results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS No. 123". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected to continue to account for stock-based employee compensation using the intrinsic value method under APB Opinion 25 (see *Stock-Based Employee Compensation* above).

Reclassifications

Certain amounts in the December 31, 2001 and 2000 consolidated financial statements have been reclassified to conform to the December 31, 2002 presentation. These reclassifications had no effect on the previously reported net income.

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2. Receivables

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

	December 31,	
	2002	2001
Casino	\$ 7,280	\$ 7,705
Hotel	2,417	2,470
Other	3,977	9,426
	13,674	19,601
Allowance for doubtful accounts	(2,682)	(4,149)
	\$ 10,992	\$ 15,452

3. Property and Equipment

Property and equipment consists of the following (amounts in thousands):

December 31,

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		<u>December 31,</u>	
	<u>Estimated life (years)</u>	<u>2002</u>	<u>2001</u>
Land		\$ 109,652	\$ 112,383
Land leases	8-51	4,995	4,995
Buildings and improvements	10-45	872,094	857,823
Furniture, fixtures and equipment	3-7	353,694	352,598
Construction in progress		14,861	29,479
		<u>1,355,296</u>	<u>1,357,278</u>
Accumulated depreciation and amortization		<u>(309,245)</u>	<u>(251,176)</u>
Property and equipment, net		<u>\$ 1,046,051</u>	<u>\$ 1,106,102</u>

At December 31, 2002 and 2001, substantially all property and equipment of the Company is pledged as collateral for long-term debt.

4. Land Held for Development

The Company has acquired certain parcels of land in the Las Vegas valley and in Sacramento, California as part of its development activities. The Company's decision on whether to proceed with any new gaming opportunity is dependent upon future economic and regulatory factors, the availability of financing and competitive and strategic considerations. As many of these considerations are beyond the Company's control, no assurances can be made that it will be able to secure additional, acceptable financing in order to proceed with any particular project. As of December 31, 2002, the Company had \$102.2 million of land held for development that consists primarily of five sites that are owned or leased, which comprise 151 acres in the Las Vegas valley and 98 acres in the Sacramento area near the Thunder Valley Casino project. In addition, the Company has options to purchase a total of 66 acres adjacent to two of the sites in the Las Vegas valley. The Rhodes Ranch site consists of two parcels totaling 73 acres (the Company owns 41 acres and has an option to purchase 32 acres), located at the intersection of Durango Road and the Southern Beltway/Interstate 215 located in the southwest quadrant of Las Vegas. The Boulder/Tropicana site is a 68-acre site consisting of two parcels at the intersection of Boulder Highway

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and Tropicana Avenue in eastern Las Vegas. The Company is leasing (with an option to purchase) 34 acres of the site and holds an option to purchase the adjacent 34-acre parcel. The Company also owns a 49-acre gaming-entitled parcel in southwest Las Vegas at the intersection of Flamingo Road and Interstate 215 and a 27-acre gaming-entitled parcel at the intersection of Boulder Highway and Nellis Boulevard.

In July 2002, the Company entered into an agreement that gives it the right to acquire approximately 73 acres of land in the Summerlin master-planned community in Las Vegas, Nevada. The land is located on Charleston Boulevard at the Interstate 215/Charleston interchange. The purchase price for the land is approximately \$65 million. The Company exercised its option to purchase the property and made a payment of \$6.4 million in October 2002, which will be fully applicable to the purchase price. The Company anticipates completing the purchase during the second quarter of 2003; however, no assurances can be made that the purchase will actually be completed.

5. Investments in Joint Ventures

The Company has investments in two 50% owned joint ventures, Green Valley Ranch Station and Barley's, and a 6.7% investment in a joint venture that operates the Palms Casino Resort in Las Vegas, Nevada, that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of earnings, losses and distributions of the joint ventures. The investment balance also includes interest capitalized during the construction period, which is amortized against the earnings of the joint venture. Investments in joint ventures consist of the following (amounts in thousands):

<u>December 31,</u>	
<u>2002</u>	<u>2001</u>

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	December 31,	
	2002	2001
Green Valley Ranch Station (50.0%)	\$ 55,685	\$ 52,596
Barley's (50.0%)	2,740	2,608
Palms Casino Resort (6.7%)	16,784	16,808
Investments in joint ventures	\$ 75,209	\$ 72,012

Summarized balance sheet information for the joint ventures is as follows (amounts in thousands):

	December 31,	
	2002	2001
Current assets	\$ 45,607	\$ 38,482
Property and equipment and other assets, net	534,302	566,845
Current liabilities	58,380	88,454
Long-term debt and other liabilities	208,264	191,584
Stockholders' equity	313,265	325,289

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Summarized results of operations for the joint ventures are as follows (amounts in thousands):

	For the years ended December 31,		
	2002	2001	2000
Net revenues	\$ 276,051	\$ 36,277	\$ 14,589
Operating costs and expenses	236,817	56,837	12,124
Operating income (loss)	39,234	(20,560)	2,465
Interest expense, net	19,450	1,081	
Net income (loss)	\$ 19,784	\$ (21,641)	\$ 2,465

The Company is the managing partner for both Barley's and Green Valley Ranch Station and receives a management fee equal to 10% of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") from Barley's and 2% of revenues and approximately 5% of EBITDA from Green Valley Ranch Station, which is included in net revenues on the Company's consolidated statements of operations. The operating earnings from these joint ventures are shown as a separate line item on the Company's consolidated statements of operations after operating income. In addition, interest expense from these joint ventures is shown as a separate component under other income (expense) in the Company's consolidated statements of operations. The following table identifies the total equity earnings from joint ventures (amounts in thousands):

	For the years ended December 31,		
	2002	2001	2000
Operating earnings from joint ventures	\$ 11,293	\$ 2,504	\$ 1,618
Interest expense from joint ventures	(6,272)	(199)	
Total equity earnings from joint ventures	\$ 5,021	\$ 2,305	\$ 1,618

6. Asset Impairment

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The Company recorded an impairment loss of \$8.8 million and \$4.0 million in the years ended December 31, 2002 and 2001, respectively, to adjust the carrying value of its other assets to their estimated fair value. In the year ended December 31, 2002, approximately \$3.9 million of the impairment loss related to the write-down of certain assets related to the Company's investments in an Internet, intra-state gaming platform and related technology. In May 2002, the Nevada Gaming Commission communicated that it had general concerns regarding the security and reliability of Internet gaming platforms. The impairment of these assets was based upon a decision by the Company to no longer pursue Nevada-based Internet gaming activities as a result of the uncertainty of regulatory approval of these types of activities. As a result, all of the hardware, software and internal development costs that the Company had incurred were written off in 2002, as they were deemed to have no value.

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In addition, approximately \$4.9 million of the impairment loss was related to the Company's option to invest in the Internet wagering business. In February 2002, the Company announced that it intended to purchase a 50% interest in Kerzner Interactive Limited (formerly SunOnline Limited) ("Kerzner Interactive"), a wholly owned subsidiary of Kerzner International Limited (formerly Sun International Hotels Limited) ("Kerzner"). Kerzner Interactive was to be the exclusive vehicle for both Kerzner and the Company to pursue the Internet wagering business. In July 2002, the Company converted its agreement to acquire a 50% interest in Kerzner Interactive into an option to do so, and paid \$4.5 million for such option. Kerzner has decided to discontinue Kerzner Interactive, as it targeted Internet wagering only from jurisdictions that permitted online gaming. As these jurisdictions became more restrictive in their acceptance of Internet gaming, the market size was reduced and competition intensified, resulting in a substantial decrease in the probability of achieving profitability in the short-to-medium term. As a result, the Company has written off the option payment and other costs related to this investment.

