PINNACLE ENTERTAINMENT INC.
Form 10-Q
November 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2012
or

o 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: 001-13641

PINNACLE ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-3667491 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

8918 Spanish Ridge Avenue
Las Vegas, NV 89148
(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 x NO o

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 x NO o

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 x | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
| | | (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 o NO x

As of the close of business on November 7, 2012, the number of outstanding shares of the registrant's common stock was 58,921,734.

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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 ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Gaming | $262,353 | $254,548 | $777,951 | $755,580 |
| Food and beverage | 19,960 | 18,665 | 55,874 | 53,027 |
| Lodging | 10,819 | 11,505 | 30,391 | 29,165 |
| Retail, entertainment and other | 11,052 | 11,135 | 31,263 | 27,641 |
| Total revenues | 304,184 | 295,853 | 895,479 | 865,413 |
| Expenses and other costs: | | | | |
| Gaming | 146,082 | 145,561 | 432,009 | 437,286 |
| Food and beverage | 16,912 | 16,016 | 47,874 | 46,190 |
| Lodging | 5,510 | 5,150 | 15,260 | 14,420 |
| Retail, entertainment and other | 6,544 | 6,752 | 17,495 | 16,417 |
| General and administrative | 56,879 | 55,337 | 168,055 | 166,571 |
| Depreciation and amortization | 27,562 | 25,770 | 80,009 | 77,886 |
| Pre-opening and development costs | 11,546 | 2,465 | 18,516 | 7,174 |
| Write-downs, reserves and recoveries, net | 103 | 1,310 | 899 | 7,930 |
| Total expenses and other costs | 271,138 | 258,361 | 780,117 | 773,874 |
| Operating income | 33,046 | 37,492 | 115,362 | 91,539 |
| Net interest expense, net of capitalized interest | (22,960) | (24,034) | (67,363) | (75,711) |
| Loss on early extinguishment of debt | — | (183) | (20,718) | (183) |
| Loss from equity method investments | (1,367) | (544) | (4,206) | (544) |
| Income from continuing operations before income taxes | 8,719 | 12,731 | 23,075 | 15,101 |
| Income tax expense | (1,962) | (952) | (3,701) | (2,594) |
| Income from continuing operations | 6,757 | 11,779 | 19,374 | 12,507 |
| Loss from discontinued operations, net of income taxes | (7,115) | (12,569) | (8,783) | (40,014) |
| Net income (loss) | $(358) | $(790) | $10,591 | $(27,507) |
| Net income (loss) per common share—basic | | | | |
| Income from continuing operations | $0.11 | $0.19 | $0.31 | $0.20 |
| Loss from discontinued operations, net of income taxes | (0.12) | (0.20) | (0.14) | (0.65) |
| Net income (loss) per common share—basic | $(0.01) | $(0.01) | $0.17 | $(0.45) |
| Net income (loss) per common share—diluted | | | | |
| Income from continuing operations | $0.10 | $0.19 | $0.31 | $0.20 |
| Loss from discontinued operations, net of income taxes | (0.11) | (0.20) | (0.14) | (0.65) |
| Net income (loss) per common share—diluted | $(0.01) | $(0.01) | $0.17 | $(0.45) |
| Number of shares—basic | 61,560 | 62,059 | 62,095 | 61,940 |
| Number of shares—diluted | 62,027 | 62,564 | 62,498 | 62,453 |

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 months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | $(358) | $(790) | $10,591 | $(27,507) |
| Post-retirement plan benefit obligation, net of income taxes | 5 | 5 | 14 | 15 |
| Comprehensive income (loss) | $(353) | $(785) | $10,605 | $(27,492) |

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 per share data)

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $144,431 | $78,597 |
| Accounts receivable, net of allowance for doubtful accounts of $7,548 and $4,718 | 24,118 | 19,565 |
| Inventories | 7,104 | 7,083 |
| Held-to-maturity securities | 14,407 | — |
| Prepaid expenses and other assets | 18,135 | 11,758 |
| Assets of discontinued operations held for sale | 38,608 | 73,871 |
| Total current assets | 246,803 | 190,874 |
| Restricted cash | 6,278 | 6,451 |
| Land, buildings, riverboats and equipment: | | |
| Land and land improvements | 287,924 | 234,574 |
| Buildings, riverboats and improvements | 1,505,133 | 1,263,054 |
| Furniture, fixtures and equipment | 523,353 | 453,701 |
| Construction in progress | 49,950 | 173,303 |
| Land, buildings, riverboats and equipment, gross | 2,366,360 | 2,124,632 |
| Less: accumulated depreciation | (682,667) | (609,603) |
| Land, buildings, riverboats and equipment, net | 1,683,693 | 1,515,029 |
| Goodwill | 55,157 | 52,562 |
| Equity method investment | 114,017 | 97,795 |
| Intangible assets, net | 20,869 | 18,516 |
| Other assets, net | 58,377 | 69,392 |
| Total assets | $2,185,194 | $1,950,619 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $39,167 | $46,135 |
| Accrued interest | 31,589 | 21,270 |
| Accrued compensation | 40,012 | 39,801 |
| Accrued taxes | 35,972 | 18,769 |
| Other accrued liabilities | 59,313 | 50,544 |
| Deferred income taxes | 2,426 | 2,426 |
| Current portion of long-term debt | 3,250 | 111 |
| Liabilities of discontinued operations held for sale | 68 | 2,923 |
| Total current liabilities | 211,797 | 181,979 |
| Long-term debt less current portion | 1,437,767 | 1,223,874 |
| Other long-term liabilities | 22,679 | 21,944 |
| Deferred income taxes | 3,430 | 3,430 |
| Total liabilities | 1,675,673 | 1,431,227 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity | | |
| Preferred stock—$1.00 par value, 250,000 shares authorized, none issued or outstanding | — | — |
| Common stock—$0.10 par value, 100,000,000 authorized, 60,047,901 and 62,143,572 shares outstanding, net of treasury shares | 6,457 | 6,416 |

| | | |
|---|---|---|
| Additional paid in capital | 1,051,484 | 1,043,358 |
| Retained deficit | (499,783) | (510,374) |
| Accumulated other comprehensive income | 96 | 82 |
| Treasury stock, at cost, 4,523,794 and 2,008,986 of treasury shares | (48,733) | (20,090) |
| Total stockholders’ equity | 509,521 | 519,392 |
| Total liabilities and stockholders' equity | $2,185,194 | $1,950,619 |

