

Pinnacle Entertainment, Inc.  
Form 10-Q  
November 14, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

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: 001-37666

PINNACLE ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware

47-4668380

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3980 Howard Hughes Parkway

Las Vegas, NV 89169

(Address of principal executive offices) (Zip Code)

(702) 541-7777

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of the close of business on November 9, 2016, the number of outstanding shares of the registrant's common stock was 55,657,112.

PINNACLE ENTERTAINMENT, INC.

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EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT



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## PART I

## Item 1. Financial Statements

## PINNACLE ENTERTAINMENT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(amounts in thousands, except per share data)

|  | For the three months<br>ended September 30, |           | For the nine months<br>ended September 30, |             |
|--|---|-----------|--|-------------|
|  | 2016  | 2015      | 2016                                       | 2015        |
| Revenues:  |   |           |  |             |
| Gaming   | \$530,097                                   | \$513,680 | \$1,556,636                                | \$1,547,353 |
| Food and beverage  | 32,160                                      | 31,764    | 93,901                                     | 95,224      |
| Lodging  | 14,490                                      | 14,860    | 38,871                                     | 39,488      |
| Retail, entertainment and other                                | 18,427                                      | 18,326    | 52,023                                     | 51,364      |
| Total revenues   | 595,174                                     | 578,630   | 1,741,431                                  | 1,733,429   |
| Expenses and other costs:                                      |   |           |  |             |
| Gaming   | 288,389                                     | 276,758   | 822,181                                    | 823,603     |
| Food and beverage  | 31,175                                      | 30,685    | 89,267                                     | 88,836      |
| Lodging  | 6,893                                       | 7,277     | 18,676                                     | 19,408      |
| Retail, entertainment and other                                | 7,899                                       | 8,794     | 19,299                                     | 22,034      |
| General and administrative                                     | 108,999                                     | 109,414   | 340,867                                    | 318,790     |
| Depreciation and amortization                                  | 54,354                                      | 57,584    | 162,423                                    | 187,290     |
| Pre-opening, development and other costs                       | 5,594                                       | 4,037     | 54,951                                     | 11,712      |
| Impairment of goodwill   | (11,600 )                                   | 1,438     | 321,300                                    | 4,757       |
| Impairment of other intangible assets                          | —   | 879       | 129,500                                    | 5,845       |
| Write-downs, reserves and recoveries, net                      | 6,190                                       | 847       | 13,830                                     | (4,047 )    |
| Total expenses and other costs                                 | 497,893                                     | 497,713   | 1,972,294                                  | 1,478,228   |
| Operating income (loss)  | 97,281                                      | 80,917    | (230,863 )                                 | 255,201     |
| Interest expense, net  | (94,276 )                                   | (65,027 ) | (239,116 )                                 | (186,105 )  |
| Loss on early extinguishment of debt                           | —   | —         | (5,207 )                                   | —           |
| Loss from equity method investment                             | —   | —         | (90 )                                      | (83 )       |
| Income (loss) from continuing operations before income taxes   | 3,005                                       | 15,890    | (475,276 )                                 | 69,013      |
| Income tax benefit (expense)                                   | (3,537 )                                    | (2,422 )  | 26,435                                     | (12,673 )   |
| Income (loss) from continuing operations                       | (532 )                                      | 13,468    | (448,841 )                                 | 56,340      |
| Income from discontinued operations, net of income taxes       | 37  | 272       | 433  | 5,188       |
| Net income (loss)  | (495 )                                      | 13,740    | (448,408 )                                 | 61,528      |
| Net loss attributable to non-controlling interest              | (9 )  | (9 )      | (24 )                                      | (1,271 )    |
| Net income (loss) attributable to Pinnacle Entertainment, Inc. | \$(486 )                                    | \$13,749  | \$(448,384 )                               | \$62,799    |
| Net income (loss) per common share—basic                       |   |           |  |             |
| Income (loss) from continuing operations                       | \$(0.01 )                                   | \$0.22    | \$(7.52 )                                  | \$0.94      |
| Income from discontinued operations, net of income taxes       | 0.00  | 0.00      | 0.01                                       | 0.09        |
| Net income (loss) per common share—basic                       | \$(0.01 )                                   | \$0.22    | \$(7.51 )                                  | \$1.03      |
| Net income (loss) per common share—diluted                     |   |           |  |             |
| Income (loss) from continuing operations                       | \$(0.01 )                                   | \$0.22    | \$(7.52 )                                  | \$0.91      |
| Income from discontinued operations, net of income taxes       | 0.00  | 0.00      | 0.01                                       | 0.08        |
| Net income (loss) per common share—diluted                     | \$(0.01 )                                   | \$0.22    | \$(7.51 )                                  | \$0.99      |
| Number of shares—basic   | 57,004                                      | 61,187    | 59,722                                     | 60,936      |
| Number of shares—diluted                                       | 57,004                                      | 63,591    | 59,722                                     | 63,191      |

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.



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PINNACLE ENTERTAINMENT, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (UNAUDITED)  
 (amounts in thousands)

|  | For the three<br>months ended<br>September 30, |          | For the nine months<br>ended September 30, |          |
|--|--|----------|--|----------|
|  | 2016   | 2015     | 2016                                       | 2015     |
| Net income (loss)  | \$(495)  | \$13,740 | \$(448,408)                                | \$61,528 |
| Comprehensive income (loss)  | (495 )   | 13,740   | (448,408 )                                 | 61,528   |
| Comprehensive loss attributable to non-controlling interest              | (9 )   | (9 )     | (24 )                                      | (1,271 ) |
| Comprehensive income (loss) attributable to Pinnacle Entertainment, Inc. | \$(486)  | \$13,749 | \$(448,384)                                | \$62,799 |

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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PINNACLE ENTERTAINMENT, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (amounts in thousands, except share data)

|  | September 30,<br>2016<br>(Unaudited) | December 31,<br>2015 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current Assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 154,796                           | \$ 164,034           |
| Accounts receivable, net of allowance for doubtful accounts of \$7,809 and \$9,445   | 33,872                               | 33,594               |
| Inventories  | 10,285                               | 10,309               |
| Income tax receivable, net   | —                                    | 1,133                |
| Prepaid expenses and other assets  | 27,483                               | 14,624               |
| Assets held for sale and assets of discontinued operations   | —                                    | 9,938                |
| Total current assets   | 226,436                              | 233,632              |
| Land, buildings, vessels and equipment, net  | 2,802,186                            | 2,856,011            |
| Goodwill   | 611,595                              | 914,525              |
| Intangible assets, net   | 413,301                              | 479,543              |
| Other assets, net  | 47,712                               | 47,200               |
| Total assets   | \$ 4,101,230                         | \$ 4,530,911         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                                      |                      |
| Current Liabilities:   |                                      |                      |
| Accounts payable   | \$ 39,360                            | \$ 67,297            |
| Accrued interest   | 9,282                                | 50,091               |
| Accrued compensation   | 69,930                               | 74,069               |
| Accrued taxes  | 67,789                               | 38,910               |
| Other accrued liabilities  | 99,763                               | 84,872               |
| Current portion of long-term debt  | 12,258                               | 11,006               |
| Current portion of long-term financing obligation  | 48,485                               | —                    |
| Total current liabilities  | 346,867                              | 326,245              |
| Long-term debt less current portion  | 936,004                              | 3,616,729            |
| Long-term financing obligation less current portion  | 3,126,564                            | —                    |
| Other long-term liabilities  | 35,931                               | 36,605               |
| Deferred income taxes  | 12,724                               | 187,823              |
| Total liabilities  | 4,458,090                            | 4,167,402            |
| Commitments and contingencies (Note 10)  |                                      |                      |
| Stockholders' Equity (Deficit):  |                                      |                      |
| Preferred stock—\$1.00 par value, 250,000 shares authorized, none issued or outstanding  | —                                    | —                    |
| Common stock—\$0.01 par value, 150,000,000 authorized, 56,187,618 and 60,870,749 shares issued and outstanding, net of treasury shares | 617                                  | 6,724                |
| Additional paid-in capital   | 918,039                              | 1,122,661            |
| Accumulated deficit  | (1,224,793)                          | (705,319)            |
| Accumulated other comprehensive income   | 408                                  | 408                  |
| Treasury stock, at cost, 5,489,058 and 6,374,882 of treasury shares, respectively  | (61,329)                             | (71,090)             |
| Total Pinnacle stockholders' equity (deficit)  | (367,058)                            | 353,384              |
| Non-controlling interest   | 10,198                               | 10,125               |
| Total stockholders' equity (deficit)   | (356,860)                            | 363,509              |
| Total liabilities and stockholders' equity (deficit)   | \$ 4,101,230                         | \$ 4,530,911         |

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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## PINNACLE ENTERTAINMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
(UNAUDITED)

(amounts in thousands)

|  | Capital Stock          |                 |                                  |                        |   |                   |   |                             |   |
|--|------------------------|-----------------|----------------------------------|------------------------|---|-------------------|---|-----------------------------|---|
|  | Number<br>of<br>Shares | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total<br>Pinnacle<br>Stockholders'<br>Equity<br>(Deficit) | Non-Controlling<br>Interest | Total<br>Stockholders'<br>Equity<br>(Deficit) |
| Balance as of<br>January 1, 2016   | 60,871                 | \$6,724         | \$1,122,661                      | \$(705,319)            | \$ 408  | \$(71,090)        | \$353,384   | \$ 10,125                   | \$363,509                                     |
| Net loss   | —                      | —               | —                                | (448,384)              | —   | —                 | (448,384)   | (24)                        | (448,408)                                     |
| Share-based<br>compensation  | —                      | —               | 32,654                           | —                      | —   | —                 | 32,654  | —                           | 32,654  |
| Impact of<br>Spin-Off and<br>Merger, net                                 | —                      | (6,134)         | (237,230)                        | (71,090)               | —   | 71,090            | (243,364)   | —                           | (243,364)                                     |
| Common stock<br>issuance and<br>option exercises                         | 806                    | 27              | 1,238                            | —                      | —   | —                 | 1,265   | —                           | 1,265   |
| Treasury stock<br>purchases  | (5,489)                | —               | —                                | —                      | —   | (61,329)          | (61,329)  | —                           | (61,329)                                      |
| Contributions<br>from<br>non-controlling<br>interest holders             | —                      | —               | —                                | —                      | —   | —                 | —   | 97                          | 97  |
| Tax withholding<br>related to<br>vesting of<br>restricted stock<br>units | —                      | —               | (1,284)                          | —                      | —   | —                 | (1,284)   | —                           | (1,284)                                       |
| Balance as of<br>September 30,<br>2016                                   | 56,188                 | \$617           | \$918,039                        | \$(1,224,793)          | \$ 408  | \$(61,329)        | \$(367,058)   | \$ 10,198                   | \$(356,860)                                   |

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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PINNACLE ENTERTAINMENT, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (amounts in thousands)

|  | For the nine months<br>ended September 30, |            |
|--|--|------------|
|  | 2016                                       | 2015       |
| Cash flows from operating activities:  |  |            |
| Net income (loss)  | \$(448,408)                                | \$61,528   |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |            |
| Depreciation and amortization  | 162,423                                    | 187,290    |
| Loss (gain) on sales or disposals of long-lived assets, net                              | 13,092                                     | (11,526 )  |
| Loss from equity method investment   | 90   | 83         |
| Loss on early extinguishment of debt   | 5,207                                      | —          |
| Impairment of goodwill   | 321,300                                    | 4,757      |
| Impairment of other intangible assets  | 129,500                                    | 5,845      |
| Impairment of land, buildings, vessels and equipment                                     | 238  | 3,380      |
| Amortization of debt issuance costs and debt discounts/premiums                          | 5,964                                      | 10,085     |
| Share-based compensation expense   | 32,654                                     | 12,972     |
| Change in income taxes   | (37,285 )                                  | 29,954     |
| Changes in operating assets and liabilities:   |  |            |
| Receivables, net   | 2,109                                      | (849 )     |
| Prepaid expenses and other   | (5,303 )                                   | 6,755      |
| Accounts payable, accrued expenses and other   | (15,942 )                                  | 6,476      |
| Net cash provided by operating activities  | 165,639                                    | 316,750    |
| Cash flows from investing activities:  |  |            |
| Capital expenditures   | (73,103 )                                  | (57,544 )  |
| Payment for business combination, net of cash acquired                                   | (103,365 )                                 | —          |
| Net proceeds from dispositions of assets held for sale                                   | 10,325                                     | 25,066     |
| Proceeds from sales of property and equipment  | 143  | 351        |
| Purchase of intangible asset   | —  | (25,000 )  |
| Loans receivable   | (1,500 )                                   | (1,575 )   |
| Restricted cash  | —  | 5,667      |
| Net cash used in investing activities  | (167,500 )                                 | (53,035 )  |
| Cash flows from financing activities:  |  |            |
| Proceeds from Former Pinnacle Senior Secured Credit Facilities                           | 134,500                                    | 353,800    |
| Repayments under Former Pinnacle Senior Secured Credit Facilities                        | (1,011,285)                                | (666,550 ) |
| Proceeds from Senior Secured Credit Facilities   | 902,900                                    | —          |
| Repayments under Senior Secured Credit Facilities  | (313,963 )                                 | —          |
| Proceeds from issuance of long-term debt   | 375,000                                    | —          |
| Repayments under financing obligation  | (19,238 )                                  | —          |
| Proceeds from common stock options exercised   | 579  | 8,905      |
| Purchase of treasury stock   | (60,402 )                                  | —          |
| Debt issuance costs and debt discount  | (14,276 )                                  | —          |
| Other  | (1,192 )                                   | (1,512 )   |
| Net cash used in financing activities  | (7,377 )                                   | (305,357 ) |
| Change in cash and cash equivalents  | (9,238 )                                   | (41,642 )  |
| Cash and cash equivalents at the beginning of the period                                 | 164,034                                    | 164,654    |
| Cash and cash equivalents at the end of the period                                       | \$154,796                                  | \$123,012  |

Supplemental Cash Flow Information:

|  |             |           |
|--|-------------|-----------|
| Cash paid for interest, net of amounts capitalized                             | \$240,156   | \$156,176 |
| Cash payments (refunds) related to income taxes, net                           | 9,811       | (17,427 ) |
| Increase (decrease) in construction-related deposits and liabilities           | 656         | (7,970 )  |
| Non-cash issuance of common stock  | 686         | 634       |
| Non-cash retirement of debt in connection with Spin-Off and Merger             | (2,761,287) | —         |
| Non-cash settlement of accrued interest in connection with Spin-Off and Merger | (34,133 )   | —         |
| Non-cash recognition of financing obligation                                   | 3,194,287   | —         |
| Non-cash consideration for business combination                                | 4,563       | —         |

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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PINNACLE ENTERTAINMENT, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

Note 1—Organization and Summary of Significant Accounting Policies

Organization: Pinnacle Entertainment, Inc. is an owner, operator and developer of casinos and related hospitality and entertainment businesses. References in these footnotes to “Pinnacle,” the “Company,” “we,” “our” or “us” refer to Pinnacle Entertainment, Inc. and its subsidiaries, except where stated or the context otherwise indicates. References to “Former Pinnacle” refer to Pinnacle Entertainment, Inc. prior to the Spin-Off and Merger (as such terms are defined below).

We own and operate 16 gaming entertainment businesses, located in Colorado, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, Ohio and Pennsylvania. We also hold a majority interest in the racing license owner, and we are a party to a management contract, for Retama Park Racetrack located outside of San Antonio, Texas. In addition to these properties, we own and operate a live and televised poker tournament series under the trade name Heartland Poker Tour (“HPT”). We view each of our operating properties as an operating segment with the exception of our two properties in Jackpot, Nevada, which we view as one operating segment. For financial reporting purposes, we aggregate our operating segments into the following reportable segments:

Midwest segment, which includes: Location

|                          |                          |
|--------------------------|--------------------------|
| Ameristar Council Bluffs | Council Bluffs, Iowa     |
| Ameristar East Chicago   | East Chicago, Indiana    |
| Ameristar Kansas City    | Kansas City, Missouri    |
| Ameristar St. Charles    | St. Charles, Missouri    |
| Belterra                 | Florence, Indiana        |
| Belterra Park            | Cincinnati, Ohio         |
| Meadows (1)              | Washington, Pennsylvania |
| River City               | St. Louis, Missouri      |

South segment, which includes: Location

|                        |                         |
|------------------------|-------------------------|
| Ameristar Vicksburg    | Vicksburg, Mississippi  |
| Boomtown Bossier City  | Bossier City, Louisiana |
| Boomtown New Orleans   | New Orleans, Louisiana  |
| L’Auberge Baton Rouge  | Baton Rouge, Louisiana  |
| L’Auberge Lake Charles | Lake Charles, Louisiana |

West segment, which includes: Location

|                           |                      |
|---------------------------|----------------------|
| Ameristar Black Hawk      | Black Hawk, Colorado |
| Cactus Petes and Horseshu | Jackpot, Nevada      |

(1)The Meadows Racetrack and Casino (the “Meadows”) was acquired on September 9, 2016 as discussed below.

On April 28, 2016, Former Pinnacle completed the transactions under the terms of a definitive agreement (the “Merger Agreement”) with Gaming and Leisure Properties, Inc. (“GLPI”), a real estate investment trust. Pursuant to the terms of the Merger Agreement, Former Pinnacle separated its operating assets and liabilities (and its Belterra Park property and excess land at certain locations) into the Company and distributed to its stockholders, on a pro rata basis, all of the issued and outstanding shares of common stock of the Company (such distribution referred to as the “Spin-Off”). As a result, Former Pinnacle stockholders received one share of the Company’s common stock, with a par value of \$0.01 per share, for each share of Former Pinnacle common stock that they owned. Gold Merger Sub, LLC, a wholly owned subsidiary of GLPI (“Merger Sub”), then merged with and into Former Pinnacle (the “Merger”), with Merger Sub surviving the Merger as a wholly owned subsidiary of GLPI. Following the Merger, the Company was renamed

Pinnacle Entertainment, Inc., and operates its gaming businesses under a triple-net master lease agreement for the facilities acquired by GLPI (the “Master Lease”). For more information regarding the Spin-Off and Merger, see Note 2, “Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease.”

Former Pinnacle’s historical consolidated financial statements and accompanying notes thereto have been determined to represent the Company’s historical consolidated financial statements based on the conclusion that, for accounting purposes, the Spin-Off should be evaluated as the reverse of its legal form under the requirements of Accounting Standards Codification

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(“ASC”) Subtopic 505-60, Spinoffs and Reverse Spinoffs, resulting in the Company being considered the accounting spinnor. In addition, the Master Lease of the gaming facilities acquired by GLPI does not qualify for sale-leaseback accounting pursuant to ASC Topic 840, Leases. Therefore, the Master Lease has been accounted for as a financing obligation and the gaming facilities remain on the Company’s unaudited Condensed Consolidated Financial Statements.

On September 9, 2016, we closed on a purchase agreement (the “Purchase Agreement”) with GLP Capital, L.P. (“GLPC”), a subsidiary of GLPI, pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania for base consideration of \$138.0 million, subject to certain adjustments. As of September 30, 2016, the purchase price, after giving effect to estimated adjustments, for the Meadows business was \$136.4 million. As a result of the transaction, we own and operate the Meadows’ gaming entertainment and harness racing business subject to a triple-net lease of its underlying real property with GLPI (the “Meadows Lease”). See Note 2, “Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease” and Note 8, “Investment and Acquisition Activities.”

**Basis of Presentation:** The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions of the Securities and Exchange Commission (the “SEC”) to the Quarterly Report on Form 10-Q and, therefore, do not include all information and notes necessary for complete financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”). The results for the periods indicated are unaudited, but reflect all adjustments, which are of a normal recurring nature, that management considers necessary for a fair presentation of operating results. The results of operations for interim periods are not indicative of a full year of operations. These unaudited Condensed Consolidated Financial Statements and notes thereto should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016.

**Principles of Consolidation:** The unaudited Condensed Consolidated Financial Statements include the accounts of Pinnacle Entertainment, Inc. and its subsidiaries. Investments in the common stock of unconsolidated affiliates in which we have the ability to exercise significant influence are accounted for under the equity method. All intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates:** The preparation of unaudited Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and (iii) the reported amounts of revenues and expenses during the reporting period. Estimates used by us include, among other things, the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, estimated income tax provisions, the evaluation of the future realization of deferred tax assets, determining the adequacy of reserves for self-insured liabilities and our customer loyalty programs, the initial measurement of the financing obligation associated with the Master Lease, estimated cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and other intangible assets, contingencies and litigation, and estimates of the forfeiture rate and expected life of share-based awards and stock price volatility when computing share-based compensation expense. Actual results may differ from those estimates.