In the year ended December 31, 2001, the Company recorded an impairment loss with respect to a 34-acre parcel, near the intersection of Martin Luther King Jr. Drive and Craig Road in North Las Vegas. This impairment loss was necessary because, after evaluating all of its options, the Company determined not to develop a casino on this site. The assets included capitalized rent and design costs, which had no value after the Company made the decision not to develop a gaming facility on this parcel. As of December 31, 2002, gaming is not permitted on this site due to zoning restrictions.

7. Long-term Debt

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

	December 31,	
	2002	2001
Revolving credit facility, \$365.0 million limit at December 31, 2002, due September 30, 2007, interest at a margin above the Alternate Base Rate or the Eurodollar Rate (4.3% at December 31, 2002)	\$ 177,200	\$ 108,100
8 ³ / ₈ % senior notes, interest payable semi-annually, principal due February 15, 2008	400,000	400,000
9 ⁷ / ₈ % senior subordinated notes, interest payable semi-annually, principal due July 1, 2010, net of unamortized discount of \$1.2 million and \$1.3 million at December 31, 2002 and 2001, respectively	373,769	373,662
8 ⁷ / ₈ % senior subordinated notes, interest payable semi-annually, principal due December 1, 2008	199,900	199,900
9 ³ / ₄ % senior subordinated notes, interest payable semi-annually, principal due April 15, 2007, net of unamortized discount of \$3.7 million at December 31, 2001 (redeemed on October 18, 2002, using the revolving credit facility)		146,287
Other long-term debt, collateralized by various assets including equipment and land, monthly installments including interest of 8.0% at December 31, 2002	122	3,682
Total long-term debt	1,150,991	1,231,631
Current portion of long-term debt	(122)	(332)
Market value of interest rate swaps	14,731	5,459
Total long-term debt, net	\$ 1,165,600	\$ 1,236,758

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Revolving Facility

In September 2002, the Company completed financing on a new \$365.0 million revolving credit facility (the "Revolving Facility"). The Revolving Facility contains no principal amortization and matures in September 2007. The Borrowers are the major operating subsidiaries and the Revolving Facility is secured by substantially all of the Company's assets. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility), as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Revolving Facility, will vary quarterly based on the Company's combined consolidated ratio of debt to Adjusted EBITDA (each, as defined in the Revolving Facility). As of December 31, 2002, the Borrowers' margin above the Eurodollar Rate on borrowings under the Revolving Facility was 2.25%. The maximum margin for Eurodollar Rate borrowings is 2.50%. The maximum margin for Alternate Base Rate borrowings is 1.25%. As of December 31, 2002, the fee for the unfunded portion of the Revolving Facility was 0.50%.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.25 to 1.00 for each quarter and a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.50 to 1.00 for each quarter. As of December 31, 2002, the Borrowers' funded debt to Adjusted EBITDA ratio was 0.73 to 1.00 and the fixed charge coverage ratio was 3.05 to 1.00. In addition, the Revolving Facility has financial and other covenants, which state that the maximum consolidated funded debt to Adjusted EBITDA ratio can be no more than 5.50 to 1.00 through June 30, 2003, which reduces to 5.00 to 1.00 on September 30, 2003 through June 30, 2005, to 4.75 to 1.00 on September 30, 2005 through December 31, 2005, to 4.50 to 1.00 on March 31, 2006 through June 30, 2006 and to 4.00 to 1.00 on September 30, 2006. Other covenants limit prepayments of indebtedness or rent (including subordinated debt other than re-financings meeting certain criteria), limitations on asset dispositions, limitations on dividends, limitations on indebtedness, limitations on investments and limitations on capital expenditures. As of December 31, 2002, the Company's consolidated funded debt to Adjusted EBITDA ratio was 4.83 to 1.00. The Company has pledged the stock of all of its major subsidiaries.

Senior and Senior Subordinated Notes

In 2001, the Company completed offerings for a total of \$400.0 million of senior notes due in February 2008 (the "Senior Notes"). The Senior Notes bear interest at a rate equal to $8\frac{3}{8}\%$ per annum and were priced at par. The indentures governing the Senior Notes contain substantially the same covenants as the Company's senior subordinated notes as well as a limitation on liens the Company can incur. The proceeds from the Senior Notes were used to repay amounts outstanding on the previous revolving facility and to redeem the \$198.0 million $10\frac{1}{8}\%$ senior subordinated notes, which were due in 2006. As a result of the redemption, the Company recorded a loss on early retirement of debt of approximately \$12.7 million in 2001.

The indentures governing the Company's senior subordinated notes (the "Notes") and senior notes (the "Indentures") contain certain customary financial and other covenants, which limit the Company and its subsidiaries' ability to incur additional debt and to pay dividends. At December 31, 2002, the Company's Consolidated Coverage Ratio (as defined in the Indentures) was 2.26 to 1.00. The Indentures provide that the Company may not incur additional indebtedness, other than specified types of indebtedness, unless the Consolidated Coverage Ratio is at least 2.00 to 1.00. In the event the Company's Consolidated Coverage

Ratio is below 2.00 to 1.00, the covenant limits the Company's ability to incur additional indebtedness for borrowings under the Revolving Facility not to exceed the greater of \$200 million or 1.5 times Operating Cash Flow (as defined) for the four most recent quarters, plus \$15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures significantly restricts the Company's ability to pay dividends on its capital stock. The Indentures also give the holders of the Notes the right to require the Company to purchase the Notes at 101% of the principal amount of the Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the Indentures) of the Company.

During 2001, the Company entered into various interest rate swaps with members of its bank group to manage interest expense. The interest rate swaps have converted a portion of the Company's fixed-rate debt to a floating rate. As of December 31, 2002, the Company had one remaining interest rate swap agreement with a total notional amount of \$50.0 million in which it pays a floating rate at December 31, 2002 of approximately 3.76% and receives a fixed rate at December 31, 2002 of approximately 8.38%. The interest rate swap terminates in 2008. The net effect of all of the interest rate swaps resulted in a reduction in interest expense of \$10.7 million and \$4.9 million for the years ended December 31, 2002 and 2001, respectively.

On October 18, 2002, the Company redeemed the \$150 million $9\frac{3}{4}\%$ senior subordinated notes. The redemption was funded with proceeds from the Revolving Facility. The Company recorded a charge of approximately \$10.1 million during the year ended December 31, 2002, to reflect the write-off of the unamortized debt discount, unamortized loan costs and the premium to redeem the \$150 million $9\frac{3}{4}\%$ senior

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subordinated notes. This charge was partially offset by approximately \$5.7 million from the adjusted basis of the debt as a result of the fair value hedge termination that was tied directly to the \$150 million 9³/₄% senior subordinated notes, as discussed below. In addition, the Company recorded a loss on early retirement of debt of approximately \$1.4 million in 2002 to reflect the write-off of the unamortized loan costs on the previous revolving facility.

In September 2002, the Company terminated an interest rate swap with a notional amount of \$150 million, which was due to terminate in 2007. The interest rate swap was terminated at its market value and, as a result, the Company received approximately \$5.8 million. This interest rate swap was tied directly to the \$150 million 9³/₄% senior subordinated notes. The mark-to-market adjustment was amortized as a reduction of interest expense over the original contract life of the interest rate swap. When the \$150 million 9³/₄% senior subordinated notes were redeemed on October 18, 2002, the adjusted basis of the debt as a result of the fair value hedge termination of approximately \$5.7 million was included in the calculation of the net loss on the early retirement of the related debt.