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 ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income (loss) | $10,591 | $(27,507) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 80,089 | 79,506 |
| Loss on disposal of assets | 496 | 7,008 |
| Loss from equity method investments | 4,206 | 544 |
| Loss on early extinguishment of debt | 20,718 | 183 |
| Reserve on uncollectible loan receivable | 1,700 | — |
| Impairment of buildings, riverboats and equipment | — | 8,901 |
| Impairment of land and development costs | 6,950 | 17,608 |
| Amortization of debt issuance costs and debt discounts | 4,872 | 5,652 |
| Share-based compensation expense | 7,065 | 5,380 |
| Changes in operating assets and liabilities: | | |
| Receivables, net | 3,932 | 864 |
| Prepaid expenses and other | (5,557) | 2,775 |
| Accounts payable, accrued expenses and other | 36,220 | 17,185 |
| Net cash provided by operating activities | 171,282 | 118,099 |
| Cash flows from investing activities: | | |
| Capital expenditures | (255,013) | (110,791) |
| Payments for business combinations | (4,300) | (45,216) |
| Equity method investments, inclusive of capitalized interest | (20,428) | (96,135) |
| Purchase of held-to-maturity debt securities | (20,062) | — |
| Refund for escrow deposit | 25,000 | — |
| Proceeds from sale of property and equipment | 4,200 | 1,090 |
| Net proceeds from sale of discontinued operations | 10,784 | — |
| Purchase of intangible assets | (1,057) | — |
| Loans receivable | (6,036) | — |
| Refund of restricted cash | 413 | 20 |
| Net cash used in investing activities | (266,499) | (251,032) |
| Cash flows from financing activities: | | |
| Proceeds from Credit Facility | 47,500 | 63,000 |
| Repayments under Credit Facility | (103,500) | (31,000) |
| Proceeds from issuance of long-term debt | 646,750 | — |
| Repayment of long-term debt | (390,688) | (10,000) |
| Proceeds from common stock options exercised | 996 | 3,513 |
| Payments on other secured and unsecured notes payable | (653) | (71) |
| Purchase of treasury shares | (28,643) | — |
| Debt issuance and other financing costs | (12,408) | (2,827) |
| Net cash provided by financing activities | 159,354 | 22,615 |
| Increase (decrease) in cash and cash equivalents | 64,137 | (110,318) |
| Cash and cash equivalents at the beginning of the period | 80,294 | 195,387 |

| | | |
|---|---|---|
| Cash and cash equivalents at the end of the period | $144,431 | $85,069 |
| | | |
| Supplemental cash flow information: | | |
| Cash paid for interest, net of amounts capitalized | $52,728 | $65,563 |
| Cash payments (refunds) related to income taxes, net | 3,374 | (2,902) |
| Increase (decrease) in construction-related deposits and liabilities | (6,528) | 6,659 |
| Non-cash consideration for business combination | (300) | — |

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—Summary of Significant Accounting Policies

Basis of Presentation and Organization: Pinnacle Entertainment, Inc. (“Pinnacle”) is an owner, operator and developer of casinos and related hospitality and entertainment facilities. We operate casinos located in Lake Charles, Baton Rouge, New Orleans and Bossier City, Louisiana (L’Auberge Lake Charles, L'Auberge Baton Rouge, Boomtown New Orleans and Boomtown Bossier City), St. Louis, Missouri (River City Casino and Lumière Place Casino and Hotels), and southeastern Indiana (Belterra Casino Resort). L'Auberge Baton Rouge in Baton Rouge, Louisiana, opened on September 1, 2012. In addition, we own and operate a racetrack facility in Cincinnati, Ohio (River Downs) and a live and televised poker tournament series (Heartland Poker Tour). We view each property as an operating segment, with the exception of our properties located in St. Louis, Missouri, which are aggregated into the “St. Louis” reporting segment. We also own 26% of the equity in Asian Coast Development (Canada), Ltd. ("ACDL"), a British Columbia corporation that is developing Vietnam's first integrated resort near Ho Chi Minh City, which is accounted for under the equity method of accounting. For further details, see Note 6, Investments and Acquisition Activities. 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.

In April 2012, we entered into agreements to execute a series of transactions that we expect will result in us ultimately acquiring 75.5% of the equity of Retama Partners, Ltd. ("RPL"), the owner of the racing license for Retama Park Racetrack. Closing is expected by the end of the first quarter of 2013. For further discussion, see Note 6, Investments and Acquisition Activities.

We have classified certain of our assets and liabilities as held for sale in our unaudited Condensed Consolidated Balance Sheets and include the related results of operations in discontinued operations, including our Boomtown Reno property among others. For further information, see Note 7, Discontinued Operations. Our unaudited Condensed Consolidated Statements of Cash Flows have not been adjusted for discontinued operations.

Principles of Consolidation: 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 the instructions for generally accepted accounting principles in the United States (“GAAP”). The results for the periods indicated are unaudited, but reflect all adjustments that management considers necessary for a fair presentation of operating results. 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 significant intercompany accounts and transactions have been eliminated in consolidation.

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 Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011.