**Fair Value:** Fair value measurements affect our accounting and impairment assessments of our long-lived assets, investments in unconsolidated affiliates, assets acquired in an acquisition, goodwill, and other intangible assets. Fair value measurements also affect our accounting for certain financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is measured according to a hierarchy that includes: “Level 1” inputs, such as quoted prices in an active market for identical assets or liabilities; “Level 2” inputs, which are observable inputs for similar assets; or “Level 3” inputs, which are unobservable inputs.



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The following table presents a summary of fair value measurements by level for certain liabilities measured at fair value on a recurring basis in the unaudited Condensed Consolidated Balance Sheets:

|                          | Fair Value<br>Measurements<br>Using: |            |            |   |
|--------------------------|--------------------------------------|------------|------------|---|
| Total<br>Fair<br>Value   | Level<br>1                           | Level<br>2 | Level<br>3 |   |
| (in millions)            |                                      |            |            |   |
| As of September 30, 2016 |                                      |            |            |   |
| Liabilities:             |                                      |            |            |   |
| Deferred compensation    | \$0.4                                | \$ 0.4     | \$ —       | — |
| As of December 31, 2015  |                                      |            |            |   |
| Liabilities:             |                                      |            |            |   |
| Deferred compensation    | \$0.4                                | \$ 0.4     | \$ —       | — |

The following table presents a summary of fair value measurements by level for certain financial instruments not measured at fair value on a recurring basis in the unaudited Condensed Consolidated Balance Sheets for which it is practicable to estimate fair value:

|                             | Fair Value<br>Measurements<br>Using: |            |            |            |
|-----------------------------|--------------------------------------|------------|------------|------------|
| Total<br>Carrying<br>Amount | Total<br>Fair<br>Value               | Level<br>1 | Level<br>2 | Level<br>3 |
| (in millions)               |                                      |            |            |            |
| As of September 30, 2016    |                                      |            |            |            |
| Assets:                     |                                      |            |            |            |
| Held-to-maturity securities | \$14.3                               | \$16.1     | \$-13.1    | \$ 3.0     |
| Promissory notes            | \$15.6                               | \$19.7     | \$-19.7    | \$ —       |
| Liabilities:                |                                      |            |            |            |
| Long-term debt              | \$948.3                              | \$963.6    | \$-963.6   | \$ —       |
| As of December 31, 2015     |                                      |            |            |            |
| Assets:                     |                                      |            |            |            |
| Held-to-maturity securities | \$14.4                               | \$15.2     | \$-12.1    | \$ 3.1     |
| Promissory notes            | \$14.1                               | \$19.2     | \$-19.2    | \$ —       |
| Liabilities:                |                                      |            |            |            |
| Long-term debt              | \$3,627.7                            | \$3,740.6  | \$-3,740.6 | \$ —       |

The estimated fair values for certain of our long-term held-to-maturity securities and our long-term promissory notes were based on Level 2 inputs using observable market data for comparable instruments in establishing prices.

The estimated fair values for certain of our long-term held-to-maturity securities were based on Level 3 inputs using a present value of future cash flow valuation technique that relies on management assumptions and qualitative observations. Key significant unobservable inputs in this technique include discount rate risk premiums and probability-weighted cash flow scenarios.



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The estimated fair values of our long-term debt, which include the fair values of our senior notes, senior subordinated notes, and/or senior secured credit facilities, were based on Level 2 inputs of observable market data on comparable debt instruments on or about September 30, 2016 and December 31, 2015, as applicable.

The fair values of our short-term financial instruments approximate the carrying amounts due to their short-term nature.

Land, Buildings, Vessels and Equipment: Land, buildings, vessels and equipment are stated at cost. We capitalize the costs of improvements that extend the life of the asset. We expense repair and maintenance costs as incurred. Gains or losses on the disposition of land, buildings, vessels and equipment are included in the determination of income.

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We review the carrying amounts of our land, buildings, vessels and equipment used in our operations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition. If the undiscounted cash flows exceed the carrying amount, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying amount, then an impairment charge is recorded based on the fair value of the asset.

Development costs directly associated with the acquisition, development, and construction of a project are capitalized as a cost of the project during the periods in which activities necessary to get the property ready for its intended use are in progress. The costs incurred for development projects are carried at cost. Interest costs associated with development projects are capitalized as part of the cost of the constructed asset. When no debt is incurred specifically for a project, interest is capitalized on amounts expended for the project using our weighted-average cost of borrowing. Capitalization of interest ceases when the project, or discernible portion of the project, is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed.

As a result of the Spin-Off and Merger transactions, substantially all of the real estate assets used in the Company's operations are subject to the Master Lease and owned by GLPI. See Note 2, "Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease."

The following table presents a summary of our land, buildings, vessels and equipment, including those subject to the Master Lease:

|   | September<br>2016 | December<br>31,<br>2015 |
|---|-------------------|-------------------------|
|   | (in millions)     |                         |
| Land, buildings, vessels and equipment:       |                   |                         |
| Land and land improvements                    | \$425.1           | \$422.8                 |
| Buildings, vessels and improvements           | 2,690.1           | 2,674.6                 |
| Furniture, fixtures and equipment             | 818.7             | 763.8                   |
| Construction in progress                      | 29.6              | 33.2                    |
| Land, buildings, vessels and equipment, gross | 3,963.5           | 3,894.4                 |
| Less: accumulated depreciation                | (1,161.3 )        | (1,038.4 )              |
| Land, buildings, vessels and equipment, net   | \$2,802.2         | \$2,856.0               |

**Goodwill and Other Intangible Assets:** Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations. Indefinite-lived intangible assets include gaming licenses and trade names for which it is reasonably assured that we will continue to renew indefinitely. Goodwill and other indefinite-lived intangible assets are subject to an annual assessment for impairment during the fourth quarter (October 1 test date), or more frequently if there are indications of possible impairment. Amortizing intangible assets include player relationships and favorable leasehold interests. We review amortizing intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

As a result of the acquisition of the Meadows during the third quarter of 2016, we recorded, on a preliminary basis, goodwill equal to the excess of the acquisition cost over the fair value of the net assets acquired. Also, on a preliminary basis, we recorded other intangible assets associated with the Meadows business. See Note 8, "Investment and Acquisition Activities." Additionally, as a result of the Spin-Off and Merger, we tested our reporting unit goodwill and other indefinite-lived intangible assets for impairment, which resulted in non-cash impairment charges. For more

information, see Note 7, “Goodwill and Other Intangible Assets.”

**Customer Loyalty Programs:** We offer incentives to our customers through our mychoice customer loyalty program. Under the mychoice customer loyalty program, customers earn points based on their level of play that may be redeemed for various benefits, such as cash back, dining, or hotel stays, among others. The reward credit balance under the plan will be forfeited if the customer does not earn or use any reward credits over the prior six-month period. In addition, based on their level of play, customers can earn additional benefits without redeeming points, such as a car lease, among other items. We have not yet integrated Meadows into this program.

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We accrue a liability for the estimated cost of providing these benefits as the benefits are earned. Estimates and assumptions are made regarding cost of providing the benefits, breakage rates, and the combination of goods and services customers will choose. We use historical data to assist in the determination of estimated accruals. Changes in estimates or customer redemption patterns could produce different results. As of September 30, 2016 and December 31, 2015, we had accrued \$22.9 million and \$25.4 million, respectively, for the estimated cost of providing these benefits, which are included in "Other accrued liabilities" in our unaudited Condensed Consolidated Balance Sheets.

Revenue Recognition: Gaming revenues consist of the net win from gaming activities, which is the difference between amounts wagered and amounts paid to winning patrons. Cash discounts and other cash incentives to customers related to gaming play are recorded as a reduction to gaming revenue. Food and beverage, lodging, retail, entertainment, and other operating revenues are recognized as products are delivered or services are performed. Advance deposits on lodging are recorded as accrued liabilities until services are provided to the customer.

The retail value of food and beverage, lodging and other services furnished to guests on a complimentary basis is included in revenues and then deducted as promotional allowances in calculating total revenues. The estimated cost of providing such promotional allowances is primarily included in gaming expenses. Complimentary revenues that have been excluded from the accompanying unaudited Condensed Consolidated Statements of Operations were as follows:

|                              | For the three<br>months<br>ended<br>September<br>30,<br>2016 |        | For the nine<br>months ended<br>September 30,<br>2015 |         |
|------------------------------|--|--------|---|---------|
|                              | (in millions)  |        |   |         |
| Food and beverage            | \$35.6   | \$34.1 | \$103.1   | \$104.1 |
| Lodging                      | 16.7   | 16.2   | 48.8  | 47.4    |
| Other                        | 4.2  | 4.6    | 11.9  | 13.7    |
| Total promotional allowances | \$56.5   | \$54.9 | \$163.8   | \$165.2 |

The costs to provide such complimentary benefits were as follows:

|  | For the three<br>months<br>ended<br>September<br>30,<br>2016 |        | For the nine<br>months ended<br>September 30,<br>2015 |         |
|--|--|--------|---|---------|
|  | (in millions)  |        |   |         |
| Promotional allowance costs included in gaming expense | \$41.4   | \$42.3 | \$117.9   | \$125.6 |

Gaming Taxes: We are subject to taxes based on gross gaming revenues in the jurisdictions in which we operate, subject to applicable jurisdictional adjustments. These gaming taxes are an assessment on our gaming revenues and are recorded as a gaming expense in our unaudited Condensed Consolidated Statements of Operations. These taxes were as follows:

|  | For the three<br>months ended | For the nine<br>months ended |
|--|-------------------------------|------------------------------|
|--|-------------------------------|------------------------------|

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September 30, September 30,  
2016 2015 2016 2015

(in millions)

Gaming taxes \$ 153.8 \$ 145.8 \$ 442.3 \$ 438.9

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Pre-opening, Development and Other Costs: Pre-opening, development and other costs consist of payroll costs to hire, employ and train the workforce prior to opening an operating facility; marketing campaigns prior to and in connection with the opening; legal and professional fees related to the project but not otherwise attributable to depreciable assets; and lease payments, real estate taxes, and other general and administrative costs prior to the opening of an operating facility. In addition, pre-opening, development and other costs include acquisition and restructuring costs.

Pre-opening, development and other costs are expensed as incurred. Pre-opening, development and other costs consist of the following:

|  | For the<br>three<br>months<br>ended<br>September<br>30,<br>2016 |       | For the nine<br>months<br>ended<br>September<br>30,<br>2015 |        |
|--|---|-------|---|--------|
|  | (in millions)   |       |   |        |
| Restructuring costs (1)                        | \$1.3   | \$3.7 | \$48.1  | \$10.0 |
| Meadows acquisition costs (2)                  | 4.1   | —     | 6.2   | —      |
| Other  | 0.2   | 0.3   | 0.7   | 1.7    |
| Total pre-opening, development and other costs | \$5.6   | \$4.0 | \$55.0  | \$11.7 |

(1) Amounts comprised of costs associated with the Spin-Off and Merger. See Note 2, “Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease.”

(2) Amounts comprised principally of legal, advisory and other costs associated with the acquisition and integration of the Meadows. See Note 8, “Investment and Acquisition Activities.”

Earnings Per Share: The computation of basic and diluted earnings per share (“EPS”) is based on net income (loss) attributable to Pinnacle Entertainment, Inc. divided by the basic weighted average number of common shares and diluted weighted average number of common shares, respectively. Diluted EPS reflects the addition of potentially dilutive securities, which includes in-the-money share-based awards. We calculate the effect of dilutive securities using the treasury stock method. A total of 2.2 million, 1.7 million, 0.1 million, and 0.2 million out-of-the-money share-based awards were excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2016, and 2015, respectively, because including them would have been anti-dilutive.

For the three and nine months ended September 30, 2016, we recorded a net loss from continuing operations. Accordingly, the potential dilution from the assumed exercise of stock options is anti-dilutive. As a result, diluted EPS is equal to basic EPS for such periods. Share-based awards that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS were 3.0 million and 2.8 million for the three and nine months ended September 30, 2016, respectively.

Treasury Stock: In May 2016, the Company’s Board of Directors authorized a share repurchase program of up to \$50.0 million of our common stock, which we completed in July 2016. In August 2016, our Board of Directors authorized an additional share repurchase program of up to \$50.0 million of our common stock. The cost of the shares acquired is treated as a reduction to stockholders’ equity. During the three and nine months ended September 30, 2016, we repurchased 3.3 million shares and 5.5 million shares, respectively, of common stock and reduced stockholders’ equity by \$36.6 million and \$61.3 million, respectively, under both programs. As of November 9, 2016, under the current share repurchase program, we have repurchased 1.7 million shares of our common stock for \$20.1 million.

Reclassifications: The unaudited Condensed Consolidated Financial Statements reflect certain reclassifications to prior year amounts to conform to classification in the current period. These reclassifications had no effect on the

previously reported net income.

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Recently Issued Accounting Pronouncements: In May 2014, as part of its ongoing efforts to assist in the convergence of GAAP and International Financial Reporting Standards, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which is a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised services or goods in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The standard must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, which defers the implementation of this new standard to be effective for fiscal years beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which amend certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. The Company currently anticipates adopting this accounting standard during the first quarter of 2018 using the full retrospective approach. However, we are still evaluating the impact on our unaudited Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Recognition and Measurement of Leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off balance sheet financing. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company currently anticipates adopting this accounting standard during the first quarter of 2019. However, we are still evaluating the impact on our unaudited Condensed Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, Accounting for Credit Losses, which amends the guidance on the impairment of financial instruments. This update adds an impairment model (known as the current expected credit losses model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes, as an allowance, its estimate of expected credit losses. The effective date for this update is for the annual and interim periods beginning after December 15, 2019 and early adoption is permitted beginning after December 15, 2018. We are currently evaluating the impact of adopting this new guidance on our unaudited Condensed Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which amends the current accounting standard to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flow in order to reduce the diversity in practice of certain types of cash flows where consistent principles previously did not exist. The effective date for this update is for the annual and interim periods beginning after December 15, 2017 with early adoption permitted. The update must be applied retrospectively to all periods presented unless impracticable. The Company currently anticipates adopting this accounting standard during the first quarter of 2018. However, we are still evaluating the impact on our unaudited Condensed Consolidated Financial Statements.



A variety of proposed or otherwise potential accounting standards are currently under review and study by standard-setting organizations and certain regulatory agencies. Given the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of any such proposed or revised standards would have on our unaudited Condensed Consolidated Financial Statements.

Note 2—Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease

Overview of the Spin-Off and Merger: On April 28, 2016, Former Pinnacle completed the transactions under the terms of the Merger Agreement with GLPI. Pursuant to the terms of the Merger Agreement, Former Pinnacle separated its operating assets and liabilities (and its Belterra Park property and excess land at certain locations) into the Company (newly formed subsidiary) and distributed to its stockholders, on a pro rata basis, all of the issued and outstanding shares of common stock of the Company. As a result, Former Pinnacle stockholders received one share of the Company's common stock, with a par value of \$0.01 per share, for each share of Former Pinnacle common stock that they owned. Merger Sub, then merged with and into Former Pinnacle, with Merger Sub surviving the Merger as a wholly owned subsidiary of GLPI. Following the Merger, the Company was renamed Pinnacle Entertainment, Inc., and operates its gaming businesses under the Master Lease for the

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facilities acquired by GLPI. The Master Lease has an initial term of 10 years with five subsequent, five-year renewal periods at our option.

In completing the Merger, each share of common stock, par value \$0.10 per share, of Former Pinnacle (the “Former Pinnacle Common Stock”) issued and outstanding immediately prior to the effective time (other than shares of Former Pinnacle Common Stock (i) owned or held in treasury by Former Pinnacle or (ii) owned by GLPI, its subsidiaries or Merger Sub) were canceled and converted into the right to receive 0.85 shares of common stock, par value \$0.01 per share, of GLPI.

In connection with the Spin-Off and Merger, on April 28, 2016, we made a dividend to Former Pinnacle of \$808.4 million (the “Cash Payment”), which was equal to the amount of debt outstanding as of April 28, 2016, less \$2.7 billion that GLPI assumed pursuant to the Merger Agreement. Following the consummation of the Spin-Off and Merger, we had no outstanding obligations under the Former Senior Secured Credit Facilities, the 6.375% Notes, the 7.50% Notes, the 7.75% Notes and the 8.75% Notes (as such terms are defined in Note 3, “Long-Term Debt”). For further information, including a description of the Company’s existing long-term debt, see Note 3, “Long-Term Debt.”

**Failed Spin-Off-Leaseback:** The Spin-Off and the subsequent leaseback of the gaming facilities under the terms of the Master Lease did not meet all of the requirements for sale-leaseback accounting treatment under ASC Topic 840, Leases, and therefore is accounted for as a financing obligation. Specifically, the Master Lease contains provisions that indicate prohibited forms of continuing involvement in the leased assets.

**Master Lease Financing Obligation:** The Master Lease is accounted for as a financing obligation. The obligation was calculated at lease inception based on the future minimum lease payments due to GLPI under the Master Lease discounted at 10.5%. The discount rate represents the estimated incremental borrowing rate over the lease term of 35 years, which included renewal options that were reasonably assured of being exercised. As of April 28, 2016, the commencement date of the Master Lease, the financing obligation was determined to be \$3.2 billion.

Fourteen of our sixteen gaming facilities are subject to the Master Lease with GLPI. Under the Master Lease, the initial annual aggregate lease payable is \$377 million and rent is payable in monthly installments. The rent is comprised of base rent, which includes a land and a building component, and percentage rent. In the first year of the lease, the land base rent, the building base rent, and the percentage rent are \$44 million, \$289 million, and \$44 million, respectively.

The land base rent is fixed for the entire lease term. Beginning in the second year of the lease, the building base rent is subject to an annual escalation of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Master Lease) of 1.8:1. The percentage rent, which is fixed for the first two years, will be adjusted every two years to establish a new fixed amount for the next two-year period. Each new fixed amount will be calculated by multiplying 4% by the difference between (i) the average net revenues for the trailing two-year period and (ii) \$1.1 billion.

Total payments under the Master Lease, which commenced on April 28, 2016, were \$95.0 million for the three months ended September 30, 2016, of which \$83.6 million was recognized as interest expense and \$11.4 million reduced the financing obligation. Total payments were \$161.1 million for the nine months ended September 30, 2016, of which \$141.9 million was recognized as interest expense and \$19.2 million reduced the financing obligation.

**Meadows Lease:** The Meadows Lease provides for a 10-year initial term, including renewal terms at our option, up to a total of 29 years. The initial annual rent is \$25.4 million, payable in monthly installments, and comprised of a base rent of \$14.0 million, which is subject to certain adjustments, and an initial percentage rent of \$11.4 million. The base rent is fixed for the first year and, beginning in the second year of the lease, subject to an annual escalation of up to 5% for the initial 10-year term or until the lease year in which base rent plus percentage rent is a total of \$31.0 million, subject to certain adjustments, and up to 2% thereafter, subject to an Adjusted Revenue to Rent Ratio (as defined in the Meadows Lease) of 1.8:1 during lease year two, 1.9:1 during lease year three and 2.0:1 during lease year four and thereafter. The percentage rent is fixed for the first two years and will be adjusted every two years to establish a new fixed amount for the next two-year period equal to 4% of the average annual net revenues during the trailing two-year period.

The Meadows Lease is accounted for as an operating lease; thereby, rent expense is recorded on a straight-line basis using the minimum lease payments over the lease term, which has been determined to be 10 years.