In December 2002, the Company terminated an interest rate swap with a notional amount of \$100 million, which was due to terminate in 2010. The interest rate swap was terminated at its market value and, as a result, the Company received approximately \$9.5 million. This interest rate swap was tied directly to the \$375 million 9³/₄% senior subordinated notes. The mark-to-market adjustment will be amortized as a reduction of interest expense over the original contract life of the interest rate swap and as of December 31, 2002 the remaining balance of \$9.4 million is included in long-term debt.

The interest rate swaps that the Company entered into qualify for the "shortcut" method allowed under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which allows for an assumption of no ineffectiveness. As such, there is no income statement impact from changes in the fair value of the hedging instruments. Instead, the fair value of the instrument is recorded as an asset or

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liability on the Company's balance sheet with an offsetting adjustment to the carrying value of the related debt. In accordance with SFAS No. 133, the Company recorded assets of \$5.3 million and \$5.5 million as of December 31, 2002 and 2001, respectively, representing the fair value of the interest rate swaps and a corresponding increase in long-term debt, as these interest rate swaps are considered highly effective under the criteria established by SFAS No. 133.

The estimated fair value of the Company's long-term debt at December 31, 2002 was approximately \$1.22 billion, compared to its book value of approximately \$1.15 billion. The estimated fair value amounts were based on quoted market prices on or about December 31, 2002, for the Company's debt securities that are publicly traded. For the Revolving Facility, the fair value approximates the carrying amount of the debt due to the short-term maturities of the individual components of the debt.

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

Years ending December 31,	
2003	\$ 122
2004	
2005	
2006	
2007	177,200
Thereafter	973,669
Total	\$ 1,150,991

8. Commitments and Contingencies

Boulder Station Lease

The Company entered into a ground lease for 27 acres of land on which Boulder Station is located. The Company leases this land from KB Enterprises, a company owned by Frank J. Fertitta, Jr. and Victoria K. Fertitta (the "Related Lessor"), the parents of Frank J. Fertitta III, Chairman of the Board and Chief Executive Officer of the Company and Lorenzo J. Fertitta, President of the Company. The lease has a maximum term of 65 years, ending in June 2058. The lease provides for monthly payments of \$135,525 through June 2003. In July 2003, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing

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annual rate of return for comparably situated property or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. In July 2008, and every ten years thereafter, the rent will be adjusted by a cost of living factor. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals with the next option in June 2003, to purchase the land at fair market value. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the Revolving Facility.

Texas Station Lease

The Company entered into a ground lease for 47 acres of land on which Texas Station is located. The Company leases this land from Texas Gambling Hall & Hotel, Inc., a company owned by the Related Lessor. The lease has a maximum term of 65 years, ending in July 2060. The lease provides for monthly rental payments of \$287,500 through June 2005. In July 2005, and every ten years thereafter, the rent will be adjusted by a cost of living factor. In July 2010, and every ten years thereafter, the rent will be adjusted

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to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return being realized for owners of comparable land in Clark County or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals with the next option in May 2005, to purchase the land at fair market value. The Company's leasehold interest in the property is subject to a lien to secure borrowings under the Revolving Facility.

Sunset Station Lease

In June 1994, the Company entered into a lease agreement for approximately 48 acres of land on which Sunset Station is located. In June 2001, the Company exercised its option to purchase this land for \$23.9 million. The purchase price was funded with borrowings from the Company's Revolving Facility.

Operating Leases

The Company leases several parcels of land, buildings and equipment used in its operations. Leases on various parcels ranging from 13 acres to 47 acres have terms expiring between September 2007 and March 2009. Future minimum lease payments required under these operating leases and other noncancelable operating leases are as follows (amounts in thousands):

Years ending December 31,	
2003	\$ 13,406
2004	13,403
2005	12,029
2006	11,817
2007	11,806
Thereafter	624,462
Total	\$ 686,923

Rent expense totaled approximately \$12.7 million, \$11.8 million and \$10.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Green Valley Ranch Station

Green Valley Ranch Station, located at the intersection of Interstate 215 and Green Valley Parkway in Henderson, Nevada, opened on December 18, 2001. It is owned by a 50/50 joint venture between the Company and GCR Gaming. The Company developed the project on 40 acres of a 170-acre multi-use commercial development. The Company is the managing partner of Green Valley Ranch Station and receives a management fee equal to 2% of the property's revenues and approximately 5% of EBITDA, as defined in the operating agreement. Management fees earned in connection with Green Valley Ranch Station were approximately \$4.6 million and \$0.3 million for the years ended December 31, 2002 and 2001, respectively.

During the third quarter of 2001, the Company completed financing for Green Valley Ranch Station. The financing was completed with a group of banks, and originally provided for borrowings up to \$165.0 million at a margin above the LIBOR rate of up to 250 basis points. The available borrowings have reduced to \$150.3 million as of December 31, 2002. Also during the third quarter of 2001, Green Valley

Ranch Station entered into an agreement to swap the majority of this floating rate to a fixed rate that will approximate 6.9% during the term of the loan. The loan required a completion guaranty and a limited make-well of \$44.0 million, if necessary (based on operating results of the property). Pursuant to the make-well agreement, if Green Valley Ranch Station fails to comply with the Fixed Charge Coverage Ratio or the Leverage Ratio (both as defined in the Green Valley Ranch credit agreement), the partners will be required to make cash equity contributions in such amounts as required, which will result in pro forma compliance with the covenants. Both the completion guaranty and make-well are joint and several obligations of each partner, with GCR Gaming's obligation collateralized. The Company was not required to make any payments related to the completion guaranty. As of December 31, 2002, the Company has contributed approximately \$0.6 million for obligations related to the make-well agreement. The make-well agreement will terminate upon achieving a debt to Adjusted EBITDA (as defined) ratio of less than or equal to 3.00 to 1.00 and producing Adjusted EBITDA before management fees of at least \$42.0 million. As of December 31, 2002, the debt to Adjusted EBITDA ratio was 3.97 to 1.00. The outstanding balance of the Green Valley Ranch Station revolving credit facility as of December 31, 2002, was approximately \$145.3 million. In addition to the bank financing, Green Valley Ranch Station has secured equipment and other financing which had an outstanding balance of approximately \$30.0 million as of December 31, 2002.

On December 31, 2001, Green Valley Ranch Station entered into an interest rate swap that is matched to a portion of its revolving facility, which terminates on December 29, 2006. At December 31, 2002, the notional amount was \$106.5 million, and decreases by varying amounts each quarter until it reaches \$20.0 million on September 29, 2006 through the termination date. In March 2002, Green Valley Ranch Station entered into an additional interest rate swap that terminates on March 28, 2007, and is matched to a portion of its equipment financing. The notional amount of this interest rate swap at December 31, 2002, was \$25.5 million and decreases by \$1.5 million each quarter. The interest rate swaps have converted a portion of Green Valley Ranch Station's floating rate debt to a fixed rate. As of December 31, 2002, Green Valley Ranch Station was paying a weighted average fixed rate of 4.33% on the interest rate swaps and was receiving a weighted average floating rate based on three-month LIBOR of 1.38%. These interest rate swaps were also priced to have no value at inception. As a result of the mark-to-market valuation of the interest rate swaps as of December 31, 2002, the Company recorded approximately \$1.7 million for its share of the Green Valley Ranch Station interest rate swaps in accumulated other comprehensive loss in the Company's consolidated balance sheets.