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 mychoice customer loyalty program, estimated cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and 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.

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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.

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 Sheet as of September 30, 2012:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total Carrying Value (in millions) | Level 1 | Level 2 | Level 3 |
| Liabilities | | | | |
| Deferred compensation | $1.3 | $1.3 | $— | $— |

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 Sheet as of September 30, 2012 for which it is practicable to estimate fair value:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Total Fair Value (in millions) | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Held-to-maturity securities | $20.0 | $— | $20.0 | $— |
| Promissory notes | $4.0 | $— | $4.0 | $— |
| Liabilities | | | | |
| Long-term debt | $1,545.2 | $— | $1,545.2 | $— |

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

The estimated fair value of our long-term debt includes the fair value of our senior notes, senior subordinated notes and term loan using Level 2 inputs of observable market data on comparable debt instruments on or about September 30, 2012.

Land, Buildings, Riverboats and Equipment: Land, buildings, riverboats and equipment are stated at cost. Land includes land not currently being used in our operations, which totaled $30.3 million at September 30, 2012 and December 31, 2011. During the quarter, we reclassified $4.5 million of our stock of uniforms, linens, china, glassware, silverware and gaming chips from other assets to land, buildings, riverboats and equipment. Depreciation on our stock of uniforms, linens, china, glassware, silverware, and gaming chips totaling $0.4 million for the three and nine months ended September 30, 2012, respectively, that would have previously been included in operating expenses is included in "Depreciation and amortization" in our unaudited Condensed Consolidated Statements of Operations. We capitalize the costs of improvements that extend the life of the asset. We expense maintenance and repair costs as incurred. Gains or losses on the dispositions of land, buildings, riverboats and equipment are included in the determination of income.

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Goodwill and Other Intangible Assets: Goodwill and other indefinite-lived intangible assets are subject to an annual assessment for impairment during the fourth quarter, or more frequently if there are indications of possible impairment, by applying a fair-value-based test. There were no impairments to goodwill or intangible assets during the three and nine months ended September 30, 2012 and 2011, respectively. During the three months ended September 30, 2012, we acquired goodwill and intangible assets related to our acquisition of the Heartland Poker Tour. For further discussion, see Note 6, Investments and Acquisition Activities.

The mychoice Customer Loyalty Program: Our customer loyalty program, mychoice, offers incentives to customers who gamble at our casinos. Customers earn points based on their level of play that may be redeemed for benefits such as cash back, shopping, dining, hotel stays, or free credit that can be replayed in the slot machines or at table games. The reward credit balance will be forfeited if the customer does not earn 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 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 mix 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 significantly different results. At September 30, 2012 and December 31, 2011, we had accrued $10.2 million and $10.8 million, respectively, for the estimated cost of providing these benefits. Such amounts are included in "Other accrued liabilities" in our unaudited Condensed Consolidated Balance Sheets.

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 the unaudited Condensed Consolidated Statements of Operations.

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Gaming taxes | $77.4 | $76.1 | $229.8 | $225.7 |

Pre-opening and Development Costs: Pre-opening and development costs are expensed as incurred. For the three and nine months ended September 30, 2012 and 2011, respectively, they consist of the following:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Baton Rouge | $9.6 | $1.1 | $14.7 | $3.1 |
| Other | 1.9 | 1.4 | 3.8 | 4.1 |
| Total pre-opening and development costs | $11.5 | $2.5 | $18.5 | $7.2 |

Earnings per Share: Diluted earnings per share reflects the addition of potentially dilutive securities, which include in-the-money stock options, restricted stock units and phantom stock units. Out-of-money stock options were excluded from the calculation of diluted earnings per share because including them would have been anti-dilutive, and totaled 4.7 million for the three and nine months ended September 30, 2012, respectively, and 4.3 million and 4.0 million for the three and nine months ended September 30, 2011, respectively.

Treasury stock: In July 2012, the Board of Directors authorized a share repurchase program of up to $100 million of shares of our Common Stock. The cost of the shares acquired is treated as a deduction from stockholders' equity. During the quarter ended September 30, 2012, we repurchased 2.5 million shares, and deducted $28.6 million from stockholders' equity. As of November 7, 2012, we have repurchased 3.6 million shares.

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Reclassifications: The unaudited Condensed Consolidated Financial Statements reflect certain reclassifications to prior year amounts to conform to classification in the current period. For the three and nine months ended September 30, 2011 we reclassified $2.9 million and $8.8 million, respectively, in expenses included in "Food and beverage", "Lodging", "Retail, Entertainment and other" and "General and administrative" in our unaudited Condensed Consolidated Statements of Operations to expenses included in "Gaming" in our unaudited Condensed Consolidated Statements of Operations as we believe these expenses are more closely associated with gaming activities. These reclassification have no effect on previously reported operating income and net income (loss).

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to fair value measurement and disclosure requirements. This update provides guidance on how fair value measurement should be applied where existing GAAP already requires or permits fair value measurements. In addition, the guidance requires expanded disclosures regarding fair value measurements. This guidance became effective for interim and annual periods beginning after December 15, 2011. The adoption of the measurement guidance did not have a material impact on the unaudited Condensed Consolidated Financial Statements. The new disclosures have been included with our fair value disclosures in the Notes to the unaudited Condensed Consolidated Financial Statements.