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## Note 3—Long-Term Debt

Long-term debt consisted of the following:

|  | September 30, 2016    |   |                     |
|--|-----------------------|---|---------------------|
|  | Outstanding Principal | Unamortized Discount and Issuance Costs   | Long-Term Debt, Net |
| (in millions)                            |                       |   |                     |
| Senior Secured Credit Facilities:        |                       |   |                     |
| Revolving Credit Facility due 2021       | \$ 155.0              | \$ —                                      | \$ 155.0            |
| Term Loan A Facility due 2021            | 182.7                 | (3.4 )                                    | 179.3               |
| Term Loan B Facility due 2023            | 251.2                 | (5.4 )                                    | 245.8               |
| 5.625% Senior Notes due 2024             | 375.0                 | (6.9 )                                    | 368.1               |
| Other                                    | 0.1                   | —   | 0.1                 |
| Total debt including current maturities  | 964.0                 | (15.7 )                                   | 948.3               |
| Less: current maturities                 | (12.3 )               | —   | (12.3 )             |
| Total long-term debt                     | \$951.7               | \$ (15.7 )                                | \$ 936.0            |
|  | December 31, 2015     |   |                     |
|  | Outstanding Principal | Unamortized (Discount) and Issuance Costs | Long-Term Debt, Net |
| (in millions)                            |                       |   |                     |
| Former Senior Secured Credit Facilities: |                       |   |                     |
| Revolving Credit Facility due 2018       | \$ 750.1              | \$ —                                      | \$ 750.1            |
| B-2 Term Loan due 2020                   | 302.2                 | (13.3 )                                   | 288.9               |
| 6.375% Senior Notes due 2021             | 850.0                 | (13.0 )                                   | 837.0               |
| 7.50% Senior Notes due 2021              | 1,040.0               | 46.7                                      | 1,086.7             |
| 7.75% Senior Subordinated Notes due 2022 | 325.0                 | (4.7 )                                    | 320.3               |
| 8.75% Senior Subordinated Notes due 2020 | 350.0                 | (5.4 )                                    | 344.6               |
| Other                                    | 0.1                   | —   | 0.1                 |
| Total debt including current maturities  | 3,617.4               | 10.3                                      | 3,627.7             |
| Less: current maturities                 | (11.0 )               | —   | (11.0 )             |
| Total long-term debt                     | \$3,606.4             | \$ 10.3                                   | \$ 3,616.7          |

In connection with the Spin-Off and Merger, on April 28, 2016, we made the Cash Payment to Former Pinnacle in the amount of \$808.4 million, which was equal to the amount of existing debt outstanding of Former Pinnacle as of April 28, 2016, less approximately \$2.7 billion that GLPI assumed pursuant to the Merger Agreement. Immediately prior to the consummation of the Spin-Off and Merger, the August 2013 amended and restated credit agreement (“Former Senior Secured Credit Facilities”) was repaid in full and terminated and the 6.375% senior notes due 2021 (“6.375% Notes”), the 7.50% senior notes due 2021 (“7.50% Notes”) and the 7.75% senior subordinated notes due 2022 (“7.75% Notes”) were redeemed. Former Pinnacle’s indenture governing its 8.75% senior subordinated notes due 2020 (“8.75%

Notes”) was redeemed on May 15, 2016. Following the consummation of the Spin-Off and Merger, the Company had no outstanding obligations under the Former Senior Secured Credit Facilities, the 6.375% Notes, the 7.50% Notes, the 7.75% Notes and the 8.75% Notes. See Note 2, “Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease,” for further discussion of the Spin-Off and Merger.

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Senior Secured Credit Facilities: On April 28, 2016, in connection with the Spin-Off and Merger, the Company entered into a credit agreement with certain lenders (the “Credit Agreement”). The Credit Agreement is comprised of (i) a \$185.0 million term loan A facility with a maturity of five years (the “Term Loan A Facility”), (ii) a \$300.0 million term loan B facility with a maturity of seven years (the “Term Loan B Facility”) and (iii) a \$400.0 million revolving credit facility with a maturity of five years (the “Revolving Credit Facility” and together with the Term Loan A Facility and the Term Loan B Facility, the “Senior Secured Credit Facilities”). As of September 30, 2016, we had approximately \$155.0 million drawn under the Revolving Credit Facility and had approximately \$11.0 million committed under various letters of credit.

Loans under the Term Loan A Facility and Revolving Credit Facility bore interest at a rate per annum equal to, at our option, LIBOR plus 2.00% or the base rate plus 1.00% as of September 30, 2016. Beginning in the fourth quarter of 2016, such loans bear interest at a rate per annum equal to, at our option, LIBOR plus an applicable margin from 1.50% to 2.50% or the base rate plus an applicable margin from 0.50% to 1.50%, in each case, depending on the Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement) as of the most recent fiscal quarter. Loans under the Term Loan B Facility bear interest at a rate per annum equal to, at our option, LIBOR plus 3.00% or the base rate plus 2.00% and in no event will LIBOR be less than 0.75%. In addition, we pay a commitment fee on the unused portion of the commitments under the Revolving Credit Facility at a rate that ranges from 0.30% to 0.50% per annum, depending on the Consolidated Total Net Leverage Ratio as of the most recent fiscal quarter.

The Term Loan A Facility amortizes in equal quarterly amounts equal to a percentage of the original outstanding principal amount at closing as follows: (i) 5% per annum in the first two years, (ii) 7.5% per annum in the third year and (iii) 10% per annum in the fourth and fifth year. The remaining principal amount is payable on April 28, 2021. The Term Loan B Facility amortizes in equal quarterly amounts equal to 1% per annum of the original outstanding principal amount at closing. The remaining principal amount is payable on April 28, 2023. The Revolving Credit Facility is not subject to amortization and is due and payable on April 28, 2021.

The Credit Agreement contains, among other things, certain affirmative and negative covenants and, solely for the benefit of the lenders under the Senior Secured Credit Facilities, financial covenants, including a maximum permitted Consolidated Total Net Leverage Ratio, a maximum permitted Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) and a required minimum Interest Coverage Ratio (as defined in the Credit Agreement). The Credit Agreement also contains certain customary events of default, including the occurrence of a change of control, revocation of material licenses by gaming authorities (subject to a cure period), termination of the Master Lease and cross-default to certain events of default under the Master Lease.

5.625% Senior Notes due 2024: On April 28, 2016, we issued \$375.0 million in aggregate principal amount of 5.625% senior notes due 2024 (the “Existing 5.625% Notes”). The Existing 5.625% Notes were issued at par, mature on May 1, 2024, and bear interest at the rate of 5.625% per annum. Interest on the Existing 5.625% Notes is payable semi-annually on May 1st and November 1st of each year, commencing November 1, 2016.

On April 28, 2016, the proceeds of the Senior Secured Credit Facilities, together with the proceeds from the Existing 5.625% Notes were used (i) to make the Cash Payment and (ii) to pay fees and expenses related to the issuance of the Senior Secured Credit Facilities and the Existing 5.625% Notes.

On October 12, 2016, we issued an additional \$125.0 million in aggregate principal amount of 5.625% senior notes due 2024 (the “Additional 5.625% Notes” and together with the Existing 5.625% Notes, the “5.625% Notes”), which are under the indenture governing the Existing 5.625% Notes issued on April 28, 2016, as amended and supplemented by that certain first supplemental indenture, dated as of October 12, 2016. The Additional 5.625% Notes were issued at par plus a premium of 50 basis points. We financed the purchase of the Meadows with our Revolving Credit Facility and the net proceeds from the issuance of the Additional 5.625% Notes were used to repay a portion of the

outstanding borrowings under our Revolving Credit Facility.

Loss on early extinguishment of debt: During the second quarter of 2016, we recorded a \$5.2 million loss related to the repayment, in full, of the Former Senior Secured Credit Facilities. The loss included the write-off of unamortized debt issuance costs and original issuance discount.

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Interest expense, net, was as follows:

|  | For the three<br>months ended<br>September 30,<br>2016 |        | For the nine<br>months ended<br>September 30,<br>2015 |         |
|--|--|--------|---|---------|
|  | (in millions)  |        |   |         |
| Interest expense from financing obligation (1) | \$83.6   | \$—    | \$141.9   | \$—     |
| Interest expense from debt (2)                 | 11.0   | 65.2   | 95.3  | 186.4   |
| Interest income                                | (0.3 )   | (0.2 ) | (0.5 )  | (0.3 )  |
| Capitalized interest                           | —  | —      | (0.1 )  | —       |
| Other (3)                                      | —  | —      | 2.5   | —       |
| Interest expense, net                          | \$94.3   | \$65.0 | \$239.1   | \$186.1 |

Total payments under the Master Lease, which commenced on April 28, 2016, were \$95.0 million for the three months ended September 30, 2016, of which \$83.6 million was recognized as interest expense and \$11.4 million (1)reduced the financing obligation. Total payments were \$161.1 million for the nine months ended September 30, 2016, of which \$141.9 million was recognized as interest expense and \$19.2 million reduced the financing obligation.

Interest expense associated with the Former Senior Secured Credit Facilities, the 6.375% Notes, the 7.50% Notes, (2)the 7.75% Notes, and the 8.75% Notes, which were no longer obligations of the Company as of April 28, 2016, included in the nine months ended September 30, 2016 was \$76.5 million.

(3)Represents a one-time expense associated with the GLPI transaction.

#### Note 4—Income Taxes

Our effective tax rate for continuing operations for the three and nine months ended September 30, 2016, was 117.7%, or an expense of \$3.5 million, and 5.6% or a benefit of \$26.5 million, respectively, as compared to an effective tax rate of 15.2%, or an expense of \$2.4 million, and 18.4% or an expense of \$12.7 million, respectively, for the corresponding prior year periods. The rate includes the tax impact of certain discrete items including changes of tax status of certain of our legal entities. Our tax rate differs from the statutory rate of 35.0% due to the effects of permanent items, deferred tax expense on tax amortization of indefinite-lived intangible assets, state taxes, legal entity status changes, and a reserve for unrecognized tax benefits.

The Spin-Off described in Note 1, “Organization and Summary of Significant Accounting Policies,” was a taxable transaction. A gain was recognized for tax purposes and the tax bases of the operating assets were stepped up to fair market value at the time of the transaction. Pursuant to ASC 740, Income Taxes, the tax impact directly related to the transaction amongst shareholders was recorded to equity, consistent with the overall accounting treatment of the transaction. All changes in tax bases of assets and liabilities caused by the transactions were recorded to additional paid-in capital.

As previously noted, the failed sale-leaseback is accounted for as a financial obligation. As a result, the gaming facilities are presented on the Company’s unaudited Condensed Consolidated Balance Sheets at historical cost, net of accumulated depreciation, and the financing obligation is recognized and amortized over the lease term. For federal and state income tax purposes, the Spin-Off and the subsequent leaseback of the gaming facilities is an operating lease. As such, the Company recognizes no tax bases in the leased gaming facilities, which creates basis differences that give rise to deferred taxes under ASC 740, Income Taxes.

#### Note 5—Employee Benefit Plans



Share-based Compensation: As of September 30, 2016, we had approximately 9.8 million share-based awards outstanding, including stock options, restricted stock units, performance stock units, and restricted stock, which are detailed below. Our 2016 Equity and Performance Incentive Plan has approximately 5.9 million share-based awards available for grant as of September 30, 2016.

As a result of the Spin-Off and Merger, each outstanding vested and non-vested share-based award granted by Former Pinnacle on or prior to July 16, 2015 (“Pre-July 2015 Former Pinnacle Awards”) were converted into a combination of (1) corresponding share-based awards of the Company, which will continue to vest on the same schedule as Pre-July 2015 Former Pinnacle Awards based on service with the Company and (2) adjusted Pre-July 2015 Former Pinnacle Awards, which immediately became fully-vested and settled in shares of GLPI common stock as a result of the Merger. The conversion of the Pre-July 2015 Former Pinnacle Awards, which included adjustments for exercise prices of stock options, were based on the relative common share value of the Company and Former Pinnacle immediately prior to the Spin-Off and Merger in order to preserve the same intrinsic value. As such, no significant incremental share-based compensation expense was or will be

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recorded as a result of this conversion. However, share-based compensation expense for the nine months ended September 30, 2016 includes \$22.6 million of incremental expense attributable to the accelerated vesting of adjusted Pre-July 2015 Former Pinnacle Awards, which were settled in shares of GLPI common stock.

Each of the outstanding share-based awards granted by Former Pinnacle after July 16, 2015 (“Post-July 2015 Former Pinnacle Awards”) were converted into share-based awards of the Company (“Post-July 2015 Company Awards”). The conversion to Post-July 2015 Company Awards included adjustments to the exercise prices for stock options and to the number of shares subject to share-based awards in order to preserve the same intrinsic value at the time of the Spin-Off and Merger. As such, no significant incremental share-based compensation expense was or will be recorded as a result of this conversion. The Post-July 2015 Company Awards will continue to vest on the same schedule as the Post-July 2015 Former Pinnacle Awards based on service with the Company.

We recorded share-based compensation expense as follows:

|  | For the<br>three<br>months<br>ended<br>September<br>30,<br>2016 | For the nine<br>months<br>ended<br>September<br>30,<br>2015 |
|--|---|---|
|--|---|---|

(in millions)

|                                  |       |       |        |        |
|----------------------------------|-------|-------|--------|--------|
| Share-based compensation expense | \$2.6 | \$4.1 | \$32.7 | \$13.0 |
|----------------------------------|-------|-------|--------|--------|

Stock options: The following table summarizes information related to our common stock options:

|  | Number of<br>Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|--|-------------------------------|--|
| Former Pinnacle options outstanding as of January 1, 2016              | 5,375,476                     | \$ 16.04                                 |
| Granted  | —                             | \$ —                                     |
| Exercised  | (14,405 )                     | \$ 14.90                                 |
| Canceled or forfeited  | (2,675 )                      | \$ 23.23                                 |
| Former Pinnacle options outstanding as of April 28, 2016               | 5,358,396                     | \$ 16.04                                 |
| Conversion related to the Spin-Off and Merger                          |                               |  |
| Conversion of Former Pinnacle options outstanding as of April 28, 2016 | (5,358,396)                   | \$ 16.04                                 |
| Converted Pinnacle options outstanding as of April 28, 2016            | 5,839,044                     | \$ 5.23                                  |
| Post Spin-Off and Merger activities                                    |                               |  |
| Granted  | 1,066,945                     | \$ 11.47                                 |
| Exercised  | (96,662 )                     | \$ 5.51                                  |
| Canceled or forfeited  | (155,172 )                    | \$ 8.91                                  |
| Options outstanding as of September 30, 2016                           | 6,654,155                     | \$ 6.14                                  |
| Options exercisable as of September 30, 2016                           | 4,202,832                     | \$ 4.03                                  |
| Expected to vest as of September 30, 2016                              | 2,060,840                     | \$ 9.82                                  |

The unamortized compensation costs not yet expensed related to stock options totaled approximately \$7.3 million as of September 30, 2016. The weighted average period over which the costs are expected to be recognized is approximately 2 years. The aggregate amount of cash we received from the exercise of stock options was \$0.6 million and \$8.9 million for the nine months ended September 30, 2016, and 2015, respectively. The associated shares were newly issued common stock. The following information is provided for our stock options:

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For the nine  
months  
ended  
September  
30,  
2016 2015

Weighted-average grant date fair value \$4.05 \$9.44

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Restricted Stock Units: The following table summarizes information related to our restricted stock units:

|   | Number of<br>Units | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|---|--------------------|--|
| Former Pinnacle non-vested as of January 1, 2016                    | 1,311,423          | \$ 25.16   |
| Granted   | 5,505              | \$ 32.78   |
| Vested  | (48,129 )          | \$ 26.16   |
| Canceled or forfeited   | (4,818 )           | \$ 28.46   |
| Former Pinnacle non-vested as of April 28, 2016                     | 1,263,981          | \$ 25.14   |
| Conversion related to the Spin-Off and Merger                       |                    |  |
| Conversion of Former Pinnacle non-vested units as of April 28, 2016 | (1,263,981)        | \$ 25.14   |
| Converted Pinnacle non-vested units as of April 28, 2016            | 1,811,186          | \$ 8.38  |
| Post Spin-Off and Merger activities                                 |                    |  |
| Granted   | 1,011,845          | \$ 11.50   |
| Vested  | (157,661 )         | \$ 6.38  |
| Canceled or forfeited   | (174,180 )         | \$ 8.95  |
| Non-vested as of September 30, 2016                                 | 2,491,190          | \$ 9.67  |

The unamortized compensation costs not yet expensed related to non-vested restricted stock units totaled approximately \$17.9 million as of September 30, 2016. The weighted average period over which the costs are expected to be recognized is approximately 1 year.

Performance Stock Units: The following table summarizes information related to our performance stock units:

|   | Number<br>of<br>Units | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|---|-----------------------|--|
| Former Pinnacle non-vested as of January 1, 2016                    | 408,228               | \$ 23.23   |
| Granted   | —                     | \$ —   |
| Canceled or forfeited   | —                     | \$ —   |
| Former Pinnacle non-vested as of April 28, 2016                     | 408,228               | \$ 23.23   |
| Conversion related to the Spin-Off and Merger                       |                       |  |
| Conversion of Former Pinnacle non-vested units as of April 28, 2016 | (408,228)             | \$ 23.23   |
| Converted Pinnacle non-vested units as of April 28, 2016            | 408,228               | \$ 6.87  |
| Post Spin-Off and Merger activities                                 |                       |  |
| Granted   | —                     | \$ —   |
| Canceled or forfeited   | (299,373)             | \$ 6.52  |
| Non-vested as of September 30, 2016                                 | 108,855               | \$ 7.84  |

Restricted Stock: During the second quarter of 2016, the Company granted performance-based restricted stock awards, subject to certain market vesting conditions. The grant-date fair value of the awards was determined using the Monte Carlo simulation. The following table summarizes information related to our restricted stock:

| Number<br>of<br>Shares | Weighted<br>Average<br>Grant<br>Date Fair |
|------------------------|---|
|------------------------|---|

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|                                     |          | Value    |
|-------------------------------------|----------|----------|
| Non-vested as of January 1, 2016    | —        | \$ —     |
| Granted                             | 345,620  | \$ 14.24 |
| Canceled or forfeited               | (5,000 ) | \$ 14.24 |
| Non-vested as of September 30, 2016 | 340,620  | \$ 14.24 |

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## Note 6—Write-downs, Reserves and Recoveries, Net

Write-downs, reserves and recoveries, net consist of the following:

|  | For the<br>three<br>months<br>ended<br>September<br>30,<br>2016 |       | For the nine<br>months<br>ended<br>September<br>30,<br>2015 |         |
|--|---|-------|---|---------|
|  | (in millions)   |       |   |         |
| Loss (gain) on disposals of long-lived assets, net | \$6.2   | \$0.5 | \$13.1  | \$(6.7) |
| Impairment of long-lived assets                    | —   | 0.4   | 0.2   | 3.4     |
| Other  | —   | —     | 0.5   | (0.8 )  |
| Write-downs, reserves and recoveries, net          | \$6.2   | \$0.9 | \$13.8  | \$(4.1) |

Loss (gain) on disposals of long-lived assets, net: During the three and nine months ended September 30, 2016 and 2015, we recorded net losses of \$6.2 million, \$13.1 million, \$0.5 million, and \$1.7 million, respectively, related primarily to disposals of furniture, fixtures and equipment at our properties in the normal course of business. Additionally, during the nine months ended September 30, 2015, we recorded a gain on the sale of land in Springfield, Massachusetts of \$8.4 million.

Impairment of long-lived assets: During the nine months ended September 30, 2016 and 2015, and the three months ended September 30, 2015, we recorded non-cash impairments on slot and other equipment at our properties. Additionally, during the three and nine months ended September 30, 2015, in order to reduce the carrying amount of our land in Central City, Colorado to its estimated fair value less cost to sell, we recorded non-cash impairment charges of \$0.4 million and \$3.0 million, respectively.

## Note 7—Goodwill and Other Intangible Assets

On September 9, 2016, we closed on a purchase agreement with GLPC pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania. As a result of the acquisition, which is discussed in further detail in Note 8, “Investment and Acquisition Activities,” we recorded \$18.3 million to goodwill and \$57.2 million and \$15.0 million to gaming licenses and trade names, respectively. The goodwill was allocated to our Midwest segment.

The Spin-Off and Merger transactions, which closed on April 28, 2016, represented a significant financial restructuring event that increased our cash flow obligations in connection with the Master Lease, which we concluded represented an indicator that impairment may exist on our goodwill and other intangible assets. Consequently, we performed a preliminary impairment assessment on goodwill and completed impairment assessments on gaming licenses and trade names. As a result of these impairment assessments, during the second quarter of 2016, we recognized non-cash impairments to goodwill, gaming licenses and trade names totaling \$332.9 million, \$68.5 million and \$61.0 million, respectively. The non-cash impairment to goodwill represented our best estimate based on the analysis that had been performed as of the date of the filing of our quarterly report on Form 10-Q for the period ended June 30, 2016. During the third quarter of 2016, we completed our impairment assessment on goodwill, which resulted in the reversal of \$11.6 million of non-cash impairment to goodwill. Consequently, the non-cash impairment to goodwill recorded during the nine months ended September 30, 2016 as a result of the Spin-Off and Merger transactions totaled \$321.3 million.

The goodwill impairments pertained to our Midwest, South and West segments, in the amounts of \$124.5 million, \$157.7 million and \$39.1 million, respectively. The gaming license impairments pertained to our Midwest segment and the trade name impairments related to our Midwest, South and West segments, in the amounts of \$35.3 million, \$22.2 million and \$3.5 million, respectively.

The estimated fair values of the reporting units, gaming licenses and trade names were determined by using discounted cash flow models, which utilized Level 3 inputs.