United Auburn Indian Community

The Company has entered into a Development Services Agreement and a Management Agreement with the United Auburn Indian Community (the "UAIC"). Pursuant to those agreements, and in compliance with a Memorandum of Understanding entered by the UAIC and Placer County, California, the Company and the UAIC are developing Thunder Valley Casino, a gaming and entertainment facility on 49 acres located approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. On September 17, 2002, the United States Department of the Interior accepted the land into trust on behalf of the UAIC. The acceptance of the land into trust followed the decision of the United States District Court for the District of Washington, D.C., dismissing a lawsuit filed by the cities of Roseville and Rocklin, California, and Citizens for Safer Communities, which challenged the United States Department of the Interior's preliminary decision to accept the land into trust. Immediately following the District Court's decision, the plaintiffs appealed the decision to the Washington, D.C. court of appeals and filed an emergency motion for stay of the District Court's decision. The court of appeals denied the

plaintiffs' emergency action. Notwithstanding the denial of the plaintiffs' emergency motion and the acceptance of the land into trust, there can be no assurances that the plaintiffs will not seek other extraordinary remedies and there can be no assurances as to the ultimate outcome of the plaintiffs' pending appeal. The Company's seven-year Management Agreement to manage Thunder Valley Casino was approved by the National Indian Gaming Commission in December 2002. Upon the opening of Thunder Valley Casino, the Company will receive a management fee equal to 24% of the facility's income. The Company will also receive a development fee equal to 2% of the cost of the project. The development fee is payable upon the opening of the facility.

It is anticipated that Thunder Valley Casino will house between 1,256 and 1,906 Class III slot machines and approximately 100 table games, including a private VIP gaming area. The facility will have numerous dining and entertainment amenities, including a center pit bar, three specialty restaurants, a 500-seat buffet, a food court and parking for over 3,000 vehicles. Construction began on October 26, 2002, and the Company anticipates that the casino will open in June 2003 with the remainder of the facility to be completed during the fourth quarter of 2003. The cost of the project is expected to be approximately \$215 million. The Company also assisted the UAIC in obtaining \$142.5 million of financing for the project through a group of lenders, with the Company providing an unlimited completion guaranty and credit support for all amounts outstanding under such financing. Any amounts required under the completion guaranty are recoverable after the facility has opened. The Company and the UAIC are currently working on completing the remainder of the financing; however, to the extent the additional funds cannot be raised through third parties, the Company will fund any shortfall. As of December 31, 2002, the Company had advanced approximately \$34.5 million to the UAIC for the development of Thunder Valley Casino, which is included as a note receivable on the

Company's consolidated balance sheets. Based on the current terms of the credit financing, the Company's advances cannot be repaid prior to the maturity of the credit facility, which is scheduled for January 2009. The Company's advances to the UAIC are subordinated to the credit facility and carry an interest rate of 10%, which will be recorded upon the opening of the facility. As of December 31, 2002, the accrued interest on the Company's advances to the UAIC was approximately \$2.6 million.

Summerlin Land Acquisition

In July 2002, the Company entered into an agreement that gives it the right to acquire approximately 73 acres of land in the Summerlin master-planned community in Las Vegas, Nevada. The land is located on Charleston Boulevard at the Interstate 215/Charleston interchange. The purchase price for the land is approximately \$65 million. The Company exercised its option to purchase the property and made a payment of \$6.4 million in October 2002, which will be fully applicable to the purchase price. The Company anticipates completing the purchase during the second quarter of 2003; however, no assurances can be made that the purchase will actually be completed.

9. Stockholders' Equity

Common Stock

The Company is authorized to issue up to 135 million shares of its common stock, \$0.01 par value per share, 66,689,773 shares of which were issued and 8,730,872 shares were held in treasury as of December 31, 2002. Each holder of the common stock is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of the common stock have no cumulative voting, conversion, redemption or preemptive rights or other rights to subscribe for additional shares other than pursuant to the Rights Plan described below. Subject to any preferences that may be granted to the holders of the Company's preferred stock, each holder of common stock is entitled to receive ratably, such dividends as may be declared by the Board of Directors out of funds legally available therefore, as well as any distributions to the stockholders and, in the event of liquidation, dissolution or winding up of the Company, is entitled to share ratably in all assets of the Company remaining after payment of liabilities.

Preferred Stock

The Company is authorized to issue up to 5 million shares of its preferred stock, \$0.01 par value per share of which none were issued. The Board of Directors, without further action by the holders of common stock, may issue shares of preferred stock in one or more series and may fix or alter the rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of preferred stock. Except as described above, the Board of Directors, without further stockholder approval, may issue shares of preferred stock with rights that could adversely affect the rights of the holders of common stock. The issuance of shares of preferred stock under certain circumstances could have the effect of delaying or preventing a change of control of the Company or other corporate action.

Treasury Stock

The Company is authorized to repurchase up to approximately 19.5 million shares of its common stock. During the year ended December 31, 2002, the Company repurchased approximately 743,000 shares of its common stock for approximately \$10.2 million. As of December 31, 2002, the Company had acquired approximately 8.7 million shares at a cost of approximately \$109.5 million.

In July 2000, the Company entered into an equity forward contract that allowed for shares of its common stock to be purchased by a financial institution and held on its behalf. In January 2001, the Company closed out the contract and purchased 3.2 million shares for approximately \$46.0 million. On September 30, 2001, the Company acquired approximately 1.0 million shares of its common stock at a cost of \$8.4 million as a result of the sale of Southwest Gaming.

Put Warrants

During 2000, the Company sold put warrants on 2.2 million shares of its common stock. One of the contracts for 1.1 million shares expired on its own terms and the premium received at the inception of the contract was recorded in additional paid-in capital on the Company's consolidated balance sheets. The other contract for 1.1 million shares in 2000 was extended and ultimately settled in cash later in 2000. The net cash obtained from the premiums received at inception and the extension, net of the cash paid to settle the contract, was approximately \$2.1 million and was recorded in additional paid-in capital.

In 2001, the Company sold put warrants on a total of 215,000 shares of its common stock and later in 2001, upon exercise of the put warrants on their respective maturity dates, purchased the shares for \$2.6 million. The purchase of the put warrants is included in treasury stock on the Company's consolidated balance sheets.

The put warrants that were issued in 2000 and 2001 were European style options, which contained maturities of either three or six months. The contracts did not require the Company to deliver registered shares or to post any collateral. The Company was paid a put premium on each put warrant that was issued. All of the put contracts gave the Company the option of a net-cash settlement or settlement in its own shares (either physical settlement or net-share settlement) and were recorded as equity instruments, therefore, no gains or losses were recorded in the Company's consolidated financial statements.

Other Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income", requires companies to disclose other comprehensive income and the components of such income. Comprehensive income is the total of net income and all other non-stockholder changes in equity. For the year ended December 31, 2002, the Company recorded its 50% interest in the mark-to-market valuation of the interest rate swaps at Green Valley Ranch Station as other comprehensive loss. Comprehensive income was computed as follows (amounts in thousands):

	For the years ended December 31,		
	2002	2001	2000
Net income	\$ 17,932	\$ 19,369	\$ 93,505
Mark-to-market valuation of interest rate swaps	(1,695)		
Comprehensive income	\$ 16,237	\$ 19,369	\$ 93,505

Rights Plan

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

The Rights will expire on October 21, 2007. Acquiring Persons do not have the same rights to receive common stock as other holders upon exercise of the Rights. Because of the nature of the Preferred Shares' dividend, liquidation and voting rights, the value of one one-hundredth interest in a Preferred Share purchasable upon exercise of each Right should approximate the value of one common share. In the event

that any person or group of affiliated or associated persons becomes an Acquiring Person, the proper provisions will be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter become void), will thereafter have the right to receive upon exercise that number of shares of common stock having a market value of two times the exercise price of the Right. In the event that the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold after a person or group has become an Acquiring Person, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon exercise thereof, that number of shares of common stock of the acquiring company, which at the time of such transaction will have a market value of two times the exercise price of the Right. Because of the characteristics of the Rights in connection with

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a person or group of affiliated or associated persons becoming an Acquiring Person, the Rights may have the effect of making an acquisition of the Company more difficult and may discourage such an acquisition.