In July 2012, the FASB issued new accounting guidance for testing indefinite-lived assets for impairment. The new guidance states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that its more likely than not that the indefinite-lived intangible asset is impaired. The outcome of the assessment is used as a basis for determining whether it is necessary to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Accounting Standards Codification ("ASC") Topic 350. The new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, but early adoption is permitted. We expect to early adopt this guidance during the fourth quarter of 2012 and do not believe it will have a significant 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. Because of 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—Long-Term Debt

Long-term debt at September 30, 2012 and December 31, 2011 consists of the following:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (in millions) | |
| Senior Secured Credit Facility | $— | $56.0 |
| Term Loan | 320.4 | — |
| 7.75% Senior Subordinated Notes due 2022 | 325.0 | — |
| 8.75% Senior Subordinated Notes due 2020 | 350.0 | 350.0 |
| 8.625% Senior Notes due 2017 | 445.7 | 445.1 |
| 7.50% Senior Subordinated Notes due 2015 | — | 372.2 |
| Other secured and unsecured notes payable | — | 0.7 |
| | 1,441.1 | 1,224.0 |
| Less current maturities | (3.3) | (0.1) |
| | $1,437.8 | $1,223.9 |

Senior Secured Credit Facility: In August 2011, we entered into the Fourth Amended and Restated Credit Agreement for a $410 million credit facility ("Credit Facility"), which matures in August 2016. As of September 30, 2012, we had no borrowings outstanding under the Credit Facility, and had $8.8 million committed under letters of credit.

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Term Loan: On March 19, 2012, we entered into a $325 million Incremental Term Loan (the "Term Loan") under the Credit Facility. The Term Loan matures with all outstanding principal amounts due and payable March 19, 2019. The Term Loan requires payments of $3.25 million annually, payable in equal quarterly installments, with any remaining amount of the Term Loan required to be repaid in full on the maturity date. The Term Loan bears interest, at our option, at either a LIBOR rate plus a margin of 3.00% or at a base rate plus a margin of 1.50%. The LIBOR rate carries a floor of 1.00%. As discussed below, we used a portion of the Term Loan, to redeem a portion of our then existing 7.50% senior subordinated notes due 2015 ("7.50% Notes”).

7.75% Senior Subordinated Notes due 2022: On March 19, 2012, we issued $325 million in aggregate principal amount of 7.75% senior subordinated notes due 2022 (“7.75% Notes”). The 7.75% Notes were issued in a public offering pursuant to a Registration Statement on Form S-3 at par, with interest payable on April 1 and October 1 of each year, beginning, October 1, 2012. Net of initial purchasers’ fees and various costs and expenses, net proceeds from the offering were approximately $318.3 million. We used all of the net proceeds of the 7.75% Notes offering and a portion of the net proceeds from the Term Loan to redeem all $385 million in aggregate principal amount of our 7.50% Notes and to repay all $70 million in then outstanding revolving credit borrowings under the Credit Facility.

The 7.75% Notes are senior subordinated, unsecured obligations, and are subordinated in right of payment to all of our existing and future senior debt, including debt under the Credit Facility and the 8.625% senior notes due 2017, and rank equally with our existing and future senior subordinated debt, including our 8.75% senior subordinated notes due 2020. The 7.75% Notes are guaranteed on a senior subordinated basis by certain of our current and future domestic restricted subsidiaries.

7.50% Senior Subordinated Notes due 2015: In March 2012, we redeemed all $385 million in aggregate principal amount of our 7.50% Notes, of which we held $10 million. Holders were paid an aggregate of approximately $407 million, representing 103.75% of par, plus accrued and unpaid interest.

Loss on early extinguishment of debt: During the nine months ended September 30, 2012, we incurred a $20.7 million loss related to the early redemption of our 7.50% Notes. The loss included redemption premiums, write off of previously unamortized debt issuance costs and original issuance discount costs.
Net interest expense, net of capitalized interest was as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Interest expense | $29.2 | $27.1 | $85.7 | $81.2 |
| Interest income | (0.2) | (0.1) | (0.5) | (0.3) |
| Capitalized interest | (6.0) | (3.0) | (17.8) | (5.2) |
| Total net interest expense, net of capitalized interest | $23.0 | $24.0 | $67.4 | $75.7 |

Interest expense is capitalized on internally constructed assets at our overall weighted average cost of borrowing. Capitalized interest increased in 2012 as compared to 2011 due to L'Auberge Casino and Hotel Baton Rouge construction prior to the September 2012 opening, our River City expansion project and our investment in ACDL. We have capitalized interest on our investment in ACDL, as ACDL has not begun its principal operations, which consists of the Ho Tram Strip beachfront complex of integrated resorts and residential developments in southern Vietnam. ACDL currently has activities in progress to commence these planned operations, and is using all funds to acquire assets for the future operations. Once ACDL opens the first phase of this development, which is expected to occur in 2013, the investment will no longer qualify for capitalization of interest.

Note 3—Income Taxes

Our effective income tax rate for continuing operations for the three and nine months ended September 30, 2012 was 22.5%, or an expense of $2.0 million, and 16.0%, or an expense of $3.7 million, respectively, as compared to an effective tax rate of 7.5%, or an expense of $1.0 million, and 17.2%, or an expense of $2.6 million, for the corresponding prior-year periods. Our income tax expense for the same period last year was based on an actual year-to-date tax rate. We are now using the estimated annual tax rate to record our income tax expense for the interim periods. Our tax rate differs from the statutory rate of 35.0% due to the effects of permanent items, the recording of a valuation allowance adjustment against a portion of our deferred tax assets, and a reserve for unrecognized tax benefits. A substantial portion of our tax provision represents state taxes

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in the jurisdiction of Indiana and Louisiana where we have no valuation allowance. It is reasonably possible that the total amount of unrecognized tax benefits may increase by up to $4.0 million during the next twelve months.