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The following table presents quantitative information about the significant unobservable inputs used in the fair value measurements of other indefinite-lived intangible assets as of the valuation date:

|                 | Fair Value as of April 28, 2016<br>(in millions) | Valuation Technique  | Unobservable Input            | Range or Amount |
|-----------------|--|----------------------|-------------------------------|-----------------|
| Gaming Licenses | \$ 302.0   | Discounted cash flow | Discount rate                 | 8.8% - 17.5%    |
|                 |  |                      | Long-term revenue growth rate | 2.0%            |
| Trade Names     | \$ 125.5   | Discounted cash flow | Discount rate                 | 14.9% - 15.1%   |
|                 |  |                      | Long-term revenue growth rate | 2.0%            |
|                 |  |                      | Pre-tax royalty rate          | 1.5% - 1.8%     |

The following table presents a summary of fair value measurements by level for the goodwill and other indefinite-lived intangible assets measured at fair value on a nonrecurring basis in the unaudited Condensed Consolidated Balance Sheets:

|                                       | Fair Value Measurements Using: |         |         | Total Impairment |
|---------------------------------------|--------------------------------|---------|---------|------------------|
|                                       | Level 1                        | Level 2 | Level 3 |                  |
| Total Fair Value as of April 28, 2016 |                                |         |         |                  |
|                                       | (in millions)                  |         |         |                  |

|                 |          |      |           |          |
|-----------------|----------|------|-----------|----------|
| Assets:         |          |      |           |          |
| Goodwill        | \$ 132.4 | \$ — | —\$ 132.4 | \$ 321.3 |
| Gaming licenses | \$ 302.0 | \$ — | —\$ 302.0 | \$ 68.5  |
| Trade names     | \$ 125.5 | \$ — | —\$ 125.5 | \$ 61.0  |

During the third quarter of 2015, we determined that there was an indication of impairment on the intangible assets of HPT due to its operating performance. As a result, we recognized non-cash impairments on its goodwill, trade name, and player relationships, of \$1.4 million, \$0.2 million and \$0.7 million, respectively, during the three and nine months ended September 30, 2015. The estimated fair values of the reporting unit, trade name and player relationships were determined by using discounted cash flow models, which utilized Level 3 inputs.

Additionally, during the second quarter of 2015, we determined that there was an indication of impairment on the intangible assets of Pinnacle Retama Partners, LLC (“PRP”), due to the lack of legislative progress and on-going negative operating results at Retama Park Racetrack. As a result, during the nine months ended September 30, 2015, we recognized non-cash impairments of the goodwill of PRP and the Retama Park Racetrack license of \$3.3 million and \$5.0 million, respectively, which fully impaired these intangible assets. The estimated fair values of the reporting unit and the license were determined by using probability-weighted discounted cash flow models, which utilized Level 3 inputs.

The non-cash impairment charges to goodwill discussed above are included in “Impairment of goodwill” and the non-cash impairment charges to trade names, gaming licenses and player relationships, discussed above are included in “Impairment of other intangible assets” in our unaudited Condensed Consolidated Statements of Operations.





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The following tables set forth changes in the carrying amount of goodwill and other intangible assets:

| September 30, 2016                                |  |                       |                   |                         |                              |                        |
|---|--|-----------------------|-------------------|-------------------------|------------------------------|------------------------|
|   | Weighted Average Remaining Useful Life (years) | Gross Carrying Amount | Additions         | Cumulative Amortization | Cumulative Impairment Losses | Intangible Assets, Net |
| (in millions)                                     |  |                       |                   |                         |                              |                        |
| <b>Goodwill:</b>                                  |  |                       |                   |                         |                              |                        |
| Midwest segment                                   | Indefinite                                     | \$586.9               | \$ 18.3           | \$ —                    | \$ (124.5 )                  | \$ 480.7               |
| South segment                                     | Indefinite                                     | 248.3                 | —                 | —                       | (157.7 )                     | 90.6                   |
| West segment                                      | Indefinite                                     | 78.2                  | —                 | —                       | (39.1 )                      | 39.1                   |
| Other   | Indefinite                                     | 5.9                   | —                 | —                       | (4.7 )                       | 1.2                    |
|   |  | 919.3                 | 18.3              | —                       | (326.0 )                     | 611.6                  |
| <b>Indefinite-lived Intangible Assets:</b>        |  |                       |                   |                         |                              |                        |
| Gaming licenses                                   | Indefinite                                     | 318.6                 | 57.2              | —                       | (127.1 )                     | 248.7                  |
| Trade names                                       | Indefinite                                     | 187.2                 | 15.0              | —                       | (61.7 )                      | 140.5                  |
|   |  | 505.8                 | 72.2              | —                       | (188.8 )                     | 389.2                  |
| <b>Amortizing Intangible Assets:</b>              |  |                       |                   |                         |                              |                        |
| Player relationships                              | 3.25   | 75.1                  | —                 | (54.3 )                 | (0.7 )                       | 20.1                   |
| Favorable leasehold interests                     | 29.25  | 4.4                   | —                 | (0.4 )                  | —                            | 4.0                    |
|   |  | 79.5                  | —                 | (54.7 )                 | (0.7 )                       | 24.1                   |
| <b>Total Goodwill and Other Intangible Assets</b> |  | <b>\$1,504.6</b>      | <b>\$ 90.5</b>    | <b>\$ (54.7 )</b>       | <b>\$ (515.5 )</b>           | <b>\$ 1,024.9</b>      |
| December 31, 2015                                 |  |                       |                   |                         |                              |                        |
|   | Weighted Average Remaining Useful Life (years) | Gross Carrying Amount |                   | Cumulative Amortization | Cumulative Impairment Losses | Intangible Assets, Net |
| (in millions)                                     |  |                       |                   |                         |                              |                        |
| <b>Goodwill:</b>                                  |  |                       |                   |                         |                              |                        |
| Midwest segment                                   | Indefinite                                     | \$586.9               | \$ —              | \$ —                    | \$ —                         | \$ 586.9               |
| South segment                                     | Indefinite                                     | 248.3                 | —                 | —                       | —                            | 248.3                  |
| West segment                                      | Indefinite                                     | 78.2                  | —                 | —                       | —                            | 78.2                   |
| Other   | Indefinite                                     | 5.9                   | —                 | —                       | (4.7 )                       | 1.2                    |
|   |  | 919.3                 | —                 | —                       | (4.7 )                       | 914.6                  |
| <b>Indefinite-lived Intangible Assets:</b>        |  |                       |                   |                         |                              |                        |
| Gaming licenses                                   | Indefinite                                     | 318.6                 | —                 | —                       | (58.6 )                      | 260.0                  |
| Trade names                                       | Indefinite                                     | 187.2                 | —                 | —                       | (0.7 )                       | 186.5                  |
| Racing license                                    | Indefinite                                     | 5.0                   | —                 | —                       | (5.0 )                       | —                      |
|   |  | 510.8                 | —                 | —                       | (64.3 )                      | 446.5                  |
| <b>Amortizing Intangible Assets:</b>              |  |                       |                   |                         |                              |                        |
| Player relationships                              | 4  | 75.1                  | —                 | (45.5 )                 | (0.7 )                       | 28.9                   |
| Favorable leasehold interests                     | 30   | 4.4                   | —                 | (0.3 )                  | —                            | 4.1                    |
|   |  | 79.5                  | —                 | (45.8 )                 | (0.7 )                       | 33.0                   |
| <b>Total Goodwill and Other Intangible Assets</b> |  | <b>\$1,509.6</b>      | <b>\$ (45.8 )</b> | <b>\$ (69.7 )</b>       | <b>\$ (69.7 )</b>            | <b>\$ 1,394.1</b>      |



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## Note 8—Investment and Acquisition Activities

Acquisition of the Meadows Business: On September 9, 2016, we closed on the purchase agreement with GLPC pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania for base consideration of \$138.0 million, subject to certain adjustments. As of September 30, 2016, the purchase price, after giving effect to estimated adjustments, for the Meadows business was \$136.4 million, of which, \$131.9 million has been paid and \$4.5 million has been accrued, relating primarily to a final working capital adjustment. As a result of the transaction, we own and operate the Meadows' gaming entertainment and harness racing business subject to the Meadows Lease, which is discussed in Note 2, "Spin-Off, Merger, Master Lease Financing Obligation and Meadows Lease." The Company believes that this acquisition provides additional economies of scale, further geographical diversification and will provide long-term growth for our stockholders.

We are required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill, of which \$7.6 million is deductible for income tax purposes. The goodwill recognized is primarily the result of expected cash flows of the Meadows business, including anticipated synergies. The determination of the fair values of the acquired assets and assumed liabilities requires significant judgment. Due to the recent acquisition date of the Meadows, management has not yet finalized its valuation analysis, and is in the process of evaluating key assumptions that derive the fair value of the assets acquired and liabilities assumed, including the income tax balances. Therefore, the allocation of the purchase price is preliminary and subject to change.

The following table reflects the preliminary allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed, with the excess recorded as goodwill (in thousands). The goodwill has been assigned to our Midwest segment.

|                             |           |
|-----------------------------|-----------|
| Current and other assets    | \$36,848  |
| Property and equipment      | 39,315    |
| Goodwill                    | 18,370    |
| Intangible assets           | 72,200    |
| Other non-current assets    | 3,001     |
| Total assets                | 169,734   |
| Current liabilities         | 17,401    |
| Deferred tax liabilities    | 10,751    |
| Other long-term liabilities | 5,144     |
| Total liabilities           | 33,296    |
| Net assets acquired         | \$136,438 |

The following table summarizes the acquired property and equipment. These values are preliminary and may change as the purchase price allocation is finalized.

|                                       |   |
|---------------------------------------|---|
|                                       | As<br>Recorded<br>at Fair<br>Value<br>(in<br>thousands) |
| Furniture, fixtures and equipment     | 39,290  |
| Construction in progress              | 25  |
| Total property and equipment acquired | \$ 39,315   |

The following table summarizes the acquired intangible assets other than goodwill. These values are preliminary and may change as the purchase price allocation is finalized.

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|                                  |   |
|----------------------------------|---|
|                                  | As<br>Recorded<br>at Fair<br>Value<br>(in<br>thousands) |
| Gaming licenses                  | \$ 57,200   |
| Trade name                       | 15,000  |
| Total intangible assets acquired | \$ 72,200   |

The following table includes the financial results for Meadows since the acquisition date which is included in our unaudited Consolidated Condensed Statement of Operations:

|              |   |
|--------------|---|
|              | Period<br>from<br>September<br>9, 2016 to<br>September<br>30, 2016<br>(in<br>thousands) |
| Net revenues | \$ 15,585   |
| Net loss     | \$ (560 )   |

The following table includes unaudited pro forma consolidated financial information assuming our acquisition of the Meadows had occurred as of January 1, 2015. The pro forma financial information does not necessarily represent the results that may occur in the future. The pro forma amounts include the historical operating results of Pinnacle and Meadows prior to the acquisition, with adjustments directly attributable to the acquisition. The pro forma results include increases to depreciation expense based on the preliminary fair values of the fixed assets acquired in the amounts of \$3.6 million, \$13.2 million, \$4.8 million and \$14.4 million for the three and nine months ended September 30, 2016 and 2015, respectively, and increases to interest expense relating to the additional borrowings under the Revolving Credit Facility to finance the acquisition in the amounts of \$1.0 million, \$2.9 million, \$1.0 million and \$2.9 million, for the three and nine months ended September 30, 2016 and 2015, respectively. The pro forma results also include rent expense relating to the Meadows Lease as if the lease had been in effect as of January 1, 2015 in the amounts of \$3.1 million, \$11.3 million, \$4.1 million and \$12.2 million, for the three and nine months ended September 30, 2016 and 2015, respectively. Lastly, the pro forma results also reflect adjustments for acquisition costs and tax expense assuming Meadows was part of the Company for the full pro forma periods presented.

|  | For the three<br>months ended<br>September 30,<br>2016 |           | For the nine months<br>ended September 30,<br>2015 |             |
|--|--|-----------|--|-------------|
|  | 2016   | 2015      | 2016   | 2015        |
|  | (in thousands, except per share data)                  |           |  |             |
| Net revenues   | \$650,747  | \$652,627 | \$1,945,505  | \$1,947,330 |
| Net income (loss) attributable to Pinnacle Entertainment, Inc. | 1,707  | 28,020    | (437,645 )   | 68,827      |
| Basic income (loss) per share                                  | 0.03   | 0.46      | (7.33 )  | 1.13        |
| Diluted income (loss) per share                                | 0.03   | 0.44      | (7.33 )  | 1.09        |

Retama Park Racetrack: We hold 75.5% of the equity of PRP and consolidate the accounts of PRP in our unaudited Condensed Consolidated Financial Statements. As of September 30, 2016, PRP held \$15.6 million in promissory

notes issued by Retama Development Corporation (“RDC”), a local government corporation of the City of Selma, Texas, and \$11.3 million in local government corporation bonds issued by RDC, at amortized cost. The promissory notes and local government corporation bonds, which are included in “Other assets, net” in our unaudited Condensed Consolidated Balance Sheets, have long-term contractual maturities and are collateralized by the assets of the Retama Park Racetrack. The contractual terms of the promissory notes include interest payments due at maturity; however, we have not recorded accrued interest because uncertainty exists as to RDC’s ability to make the interest payments. We have the positive intent and ability to hold the local government corporation bonds to maturity and until the amortized cost basis is recovered.

Equity Method Investment: We have invested in a land re-vitalization project in downtown St. Louis, which is accounted for under the equity method and included in “Other assets, net” in our unaudited Condensed Consolidated Balance Sheets. For the nine months ended September 30, 2016, our proportional share of the investment's losses totaled \$0.1 million. As of September 30, 2016, and December 31, 2015, the carrying amount of this investment was \$1.6 million and \$1.7 million, respectively.

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Note 9—Discontinued Operations and Assets Held for Sale

Assets held for sale are measured at the lower of carrying amount or estimated fair value less cost to sell. The results of operations of a component or group of components that has either been disposed of or is classified as held for sale is included in discontinued operations when certain criteria are met. During the nine months ended September 30, 2016 and 2015, income before income taxes reported in discontinued operations was \$0.4 million and \$5.2 million, respectively, and was \$0.4 million during the three months ended September 30, 2015. The fair value of the assets to be sold was determined using a market approach using Level 2 inputs, as defined in Note 1, “Organization and Summary of Significant Accounting Policies.”

Central City, Colorado: In March 2016, we completed the sale of approximately two acres of land in Central City, Colorado, which had a carrying amount of \$0.3 million, for cash consideration of \$0.3 million. This land was classified as held for sale as of December 31, 2015. During the three and nine months ended September 30, 2015, in order to reduce the carrying amount of this land to its estimated fair value less cost to sell, we recorded non-cash impairment charges of \$0.4 million and \$3.0 million, respectively, which are included in “Write-downs, reserves and recoveries, net” in our unaudited Condensed Consolidated Statements of Operations.

Ameristar Lake Charles: In July 2013, we entered into an agreement to sell all of the equity interests of our subsidiary, which was constructing the Ameristar Lake Charles development project. In November 2013, we closed the sale of the equity interests of our subsidiary. At the time of the sale, we received approximately \$209.8 million in cash consideration and \$10.0 million in deferred consideration in the form of a note receivable from the buyer, which was collected in July 2016. The note receivable was classified as held for sale as of December 31, 2015 with a carrying amount of \$9.6 million.

Note 10—Commitments and Contingencies

Self-Insurance: We self-insure various levels of general liability, workers’ compensation, and medical coverage at most of our properties. Insurance reserves include accruals for estimated settlements for known claims, as well as accruals for estimates of claims not yet made. As of September 30, 2016 and December 31, 2015, we had total self-insurance accruals of \$26.0 million and \$25.5 million, respectively, which are included in “Total current liabilities” in our unaudited Condensed Consolidated Balance Sheets.

Other: We are a party to a number of other pending legal proceedings. Management does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material effect on our financial position, cash flows or results of operations.



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## Note 11—Segment Information

We view each of our operating properties as an operating segment with the exception of our two properties in Jackpot, Nevada, which we view as one operating segment. Operating segments are aggregated based on their similar economic characteristics, types of customers, types of services provided, the regulatory environments in which they operate, and their management and reporting structure. We have aggregated our operating segments into three reportable segments based on the similar characteristics of the operating segments within the regions in which they operate: Midwest, South and West. Corporate expenses and other is included in the following segment disclosures to reconcile to consolidated results.

We use Consolidated Adjusted EBITDAR (as defined below) and Adjusted EBITDAR (as defined below) for each segment to compare operating results among our segments and allocate resources. The following table highlights our Adjusted EBITDAR for each segment and reconciles Consolidated Adjusted EBITDAR to Income (loss) from continuing operations for the three and nine months ended September 30, 2016 and 2015.

|   | For the three<br>months ended<br>September 30, |         | For the nine months<br>ended September 30, |           |
|---|--|---------|--|-----------|
|   | 2016   | 2015    | 2016                                       | 2015      |
|   | (in millions)                                  |         |  |           |
| Revenues:                                 |  |         |  |           |
| Midwest segment (a)                       | \$333.5  | \$318.4 | \$980.8                                    | \$955.1   |
| South segment (a)                         | 197.0  | 197.1   | 579.0                                      | 601.3     |
| West segment (a)                          | 62.9   | 61.1    | 177.2                                      | 172.0     |
|   | 593.4  | 576.6   | 1,737.0                                    | 1,728.4   |
| Corporate and other (c)                   | 1.8  | 2.0     | 4.4  | 5.0       |
| Total revenues                            | \$595.2  | \$578.6 | \$1,741.4                                  | \$1,733.4 |
| Adjusted EBITDAR (b):                     |  |         |  |           |
| Midwest segment (a)                       | \$92.8   | \$92.8  | \$299.0                                    | \$289.5   |
| South segment (a)                         | 58.1   | 56.3    | 180.5                                      | 182.8     |
| West segment (a)                          | 24.2   | 22.7    | 66.8                                       | 63.5      |
|   | 175.1  | 171.8   | 546.3                                      | 535.8     |
| Corporate expenses and other (c)          | (19.7 )  | (22.0 ) | (61.5 )                                    | (62.1 )   |
| Consolidated Adjusted EBITDAR (b)         | 155.4  | 149.8   | 484.8                                      | 473.7     |
| Other benefits (costs):                   |  |         |  |           |
| Rent expense from Meadows Lease           | (1.0 )   | —       | (1.0 )                                     | —         |
| Depreciation and amortization             | (54.3 )  | (57.6 ) | (162.4 )                                   | (187.3 )  |
| Pre-opening, development and other costs  | (5.6 )   | (4.0 )  | (55.0 )                                    | (11.7 )   |
| Non-cash share-based compensation expense | (2.6 )   | (4.1 )  | (32.7 )                                    | (13.0 )   |
| Impairment of goodwill                    | 11.6   | (1.4 )  | (321.3 )                                   | (4.7 )    |
| Impairment of other intangible assets     | —  | (0.9 )  | (129.5 )                                   | (5.9 )    |
| Write-downs, reserves and recoveries, net | (6.2 )   | (0.9 )  | (13.8 )                                    | 4.1       |
| Interest expense, net                     | (94.3 )  | (65.0 ) | (239.1 )                                   | (186.1 )  |
| Loss from equity method investment        | —  | —       | (0.1 )                                     | (0.1 )    |
| Loss on early extinguishment of debt      | —  | —       | (5.2 )                                     | —         |
| Income tax benefit (expense)              | (3.5 )   | (2.4 )  | 26.5                                       | (12.7 )   |
| Income (loss) from continuing operations  | \$(0.5 )                                       | \$13.5  | \$(448.8 )                                 | \$56.3    |



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For the nine  
months  
ended  
September  
30,  
2016 2015

(in millions)

|   |        |        |
|---|--------|--------|
| Capital expenditures:                               |        |        |
| Midwest segment (a)                                 | \$42.1 | \$30.0 |
| South segment (a)                                   | 21.6   | 18.7   |
| West segment (a)                                    | 6.7    | 6.9    |
| Corporate and other, including development projects | 2.7    | 1.9    |
|   | \$73.1 | \$57.5 |

September 30, December 31,  
2016 2015

(in millions)

|   |           |            |
|---|-----------|------------|
| Assets:   |           |            |
| Midwest segment (a)   | \$2,532.7 | \$ 2,664.3 |
| South segment (a)   | 990.3     | 1,232.6    |
| West segment (a)  | 484.8     | 540.0      |
| Corporate and other, including development projects and discontinued operations | 406.3     | 614.6      |
| Eliminations  | (312.9 )  | (520.6 )   |
|   | \$4,101.2 | \$ 4,530.9 |

- (a) See Note 1, "Organization and Summary of Significant Accounting Policies," for listing of properties included in each segment.
- (b) We define Consolidated Adjusted EBITDAR as earnings before interest income and expense, income taxes, depreciation, amortization, pre-opening, development and other costs, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, corporate-level litigation settlement costs, gain (loss) on sale of certain assets, loss on early extinguishment of debt, gain (loss) on sale of equity security investments, income (loss) from equity method investments, non-controlling interest, discontinued operations and rent expense associated with the Meadows Lease. Beginning with the second quarter of 2016, the Company altered the format of its presentation from EBITDA to EBITDAR in anticipation of the Meadows acquisition, which closed during the third quarter of 2016. We define Adjusted EBITDAR for each reportable segment as earnings before interest income and expense, income taxes, depreciation, amortization, pre-opening, development and other costs, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, inter-company management fees, gain (loss) on sale of certain assets, gain (loss) on early extinguishment of debt, gain (loss) on sale of discontinued operations, discontinued operations and rent expense associated with the Meadows Lease. We define Adjusted EBITDAR margin as Adjusted EBITDAR for the segment divided by segment revenues. We use Consolidated Adjusted EBITDAR and Adjusted EBITDAR for each segment to compare operating results among our properties and between accounting periods. Consolidated Adjusted EBITDAR and Adjusted EBITDAR have economic substance because they are used by management as measures to analyze the performance of our business and are especially relevant in evaluating large, long-lived casino-hotel projects because they provide a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. We eliminate the results from discontinued operations at the time they are deemed discontinued. We also review pre-opening, development and other costs separately, as such expenses are

also included in total project costs when assessing budgets and project returns, and because such costs relate to anticipated future revenues and income. We believe that Consolidated Adjusted EBITDAR and Adjusted EBITDAR are useful measures for investors because they are indicators of the performance of ongoing business operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare operating performance and value of companies within our industry. In addition, Consolidated Adjusted EBITDAR approximates the measures used in the debt covenants within the Company's debt agreements. Consolidated Adjusted EBITDAR and Adjusted EBITDAR do not include depreciation or interest expense and, therefore, do not reflect current or future capital expenditures or the cost of capital. Consolidated Adjusted EBITDAR should not be considered as an alternative to operating income (loss) as an indicator of performance, or as an alternative to any other measure provided in accordance with GAAP. Our calculations of Consolidated Adjusted EBITDAR and Adjusted EBITDAR may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

(c) Corporate and other includes revenues from Retama Park Racetrack (which we manage) and the Heartland Poker Tour. Corporate expenses represent payroll, professional fees, travel expenses and other general and administrative expenses not directly related to our casino and hotel operations. Corporate expenses that are directly attributable to a property are allocated to each applicable property. All other costs incurred relating to the management and consulting services provided by corporate headquarters to the properties are allocated to those properties based on their respective share of the monthly consolidated net revenues in the form of a management fee.