10. Benefit Plans

Stock Compensation Programs

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

A maximum of 18,710,500 shares of common stock has been reserved for issuance under the Programs. Options are granted at the current market price at the date of grant. The plan provides for a variety of vesting schedules, including immediate, 20% per year for five years, 10% per year for 10 years, and a cliff vest at the vesting date, to be determined at the time of grant. Generally, all options expire 10 years from the date of grant.

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The Programs will terminate 10 years from the date of adoption, unless terminated earlier by the Board of Directors, and no options or restricted shares may be granted under the Programs after such date. Summarized information for the Programs is as follows:

	For the years ended December 31,					
	2002		2001		2000	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of the year	14,637,783	\$ 10.22	10,765,592	\$ 9.91	9,908,493	\$ 9.01
Granted	1,649,500	\$ 13.70	4,298,000	\$ 11.02	1,820,250	\$ 13.93
Exercised	(1,079,667)	\$ 8.46	(132,638)	\$ 6.10	(277,884)	\$ 6.18
Canceled	(1,674,072)	\$ 13.07	(293,171)	\$ 12.64	(685,267)	\$ 8.93
Outstanding at end of the year	13,533,544	\$ 10.59	14,637,783	\$ 10.22	10,765,592	\$ 9.91
Exercisable at end of year	7,133,595	\$ 9.05	7,655,597	\$ 9.64	6,479,932	\$ 9.82
Options available for grant	1,497,825		510,811		5,808,296	

The following table summarizes information about the options outstanding at December 31, 2002:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at	Weighted average remaining	Weighted average exercise	Number exercisable at	Weighted average exercise

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Options outstanding					Options exercisable		
		December 31, 2002	contractual life	price	December 31, 2002		price
\$ 3.29	\$ 5.44	2,476,636	5.3	\$ 5.09	2,202,136	\$ 5.09	
\$ 5.45	\$10.89	5,376,461	5.7	\$ 9.09	3,432,461	\$ 9.39	
\$10.90	\$14.52	2,952,250	7.2	\$ 13.63	900,650	\$ 13.26	
\$14.53	\$18.15	2,728,197	8.6	\$ 15.25	598,348	\$ 15.35	
		13,533,544	6.6	\$ 10.59	7,133,595	\$ 9.05	

Restricted stock grants of 50,000, 1,297,800 and 6,000 shares were issued under the Programs during the years ended December 31, 2002, 2001 and 2000, respectively. The effect of these grants is to increase the issued and outstanding shares of the Company's common stock and decrease the number of shares available for grant in the plan. Deferred compensation is recorded for the restricted stock grants equal to the market value of the Company's common stock on the date of grant. The deferred compensation is amortized over the period the restricted stock vests and is recorded as compensation expense in the accompanying consolidated statements of operations. In addition, the Company issued 219,138 shares of restricted stock in 2001 to three of its executive officers in accordance with a Long-Term Stay-On Performance Incentive Plan.

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The fair value on the grant date of the restricted shares and the amount of compensation expense recognized in connection with the restricted shares is as follows (amounts in thousands):

	For the years ended December 31,		
	2002	2001	2000
Fair value on grant date	\$ 695	\$ 18,044	\$ 85
Compensation expense	2,973	1,480	751

401(k) Plan

The Company has a defined contribution 401(k) plan, which covers all employees who meet certain age and length of service requirements and allows an employer contribution up to 50% of the first 4% of each participating employee's compensation. Plan participants can elect to defer before tax compensation through payroll deductions. These deferrals are regulated under Section 401(k) of the Internal Revenue Code. The Company's matching contribution was approximately \$1.7 million, \$1.7 million and \$2.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

11. Executive Compensation Plans

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

12. Income Taxes

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

For the years ended December 31,		
2002	2001	2000

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	For the years ended December 31,		
Income tax provision from continuing operations	\$ (18,508)	\$ (11,094)	\$ (53,804)
Tax benefit from change in accounting principle	7,170		
Total income taxes.	\$ (11,338)	\$ (11,094)	\$ (53,804)

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

	For the years ended December 31,		
	2002	2001	2000
Current	\$ 372	\$ 108	\$ (22,266)
Deferred	(18,880)	(11,202)	(31,538)
Total income taxes	\$ (18,508)	\$ (11,094)	\$ (53,804)

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

	For the years ended December 31,		
	2002	2001	2000
Federal statutory rate	35.0%	35.0%	35.0%
Lobbying and political	0.7	0.7	0.3
Meals and entertainment	0.6	2.2	0.6
Credits earned, net	(1.7)	(1.8)	(0.3)
Sale of subsidiary		(1.5)	
Nondeductible officers compensation	2.8	0.2	0.1
Other, net	1.3	1.6	0.8
Effective tax rate	38.7%	36.4%	36.5%

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

	December 31,	
	2002	2001
Deferred tax assets:		
Current:		
Accrued vacation, bonuses and group insurance	\$ 4,120	\$ 5,101
Prepaid gaming taxes	(4,484)	(4,621)
Other	4,211	3,782

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	December 31,	
	_____	_____
Total current	3,847	4,262
Long-term:		
Preopening and other costs, net of amortization	4,736	3,248
Accrued benefits	8,367	7,612
FICA credits	1,268	827
Alternative minimum tax credits	22,638	18,221
Other	1,720	
Total long-term	38,729	29,908
Total deferred tax assets	42,576	34,170
Deferred tax liabilities:		
Long-term:		
Temporary differences related to property and equipment	(87,637)	(66,991)
Other	(3,869)	(3,370)
Total deferred tax liabilities	(91,506)	(70,361)
Net	\$ (48,930)	\$ (36,191)

The excess of the alternative minimum tax over the regular federal income tax is a tax credit, which can be carried forward indefinitely to reduce future regular federal income tax liabilities. The Company did not record a valuation allowance at December 31, 2002 or 2001 relating to recorded tax benefits because all benefits are more likely than not to be realized.

13. Legal Matters

The Company and its subsidiaries are defendants in various lawsuits relating to routine matters incidental to their business. As with all litigation, no assurance can be provided as to the outcome of the following matters and litigation inherently involves significant costs.

Poulos/Ahearn Case

On April 26, 1994, a suit seeking status as a class action lawsuit was filed by plaintiff, William H. Poulos, et al., as class representative, in the United States District Court, Middle District of Florida, naming 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Station Casinos. On May 10, 1994, a lawsuit alleging substantially identical claims was filed by another plaintiff, William Ahearn, et al., as class representative, in the United States District Court,

Middle District of Florida, against 48 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Station Casinos and most of the other major hotel/casino companies. The lawsuits allege that the defendants have engaged in a course of fraudulent and misleading conduct intended to induce persons to play such games based on a false belief concerning how the gaming machines operate, as well as the extent to which there is an opportunity to win. The two lawsuits have been consolidated into a single action, and have been transferred to the United States District Court for the District of Nevada (the "Nevada District Court"). On September 26, 1995, a lawsuit alleging substantially identical claims was filed by plaintiff, Larry Schreier, et al., as class representative, in the Nevada District Court, naming 45 manufacturers, distributors, and casino operators of video poker and electronic slot machines, including the Company. Motions to dismiss the Poulos/Ahearn and Schreier cases were filed by defendants. On April 17, 1996, the Poulos/Ahearn lawsuits were dismissed, but plaintiffs were given leave to file Amended Complaints on or before May 31, 1996. On May 31, 1996, an Amended Complaint was filed, naming William H. Poulos, et al., as plaintiff. Defendants filed a motion to dismiss. On August 15, 1996, the Schreier lawsuit was dismissed with leave to amend.