In March 2012, the Internal Revenue Service commenced an examination of our corporate income tax return for the years 2009 and 2010. In June 2012, we received notification from the California Franchise Tax Board that it will begin examination of our franchise tax return for the years 2007, 2008, and 2009. In August 2012, we received notification from the Indiana Department of Revenue that we have been selected for an examination of our income tax return for the years 2008, 2009, and 2010. In April 2012, we received a supplemental letter of findings from the Indiana Department of Revenue upholding the prior audit assessment on our Indiana income tax filings for the years 2005, 2006, and 2007. We filed an appeal in June 2012 with the Indiana Tax Court to set aside the entire audit assessment. Our appeal is currently pending Court review. For further discussion, see Note 8, Commitments and Contingencies.

Note 4—Employee Benefit Plans

Share-based Compensation: As of September 30, 2012, we had approximately 5.9 million share-based awards outstanding, approximately 0.3 million of which are restricted stock units and other share based awards, and the rest of which are common stock options. In addition, we had approximately 2.5 million share-based awards available for grant. We recorded share-based compensation expense as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Share-based compensation expense | $1.7 | $1.6 | $7.0 | $5.3 |

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

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at January 1, 2012 | 5,336,929 | $12.84 |
| Granted | 1,259,300 | $9.83 |
| Exercised | (113,247) | $7.99 |
| Canceled, Forfeited | (905,403) | $15.88 |
| Options outstanding at September 30, 2012 | 5,577,579 | $11.76 |
| Vested or expected to vest at a point in the future as of September 30, 2012 | 2,259,876 | $10.80 |
| Options exercisable at September 30, 2012 | 2,607,270 | $12.88 |

The unamortized compensation costs not yet expensed related to stock options totaled approximately $15.1 million at September 30, 2012 and the weighted average period over which the costs are expected to be recognized is approximately two years. The aggregate amount of cash we received from the exercise of stock options was $1.0 million and $3.5 million for the nine months ended September 30, 2012 and 2011, respectively. The associated shares were newly issued common stock.

The following information is provided for our stock options:

| | For the nine months ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| Weighted-average grant date fair value | $4.97 | $6.73 |

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Non-vested Shares: The following table summarizes information related to our non-vested shares, which includes restricted stock units:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested shares at January 1, 2012 | 224,970 | $11.51 |
| Granted | 275,150 | $9.87 |
| Vested | (150,972) | $10.22 |
| Canceled, Forfeited | (5,875) | $11.78 |
| Unvested shares at September 30, 2012 | 343,273 | $10.76 |

Unamortized compensation costs not yet expensed attributable to non-vested shares totaled approximately $2.6 million at September 30, 2012 and the weighted average period over which the costs are expected to be recognized is approximately two years.

Note 5—Write-downs, reserves and recoveries, net

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Loss (gain) on disposal of assets | $0.4 | $1.3 | $(0.8) | $7.4 |
| Reserve on uncollectable loan receivable | (0.3) | — | 1.7 | — |
| Impairment of assets | — | — | — | 0.1 |
| Legal settlement expense | — | — | — | 0.4 |
| Write-downs, reserves and recoveries, net | $0.1 | $1.3 | $0.9 | $7.9 |

Loss (gain) on disposal of assets: We recorded a loss of $0.4 million and $1.7 million during the three and nine months ended September 30, 2012, respectively, related to the disposal of slot and other equipment at our properties in the normal course of business. During the nine months ended September 30, 2012, this loss was offset by a net gain of $2.5 million related to settlement proceeds received from the U.S. Army Corps of Engineers related to the compensation for land commandeered and severance damages associated with construction of a floodwall and easement designation on our property in New Orleans, Louisiana. In April 2011, we donated land with a book value of $5.7 million to the City of Lake Charles, Louisiana, and recognized a loss accordingly. The remaining losses incurred during the three and nine months ended September 30, 2011 relates to the disposal of slot and other equipment at our properties.

Reserve on uncollectable loan receivable: In January 2012, we made a $2.0 million loan to Federated Sports & Gaming, Inc. ("FSG"), and in February 2012, FSG filed for protection under Chapter 11 of the U.S. Bankruptcy Code. As a result of the filing, we determined it was appropriate to fully reserve for the loan receivable during the first quarter of 2012. In July 2012, we purchased the assets of FSG for total consideration of $4.6 million, of which $4.3 million was cash and $0.3 million was credit against a portion of the previously made loan, which amount is shown as a recovery during the three months ended September 30, 2012.

Note 6—Investments and Acquisition Activities

Equity Method Investments: We apply equity method accounting for investments when we do not control the investee, but have the ability to exercise significant influence over its operating and finance policies. Equity method investments are recorded at cost, with the allocable portion of the investee's income or loss reported in earnings, and adjusted for capital contributions to and distributions from the investee. Distributions in excess of equity method earnings, if any, are recognized as a return of investment and recorded as investing cash flows in the unaudited Condensed Consolidated Statement of Cash Flows. We review our equity investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an "other-than-temporary" decline in value. If such conditions exist, we would compare the estimated fair value of the investment to its carrying value to determine if an impairment is indicated. In addition,

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we would determine if the impairment is "other-than-temporary" based on our assessment of all relevant factors, including consideration of our intent and ability to retain the investment. To estimate fair value, we would use a discounted cash flow analysis based on estimated future results of the investee and market indicators of terminal year capitalization rates.

During the first quarter of 2012, we committed to invest $2.0 million in Farmworks, a land re-utilization project in Downtown St. Louis. We will receive credit for approximately $10.0 million towards our obligation to invest $50.0 million in St. Louis as a result of this transaction. This investment will be accounted for under the equity method.

In August 2011, we invested $95 million in ACDL in exchange for a 26% ownership interest, which is accounted for under the equity method, and the right to manage a future resort to be built in Vietnam. During the quarter ended September 30, 2012, we entered into an agreement to invest an additional $15.6 million in ACDL as part of a $60 million capital raise. As a result of this commitment, we maintained our 26% ownership in ACDL. As of September 30, 2012, we have funded $14.0 million of the capital raise. As a minority shareholder of ACDL, our ability to control the management, record keeping, operations and decision making of ACDL is limited.