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The corporate management fee is excluded in the calculation of segment Adjusted EBITDAR and is completely eliminated in any consolidated financial results. Other includes expenses relating to the management of Retama Park Racetrack and the operation of Heartland Poker Tour.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with, and is qualified in its entirety by, the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the Consolidated Financial Statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2015 contained in our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016.

EXECUTIVE SUMMARY

Pinnacle Entertainment, Inc. is an owner, operator and developer of casinos and related hospitality and entertainment businesses. References to “Pinnacle,” the “Company,” “we,” “our” or “us” refer to Pinnacle Entertainment, Inc. and its subsidiaries, except where stated or the context otherwise indicates. References to “Former Pinnacle” refer to Pinnacle Entertainment, Inc. prior to the Spin-Off and Merger (as such terms are defined below).

We own and operate 16 gaming entertainment businesses, located in Colorado, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, Ohio and Pennsylvania. We also hold a majority interest in the racing license owner, and we are a party to a management contract, for Retama Park Racetrack located outside of San Antonio, Texas. In addition to these properties, we own and operate a live and televised poker tournament series under the trade name Heartland Poker Tour (“HPT”). We view each of our operating properties as an operating segment with the exception of our two properties in Jackpot, Nevada, which we view as one operating segment. For financial reporting purposes, we aggregate our operating segments into the following reportable segments:

Midwest segment, which includes: Location

|                          |                          |
|--------------------------|--------------------------|
| Ameristar Council Bluffs | Council Bluffs, Iowa     |
| Ameristar East Chicago   | East Chicago, Indiana    |
| Ameristar Kansas City    | Kansas City, Missouri    |
| Ameristar St. Charles    | St. Charles, Missouri    |
| Belterra                 | Florence, Indiana        |
| Belterra Park            | Cincinnati, Ohio         |
| Meadows (1)              | Washington, Pennsylvania |
| River City               | St. Louis, Missouri      |

South segment, which includes: Location

|                        |                         |
|------------------------|-------------------------|
| Ameristar Vicksburg    | Vicksburg, Mississippi  |
| Boomtown Bossier City  | Bossier City, Louisiana |
| Boomtown New Orleans   | New Orleans, Louisiana  |
| L’Auberge Baton Rouge  | Baton Rouge, Louisiana  |
| L’Auberge Lake Charles | Lake Charles, Louisiana |

West segment, which includes: Location

|                           |                      |
|---------------------------|----------------------|
| Ameristar Black Hawk      | Black Hawk, Colorado |
| Cactus Petes and Horseshu | Jackpot, Nevada      |

(1) The Meadows Racetrack and Casino (the “Meadows”) was acquired on September 9, 2016 as discussed below.

We own and operate gaming entertainment businesses, all of which include gaming, food and beverage, and retail facilities, and most of which include hotel and resort amenities. Our operating results are highly dependent on the volume of customers at our properties, which, in turn, affects the price we can charge for our hotel rooms and other amenities. While we do provide casino credit in several gaming jurisdictions, most of our revenue is cash-based, with customers wagering with cash or paying for non-gaming services with cash or credit cards. Our properties generate

significant operating cash flow. Our industry is capital-intensive, and we rely on the ability of our properties to generate operating cash flow to satisfy our obligations under the Master Lease and the Meadows Lease (as such terms are defined below), pay interest, repay debt, and fund maintenance capital expenditures.

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Our mission is to increase stockholder value. We seek to increase revenues through enhancing the guest experience by providing them with their favorite games, restaurants, hotel accommodations, entertainment and other amenities in attractive surroundings with high-quality guest service and our mychoice customer loyalty program. We seek to improve cash flows by focusing on operational excellence and efficiency while meeting our guests' expectations of value. Our long-term strategy includes disciplined capital expenditures to improve and maintain our existing facilities, while growing the number of businesses we own and operate by pursuing gaming entertainment opportunities we can acquire and improve or develop. We intend to diversify our revenue sources by growing our portfolio of operating facilities, while remaining gaming and entertainment centric. We intend to implement these strategies either alone or with third parties when we believe it benefits our stockholders to do so. In making decisions, we consider our stockholders, guests, team members and other constituents in the communities in which we operate.

On April 28, 2016, Former Pinnacle completed the transactions under the terms of a definitive agreement (the "Merger Agreement") with Gaming and Leisure Properties, Inc. ("GLPI"), a real estate investment trust. Pursuant to the terms of the Merger Agreement, Former Pinnacle separated its operating assets and liabilities (and its Belterra Park property and excess land at certain locations) into the Company, a newly formed subsidiary, and distributed to its stockholders, on a pro rata basis, all of the issued and outstanding shares of common stock of the Company (such distribution referred to as the "Spin-Off"). As a result, Former Pinnacle stockholders received one share of the Company's common stock, with a par value of \$0.01 per share, for each share of Former Pinnacle common stock that they owned. Gold Merger Sub, LLC, a wholly owned subsidiary of GLPI ("Merger Sub"), then merged with and into Former Pinnacle (the "Merger"), with Merger Sub surviving the Merger as a wholly owned subsidiary of GLPI. The Company was renamed Pinnacle Entertainment, Inc. immediately following the Merger.

In completing the Merger, each share of common stock, par value \$0.10 per share, of Former Pinnacle (the "Former Pinnacle Common Stock") issued and outstanding immediately prior to the effective time (other than shares of Former Pinnacle Common Stock (i) owned or held in treasury by Former Pinnacle or (ii) owned by GLPI, its subsidiaries or Merger Sub) were canceled and converted into the right to receive 0.85 shares of common stock, par value \$0.01 per share, of GLPI.

Following the Spin-Off and Merger, we operate our gaming businesses under a triple-net master lease agreement for the facilities acquired by GLPI (the "Master Lease"). The Master Lease has an initial term of 10 years with five subsequent, five-year renewal periods at our option. The Company pays initial annual rent of \$377 million to GLPI.

On September 9, 2016, we closed on a purchase agreement (the "Purchase Agreement") with GLP Capital, L.P. ("GLPC"), a subsidiary of GLPI, pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania for base consideration of \$138.0 million, subject to certain adjustments. As of September 30, 2016, the purchase price, after giving effect to estimated adjustments, for the Meadows business was \$136.4 million. As a result of the transaction, we own and operate the Meadows' gaming entertainment and harness racing business subject to a triple-net lease of its underlying real property with GLPI (the "Meadows Lease"). The Meadows Lease provides for a 10-year initial term, including renewal terms at our option, up to a total of 29 years. The initial annual rent is \$25.4 million.



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## RESULTS OF OPERATIONS

The following table highlights our results of operations for the three and nine months ended September 30, 2016 and 2015. As discussed in Note 11, “Segment Information,” to our unaudited Condensed Consolidated Financial Statements, we report segment operating results based on revenues and Adjusted EBITDAR (as defined below). Such segment reporting is on a basis consistent with how we measure our business and allocate resources internally. See Note 11, “Segment Information,” to our unaudited Condensed Consolidated Financial Statements for more information regarding our segment information. The following table highlights our Adjusted EBITDAR for each segment and reconciles Consolidated Adjusted EBITDAR (as defined below) and Consolidated Adjusted EBITDA, net of Lease Payments (as defined below) to Income (loss) from continuing operations in accordance with U.S. GAAP.

|   | For the three<br>months ended<br>September 30, |         | For the nine months<br>ended September 30, |           |
|---|--|---------|--|-----------|
|   | 2016   | 2015    | 2016                                       | 2015      |
|   | (in millions)                                  |         |  |           |
| Revenues:   |  |         |  |           |
| Midwest segment (a)                                     | \$333.5  | \$318.4 | \$980.8                                    | \$955.1   |
| South segment (a)                                       | 197.0  | 197.1   | 579.0                                      | 601.3     |
| West segment (a)  | 62.9   | 61.1    | 177.2                                      | 172.0     |
|   | 593.4  | 576.6   | 1,737.0                                    | 1,728.4   |
| Corporate and other (c)                                 | 1.8  | 2.0     | 4.4  | 5.0       |
| Total revenues  | \$595.2  | \$578.6 | \$1,741.4                                  | \$1,733.4 |
| Adjusted EBITDAR (b):                                   |  |         |  |           |
| Midwest segment (a)                                     | \$92.8   | \$92.8  | \$299.0                                    | \$289.5   |
| South segment (a)                                       | 58.1   | 56.3    | 180.5                                      | 182.8     |
| West segment (a)  | 24.2   | 22.7    | 66.8                                       | 63.5      |
|   | 175.1  | 171.8   | 546.3                                      | 535.8     |
| Corporate expenses and other (c)                        | (19.7 )  | (22.0 ) | (61.5 )                                    | (62.1 )   |
| Consolidated Adjusted EBITDAR (b)                       | 155.4  | 149.8   | 484.8                                      | 473.7     |
| Lease Payments (d)                                      | (96.5 )  | —       | (162.7 )                                   | —         |
| Consolidated Adjusted EBITDA, net of Lease Payments (d) | 58.9   | 149.8   | 322.1                                      | 473.7     |
| Other benefits (costs) and adjustments:                 |  |         |  |           |
| Lease Payments (d)                                      | 96.5   | —       | 162.7                                      | —         |
| Rent expense under Meadows Lease                        | (1.0 )   | —       | (1.0 )                                     | —         |
| Depreciation and amortization                           | (54.3 )  | (57.6 ) | (162.4 )                                   | (187.3 )  |
| Pre-opening, development and other costs                | (5.6 )   | (4.0 )  | (55.0 )                                    | (11.7 )   |
| Non-cash share-based compensation expense               | (2.6 )   | (4.1 )  | (32.7 )                                    | (13.0 )   |
| Impairment of goodwill                                  | 11.6   | (1.4 )  | (321.3 )                                   | (4.7 )    |
| Impairment of other intangible assets                   | —  | (0.9 )  | (129.5 )                                   | (5.9 )    |
| Write-downs, reserves and recoveries, net               | (6.2 )   | (0.9 )  | (13.8 )                                    | 4.1       |
| Interest expense, net                                   | (94.3 )  | (65.0 ) | (239.1 )                                   | (186.1 )  |
| Loss from equity method investment                      | —  | —       | (0.1 )                                     | (0.1 )    |
| Loss on early extinguishment of debt                    | —  | —       | (5.2 )                                     | —         |
| Income tax benefit (expense)                            | (3.5 )   | (2.4 )  | 26.5                                       | (12.7 )   |
| Income (loss) from continuing operations                | \$(0.5 )                                       | \$13.5  | \$(448.8 )                                 | \$56.3    |

(a) See “Executive Summary” section for listing of properties included in each segment.

(b)

We define Consolidated Adjusted EBITDAR as earnings before interest income and expense, income taxes, depreciation, amortization, pre-opening, development and other costs, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, corporate-level litigation settlement costs, gain (loss) on sale of certain assets, loss on early extinguishment of debt, gain

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(loss) on sale of equity security investments, income (loss) from equity method investments, non-controlling interest, discontinued operations and rent expense associated with the Meadows Lease. Beginning with the second quarter of 2016, the Company altered the format of its presentation from EBITDA to EBITDAR in anticipation of the Meadows acquisition, which closed during the third quarter of 2016. We define Adjusted EBITDAR for each reportable segment as earnings before interest income and expense, income taxes, depreciation, amortization, pre-opening, development and other costs, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, inter-company management fees, gain (loss) on sale of certain assets, gain (loss) on early extinguishment of debt, gain (loss) on sale of discontinued operations, discontinued operations and rent expense associated with the Meadows Lease. We define Consolidated Adjusted EBITDAR margin as Consolidated Adjusted EBITDAR divided by revenues on a consolidated basis. We define Adjusted EBITDAR margin as Adjusted EBITDAR for the segment divided by segment revenues. We use Consolidated Adjusted EBITDAR and Adjusted EBITDAR for each segment to compare operating results among our properties and between accounting periods. Consolidated Adjusted EBITDAR and Adjusted EBITDAR have economic substance because they are used by management as measures to analyze the performance of our business and are especially relevant in evaluating large, long-lived casino-hotel projects because they provide a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. We eliminate the results from discontinued operations at the time they are deemed discontinued. We also review pre-opening, development and other costs separately, as such expenses are also included in total project costs when assessing budgets and project returns, and because such costs relate to anticipated future revenues and income. We believe that Consolidated Adjusted EBITDAR, Consolidated Adjusted EBITDAR margin and Adjusted EBITDAR are useful measures for investors because they are indicators of the performance of ongoing business operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare operating performance and value of companies within our industry. In addition, Consolidated Adjusted EBITDAR approximates the measures used in the debt covenants within the Company's debt agreements. Consolidated Adjusted EBITDAR and Adjusted EBITDAR do not include depreciation or interest expense and, therefore, do not reflect current or future capital expenditures or the cost of capital. Consolidated Adjusted EBITDAR should not be considered as an alternative to operating income (loss) as an indicator of performance, or as an alternative to any other measure provided in accordance with GAAP. Our calculations of Consolidated Adjusted EBITDAR and Adjusted EBITDAR may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

- Corporate and other includes revenues from Retama Park Racetrack (which we manage) and the Heartland Poker Tour. Corporate expenses represent payroll, professional fees, travel expenses and other general and administrative expenses not directly related to our casino and hotel operations. Corporate expenses that are directly attributable to a property are allocated to each applicable property. All other costs incurred relating to the management and
- (c) consulting services provided by corporate headquarters to the properties are allocated to those properties based on their respective share of the monthly consolidated net revenues in the form of a management fee. The corporate management fee is excluded in the calculation of segment Adjusted EBITDAR and is completely eliminated in any consolidated financial results. Other includes expenses relating to the management of Retama Park Racetrack and the operation of Heartland Poker Tour.
- (d) Consolidated Adjusted EBITDA, net of Lease Payments is defined as Consolidated Adjusted EBITDAR (as defined in footnote b above), net of Lease Payments. The Company defines Lease Payments as lease payments made to GLPI for the Master Lease and the Meadows Lease. We believe that Consolidated Adjusted EBITDA, net of Lease Payments is a useful measure to compare operating results between accounting periods. In addition, Consolidated Adjusted EBITDA, net of Lease Payments is a useful measure for investors because it is an indicator of the performance of ongoing business operations after incorporating the cash flow obligations associated with the Master Lease and the Meadows Lease. Consolidated Adjusted EBITDA, net of Lease Payments should not be considered as an alternative to operating income (loss) as an indicator of performance, or as an alternative to any other measure provided in accordance with GAAP. Our calculations of Consolidated Adjusted EBITDA, net of

Lease Payments may be different from the calculation methods used by other companies and, therefore, comparability may be limited. The Master Lease is accounted for as a financing obligation. Total rent payments under the Master Lease, which commenced on April 28, 2016, were \$95.0 million for the three months ended September 30, 2016, of which \$83.6 million was recognized as interest expense and \$11.4 million reduced the financing obligation. Total payments were \$161.1 million for the nine months ended September 30, 2016, of which \$141.9 million was recognized as interest expense and \$19.2 million reduced the financing obligation. Total lease payments under the Meadows Lease, which commenced on September 9, 2016, were \$1.6 million for the three and nine months ended September 30, 2016.

#### Consolidated Overview

Total revenues for the three and nine months ended September 30, 2016 were \$595.2 million and \$1.7 billion, respectively, representing year over year increases of \$16.6 million, or 2.9%, and \$8.0 million, or 0.5%, respectively. For the three and nine months ended September 30, 2016, loss from continuing operations was \$0.5 million and \$448.8 million, respectively. The three and nine months ended September 30, 2016 includes \$15.6 million of total revenues from the Meadows, which was acquired on September 9, 2016. For the nine months ended September 30, 2016, loss from continuing operations was negatively impacted by non-cash impairments to goodwill, gaming licenses and trade names totaling \$321.3 million, \$68.5 million and \$61.0 million, respectively. For the three months ended September 30, 2016, loss from continuing operations was positively impacted by a reversal of \$11.6 million in non-cash goodwill impairment as a result of our finalization of our impairment analysis, which was recorded on a preliminary basis during the three months ended June 30, 2016.

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Consolidated Adjusted EBITDAR was \$155.4 million, an increase of \$5.6 million, or 3.7%, year over year, for the three months ended September 30, 2016 and was \$484.8 million for the nine months ended September 30, 2016, an increase of \$11.1 million, or 2.3%. Consolidated Adjusted EBITDAR margin for the three and nine months ended September 30, 2016, increased by 20 and 50 basis points, respectively, year over year. Excluding the impact of the Meadows, Consolidated Adjusted EBITDAR margin increased by 70 basis points year over year for both the three and nine months ended September 30, 2016. For the three and nine months ended September 30, 2016, Consolidated Adjusted EBITDAR was positively impacted by margin expansion and the acquisition of the Meadows, which contributed \$1.5 million of Adjusted EBITDAR, and negatively impacted by lost business volume at L'Auberge Baton Rouge due to severe rain and flooding. Additionally, Ameristar St. Charles was negatively impacted by highway interchange construction on Interstate 70 and a casino floor renovation program.

Total revenues for the three and nine months ended September 30, 2015 were \$578.6 million and \$1.7 billion, respectively. For the three and nine months ended September 30, 2015, income from continuing operations was \$13.5 million and \$56.3 million, respectively. For the three months ended September 30, 2015, Consolidated Adjusted EBITDAR was negatively impacted by \$0.9 million of cost related to the final L'Auberge Lake Charles team member retention program payments and repair costs related to flooding of the Red River in Bossier City. For the nine months ended September 30, 2015, Consolidated Adjusted EBITDAR benefited from a \$3.6 million refund received on disputed vendor payments in the first quarter of 2015, partially offset by \$2.5 million in costs related to the L'Auberge Lake Charles team member retention program payments and by repair and clean-up costs and lost business volume related to flooding of the Red River in Bossier City.

The Company's revenue consists mostly of gaming revenue, which is primarily from slot machines and to a lesser extent, table games. Slot revenue represented approximately 82% and 83% of gaming revenue in 2015 and 2014, respectively. In analyzing the performance of our properties, the key indicators related to gaming revenue are slot handle and table games drop (which are volume indicators) and win or hold percentage.

Slot handle or video lottery terminal ("VLT") handle represents the total amount wagered in a slot machine or VLT, and table games drop represents the total amount of cash and net markers issued that are deposited in gaming table drop boxes. Win represents the amount of wagers retained by us and recorded as gaming revenue, and hold represents win as a percentage of slot handle, VLT handle or table games drop. Given the stability in our slot and VLT hold percentages, we have not experienced any significant impact on our results of operations as a result of changes in hold percentages.

For table games, customers usually purchase cash chips at the gaming tables. The cash and markers (extensions of credit granted to certain credit-worthy customers) are deposited in the drop box of each gaming table. Table game win is the amount of drop that is retained and recorded as gaming revenue, with liabilities recognized for funds deposited by customers.

We offer incentives to our customers through our mychoice customer loyalty program. Under the mychoice customer loyalty program, customers earn points based on their level of play that may be redeemed for various benefits, such as cash back, dining, or hotel stays, among others. The reward credit balance under the program will be forfeited if the customer does not earn or use any reward credits over the prior six-month period. In addition, based on their level of play, customers can earn additional benefits without redeeming points, such as a car lease, among other items. We have not yet integrated Meadows into this program.