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On September 27, 1996, Schreier filed an Amended Complaint. Defendants filed motions to dismiss the Amended Complaint. In December 1996, the Court consolidated the Poulos/Ahearn, the Schreier, and a third case not involving the Company and ordered all pending motions be deemed withdrawn without prejudice, including Defendants' Motions to Dismiss the Amended Complaints. The plaintiffs filed a Consolidated Amended Complaint on February 13, 1997. On or about December 19, 1997, the Court issued formal opinions granting in part and denying in part the defendants' motion to dismiss. In so doing, the Court ordered plaintiffs to file an amended complaint in accordance with the Court's orders in January of 1998. Accordingly, plaintiffs amended their complaint and filed it with the Nevada District Court in February 1998. The Company and all other defendants continue to deny the allegations contained in the amended complaint filed on behalf of plaintiffs. The plaintiffs are seeking compensatory, special, consequential, incidental, and punitive damages in unspecified amounts. On June 25, 2002, the Nevada District Court denied plaintiffs' motion for class certification. On July 11, 2002, plaintiffs filed a petition for permission to appeal such class certification ruling with the United States Court of Appeals for the Ninth Circuit. On August 15, 2002, the Ninth Circuit granted plaintiffs' petition for permission to appeal such class certification ruling. While no assurances can be made with respect to any litigation, the Company believes that the plaintiffs' claims are without merit and does not expect that the lawsuits will have a material adverse effect on the Company's financial position or results of operations.

Fitzgerald's Sugar Creek, Inc. v. Kansas City Station Corp., et al.

On December 20, 2000, the Company and Kansas City Station Corporation were named as defendants in an action styled *Fitzgerald Sugar Creek, Inc. v. Kansas City Station Corp., et al.*, No. 00CV230480 (Circuit Court of Jackson County, Missouri). The plaintiff alleges that the defendants are liable for unspecified actual and punitive damages and other relief, based on alleged tortious interference with the plaintiff's business expectancy of receiving a Missouri gaming license in the Kansas City metropolitan area. The allegations of the petition appear to be based on the same issues involved in the investigation by the Missouri Gaming Commission related to activities of Michael Lazaroff, an attorney who formerly represented the Company in Missouri. The plaintiff also alleged claims based on fraudulent concealment and civil conspiracy. The Company and its subsidiary responded to this lawsuit on January 19, 2001 and moved to remove the case to bankruptcy court in Nevada. On March 29, 2001, the United States Bankruptcy Court for the Western District of Missouri remanded the case to the Circuit Court of Jackson County, Missouri. On April 19, 2001, defendants filed a motion to dismiss plaintiff's petition. On

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August 10, 2001, the Circuit Court (1) granted that motion to dismiss as to the civil conspiracy claim, and (2) denied that motion to dismiss as to the tortious interference with business expectancy and fraudulent concealment claims. On November 21, 2001, Philip Griffith and the City of Sugar Creek, Missouri (the "City") were added as plaintiffs in this case. The new plaintiffs also allege claims for tortious interference with business expectancy and fraudulent concealment. On December 17, 2001, defendants filed a motion to dismiss all of Griffith's and the City's claims. On March 15, 2002, the Circuit Court denied that motion to dismiss in its entirety. While no assurances can be made with respect to any litigation, the Company believes that the plaintiff's claims are without merit and does not expect that the lawsuit will have a material adverse effect on the Company's financial position or results of operations.

Harrah's Litigation

On July 13, 2001, the Company and five of its major operating subsidiaries were named as defendants in a lawsuit brought by Harrah's Entertainment, Inc. and Harrah's Operating Company, Inc. in the United States District Court, District of Nevada (CV-S-01-0825-PMP-RJJ). The plaintiffs allege that the Company and its subsidiaries are liable for unspecified actual and punitive damages, and they seek injunctive and other relief, based on allegations that the Company's "Boarding Pass Rewards Program" infringes on various patents held by the plaintiffs. On October 5, 2001, the Company and the subsidiaries filed their answer and counterclaim. On April 4, 2002, plaintiffs filed an amended complaint, which added an affiliate of the Company as an additional defendant. On April 22, 2002, the Company and its subsidiaries and affiliate filed their amended answer and counterclaim. The amended counterclaim seeks a declaratory judgment that plaintiffs' patents (1) are not infringed by the Company's and the subsidiaries' actions, (2) are invalid under federal patent law, and (3) are rendered unenforceable due to plaintiffs' inequitable conduct. In January 2003, both the Company and plaintiffs filed motions for summary judgment. The District Court, however, has yet to rule on those motions. While no assurances can be made with respect to any litigation, the Company believes that the plaintiffs' claims are without merit and does not expect that the lawsuit will have a material adverse effect on its financial position or results of operations.

14. Subsequent Event

Wildfire Casino

The Company purchased the Wildfire Casino in January 2003 for \$8.0 million, which was funded with borrowings from the Revolving Facility. The Wildfire Casino is located on Rancho Road in Las Vegas, across from Texas Station. The 20,000 square-foot facility features 170 slot machines, six table games, a sports book, lounge, outdoor patio and a full-service restaurant.

15. Quarterly Financial Information (Unaudited)

	Net revenues	Operating income	Income before income taxes and change in accounting principle	Net income (loss) applicable to common stock	Diluted earnings (loss) per common share
(amounts in thousands, except per share amounts)					
Year ended December 31, 2002					
First quarter (a)	\$ 202,067	\$ 43,285	\$ 20,728	\$ (257)	\$ (0.00)
Second quarter (b)	197,481	35,420	12,664	7,978	0.13
Third quarter (c)	191,710	33,586	9,001	5,671	0.09
Fourth quarter (d)	201,607	33,619	7,363	4,540	0.07
Year ended December 31, 2001					
First quarter (e)	\$ 209,225	\$ 41,135	\$ 10,266	\$ 6,505	\$ 0.11
Second quarter (f)	212,560	36,258	6,046	3,807	0.06
Third quarter (g)	212,233	30,325	7,179	4,595	0.08
Fourth quarter (h)	202,839	30,617	6,972	4,462	0.07