Because the financial statements of ACDL are not available to incorporate with our financial statements in the applicable time period, we record our allocable share of income or loss on a one quarter lag. Since ACDL is a development stage entity, its results included no revenues and a net loss of $5.0 million and $15.6 million for the three months and trailing nine months ended June 30, 2012, respectively. During the three and nine months ended September 30, 2012, our proportional share of ACDL's losses totaled $1.4 million and $4.2 million, respectively.

Our cash investment in ACDL exceeds our proportional share of the net book value of ACDL. The excess value relates to the gaming license and the potential future earnings of ACDL. The portion of this difference attributable to the fair value of the gaming license will be amortized over the term of the gaming license, or 50 years, which amortization will be included in our determination of income or loss from equity method investments. The portion of this difference attributable to equity method goodwill will not be amortized.

We have capitalized interest on our investment in ACDL because ACDL has not begun its principal operations. ACDL currently has activities in progress to commence these planned operations, and is using all funds to acquire assets for the future operations. Once ACDL opens the first phase of this operation, the investment will no longer qualify for capitalization of interest. Capitalized interest on this investment was $2.0 million and $6.1 million for the three and nine months ended September 30, 2012, respectively.

In August 2012, we entered into an stock option agreement with ACDL. Under the terms of the stock option agreement we were granted an option to purchase common shares of ACDL at a predetermined exercise price. The option granted by ACDL was made to support certain administrative services we plan to render on behalf of ACDL under a yet-to-be negotiated services agreement. The option vests and becomes exercisable on a pro-rata daily basis over a 5 year term from the grant date. Portions of the option that are not vested and exercisable are subject to cancellation and termination provisions outlined within the stock option agreement. As of September 30, 2012, we recorded $0.3 million related to the vested portion of these options, included in "Other assets" and "Other accrued liabilities" in our unaudited Condensed Consolidated Balance Sheet.

ACDL's wholly-owned Vietnamese subsidiary, Ho Tram Project Company Limited ("HTP"), is currently constructing and developing the first phase of the first resort of the Ho Tram Strip complex of destination integrated resorts.
In 2008, ACDL received an investment certificate from the Government of Vietnam for the development of the Ho Tram Strip, which outlined deadlines to complete phases of the development. HTP obtained an Official Letter from the Provincial Government extending the deadline for developing the Ho Tram Strip under the investment certificate. HTP is currently in default of the deadlines set out in the Official Letter for completing the first phase of the first

resort and golf course. The first phase of the first resort is scheduled to open in the first quarter of 2013 and the golf course is scheduled to partially open in March of 2013 and fully in September of 2013.

ACDL and HTP have applied to amend the investment certificate to incorporate the deadlines provided for in the Official Letter into the investment certificate and to extend further the deadlines for completing the first phase of the first resort and the golf course, which would, if approved, remedy the default. The amendment would, among other things, confirm the project's entitlement to operate prized gaming upon completion and opening of the first phase of the first resort as provided for in the Official Letter. The process to approve the amendment to the investment certificate has been slower than ACDL had expected. While the Provincial Government has indicated its support for this amendment and ACDL expects the amendment to the investment certificate to be granted, there can be no assurance that it will be granted and, if so, as to the timing of such

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amendment. Additionally, delays in the establishment of regulatory protocols could delay the start of operation of the prized games.

ACDL has advised us that certain issues have arisen with respect to the funding of the first phase of the first resort. HTP is reliant upon a $175 million credit facility from a syndicate of Vietnamese banks ("lenders") to fund this first phase of the first resort of its Ho Tram Strip resort project. The Vietnamese banks have suspended funding under the credit facility until the amendment to the investment certificate has been granted. Through October 31, 2012, HTP had drawn approximately $79 million on the credit facility.

HTP has expected, and continues to expect, to draw fully on the credit facility to complete the first phase of the first resort over the next several months. In addition, ACDL plans to obtain a working capital credit facility prior to opening. However, as a result of the suspension of funding, ACDL/HTP currently does not have sufficient cash resources to complete the first phase of its Ho Tram resort project. Recently, construction activity has increased substantially, and without the lenders' resumption of funding under the credit facility or the infusion of additional funding from alternative sources on an expedited basis, construction at the project site will likely cease in the near term.

ACDL has also advised us that based on revised projections of the working capital from the manager of the first resort, HTP would be required to obtain additional capital beyond the previously disclosed $35 million yet-to-be-committed working capital facility. This would be required even assuming the resumption of funding under existing financing commitments from the syndicate of Vietnamese banks and the majority shareholder. The amount of additional working capital needs is still under review. If the Vietnamese banks are not prepared to provide the $35 million working capital credit facility or if additional working capital is required, additional funding will have to be obtained. Given the uncertainties surrounding its investment certificate and its existing lending agreements, it is uncertain if HTP will be able to secure such working capital facility.

In light of the foregoing, it is uncertain whether the first phase of the first resort will be completed. It is not clear what would happen if the first phase is not completed, including what actions the Vietnam government might take in such event. If the first phase is not completed, this would have a negative impact on our investment in ACDL and we could lose our entire investment in ACDL.

Retama Park Racetrack: On April 25, 2012, we entered into agreements to execute a series of transactions that we expect will result in us ultimately acquiring 75.5% of the equity of RPL, the owner of the racing license for Retama Park Racetrack. Under the terms of the agreements, we acquired certain bonds (the "RDC Bonds") and promissory notes (the "RDC Notes") issued by the Retama Development Corporation ("RDC") and a 50% interest in additional rights to operate and receive revenue from expanded gaming in the future (the "Gaming Enhancement Rights") (collectively, the "Acquired Property") for cash consideration of $7.8 million. We expect to acquire the equity of RPL through a contribution of the Acquired Property and cash consideration of $15 million, which will be used primarily to refinance existing indebtedness and to provide working capital. The acquisition of the equity of RPL is subject to the receipt of all applicable regulatory approvals and additional agreements with RDC, with closing expected by the end of the first quarter of 2013. We provided an advance of the total consideration in the form of bridge loans and a supplemental promissory note totaling $2.9 million to RDC, included in "Other assets" in our unaudited Condensed Consolidated Balance Sheet at September 30, 2012.