We accrue a liability for the estimated cost of providing these benefits as the benefits are earned. Estimates and assumptions are made regarding the cost of providing such benefits, breakage rates, and the mixture of goods and services customers will choose. We use historical data to assist in the determination of estimated accruals. Changes in estimates or customer redemption habits could produce different results. As of September 30, 2016 and December 31, 2015, we had accrued \$22.9 million and \$25.4 million, respectively, for the estimated cost of providing these benefits.



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Segment comparison of the three and nine months ended September 30, 2016 and 2015

## Midwest Segment

|                         | For the three months ended September 30, |         |                       | For the nine months ended September 30, |         |                       | Change |
|-------------------------|--|---------|-----------------------|---|---------|-----------------------|--------|
|                         | 2016                                     | 2015    | Change<br>vs.<br>2015 | 2016                                    | 2015    | Change<br>vs.<br>2015 |        |
|                         | (in millions)                            |         |                       | (in millions)                           |         |                       |        |
| Gaming revenues         | \$301.2                                  | \$287.9 | 4.6 %                 | \$887.6                                 | \$865.2 | 2.6 %                 |        |
| Total revenues          | 333.5                                    | 318.4   | 4.7 %                 | 980.8                                   | 955.1   | 2.7 %                 |        |
| Operating income (loss) | 73.4                                     | 61.3    | 19.7 %                | (22.5 )                                 | 189.5   | NM                    |        |
| Adjusted EBITDAR        | 92.8                                     | 92.8    | — %                   | 299.0                                   | 289.5   | 3.3 %                 |        |

NM - Not Meaningful

In the Midwest segment, total revenues increased by \$15.1 million, or 4.7% year over year, to \$333.5 million during the third quarter of 2016. Operating income for the third quarter of 2016 was \$73.4 million as compared to \$61.3 million in the prior year period. Adjusted EBITDAR remained steady year over year, at \$92.8 million during the third quarter of 2016. Adjusted EBITDAR margin was 27.8%, a decrease of 130 basis points year over year. The acquisition of the Meadows on September 9, 2016 contributed \$15.6 million of total revenues and \$1.5 million of Adjusted EBITDAR to the third quarter of 2016. Excluding the Meadows, Adjusted EBITDAR margin was 28.7%, a decrease of 40 basis points year over year.

For the three and nine months ended September 30, 2016, the Midwest segment operating results benefited from the acquisition of the Meadows and strong performance at Belterra Park, where gaming volumes continued to ramp up and additional cost efficiencies were realized, and Belterra, where modest growth in gaming revenues, an emphasis on cash non-gaming revenue streams, and operational efficiencies, resulted in Adjusted EBITDAR growth. The Midwest segment operating results for the three and nine months ended September 30, 2016 were negatively impacted by lost business volume at Ameristar St. Charles due primarily to highway interchange construction on Interstate 70 and a casino floor renovation program. Additionally, the nine months ended September 30, 2016 includes \$228.3 million of non-cash impairment to goodwill and other intangible assets as a result of the Spin-Off and Merger, which resulted in an operating loss for the period. The three months ended September 30, 2016 includes the reversal of \$11.6 million of non-cash impairment to goodwill as a result of our finalization of our impairment analysis, which was recorded on a preliminary basis during the three months ended June 30, 2016.

For the three and nine months ended September 30, 2015, the Midwest segment results were primarily driven by strong year over year increases in total revenues and Adjusted EBITDAR at Ameristar East Chicago, River City, Ameristar Kansas City and Belterra Park.

## South Segment

|  | For the three months ended September 30, |      |                       | For the nine months ended September 30, |      |                       | Change |
|--|--|------|-----------------------|---|------|-----------------------|--------|
|  | 2016                                     | 2015 | Change<br>vs.<br>2015 | 2016                                    | 2015 | Change<br>vs.<br>2015 |        |
|  | (in millions)                            |      |                       | (in millions)                           |      |                       |        |

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|                         | (in millions) |         |        | (in millions) |         |        |
|-------------------------|---------------|---------|--------|---------------|---------|--------|
| Gaming revenues         | \$177.3       | \$175.6 | 1.0 %  | \$521.2       | \$538.9 | (3.3)% |
| Total revenues          | 197.0         | 197.1   | (0.1)% | 579.0         | 601.3   | (3.7)% |
| Operating income (loss) | 34.5          | 36.2    | (4.7)% | (64.0)        | 118.5   | NM     |
| Adjusted EBITDAR        | 58.1          | 56.3    | 3.2 %  | 180.5         | 182.8   | (1.3)% |

NM - Not Meaningful

In the South segment, total revenues decreased by \$0.1 million, or 0.1% year over year, to \$197.0 million during the third quarter of 2016. Operating income for the third quarter of 2016 was \$34.5 million as compared to \$36.2 million in the prior year period. Adjusted EBITDAR increased by \$1.8 million, or 3.2% year over year, to \$58.1 million during the third quarter of 2016. Adjusted EBITDAR margin was 29.5%, an increase of 90 basis points year over year.



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For the three and nine months ended September 30, 2016, the South segment operating results benefited from strong operating performance at L'Auberge Baton Rouge despite disruption from severe rain and flooding, which reduced visitation for approximately two weeks in August. L'Auberge Baton Rouge continues to experience revenue growth while further refining its cost structure in its fourth year of operations. South segment operating results for the three and nine months ended September 30, 2016 also benefited from strong operating performance at L'Auberge Lake Charles. L'Auberge Lake Charles produced year over year quarterly growth for the first time since the fourth quarter of 2014, which was followed by a period of pressure on the East Texas economy from declining oil and gas prices and the entrance of a new competitor in the Lake Charles gaming-entertainment market. Lastly, the nine months ended September 30, 2016 includes \$179.9 million of non-cash impairment to goodwill and other intangible assets as a result of the Spin-Off and Merger, which resulted in an operating loss for the period.

For the three months ended September 30, 2015, the South segment's results were negatively impacted by \$0.9 million in costs related to the L'Auberge Lake Charles retention program and by repair costs and lost business volume related to the flooding of the Red River in Bossier City. For the nine months ended September 30, 2015, the South segment's results were negatively impacted by a \$2.5 million in costs related to the L'Auberge Lake Charles retention program and by repair costs and lost business volume related to the flooding of the Red River in Bossier City and benefited by \$1.3 million from a refund received on disputed vendor payments.

## West Segment

|                     | For the three months ended September 30, 2016 |        |          | For the nine months ended September 30, 2016 |         |               | Change |  |  |
|---------------------|---|--------|----------|--|---------|---------------|--------|--|--|
|                     | 2016  | 2015   | vs. 2015 | 2016   | 2015    | 2016 vs. 2015 |        |  |  |
|                     | (in millions)                                 |        |          | (in millions)                                |         |               |        |  |  |
| Gaming revenues     | \$51.6  | \$50.2 | 2.8 %    | \$147.9                                      | \$143.3 | 3.2 %         |        |  |  |
| Total revenues      | 62.9  | 61.1   | 2.9 %    | 177.2  | 172.0   | 3.0 %         |        |  |  |
| Operating income    | 19.2  | 16.9   | 13.6 %   | 8.6  | 43.8    | (80.4)%       |        |  |  |
| Adjusted EBITDAR    | 24.2  | 22.7   | 6.6 %    | 66.8   | 63.5    | 5.2 %         |        |  |  |
| NM - Not Meaningful |   |        |          |  |         |               |        |  |  |

In the West segment, total revenues increased by \$1.8 million, or 2.9% year over year, to \$62.9 million during the third quarter of 2016. Operating income for the third quarter of 2016 was \$19.2 million as compared to \$16.9 million in the prior year period. Adjusted EBITDAR increased by \$1.5 million, or 6.6% year over year, to \$24.2 million during the third quarter of 2016. Adjusted EBITDAR margin was 38.5%, an increase of 130 basis points year over year.

For the three and nine months ended September 30, 2016, the West segment performance was driven by strong year over year increases in total revenues and Adjusted EBITDAR at the Jackpot Properties due primarily to the opening of the newly renovated buffet at Cactus Petes in April 2016 and continued operational efficiencies at Ameristar Black Hawk along with modest improvement in total revenues. The nine months ended September 30, 2016 includes \$42.6 million of non-cash impairment to goodwill and other intangible assets as a result of the Spin-Off and Merger, which resulted in an operating loss for the period.

For the nine months ended September 30, 2015, the West segment's results were benefited by \$0.4 million from a refund received on disputed vendor payments.

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Other factors affecting income (loss) from continuing operations

The following is a description of the other benefits (costs) affecting income (loss) from continuing operations for the three and nine months ended September 30, 2016 and 2015:

|   | For the three months ended September 30, 2016 |          |         | Change 2016 vs. 2015 | For the nine months ended September 30, 2016 |         |  | Change 2016 vs. 2015 |
|---|---|----------|---------|----------------------|--|---------|--|----------------------|
|   | 2016  | 2015     |         |                      | 2016   | 2015    |  |                      |
|   | (in millions)                                 |          |         |                      | (in millions)                                |         |  |                      |
| Other benefits (costs):                   |   |          |         |                      |  |         |  |                      |
| Corporate expenses and other              | \$(19.7)                                      | \$(22.0) | (10.5)% | \$ (61.5)            | \$(62.1)                                     | (1.0 )% |  |                      |
| Rent expense under Meadows Lease          | (1.0 )  | —        | NM      | (1.0 )               | —  | NM      |  |                      |
| Depreciation and amortization             | (54.3 )                                       | (57.6 )  | (5.7 )% | (162.4 )             | (187.3 )                                     | (13.3)% |  |                      |
| Pre-opening, development and other costs  | (5.6 )  | (4.0 )   | 40.0 %  | (55.0 )              | (11.7 )                                      | NM      |  |                      |
| Share-based compensation expense          | (2.6 )  | (4.1 )   | (36.6)% | (32.7 )              | (13.0 )                                      | NM      |  |                      |
| Impairment of goodwill                    | 11.6  | (1.4 )   | NM      | (321.3 )             | (4.7 )                                       | NM      |  |                      |
| Impairment of other intangible assets     | —   | (0.9 )   | NM      | (129.5 )             | (5.9 )                                       | NM      |  |                      |
| Write-downs, reserves and recoveries, net | (6.2 )  | (0.9 )   | NM      | (13.8 )              | 4.1  | NM      |  |                      |
| Interest expense, net                     | (94.3 )                                       | (65.0 )  | 45.1 %  | (239.1 )             | (186.1 )                                     | 28.5 %  |  |                      |
| Loss from equity method investment        | —   | —        | NM      | (0.1 )               | (0.1 )                                       | — %     |  |                      |
| Loss on early extinguishment of debt      | —   | —        | NM      | (5.2 )               | —  | NM      |  |                      |
| Income tax benefit (expense)              | (3.5 )  | (2.4 )   | 45.8 %  | 26.5                 | (12.7 )                                      | NM      |  |                      |
| NM - Not Meaningful                       |   |          |         |                      |  |         |  |                      |

Corporate expenses and other is principally comprised of corporate overhead expenses, the Heartland Poker Tour, and the Retama Park management operations. For the three and nine months ended September 30, 2016, corporate expenses and other decreased year over year by \$2.3 million and \$0.6 million, respectively, to \$19.7 million and \$61.5 million, respectively. The decreases are primarily attributable to lower professional services and compensation costs during the three and nine months ended September 30, 2016 as compared to the prior year periods. In addition, the nine months ended September 30, 2015, benefited from a \$0.2 million refund received on disputed vendor payments.

Rent expense under Meadows Lease for the three and nine months ended September 30, 2016 relates to the rent expense recorded on the Meadows Lease, which commenced on September 9, 2016. Rent expense is recorded on a straight-line basis using minimum lease payments over the lease term, which has been determined to be 10 years. Lease payments made to GLPI under the Meadows Lease were \$1.6 million for the three and nine months ended September 30, 2016.

Depreciation and amortization decreased for the three and nine months ended September 30, 2016, as compared to the prior year periods, due primarily to the timing of certain equipment that became fully depreciated during 2015 and the accelerated method of amortization on player relationships.

Pre-opening, development and other costs for the three and nine months ended September 30, 2016 and 2015, consist of the following:

|  | For the three months ended September 30, | For the nine months ended September 30, |
|--|--|---|
|  |  |   |

30,  
2016 2015 2016 2015

(in millions)

|  |       |       |        |        |
|--|-------|-------|--------|--------|
| Restructuring costs (1)                        | \$1.3 | \$3.7 | \$48.1 | \$10.0 |
| Meadows acquisition costs (2)                  | 4.1   | —     | 6.2    | —      |
| Other  | 0.2   | 0.3   | 0.7    | 1.7    |
| Total pre-opening, development and other costs | \$5.6 | \$4.0 | \$55.0 | \$11.7 |

(1) Amounts comprised of costs associated with the Spin-Off and Merger.

(2) Amounts comprised principally of legal, advisory and other costs associated with the acquisition and integration of the Meadows.

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Loss (gain) on disposals of long-lived assets, net: During the three and nine months ended September 30, 2016 and 2015, we recorded net losses of \$6.2 million, \$13.1 million, \$0.5 million, and \$1.7 million, respectively, related primarily to disposals of furniture, fixtures and equipment at our properties in the normal course of business. Additionally, during the nine months ended September 30, 2015, we recorded a gain on the sale of land in Springfield, Massachusetts of \$8.4 million.

Impairment of long-lived assets: During the nine months ended September 30, 2016 and 2015, and the three months ended September 30, 2015, we recorded non-cash impairments on slot and other equipment at our properties. Additionally, during the three and nine months ended September 30, 2015, we recorded non-cash impairment charges of \$0.4 million and \$3.0 million, respectively, on our land in Central City, Colorado to reduce the carrying amount of the asset to its estimated fair value less cost to sell.

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Interest expense, net, consists of the following:

|  | For the three<br>months ended<br>September 30,<br>2016 |        | For the nine<br>months ended<br>September 30,<br>2015 |         |
|--|--|--------|---|---------|
|  | (in millions)  |        |   |         |
| Interest expense from financing obligation (1) | \$83.6   | \$—    | \$141.9   | \$—     |
| Interest expense from debt (2)                 | 11.0   | 65.2   | 95.3  | 186.4   |
| Interest income                                | (0.3 )   | (0.2 ) | (0.5 )  | (0.3 )  |
| Capitalized interest                           | —  | —      | (0.1 )  | —       |
| Other (3)                                      | —  | —      | 2.5   | —       |
| Interest expense, net                          | \$94.3   | \$65.0 | \$239.1   | \$186.1 |

Total payments under the Master Lease, which commenced on April 28, 2016, were \$95.0 million for the three months ended September 30, 2016, of which \$83.6 million was recognized as interest expense and \$11.4 million (1)reduced the financing obligation. Total payments were \$161.1 million for the nine months ended September 30, 2016, of which \$141.9 million was recognized as interest expense and \$19.2 million reduced the financing obligation.

Interest expense associated with the Former Senior Secured Credit Facilities, the 6.375% Notes, the 7.50% Notes, (2)the 7.75% Notes, and the 8.75% Notes, which were no longer obligations of the Company as of April 28, 2016, included in the nine months ended September 30, 2016 was \$76.5 million.

(3)Represents a one-time expense associated with the GLPI transaction.

For the three and nine months ended September 30, 2016, interest expense increased as compared to the prior year periods due principally to the interest expense incurred under our Master Lease financing obligation, which offset the decrease in interest expense incurred related to our debt borrowings.

For the three and nine months ended September 30, 2016, excluding the amortization of debt issuance costs and original issuance discount/premium, interest expense was \$93.3 million and \$233.1 million, respectively, as compared to \$57.5 million and \$176.0 million for the three and nine months ended September 30, 2015, respectively.

Loss on equity method investment represents losses recognized for our allocable share of an investment in a land re-vitalization project in downtown St. Louis.

Loss on early extinguishment of debt relates to the repayment, in full, of the Former Senior Secured Credit Facilities (as defined in the “Liquidity and Capital Resources” section below). The loss included the write-off of unamortized debt issuance costs and original issuance discount.

#### Income taxes

Our effective tax rate for continuing operations for the three and nine months ended September 30, 2016, was 117.7%, or an expense of \$3.5 million, and 5.6% or a benefit of \$26.5 million, respectively, as compared to an effective tax rate of 15.2%, or an expense of \$2.4 million, and 18.4% or an expense of \$12.7 million, respectively, for the corresponding prior year periods. The rate includes the tax impact of certain discrete items including changes of tax status of certain of our legal entities. Our tax rate differs from the statutory rate of 35.0% due to the effects of permanent items, deferred tax expense on tax amortization of indefinite-lived intangible assets, state taxes, legal entity status change, and a reserve for unrecognized tax benefits.

The Spin-Off described in the “Executive Summary” was a taxable transaction. A gain was recognized for tax purposes and the tax bases of the operating assets were stepped up to fair market value at the time of the transaction. Pursuant to ASC 740, Income Taxes, the tax impact directly related to the transaction amongst shareholders was recorded to

equity, consistent with the overall accounting treatment of the transaction. All changes in tax bases of assets and liabilities caused by the transactions were recorded to additional paid-in capital.

As previously noted, the failed sale-leaseback is accounted for as a financial obligation. As a result, the gaming facilities are presented on the Company's unaudited Condensed Consolidated Balance Sheet at historical cost, net of accumulated depreciation, and the financing obligation is recognized and amortized over the lease term. For federal and state income tax purposes, the Spin-Off and the subsequent leaseback of the gaming facilities is an operating lease. As such, the Company recognizes no tax bases in the leased gaming facilities, which creates basis differences that give rise to deferred taxes under ASC 740, Income Taxes.



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## Discontinued operations

During the nine months ended September 30, 2016 and 2015, income before income taxes reported in discontinued operations was \$0.4 million and \$5.2 million, respectively, and was \$0.4 million during the three months ended September 30, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, we held \$154.8 million of cash and cash equivalents. As of September 30, 2016, we had \$155.0 million drawn on our \$400.0 million Revolving Credit Facility (as defined below) and had \$11.0 million committed under various letters of credit. During the nine months ended September 30, 2016, we retired \$51.1 million in aggregate principal amount of debt under the Term Loan A Facility and Term Loan B Facility (as such terms are defined below) and drew \$155.0 million on the Revolving Credit Facility, which primarily relates to the acquisition of the Meadows, as discussed below. The debt retired during the nine months ended September 30, 2016 was accomplished principally with cash flows from operations.

We generally produce significant positive cash flows from operations, though this is not always reflected in our reported net income (loss) due to large non-cash charges such as impairments to goodwill and other intangible assets and depreciation and amortization. However, our ongoing liquidity will depend on a number of factors, including available cash resources, cash flow from operations, funding of construction of development projects, and our compliance with covenants contained under our debt agreements.

|  |  | For the nine<br>months ended<br>September 30, | Change |
|--|--|---|--------|
|  |  | 2016  | 2015   |
|  |  | 2016 vs.<br>2015                              |        |

(in millions)

|   |           |           |         |
|---|-----------|-----------|---------|
| Net cash provided by operating activities | \$165.6   | \$316.7   | (47.7)% |
| Net cash used in investing activities     | \$(167.5) | \$(53.0)  | NM      |
| Net cash used in financing activities     | \$(7.4)   | \$(305.4) | (97.6)% |

NM - Not Meaningful

## Operating Cash Flow

Our cash provided by operating activities for the nine months ended September 30, 2016, as compared to the prior year period, decreased due primarily to interest payments made on the financing obligation of \$141.9 million; expenses and other costs associated with the completion of the Spin-Off and Merger, including costs to obtain the financing; acquisition costs related to the Meadows; and the timing of payments and receipts of working capital items, offset by a decrease in interest payments made on long-term debt. Additionally, during the nine months ended September 30, 2016, net cash payments related to income taxes were \$9.8 million, as compared to the prior year period, in which we received \$17.4 million of net cash refunds related to income taxes.

## Investing Cash Flow

The following is a summary of our capital expenditures by segment:

|  |  | For the nine<br>months<br>ended<br>September<br>30,<br>2016 | 2015 |
|--|--|---|------|
|--|--|---|------|

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|   | (in millions) |        |
|---|---------------|--------|
| Midwest segment                                     | \$42.1        | \$30.0 |
| South segment                                       | 21.6          | 18.7   |
| West segment  | 6.7           | 6.9    |
| Corporate and other, including development projects | 2.7           | 1.9    |
| Total capital expenditures                          | \$73.1        | \$57.5 |

In addition to our capital expenditures summarized above, during the nine months ended September 30, 2016, we received \$0.3 million in net proceeds from the disposition of land in Central City, Colorado, and \$10.0 million from the collection of the

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deferred consideration in the form of a note receivable relating to our disposition of Ameristar Lake Charles, which was sold in November 2013.