- (a) Includes a cumulative effect of change in accounting principle, net of applicable income tax benefit, of approximately \$13.3 million, related to the goodwill acquired at Fiesta Rancho as a result of the adoption of SFAS No. 142 (see *Goodwill and Other Intangibles* in Note 1).
- (b) Includes an impairment loss of approximately \$3.9 million related to the write-down of certain assets related to investments in an Internet, intra-state gaming platform and related technology (see Note 6).
- (c) Includes a loss on early retirement of debt of approximately \$1.4 million, which was the result of the retirement and subsequent replacement of the revolving credit facility in September 2002 (see Note 7).
- (d) Includes a loss on early retirement of debt of approximately \$4.4 million, which was the result of the redemption of the \$150 million 9³/₄% senior subordinated notes in October 2002 (see Note 7). Also includes an impairment loss of approximately \$4.9 million related to the write-off of our option to invest in the Internet wagering business with Kerzner Interactive (see Note 6).
- (e) Includes preopening expenses of approximately \$1.0 million, which were costs incurred prior to the acquisitions of Fiesta Rancho and Fiesta Henderson and costs incurred prior to the opening of Green Valley Ranch Station. Also includes a loss on early retirement of debt of approximately \$6.5 million, which was related to the redemption of \$100.0 million of the \$198.0 million 10¹/₈% senior subordinated notes (see Note 7).
- (f) Includes preopening expenses of approximately \$0.2 million, which were costs incurred prior to the opening of Green Valley Ranch Station, an impairment loss of approximately \$4.0 million with respect to a 34-acre parcel, near the intersection of Martin Luther King Jr. Drive and Craig Road in North Las Vegas (see Note 6), and a loss on the early retirement of debt of approximately \$6.2 million, which was related to the redemption of the remaining \$98.0 million of the \$198.0 million 10¹/₈% senior subordinated notes (see Note 7).
- (g) Includes preopening expenses of approximately \$0.8 million, which were costs incurred prior to the opening of Green Valley Ranch

Station and a gain on the sale of Southwest Gaming of approximately \$1.7 million (see *Basis of Presentation and Organization* in Note 1).

- (h) Includes preopening expenses of approximately \$4.4 million, which were costs incurred prior to the opening of Green Valley Ranch Station.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As we previously disclosed in our current report on Form 8-K dated May 22, 2002, which we filed with the SEC on May 23, 2002, we dismissed Arthur Andersen LLP as our independent public accountants and appointed Deloitte & Touche LLP to serve as our independent auditors for 2002.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is incorporated by reference the information appearing in the section entitled "Directors and Executive Officers" in the Registrant's definitive Proxy Statement to be made publicly available with the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

There is incorporated by reference the information appearing in the section entitled "Executive Compensation" in the Registrant's definitive Proxy Statement to be made publicly available with the Securities and Exchange Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is incorporated by reference the information appearing in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's definitive Proxy Statement to be made publicly available with the Securities and Exchange Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is incorporated by reference the information appearing in the sections entitled "Certain Relationships and Related Transactions" in the Registrant's definitive Proxy Statement to be made publicly available with the Securities and Exchange Commission.

ITEM 14. CONTROLS AND PROCEDURES

- (a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90-day period prior to the date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at ensuring that required information relating to the Company will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in Internal Controls

We maintain a system of internal controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the year ended December 31, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES

There is incorporated by reference the information appearing in the section entitled "Fees Paid to Independent Public Accountants" in the Registrant's definitive Proxy Statement to be made publicly available with the Securities and Exchange Commission.

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PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements (including related notes to Consolidated Financial Statements) filed in Part II of this report are listed below:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2002 and 2001

Years Ended December 31, 2002, 2001 and 2000

Consolidated Statements of Operations

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. None

3. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant. (Incorporated herein by reference to Registration Statement No. 33-76156)
3.2	Restated Bylaws of the Registrant. (Incorporated herein by reference to Registration Statement No. 33-76156)
4.1	Form of Senior Notes of the Registrant (2001 Issue). (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2000)

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Exhibit Number	Description
4.2	Indenture dated as of February 13, 2001 between Registrant and Bank of New York as Trustee. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2000)
4.3	Form of Subordinated Note of the Registrant (2000 issue). (Incorporated herein by reference to the Company's Registration Statement on Form S-4 dated October 30, 2000)
4.4	Indenture dated as of July 7, 2000 between the Registrant and First Union National Bank as Trustee. (Incorporated herein by reference to the Company's Registration Statement on Form S-4 dated October 30, 2000)
4.5	Form of Subordinated Note of the Registrant (1998 Issue). (Incorporated herein by reference to the Company's Registration Statement on Form S-4 dated January 27, 1999)
4.6	Indenture dated as of December 3, 1998 between the Registrant and First Union National Bank as Trustee. (Incorporated herein by reference to the Company's Registration Statement on Form S-4 dated January 27, 1999)
4.7	First Supplemental Indenture dated as of August 10, 2000 between the Registrant and First Union National Bank as Trustee, with respect to the Indenture dated as of December 3, 1998. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2000)
4.8	Second Supplemental Indenture dated as of June 26, 2001 between the Registrant and First Union National Bank as Trustee, with respect to the Indenture dated as of December 3, 1998.
4.9	Amended and Restated Loan Agreement dated as of September 18, 2002. (Incorporated herein by reference to the Company's Form 8-K dated September 18, 2002)
4.10	Amendment No. 1 to Amended and Restated Loan Agreement dated as of January 24, 2003.
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4.11	Rights Agreement dated October 6, 1997 between the Company and Continental Stock Transfer and Trust Company, as Rights Agent. (Incorporated herein by reference to the Company's Form 8-K dated October 9, 1997)
4.12	Amendment to Rights Agreement, dated as of January 16, 1998, between Station Casinos, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent. (Incorporated herein by reference to the Company's Form 8-K dated January 27, 1998)
4.13	Amendment No. 2 to Rights Agreement, dated as of December 1, 1998, between Station Casinos, Inc. and Continental Stock Transfer & Trust Company, as Rights Agent. (Incorporated herein by reference to the Company's Form 8-K dated November 6, 1998)
4.14	Reducing Revolving Loan Agreement by Green Valley Ranch Gaming, Bank of America, N.A., as Administrative Agent, LLC, Bankers Trust Company and The Bank of Scotland, as Co-Agents and Lehman Commercial Paper, Inc., as Documentation Agent, dated as of September 18, 2001. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001)
4.15	Completion Guaranty by Station Casinos, Inc., GCR Gaming, LLC, and GV Ranch Station, Inc., a wholly owned subsidiary of the Registrant, and Bank of America, N.A., as Administrative Agent, dated as of September 18, 2001. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001)
4.16	Make-Well Agreement by Station Casinos, Inc., GCR Gaming, LLC, and GV Ranch Station, Inc., a wholly owned subsidiary of the Registrant, and Bank of America, N.A., as Administrative Agent, dated as of September 18, 2001. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001)
4.17	Loan Agreement among the United Auburn Indian Community, as Borrower, Bank of America, N.A., as Administrative Agent and Wells Fargo Bank, N.A., as Syndication Agent, dated as of January 24, 2003.