The cash consideration for the Acquired Property was allocated to the individual RDC Bonds, RDC Notes and Gaming Enhancement Rights based on their relative fair values, which required the estimation of individual fair values on the acquisition date using a discounted cash flow analysis. The RDC Bonds are debt securities classified as held-to-maturity investments as we have the positive intent and ability to hold these securities to maturity.

Heartland Poker Tour: On July 2, 2012, we closed on an agreement to purchase substantially all of the assets of Federated Sports & Gaming, Inc. and Federated Heartland, Inc., owners of the Heartland Poker Tour and other related assets and intellectual property, for total consideration of $4.6 million. The purchase was accounted for as a business combination.

The purchase price for the assets of Federated Sports & Gaming Inc. and Federated Heartland, Inc. was allocated based upon estimated fair values of the assets, with the excess of estimated fair value over the net book value of the assets acquired recorded as goodwill. The allocation of fair value is preliminary and may be adjusted up to one year after the acquisition date.

Other Investments: We have short-term investments in corporate bonds and commercial paper classified as held-to-maturity investments, as we have the positive intent and ability to hold these securities to maturity. At September 30, 2012, we hold $4.4 million in corporate bonds and $10 million in commercial paper, included in "Marketable securities" in our unaudited

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Condensed Consolidated Balance Sheet. It is not likely that the Company will be required to sell these investments prior to the recovery of the amortized cost.

Note 7—Discontinued Operations

Discontinued operations for September 30, 2012 consist primarily of our former Boomtown Reno operations and our Atlantic City operations. A disposal group classified as held for sale should be measured at the lower of its carrying value or the fair value less cost to sell. The fair value of the assets to be sold was determined using a market approach using Level 1 and 2 inputs, as defined in Note 1, Summary of Significant Accounting Policies.

Boomtown Reno: In November 2011, we entered into a definitive agreement to sell our Boomtown Reno operations. In June 2012, we closed the sale of the Boomtown Reno operations for total proceeds of approximately $12.9 million, resulting in a loss of $1.1 million. Actual net cash proceeds in the sale total approximately $10.8 million, net of approximately $2.1 million in cash acquired by the casino-resort buyers in the sale. At closing, the casino-resort buyers were granted a one year option to purchase 100% of the Company's membership interest in PNK (Reno), LLC, including 27 acres of additional land adjacent to Boomtown Reno, for incremental consideration of $3.8 million, which amount exceeds the current book value of the land. In addition, Pinnacle continues to hold approximately 780 acres of remaining excess land surrounding Boomtown Reno as a discontinued operation. Other than minimal costs associated with the remaining excess land, we expect no continuing costs from the Boomtown Reno operations.

Atlantic City: In the first quarter of 2010, we made the decision to sell our Atlantic City operation. Since that time, we have actively marketed the land and related operations, however, events and circumstances beyond our control have extended the period to complete the sale of this operation beyond one year. We have continued to reflect the business as discontinued operations and the related assets and liabilities as held for sale. We have entered into a letter of intent to dispose of our land holdings in Atlantic City and expect to enter into a definitive agreement by the end of the fourth quarter of 2012. During the third quarter of 2012, our Atlantic City land holdings, along with other related assets, were written down to net realizable value. As such, we recorded an impairment of $6.9 million during the quarter ended September 30, 2012.

Revenue, expense and net loss from discontinued operations are summarized as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Revenues | $0.6 | $12.6 | $18.7 | $30.7 |
| Operating loss | $(7.3) | $(12.8) | $(9.2) | $(40.2) |
| Income tax benefit | 0.2 | 0.2 | 0.4 | 0.2 |
| Loss from discontinued operations, net of income taxes | $(7.1) | $(12.6) | $(8.8) | $(40.0) |

Net assets for entities and operations included in discontinued operations are summarized as follows:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (in millions) | |
| Assets: | | |
| Property and equipment, net | $36.6 | $54.4 |
| Other assets, net | 2.0 | 19.5 |
| Total assets | $38.6 | $73.9 |
| Liabilities: | | |
| Total liabilities | $0.1 | $2.9 |
| Net assets | $38.5 | $71.0 |

Note 8—Commitments and Contingencies

Guaranteed Maximum Price Agreement for L'Auberge Casino & Hotel Baton Rouge: In April 2010, we entered into an Agreement for Guaranteed Maximum Price Construction Services with a general contractor for the construction of L'Auberge Baton Rouge. In May 2011, we entered into an amendment to the agreement, which, among other things, provides that the

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contractor will complete the construction of the casino for the total guaranteed maximum price of approximately $245 million. The guaranteed maximum price set by the amendment to the agreement is a portion of the budget for the project of $368 million. L'Auberge Baton Rouge opened on September 1, 2012.