On September 9, 2016, we closed on the purchase agreement with GLPC, pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania for base consideration of \$138.0 million, subject to certain adjustments. As of September 30, 2016, the purchase price, after giving effect to estimated adjustments, for the Meadows business was \$136.4 million, of which, \$131.9 million has been paid and \$4.5 million has been accrued, relating primarily to a final working capital adjustment. As a result of the transaction, we own and operate the Meadows' gaming entertainment and harness racing business subject to the Meadows Lease.

The Meadows Lease provides for a 10-year initial term, including renewal terms at our option, up to a total of 29 years. The initial annual rent is \$25.4 million, payable in monthly installments, and comprised of a base rent of \$14.0 million, which is subject to certain adjustments, and an initial percentage rent of \$11.4 million. The base rent is fixed for the first year and, beginning in the second year of the lease, subject to an annual escalation of up to 5% for the initial 10-year term or until the lease year in which base rent plus percentage rent is a total of \$31.0 million, subject to certain adjustments, and up to 2% thereafter, subject to an Adjusted Revenue to Rent Ratio (as defined in the Meadows Lease) of 1.8:1 during lease year two, 1.9:1 during lease year three and 2.0:1 during lease year four and thereafter. The percentage rent is fixed for the first two years and will be adjusted every two years to establish a new fixed amount for the next two-year period equal to 4% of the average annual net revenues during the trailing two-year period.

Our intention is to use existing cash resources, expected cash flows from operations and funds available under our Senior Secured Credit Facilities to fund operations, maintain existing properties, make necessary debt service payments, make necessary Master Lease and Meadows Lease payments, and fund any potential acquisition and development projects. In the event that our future cash flows from operations do not match the levels we currently anticipate, whether due to downturns in the economy or otherwise, we may need to raise funds through the capital markets, if possible.

Our ability to borrow under our Senior Secured Credit Facilities is contingent upon, among other things, meeting customary financial and other covenants. If we are unable to borrow under our Senior Secured Credit Facilities, or if our operating results are adversely affected because of a reduction in consumer spending, or for any other reason, our ability to maintain our existing properties or complete our ongoing projects may be affected unless we sell assets, enter into leasing arrangements, or take other measures to find additional financial resources. There is no certainty that we will be able to do so on terms that are favorable to the Company or at all.

We may face significant challenges if conditions in the economy and financial markets worsen, the effect of which could adversely affect consumer confidence and the willingness of consumers to spend money on leisure activities. When economic conditions worsen, certain of our customers may curtail the frequency of their visits to our casinos and may reduce the amounts they wager and spend when compared to similar statistics in better economic times. All of these effects could have a material adverse effect on our liquidity.

### Financing Cash Flow

#### Master Lease Financing Obligation

The Master Lease is accounted for as a financing obligation. The obligation was calculated at lease inception based on the future minimum lease payments due to GLPI under the Master Lease discounted at 10.5%. The discount rate represents the estimated incremental borrowing rate over the lease term of 35 years, which included renewal options that were reasonably assured of being exercised. As of April 28, 2016, the commencement date of the Master Lease, the financing obligation was determined to be \$3.2 billion.

Fourteen of our sixteen gaming facilities are subject to the Master Lease with GLPI. Under the Master Lease, the initial annual aggregate lease payment is \$377 million and rent is payable in monthly installments. The rent is

comprised of base rent, which includes a land and a building component, and percentage rent. In the first year of the lease, the land base rent, the building base rent, and the percentage rent are \$44 million, \$289 million, and \$44 million, respectively.

The land base rent is fixed for the entire lease term. Beginning in the second year of the lease, the building base rent is subject to an annual escalation of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Master Lease) of 1.8:1. The percentage rent, which is fixed for the first two years, will be adjusted every two years to establish a new fixed amount for the next two-year period. Each new fixed amount will be calculated by multiplying 4% by the difference between (i) the average net revenues for the trailing two-year period and (ii) \$1.1 billion.

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Total payments under the Master Lease, which commenced on April 28, 2016, were \$95.0 million for the three months ended September 30, 2016, of which \$83.6 million was recognized as interest expense and \$11.4 million reduced the financing obligation. Total payments were \$161.1 million for the nine months ended September 30, 2016, of which \$141.9 million was recognized as interest expense and \$19.2 million reduced the financing obligation.

**Financing in Connection with the Spin-Off and Merger**

In connection with the Spin-Off and Merger, on April 28, 2016, the Company made a dividend to Former Pinnacle in the amount of \$808.4 million (the “Cash Payment”), which was equal to the amount of existing debt outstanding of Former Pinnacle as of April 28, 2016, less approximately \$2.7 billion that GLPI assumed pursuant to the Merger Agreement. Immediately prior to the consummation of the Spin-Off and Merger, the August 2013 amended and restated credit agreement (“Former Senior Secured Credit Facilities”) was repaid in full and terminated and the 6.375% senior notes due 2021 (“6.375% Notes”), the 7.50% senior notes due 2021 (“7.50% Notes”) and the 7.75% senior subordinated notes due 2022 (“7.75% Notes”) were redeemed. Former Pinnacle’s indenture governing its 8.75% senior subordinated notes due 2020 (“8.75% Notes”) was redeemed on May 15, 2016. Following the consummation of the Spin-Off and Merger, the Company had no outstanding obligations under the Former Senior Secured Credit Facilities, the 6.375% Notes, the 7.50% Notes, the 7.75% Notes and the 8.75% Notes.

On April 28, 2016 (the “Closing Date”), the Company completed its debt financings in connection with the Merger, consisting of (i) \$375.0 million aggregate principal amount of 5.625% senior notes due 2024 (the “Existing 5.625% Notes”) and (ii) the credit agreement among the Company and certain lenders thereto (the “Credit Agreement”), comprised of (x) a \$185.0 million term loan A facility with a maturity of five years (the “Term Loan A Facility”), (y) a \$300.0 million term loan B facility with a maturity of seven years (the “Term Loan B Facility”) and (z) a \$400.0 million revolving credit facility with a maturity of five years (the “Revolving Credit Facility” and together with the Term Loan A Facility and the Term Loan B Facility, the “Senior Secured Credit Facilities”).

The proceeds of the Senior Secured Credit Facilities, together with the proceeds of the Existing 5.625% Notes were used on the Closing Date (i) to make the Cash Payment and (ii) to pay fees and expenses related to the issuance of the Senior Secured Credit Facilities and the Existing 5.625% Notes. Proceeds from loans under the Revolving Credit Facility are used for working capital, to fund permitted dividends, distributions and acquisitions, for general corporate purposes and for any other purpose not prohibited by the Credit Agreement.

**Senior Secured Credit Facilities**

As of September 30, 2016, we had \$155.0 million drawn under the Revolving Credit Facility, \$182.7 million of loans outstanding under the Term Loan A Facility, \$251.2 million of loans outstanding under the Term Loan B Facility and had \$11.0 million committed under various letters of credit. As noted above, the acquisition of Meadows was funded with proceeds from borrowings under the Revolving Credit Facility. In October 2016, the net proceeds from the issuance of Additional 5.625% Notes (as defined below) were used to repay a portion of the outstanding borrowings under the Revolving Credit Facility.

Loans under the Term Loan A Facility and Revolving Credit Facility initially bear interest at a rate per annum equal to, at our option, LIBOR plus 2.00% or the base rate plus 1.00% and, beginning in the fourth quarter of 2016, such loans will bear interest at a rate per annum equal to, at our option, LIBOR plus an applicable margin from 1.50% to 2.50% or the base rate plus an applicable margin from 0.50% to 1.50%, in each case, depending on the Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement) as of the most recent fiscal quarter. Loans under the Term Loan B Facility bear interest at a rate per annum equal to, at our option, LIBOR plus 3.00% or the base rate plus 2.00% and in no event will LIBOR be less than 0.75%. In addition, we pay a commitment fee on the unused portion of the commitments under the Revolving Credit Facility at a rate that ranges from 0.30% to 0.50% per annum, depending on the Consolidated Total Net Leverage Ratio as of the most recent fiscal quarter.

The Term Loan A Facility amortizes in equal quarterly amounts equal to a percentage of the original outstanding principal amount at closing as follows: (i) 5% per annum in the first two years, (ii) 7.5% per annum in the third year

and (iii) 10% per annum in the fourth and fifth year. The remaining principal amount is payable on April 28, 2021. The Term Loan B Facility amortizes in equal quarterly amounts equal to 1% per annum of the original outstanding principal amount at closing. The remaining principal amount is payable on April 28, 2023. The Revolving Credit Facility is not subject to amortization and is due and payable on April 28, 2021.

Loans under the Senior Secured Credit Facilities may be prepaid at par and commitments under the Revolving Credit Facility may be reduced at any time, in whole or in part, without premium or penalty (except for LIBOR breakage costs);

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provided that certain repricing transactions relating to the Term Loan B Facility will be subject to a 1.00% prepayment premium for a period of twelve months after April 28, 2016. Loans under the Senior Secured Credit Facilities will be subject to mandatory prepayment with (i) a percentage of the Company's excess cash flow depending on the Consolidated Total Net Leverage Ratio of the Company, (ii) net cash proceeds from asset sales and casualty and condemnation events (subject to customary reinvestment rights and other customary exceptions) and (iii) net cash proceeds from the issuance or incurrence of indebtedness after the closing date (subject to customary exceptions).

All obligations under the Senior Secured Credit Facilities will be unconditionally guaranteed by each of the Company's existing and future direct and indirect wholly owned domestic subsidiaries, subject to certain customary exceptions. All obligations of the Company under the Senior Secured Credit Facilities and the guarantees of those obligations will be secured by a first priority security interest in substantially all of the assets of the Company and the guarantors thereto, subject to certain exceptions. The property pledged by the Company and such guarantors includes a first priority pledge of the leasehold interests of tenant in the Master Lease; a first priority pledge of all of the equity interests owned by the Company and such guarantors in the direct wholly-owned domestic subsidiaries of the Company and such guarantors.

The Credit Agreement contains, among other things, certain affirmative and negative covenants and, solely for the benefit of the lenders under the Senior Secured Credit Facilities, financial covenants, including a maximum permitted Consolidated Total Net Leverage Ratio, a maximum permitted Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) and a required minimum Interest Coverage Ratio (as defined in the Credit Agreement). The Credit Agreement also contains certain customary events of default, including the occurrence of a change of control, revocation of material licenses by gaming authorities (subject to a cure period), termination of the Master Lease and cross-default to certain events of default under the Master Lease.

5.625% Senior Notes due 2024: The Existing 5.625% Notes were issued at par, mature on May 1, 2024, and bear interest at the rate of 5.625% per annum. Interest on the Existing 5.625% Notes is payable semi-annually on May 1st and November 1st of each year, commencing November 1, 2016. On October 12, 2016, we issued an additional \$125.0 million in aggregate principal amount of 5.625% senior notes due 2024 (the "Additional 5.625% Notes" and together with the Existing 5.625% Notes, the "5.625% Notes"), which are under the indenture governing the Existing 5.625% Notes issued on April 28, 2016, as amended and supplemented by that certain first supplemental indenture, dated as of October 12, 2016. The Additional 5.625% Notes were issued at par plus a premium of 50 basis points. We financed the purchase of the Meadows with our Revolving Credit Facility and the net proceeds from the issuance of the Additional 5.625% Notes were used to repay a portion of the outstanding borrowings under our Revolving Credit Facility. The 5.625% Notes were issued pursuant to Rule 144A of the Securities Act of 1933. We are required to file a registration statement on Form S-4 to register the 5.625% Notes, which must be declared effective by the SEC by July 30, 2017.

The Company may redeem the 5.625% Notes at any time, and from time to time, on or after May 1, 2019, at the declining redemption premiums set forth in the indenture, together with accrued and unpaid interest. Prior to May 1, 2019, the Company may redeem the 5.625% Notes at any time, and from time to time, at a redemption price equal to 100% of the principal amount of the 5.625% Notes redeemed plus a "make-whole" redemption premium described in the indenture, together with accrued and unpaid interest. In addition, at any time prior to May 1, 2019, the Company may redeem the 5.625% Notes with an amount of cash equal to the net proceeds of one or more equity offerings, within a specified period of time after the closing of any such equity offering, at a redemption price equal to 105.625% of the principal amount of the 5.625% Notes redeemed, together with accrued and unpaid interest, so long as at least 65% of the aggregate principal amount of the 5.625% Notes originally issued under the indenture remains outstanding. If the Company engages in any asset sales, subject to certain exceptions, the Company generally must use the proceeds for specified purposes within a specified period of time or use the excess net proceeds from such asset sales to offer to purchase the 5.625% Notes from holders at a price equal to 100% of the principal amount of the

5.625% Notes, together with accrued and unpaid interest.

The 5.625% Notes are the Company's senior unsecured obligations and rank pari passu in right of payment with all of the Company's senior indebtedness, and senior in right of payment to all of the Company's subordinated indebtedness, without giving effect to collateral arrangements. The 5.625% Notes are effectively subordinated to the Company's secured indebtedness, including the Senior Secured Credit Facilities, to the extent of the value of the assets securing such indebtedness. The 5.625% Notes are not guaranteed by any of the Company's subsidiaries, except in the event that the Company in the future incurs certain subsidiary-guaranteed unsecured indebtedness, and, therefore, the 5.625% Notes will be structurally subordinated to all liabilities of the Company's subsidiaries, including their guarantees of the Company's Senior Secured Credit Facilities.

The indenture contains covenants limiting the Company's and its restricted subsidiaries' ability to: pay dividends or distributions or repurchase equity; incur additional debt or issue disqualified stock and, in the case of subsidiaries, preferred stock; make investments; create liens on assets to secure certain debt; enter into transactions with affiliates; merge or

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consolidate with another company; transfer and sell assets; create dividend and other payment restrictions affecting subsidiaries; designate subsidiaries as unrestricted subsidiaries; and make certain amendments to the Master Lease. These covenants are subject to a number of important and significant limitations, qualifications and exceptions.

Events of default under the indenture include, among others, the following: default for 30 days in the payment when due of interest on the 5.625% Notes; default in payment when due of the principal of, or premium, if any, on the 5.625% Notes; failure to comply with covenants in the indenture for 60 days after the receipt of notice from the trustee or holders of 25% in aggregate principal amount of the 5.625% Notes (unless such failure to comply has been waived); acceleration or payment default of debt in excess of a specified amount; unpaid judgments in excess of a specified amount; certain events of bankruptcy or insolvency; and the Master Lease terminating or ceasing to be effective in certain circumstances.

As of September 30, 2016, we were in compliance with the financial covenant ratios under the Senior Secured Credit Facilities and indenture governing the Company's 5.625% Notes and compliance with these financial covenant ratios does not have a material impact on our financial flexibility, including our ability to incur new indebtedness based on our operating plans.

### Share Repurchase Programs

In May 2016, the Company's Board of Directors authorized a share repurchase program of up to \$50.0 million of our common stock, which we completed in July 2016. In August 2016, our Board of Directors authorized an additional share repurchase program of up to \$50.0 million of our common stock. The cost of the shares acquired is treated as a reduction to stockholders' equity. During the three and nine months ended September 30, 2016, we repurchased 3.3 million shares and 5.5 million shares, respectively, of common stock and reduced stockholders' equity by \$36.6 million and \$61.3 million, respectively, under both programs. As of November 9, 2016, under the current share repurchase program, we have repurchased 1.7 million shares of our common stock for \$20.1 million.

### CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Below summarizes the material changes that have occurred during the three months ended September 30, 2016 to our contractual obligations and commitments as disclosed in our Information Statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016.

On September 9, 2016, we closed on a purchase agreement GLP Capital, L.P. ("GLPC"), a subsidiary of GLPI, pursuant to which we acquired all of the equity interests of the Meadows located in Washington, Pennsylvania. In conjunction with the transaction, we entered into a triple-net lease of the underlying real property with GLPI (the "Meadows Lease"). The Meadows Lease provides for a 10-year initial term, including renewal terms at our option, up to a total of 29 years. The initial annual rent will be \$25.4 million, comprised of a base rent of \$14.0 million, which is subject to certain adjustments and annual escalation in the future, and an initial percentage rent of \$11.4 million, which adjusts every two years.

On October 12, 2016, we issued an additional \$125.0 million in aggregate principal amount of 5.625% senior notes due 2024 at par plus a premium of 50 basis points, which are under the indenture governing the 5.625% senior notes due 2024 issued on April 28, 2016, as amended and supplemented by that certain first supplemental indenture, dated as of October 12, 2016.

For further information regarding these transactions, please see Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations.

### CRITICAL ACCOUNTING ESTIMATES

A description of our critical accounting estimates can be found in Item 7 of our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016. For a more extensive discussion of our accounting policies, see Note 1, "Summary of Significant Accounting Policies," in the Notes

to the Consolidated Financial Statements for the year ended December 31, 2015 in our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016. There were no newly identified critical accounting policies and estimates in the third quarter of 2016, nor were there any material changes to the critical accounting policies and estimates discussed for the year ended December 31, 2015 in our Information Statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016.

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the “Act”) provides certain “safe harbor” provisions for forward-looking statements. Except for the historical information contained herein, the matters addressed in this Quarterly Report on Form 10-Q, as well as in other reports filed with or furnished to the SEC or statements made by us, may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, we may provide oral or written forward-looking statements in our other periodic reports on Form 10-Q, Form 8-K, press releases and other materials released to the public. All forward-looking statements made in this Quarterly Report on Form 10-Q and any documents we incorporate by reference are made pursuant to the Act. Words such as, but not limited to, “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “could,” “may,” “will,” “should,” and similar expressions to identify forward-looking statements. Such forward-looking statements, the expected results of operations and future operating performance and future growth, adequacy of resources to fund development and expansion projects, liquidity, financing options, including the state of the capital markets and our ability to access the capital markets, the state of the credit markets and economy, cash needs, cash reserves, operating and capital expenses, expense reductions, the sufficiency of insurance coverage, anticipated marketing costs at various projects, the future outlook of Pinnacle and the gaming industry and pending regulatory and legal matters; the ability of the Company to continue to meet its financial and other covenants governing its indebtedness, the Master Lease with GLPI and the lease for The Meadows Racetrack and Casino (the “Meadows”); the expected synergies and benefits of the acquisition of the Meadows; the Company’s anticipated future capital expenditures, ability to implement strategies to improve revenues and operating margins at the Company’s properties, reduce costs and debt, the Company’s ability to successfully implement marketing programs to increase revenue at the Company’s properties, and the Company’s ability to improve operations and performance, are all subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated by us. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. For more information on the potential factors that could affect our operating results and financial condition in addition to the risk factors described above, review our other filings (other than any portion of such filings that are furnished under applicable SEC Rules rather than filed) with the SEC, including this Quarterly Report on Form 10-Q, our Information Statement included as Exhibit 99.1 to our Registration Statement on Form 10 filed in final form on April 11, 2016 and the risk factors described therein as well as the risk factors discussed in this Form 10-Q in Part II. Factors that may cause our actual performance to differ materially from that contemplated by such forward-looking statements include, among others:

• Our business is particularly sensitive to reductions in consumers’ discretionary spending as a result of downturns in the economy or other changes we cannot accurately predict;

The gaming industry is very competitive and increased competition, including through legislative legalization or expansion of gaming by states in or near where we operate facilities or through Native American gaming facilities and Internet gaming, could adversely affect our financial results;

• Our gaming operations rely heavily on technology services provided by third parties. In the event that there is an interruption of these services to us, it may have an adverse effect on our operations and financial condition;

• Our business may be harmed from cyber security risk and we may be subject to legal claims if there is loss, disclosure or misappropriation of or access to our guests’ or our business partners’ or our own information or other breaches of our information security;

• We are required to pay a significant portion of our cash flows pursuant to and subject to the terms and conditions of the Master Lease and the Meadows Lease, which could adversely affect our ability to fund our operations and growth and limit our ability to react to competitive and economic changes;

• Certain provisions of the Master Lease and the Meadows Lease restrict our ability to freely operate and could have an adverse effect on our business and financial condition;

• Substantially all of our gaming facilities are leased and could experience risks associated with leased property, including risks relating to lease termination, lease extensions, charges and our relationship with GLPI, which could have a material adverse effect on our business, financial position or results of operations;

• We face risks associated with growth and acquisitions;

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We derived 30.1% and 29.9% of our revenues in 2015 from our casinos located in Louisiana and Missouri, respectively, and are especially subject to certain risks, including economic and competitive risks, associated with the conditions in those areas and in the states from which we draw patrons;

Our indebtedness (including our obligations under the 5.625% senior notes due 2024, the Credit Facilities and the Master Lease) and projected future borrowings could adversely affect our financial health; future cash flows may not be sufficient to meet our obligations, and we may have difficulty obtaining additional financing; and we may experience adverse effects of interest rate fluctuations;

Our indebtedness imposes restrictive covenants on us;

To service our indebtedness and make payments under the Master Lease and the Meadows Lease, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control;

- Our ability to obtain additional financing on commercially reasonable terms may be limited;

We may experience an impairment of our goodwill, other intangible assets, or long-lived assets, which could adversely affect our financial condition and results of operations;

Insufficient or lower-than-expected results generated from our new developments and acquisitions may negatively affect our operating results and financial condition;

Rising operating costs at our gaming facilities could have a negative impact on our business;

Recessions have affected our business and financial condition, and economic conditions may continue to affect us in ways that we currently cannot accurately predict;

We expect to be engaged from time to time in one or more construction and development projects, and many factors could prevent us from completing them as planned, including the escalation of construction costs beyond increments anticipated in our construction budgets;

Our industry is highly regulated, which makes us dependent on obtaining and maintaining gaming licenses and subjects us to potentially significant fines and penalties;

Potential changes in the regulatory environment could harm our business;

Our business may be adversely affected by legislation prohibiting tobacco smoking;

- Our operations are largely dependent on the skill and experience of our management and key personnel. The loss of management and other key personnel could significantly harm our business, and we may not be able to effectively replace members of management who have left the company;

We face business and regulatory risks associated with our investment in Asian Coast Development (Canada), Ltd.;

Adverse weather conditions, road construction, gasoline shortages and other factors affecting our facilities and the areas in which we operate could make it more difficult for potential customers to travel to our properties and deter customers from visiting our properties;

• We are subject to litigation, which, if adversely determined, could cause us to incur substantial losses;

• Our results of operations and financial condition could be materially adversely affected by the occurrence of natural disasters, such as hurricanes, or other catastrophic events, including war and terrorism;

We are exposed to a variety of natural disasters such as named windstorms, floods and earthquakes and this can make it challenging for us to obtain adequate levels of weather catastrophe occurrence insurance coverage for our facilities at reasonable rates, if at all;

• We may incur property and other losses that are not adequately covered by insurance, which may harm our results of operations;

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• The concentration and evolution of the slot machine manufacturing industry or other technological conditions could impose additional costs on us;

• We operate in a highly taxed industry and it may be subject to higher taxes in the future. If the jurisdictions in which we operate increase gaming taxes and fees, our operating results could be adversely affected;

• Work stoppages, organizing drives and other labor problems could negatively impact our future profits;

• We face environmental and archaeological regulation of the real estate on which we operate;

• We are subject to certain federal, state and other regulations;

• Climate change, climate change regulations and greenhouse effects may adversely impact our operations and markets;

• We are subject to extensive governmental regulations that impose restrictions on the ownership and transfer of our securities; and

• The market price for our common stock may be volatile, and you may not be able to sell our stock at a favorable price or at all.