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- 4.18 Completion Guaranty by Station Casinos, Inc. in favor of Bank of America, N.A., as Administrative Agent for the benefit of the Creditors under the Loan Agreement among the United Auburn Indian Community, as Borrower, Bank of America, N.A., as Administrative Agent and Wells Fargo Bank, N.A., as Syndication Agent, dated as of January 24, 2003.
- 4.19 Make-Well Agreement by Station Casinos, Inc. in favor of Bank of America, N.A., as Administrative Agent for the benefit of the Creditors under the Loan Agreement among the United Auburn Indian Community, as Borrower, Bank of America, N.A., as Administrative Agent and Wells Fargo Bank, N.A., as Syndication Agent, dated as of January 24, 2003.
- 10.1 Lease dated as of December 17, 1974 between Teddy Rich Enterprises and Townefood, Inc. (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)
- 10.2 Lease dated as of May 8, 1973 between Teddy Rich Enterprises and Mini-Price Motor Inn, Inc., including Addendum dated May 8, 1973; Lease Addendum dated June 10, 1974 amending lease dated May 8, 1973 between Teddy Rich Enterprises and Mini-Price Motor Inn, Inc. (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)
- 10.3 First Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel & Casino, Inc. and Flamingo Associates, Inc. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.4 Second Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel Casino, Inc. and Flamingo Associates, Inc. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.5 Lease dated as of February 16, 1976 between Richfield Development Co. and Mini-Price Motor Inn. (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)

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- 10.6 First Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel & Casino, Inc. and Richfield Development Co. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.7 Second Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel & Casino, Inc. and Richfield Development Co. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.8 Lease dated as of September 6, 1977 between Richard Tam and Mini-Price Motor Inn Joint Venture (Parcel B1). (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)
- 10.9 Lease dated as of September 6, 1977 between Richard Tam and Mini-Price Motor Inn Joint Venture (Parcel B2). (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)
- 10.10 First Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel & Casino, Inc. and Richard Tam. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.11 Second Amendment to Lease (With Option) dated as of April 1, 1999 between Palace Station Hotel & Casino, Inc. and Richard Tam. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1999)
- 10.12 Ground Lease between Boulder Station, Inc. and KB Enterprises dated as of June 1, 1993. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1993)
- 10.13 Option to Lease or Purchase dated as of June 1, 1993 between Boulder Station, Inc. and KB Enterprises. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1993)
- 10.14 Option to Acquire Interest Under Purchase Contract dated as of June 1, 1993 between Boulder Station, Inc. and KB Enterprises. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended June 30,

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- 10.15 First Amendment to Ground Lease and Sublease, dated as of June 30, 1995, by and between KB Enterprises, as landlord and Boulder Station, Inc. (Incorporated herein by reference to the Company's Form 8-K dated July 5, 1995)
- 10.16 Ground Lease between Registrant and Texas Gambling Hall & Hotel, Inc. dated as of June 1, 1995. (Incorporated herein by reference to the Company's Form 8-K dated July 5, 1995)
- 10.17 First Amendment to Ground Lease dated as of June 30, 1995 between Registrant and Texas Gambling Hall & Hotel, Inc. (Incorporated herein by reference to the Company's Form 8-K dated July 5, 1995)
- 10.18 Assignment, Assumption and Consent Agreement (Ground Lease) dated as of July 6, 1995 between Registrant and Texas Station, Inc. (Incorporated herein by reference to the Company's Form 8-K dated July 5, 1995)
- 10.19 Executive Employment Agreement between Frank J. Fertitta III and the Registrant dated as of December 1, 1999. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 1999)
- 10.20 First Amendment to Executive Employment Agreement between Frank J. Fertitta III and the Registrant dated as of October 1, 2001. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)
- 10.21 Executive Employment Agreement between Glenn C. Christenson and the Registrant dated as of December 1, 1999. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 1999)

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- 10.22 First Amendment to Executive Employment Agreement between Glenn C. Christenson and the Registrant dated as of October 1, 2001. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)
- 10.23 Executive Employment Agreement between Scott M Nielson and the Registrant dated as of December 1, 1999. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 1999)
- 10.24 First Amendment to Executive Employment Agreement between Scott M Nielson and the Registrant dated as of October 1, 2001. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)
- 10.25 Amended Executive Employment Agreement between Lorenzo J. Fertitta and the Registrant dated as of December 17, 2001. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)
- 10.26 Executive Employment Agreement between Stephen L. Cavallaro and the Registrant dated as of June 19, 2001. (Incorporated herein by reference to the Company's Registration Statement on Form S-4 dated July 30, 2001)
- 10.27 Amended and Restated Stock Compensation Program of the Registrant dated as of May 24, 1999. (Incorporated herein by reference to the Company's Form S-8 filed as of June 17, 1999)
- 10.28 1999 Stock Compensation Program of the Registrant dated as of December 7, 1999. (Incorporated herein by reference to the Company's Form S-8 filed as of June 30, 2000)
- 10.29 Supplemental Executive Retirement Plan of the Registrant dated as of November 30, 1994. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1994)
- 10.30 Supplemental Management Retirement Plan of the Registrant dated as of November 30, 1994. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1994)
- 10.31 Long-Term Stay-On Performance Incentive Payment between the Registrant and Lorenzo J. Fertitta dated as of March 15, 2002. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)

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- 10.32 Long-Term Stay-On Performance Incentive Payment between the Registrant and Stephen L. Cavallaro dated as of March 15, 2002. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2001)
- 10.33 Long-Term Stay-On Performance Incentive Plan between the Registrant and Glenn C. Christenson, Scott M Nielson and Blake L. Sartini. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1994)
- 10.34 Amended and Restated Deferred Compensation Plan of the Registrant dated as of September 12, 2001. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001)
- 10.35 First Amendment to the Amended and Restated Deferred Compensation Plan dated as of December 4, 2002.
- 10.36 Special Long-Term Disability Plan of the Registrant dated as of November 30, 1994. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1994)
- 10.37 Form of Indemnification Agreement for Directors and Executive Officers. (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)
- 10.38 Form of Indemnification Agreement between the Registrant and Frank Fertitta, Jr. (Incorporated herein by reference to the Company's Registration Statement No. 33-59302)

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- 10.39 Operating Agreement dated March 10, 2000, among Green Valley Ranch Gaming, LLC, GCR Gaming, LLC and GV Ranch Station, Inc., a wholly owned subsidiary of the Registrant. (Incorporated herein by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 1999)
- 10.40 First Amendment to Operating Agreement dated March 10, 2000, among Green Valley Ranch Gaming, LLC, GCR Gaming, LLC and GV Ranch Station, Inc., a wholly owned subsidiary of the Registrant, dated as of September 17, 2001. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001)
- 10.41 Second Amended and Restated Management Agreement between the Registrant and the United Auburn Indian Community dated as of November 1, 2002.
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Deloitte & Touche LLP
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8K None

(c) None

(d) None

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SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STATION CASINOS, INC.

Dated: March 31, 2003

By: /s/ FRANK J. FERTITTA III

Frank J. Fertitta III
*Chairman of the Board and Chief Executive
 Officer (Principal Executive Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u> /s/ FRANK J. FERTITTA III </u> Frank J. Fertitta III	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 31, 2003
<u> /s/ LORENZO J. FERTITTA </u> Lorenzo J. Fertitta	President and Director	March 31, 2003
<u> /s/ GLENN C. CHRISTENSON </u> Glenn C. Christenson	Executive Vice President, Chief Financial Officer, Chief Administrative Officer, Treasurer and Director (Principal Financial and Accounting Officer)	March 31, 2003
<u> /s/ BLAKE L. SARTINI </u> Blake L. Sartini	Director	March 31, 2003
<u> /s/ DELISE F. SARTINI </u> Delise F. Sartini	Director	March 31, 2003
<u> /s/ LOWELL H. LEBERMANN, JR. </u> Lowell H. Lebermann, Jr.	Director	March 31, 2003
<u> /s/ JAMES E. NAVE </u> James E. Nave	Director	March 31, 2003
<u> /s/ TIMOTHY N. POSTER </u> Timothy N. Poster	Director	March 31, 2003

CERTIFICATION

I, Frank J. Fertitta III, certify that:

1.

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I have reviewed this annual report on Form 10-K of Station Casinos, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ FRANK J. FERTITTA III

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

CERTIFICATION

I, Glenn C. Christenson, certify that:

1. I have reviewed this annual report on Form 10-K of Station Casinos, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6.

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The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ GLENN C. CHRISTENSON

Glenn C. Christenson
*Executive Vice President,
Chief Financial Officer and
Chief Administrative Officer
(Principal Accounting Officer)*

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