In addition, these forward-looking statements could be affected by general domestic and international economic and political conditions, uncertainty as to the future direction of the economy and vulnerability of the economy to domestic or international incidents, as well as market conditions in our industry.

For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, please see the “Risk Factors” in our Information Statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016 and the risk factors in this Form 10-Q and review our other filings (other than any portion of such filings that are furnished under applicable SEC rules rather than filed) with the SEC. All forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this Form 10-Q. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from adverse changes in interest rates with respect to the short-term floating interest rate on borrowings under our Senior Secured Credit Facilities. As of September 30, 2016, we had \$155.0 million drawn under our Revolving Credit Facility and had \$11.0 million committed under various letters of credit. In addition, as of September 30, 2016, we had \$182.7 million and \$251.2 million of principal outstanding under the Term Loan A Facility and the Term Loan B Facility, respectively.

We financed the purchase of the Meadows, which was on September 9, 2016, with our Revolving Credit Facility. On October 12, 2016, we issued an additional \$125.0 million in aggregate principal amount of 5.625% senior notes due 2024 (the "Additional 5.625% Notes"), which are under the indenture governing our existing 5.625% senior notes due 2024 issued on April 28, 2016 (the "Existing 5.625% Notes" and together with the Additional 5.625% Notes, the "5.625% Notes"), as amended and supplemented by that certain first supplemental indenture, dated as of October 12, 2016. The net proceeds from the issuance of the Additional 5.625% Notes were used to repay a portion of the outstanding borrowings under our Revolving Credit Facility.

Loans under the Term Loan A Facility and Revolving Credit Facility bore interest at a rate per annum equal to, at our option, LIBOR plus 2.00% or the base rate plus 1.00% as of September 30, 2016. Beginning in the fourth quarter of 2016, such loans bear interest at a rate per annum equal to, at our option, LIBOR plus an applicable margin from 1.50% to 2.50% or the base rate plus an applicable margin from 0.50% to 1.50%, in each case, depending on the Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement) as of the most recent fiscal quarter. Loans under the Term Loan B Facility bear interest at a rate per annum equal to, at our option, LIBOR plus 3.00% or the base rate plus 2.00% and in no event will LIBOR be less than 0.75%.

As of September 30, 2016, for every 50 basis points decrease in LIBOR, our annual interest expense would decrease by approximately \$1.7 million, assuming constant debt levels. As of September 30, 2016, if LIBOR were to increase by 50 basis points, our annual interest expense would increase by approximately \$2.4 million, assuming constant debt levels.

The table below provides the principal cash flows and related weighted average interest rates by contractual maturity dates for our debt obligations as of September 30, 2016. As of September 30, 2016, we did not hold any material investments in market-risk-sensitive instruments of the type described in Item 305 of Regulation S-K.

|                           | 2016           | 2017    | 2018     | 2019     | 2020     | Thereafter | Total     | Fair Value |
|---------------------------|----------------|---------|----------|----------|----------|------------|-----------|------------|
|                           | (in thousands) |         |          |          |          |            |           |            |
| Revolving Credit Facility | \$—            | \$—     | \$—      | \$—      | \$—      | \$155,000  | \$155,000 | \$151,900  |
| Interest Rate             | 2.53 %         | 2.53 %  | 2.53 %   | 2.53 %   | 2.53 %   | 2.53 %     | 2.53 %    | 2.53 %     |
| Term Loan A Facility      | \$2,313        | \$9,250 | \$11,563 | \$16,187 | \$18,500 | \$124,875  | \$182,688 | \$180,404  |
| Interest Rate             | 2.53 %         | 2.53 %  | 2.53 %   | 2.53 %   | 2.53 %   | 2.53 %     | 2.53 %    | 2.53 %     |
| Term Loan B Facility      | \$750          | \$3,000 | \$3,000  | \$3,000  | \$3,000  | \$238,500  | \$251,250 | \$252,506  |
| Interest Rate             | 3.75 %         | 3.75 %  | 3.75 %   | 3.75 %   | 3.75 %   | 3.75 %     | 3.75 %    | 3.75 %     |
| 5.625% Notes              | \$—            | \$—     | \$—      | \$—      | \$—      | \$375,000  | \$375,000 | \$378,750  |
| Interest Rate             | 5.625 %        | 5.625 % | 5.625 %  | 5.625 %  | 5.625 %  | 5.625 %    | 5.625 %   | 5.625 %    |
| Other                     | \$2            | \$8     | \$8      | \$9      | \$10     | \$41       | \$78      | \$78       |
| Interest Rate             | 10.00 %        | 10.00 % | 10.00 %  | 10.00 %  | 10.00 %  | 10.00 %    | 10.00 %   | 10.00 %    |



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Item 4. Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of September 30, 2016. Based on this evaluation, the Company's management, including the CEO and the CFO, concluded that, as of September 30, 2016, the Company's disclosure controls and procedures were effective, in that they provide a reasonable level of assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In making our assessment of changes in internal control over financial reporting as of September 30, 2016, we have excluded the acquired Meadows operations because these operations were acquired in a business combination on September 9, 2016. These operations represent approximately 3.5% of our total assets as of September 30, 2016 and approximately 2.6% of our total net revenues for the quarter ended September 30, 2016. We intend to disclose any material changes in internal control over financial reporting with respect to the Meadows operations in the first annual assessment of internal control over financial reporting in which we are required to include the Meadows operations.

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PART II

Item 1. Legal Proceedings

We are a party to a number of other pending legal proceedings. Management does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material effect on our financial position, cash flows or results of operations.

Item 1A. Risk Factors

The following are modified risk factors that should be read in conjunction with the “Risk Factors” in our Information Statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC in final form on April 11, 2016.

We are required to pay a significant portion of our cash flows pursuant to and subject to the terms and conditions of the Master Lease and the Meadows Lease, which could adversely affect our ability to fund our operations and growth and limit our ability to react to competitive and economic changes.

We are required to pay a significant portion of our cash flow from operations to GLPI pursuant to and subject to the terms and conditions of the Leases. Under the Master Lease, the initial annual aggregate rent payable by Pinnacle MLS, LLC, the tenant under the Master Lease, is \$377 million. In addition, under the Meadows Lease, the initial annual aggregate rent payable by PNK Development 33, LLC, the tenant under the Meadows Lease, is \$25.4 million. The term “Leases” refers collectively to the Master Lease and the Meadows Lease. As a result of our significantly reduced cash flow, our ability to fund our own operations or development projects, raise capital, make acquisitions and otherwise respond to competitive and economic changes may be adversely affected. For example, our obligations under the Leases may:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness and to obtain additional indebtedness;

- increase our vulnerability to general or regional adverse economic and industry conditions or a downturn in our business;

- require us to dedicate a substantial portion of our cash flow from operations to making lease obligation payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

- restrict our ability to raise capital, make acquisitions, divestitures and engage in other significant transactions.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations.

The following are certain provisions of the Leases which restrict our ability to freely operate and could have an adverse effect on our business and financial condition:

- **Escalations in Rent**-We are obligated to pay base rent under the Master Lease, and base rent is composed of building base rent and land base rent. After the first year of the Master Lease term, building base rent is subject to an annual escalation of up to 2% and we may be required to pay the escalated building base rent regardless of our revenues, cash

flow or general financial condition. We are also obligated to pay base rent under the Meadows Lease, and, after the first year of the Meadows Lease term, base rent is subject to annual escalation of 5% for the initial 10-year term or until the lease year in which base rent plus percentage rent is a total of \$31 million plus the free play tax rent adjustment (if any) and thereafter is subject to annual escalation of up to 2% and we may be required to pay the escalated base rent regardless of the Meadows' revenues, cash flow or general financial condition. In addition, the Meadows Lease provides for additional adjustments to base rent under certain circumstances.

Variable Rent-We are obligated to pay percentage rent under the Master Lease, which is re-calculated every two years. Such percentage rent shall equal 4% of the excess (if any) of (i) the average net revenues for the trailing two-year period over (ii) 50% of the trailing 12 months net revenues as of the month ending immediately prior to the execution of the Master Lease. We may be required to pay an increase in percentage rent based on increases in net revenues without a corresponding increase in our profits. We are also obligated to pay percentage rent under the Meadows

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Lease, which is re-calculated every two years. Such percentage rent shall equal 4% of the average annual net revenues of the lessee from the Meadows premises during the trailing two-lease-year period. We may be required to pay an increase in Meadows Lease percentage rent based on increases in net revenues without a corresponding increase in Meadows' profits.

New Developments-If we develop, build or acquire a new facility which is located within a 60 mile radius of a facility that is subject to the Master Lease, the annual percentage rent due from the affected existing facility subject to the Master Lease may thereafter be subject to a floor. Therefore, our percentage rent may not decline as a result of a subsequent decline in revenues at the leased properties. If we develop, build or acquire a new facility which is located within a 25 mile radius of the Meadows (excluding the Harmar off-track betting facility, but only for so long as we are not eligible to operate slot machines or gaming tables within the Harmar facility), the annual percentage rent due under the Meadows Lease may thereafter be subject to a floor.

Guaranty by Parent-In connection with certain assignments of the Master Lease, the ultimate parent company of such assignee of the Master Lease must execute a guaranty and shall be required to be solvent. In connection with certain assignments of the Meadows Lease or change of control transactions, the ultimate parent company of such assignee of the Meadows Lease or person acquiring control must execute a guaranty of the Meadows Lease.

Such requirement may limit our ability to freely assign the Leases or pursue certain transactions.

Lease Guaranties-The Master Lease is guaranteed by Tenant's parent and certain subsidiaries of Tenant (the "Lease Guarantors"). A default under any of the Master Lease guaranties that is not cured within applicable grace periods will constitute an event of default under the Master Lease. The Meadows Lease is guaranteed by Pinnacle.

Cross-Defaults-If we or any of the Lease Guarantors fail to pay or bond final judgments aggregating in excess of \$100 million, and such judgments are not discharged, waived or stayed within 45 days, an event of default will arise under the Master Lease.

GLPI's Mortgage Financing-We and the Lease Guarantors have agreed to satisfy certain non-monetary obligations that may be imposed if GLPI mortgages the properties that are subject to the Master Lease. These non-monetary mortgage obligations may include, among other similar items, compliance with covenants related to the maintenance and repair of such properties, the procurement of insurance policies, and the operation of the properties in compliance with the mortgage documents; provided, that such obligations cannot adversely increase our non-monetary obligations under the Master Lease or diminish our rights under the Master Lease, each in any material respect. A default by us or the Lease Guarantors under these nonmonetary obligations that results in an acceleration of GLPI's mortgage financing will constitute an event of default under the Master Lease. We have agreed to satisfy the same types of non-monetary obligations that may be imposed if the lessor entities under the Meadows Lease or their affiliates mortgage the properties that are subject to the Meadows Lease, subject to similar limitations.

Effect of End of Term or Not Renewing the Leases-If we do not renew the Master Lease at the stipulated renewals or we do not enter into a new Master Lease at the end of the term, we will be required to sell the business of Tenant. If we cannot agree upon acceptable terms of sale with a qualified successor tenant within a three month period after potential successive tenants are identified, GLPI will select the successor tenant to purchase our business through a competitive auction. If this occurs, we will be required to transfer our business to the highest bidder at the auction, subject to regulatory approvals. The Meadows Lease contains a similar provision with respect to the operating business of the Meadows if we do not renew the Meadows Lease at the stipulated renewals or we do not enter into a new Meadows Lease at the end of the term.

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Accounting Treatment-The Master Lease does not qualify for sale-leaseback accounting treatment, which results in the Master Lease being presented as a financing obligation in our financial statements in accordance with GAAP. As a result, our financial statements look materially different than the financial statements would have looked had the Master Lease qualified for sale-leaseback accounting treatment, which could impact the demand for our common stock. The Meadows Lease is accounted for as an operating lease; thereby, rent expense is recorded on a straight-line basis using the minimum lease payments over the lease term, which has been determined to be 10 years.

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Substantially all of our gaming facilities are leased and could experience risks associated with leased property, including risks relating to lease termination, lease extensions, charges and our relationship with GLPI, which could have a material adverse effect on our business, financial position or results of operations.

We lease fourteen of the gaming facilities we operate pursuant to the Master Lease with GLPI and we lease the Meadows Racetrack and Casino pursuant to the Meadows Lease with GLPI. The Leases provide that GLPI may terminate each Lease for a number of reasons, including, subject to applicable cure periods, the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. Termination of either of the Leases could result in a default under our debt agreements and could have a material adverse effect on our business, financial position or results of operations. There can also be no assurance that we will be able to comply with our obligations under the Leases in the future.

Each of the Leases is a “triple-net lease.” Accordingly, in addition to rent, we are required to pay among other things the following: (i) all facility maintenance, (ii) all insurance required in connection with the leased properties and the business conducted on the leased properties, (iii) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor) and (iv) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. We are responsible for incurring the costs described in the preceding sentence notwithstanding the fact that many of the benefits received in exchange for such costs shall in part accrue to GLPI as owner of the associated facilities.

In addition, if some of our leased facilities should prove to be unprofitable, we could remain obligated for lease payments and other obligations under the Leases even if we decided to withdraw from those locations. We could incur special charges relating to the closing of such facilities including lease termination costs, impairment charges and other special charges that would reduce our net income and could have a material adverse effect on our business, financial condition and results of operations.

## Item 2. Unregistered Sales of Securities and Use of Proceeds

The following table contains information with respect to purchases made by or on behalf of Pinnacle or any “affiliated purchaser” (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of our common stock during our third quarter ended September 30, 2016.

| Period                           | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) (1) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may be Purchased Under the Plans or Programs (2)(3) |
|----------------------------------|---|--|---|--|
| July 1 - July 31, 2016           | 2,308,003                                   | \$ 10.99                                   | 2,308,003   | \$—  |
| August 1 - August 31, 2016       | 334,862                                     | \$ 11.85                                   | 334,862   | \$46,032,020   |
| September 1 - September 30, 2016 | 608,465                                     | \$ 11.95                                   | 608,465   | \$38,760,028   |
| Total                            | 3,251,330                                   | \$ 11.26                                   | 3,251,330   | \$38,760,028   |

(1)

Average price paid per share for shares purchased as part of our share repurchase program (includes brokerage commissions).

As announced on May 27, 2016, the Company's Board of Directors approved a share repurchase program of up to (2) \$50.0 million of our common stock, which we completed in July 2016 having repurchased a total of 4.5 million shares of our common stock under the program.

In August 2016, the Company's Board of Directors authorized an additional share repurchase program of up to (3) \$50.0 million of our common stock. As of November 9, 2016, under the current share repurchase program, we have repurchased 1.7 million shares of our common stock for \$20.1 million.

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Item 6. Exhibits

| Exhibit Number | Description of Exhibit   |
|----------------|--|
| 2.1†           | Separation and Distribution Agreement, dated as of April 28, 2016, by and among PNK Entertainment, Inc. and Pinnacle Entertainment, Inc., and, solely with respect to Article VIII, Gaming and Leisure Properties, Inc. is hereby incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)         |
| 2.2†           | Master Lease, dated as of April 28, 2016, by and between Pinnacle MLS, LLC and Pinnacle Entertainment, Inc. is hereby incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)   |
| 2.3*           | First Amendment to Master Lease, dated as of August 29, 2016, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC.   |
| 2.4*           | Second Amendment to Master Lease, dated as of October 25, 2016, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC.   |
| 2.5            | Employee Matters Agreement, dated April 28, 2016, by and between PNK Entertainment, Inc. and Pinnacle Entertainment, Inc. is hereby incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)   |
| 2.6            | Credit Agreement, dated as of April 28, 2016, among PNK Entertainment, Inc., the subsidiaries of PNK Entertainment, Inc., the lender parties thereto and JPMorgan Chase Bank, N.A. as administrative agent and collateral agent is hereby incorporated by reference to Exhibit 2.4 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666) |
| 2.7†           | Purchase Agreement dated March 29, 2016 by and among PNK Entertainment, Inc. and GLP Capital, L.P. is hereby incorporated by reference to Exhibit 2.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2016. (SEC File No. 001-37666)  |
| 3.1            | Amended and Restated Certificate of Incorporation of Pinnacle Entertainment, Inc. is hereby incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 20, 2016. (SEC File No. 001-37666)   |
| 3.2            | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Pinnacle Entertainment, Inc. is hereby incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)   |
| 3.3            | Amended and Restated Bylaws of Pinnacle Entertainment, Inc. is hereby incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)   |
| 4.1            | Indenture dated as of April 28, 2016, governing the 5.625% Senior Notes due 2024, by and between PNK Entertainment, Inc. and Deutsche Bank Trust Company Americas, as Trustee is hereby incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666)   |
| 4.2            |  |



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Form of 5.625% Senior Note due 2024 is hereby incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 28, 2016 (which is included as Exhibit A to Exhibit 4.1). (SEC File No. 001-37666)

4.3 First Supplemental Indenture, dated as of October 12, 2016, by and between Pinnacle Entertainment, Inc. and Deutsche Bank Trust Company Americas, as Trustee is hereby incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 12, 2016. (SEC File No. 001-37666)

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| 10.1           | Lease dated September 9, 2016, by and between PNK Development 33, LLC, PA Meadows, LLC, WTA II, Inc., and CCR Pennsylvania Racing, Inc. is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2016. (SEC File No. 001-37666)  |
| 11*            | Statement re: Computation of Per Share Earnings.   |
| 31.1*          | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.   |
| 31.2*          | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.   |
| 32**           | Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.  |
| 101*           | <p>Financial statements from Pinnacle Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language):</p> <ul style="list-style-type: none"> <li>(i) unaudited Condensed Consolidated Statements of Operations,</li> <li>(ii) unaudited Condensed Consolidated Statements of Comprehensive Income (Loss),</li> <li>(iii) unaudited Condensed Consolidated Balance Sheets,</li> <li>(iv) unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit),</li> <li>(v) unaudited Condensed Consolidated Statements of Cash Flows; and</li> <li>(vi) Notes to unaudited Condensed Consolidated Financial Statements.</li> </ul> |

\* Filed herewith.

\*\* Furnished herewith.

Exhibits have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted exhibit to the SEC upon its request; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any document so furnished.

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SIGNATURE

Pursuant to the requirements 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.

PINNACLE ENTERTAINMENT, INC.  
(Registrant)

Date: November 14, 2016 By: /s/ Carlos A. Ruisanchez

Carlos A. Ruisanchez

President and Chief Financial Officer

(Authorized Officer, Principal Financial Officer and Principal Accounting Officer)

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