Redevelopment Agreement: In connection with our Lumière Place Casino and Hotel, we have a redevelopment agreement which, among other things, commits us to oversee the investment of $50.0 million in residential housing, retail or mixed-use developments in the City of St. Louis within five years of the opening of Lumière Place, or by December 2012. Such investment can be made with partners and partner contributions and project debt financing, all of which count toward the $50.0 million investment commitment. To date, we have invested or committed in partnership with other parties certain projects that provide us with approximately $13.0 million in credits toward investments under the redevelopment agreement. The redevelopment agreement also contains certain contingent payments in the event of certain defaults. If we and any development partners collectively fail to invest $50.0 million in residential housing, retail, or mixed-use developments within five years of the opening of the casino and hotels, we would be obligated to pay an additional annual service fee of $1.0 million, less applicable credits, in year six, $2.0 million in years seven and eight, and $2.0 million annually thereafter, adjusted pro-rata for investments made, and by changes in the consumer price index. We are considering alternatives to mitigate this obligation. We are also obligated to pay an annual fee of $1.0 million to the City of St. Louis, which obligation began after our River City Casino opened in March 2010.

Lease and Development Agreement for River City Casino: In connection with our River City Casino, we have a lease and development agreement with the St. Louis County Port Authority which, among other things, commits us to lease 56 acres for 99 years (subject to certain termination provisions). We have invested the minimum requirement of $375 million, pursuant to the lease and development agreement. From April 1, 2010 through the expiration of the term of the lease and development agreement, we are required to pay to St. Louis County as annual rent the greater of (a) $4.0 million, or (b) 2.5% of annual adjusted gross receipts, as that term is defined in the lease and development agreement. We are also required to invest an additional $75.0 million in the second phase of the project to construct: (a) a hotel with a minimum of 200 guestrooms, (b) a meeting room/event space with at least 10,000 square feet, and (c) a parking garage with a minimum of 1,600 parking spaces. We are required to achieve substantial completion of the second phase by October 31, 2013. In the event that the second phase is not substantially completed by October 31, 2013, we are required to pay liquidated damages of $2.0 million beginning on November 1, 2013. In each subsequent year that the second phase is not opened, the amount of liquidated damages increases by $1.0 million hence, $3.0 million in 2014, $4.0 million in 2015, $5.0 million in 2016 and $6.0 million in 2017. As a result, the maximum amount of liquidated damages that we would have to pay if the second phase is not completed is $20.0 million. Our $82.0 million expansion project at River City that is currently underway is expected to fulfill this commitment.

Self-Insurance: We self-insure various levels of general liability and workers' compensation at all of our properties 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. At September 30, 2012 and December 31, 2011, we had total self-insurance accruals of $14.7 million and $14.8 million, respectively, which are included in “Other accrued liabilities” in our unaudited Condensed Consolidated Balance Sheets.

Indiana Tax Dispute: In 2008, the Indiana Department of Revenue (the “IDR”) commenced an examination of our Indiana income tax filings for the years 2005, 2006, and 2007. In 2010, we received a proposed assessment in the amount of $7.3 million, excluding interest and penalties. We filed a protest requesting abatement of all taxes, interest and penalties and had two hearings with the IDR where we provided additional facts and support. At issue is whether income and gain from certain asset sales, including the sale of the Hollywood Park Racetrack in 1999, and other transactions outside of Indiana, such as the Aztar merger termination fee in 2006, which we reported on our Indiana state tax returns for the years 2000 through 2007, resulted in business income subject to apportionment. In April 2012, we received a supplemental letter of findings from the IDR that denied our protest on most counts. In the supplemental letter of findings, the IDR did not raise any new technical arguments or advance any new theory that would alter our judgment regarding the recognition or measurement of the unrecognized tax benefit related to this audit. We believe that our tax return position is sustainable on the merits. In June 2012, we filed a tax appeal petition with the Indiana tax court to set aside the final assessment. Accordingly, we continue to believe that we have adequately reserved for the potential outcome.

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 9—Consolidating Condensed Financial Information

Our subsidiaries (excluding a subsidiary that owns 26% of the equity in ACDL; subsidiaries with approximately $52.3 million in total assets as of September 30, 2012; and certain non-material subsidiaries) have fully, unconditionally, jointly, and severally guaranteed the payment of all obligations under our senior and senior subordinated notes, as well as our Credit Facility. Our Atlantic City subsidiaries do not guarantee our Credit Facility. Separate financial statements and other disclosures regarding the subsidiary guarantors are not included herein because management has determined that such information is not material to investors. In lieu thereof, we include the following:

| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| For the three months ended September 30, 2012 | | | | | |
| Statement of Operations | | | | | |
| Revenues: | | | | | |
| Gaming | $— | $ 262.4 | $ — | $— | $ 262.4 |
| Food and beverage | — | 20.0 | — | — | 20.0 |
| Other | — | 21.6 | 0.2 | — | 21.8 |
| | — | 304.0 | 0.2 | — | 304.2 |
| Expenses: | | | | | |
| Gaming | — | 146.1 | — | — | 146.1 |
| Food and beverage | — | 16.9 | — | — | 16.9 |
| General and administrative and other | 7.5 | 71.3 | 1.6 | — | 80.4 |
| Depreciation and amortization | 0.6 | 26.9 | 0.1 | — | 27.6 |
| Write-downs, reserves and recoveries | — | 0.4 | (0.3) | — | 0.1 |
| | 8.1 | 261.6 | 1.4 | — | 271.1 |
| Operating income (loss) | (8.1) | 42.4 | (1.2) | — | 33.1 |
| Equity earnings of subsidiaries | 30.4 | — | — | (30.4) | — |
| Interest expense and non-operating income, net | (29.1) | 3.9 | 2.2 | — | (23.0) |
| Loss from equity method investment | — | — | (1.4) | — | (1.4) |
| Income (loss) from continuing operations before inter-company activity and income taxes | (6.8) | 46.3 | (0.4) | (30.4) | 8.7 |
| Management fee & inter-company interest | 8.4 | (6.4) | (2.0) | — | — |
| Income tax expense | (2.0) | — | — | — | (2.0) |
| Income (loss) from continuing operations | (0.4) | 39.9 | (2.4) | (30.4) | 6.7 |
| Loss from discontinued operations, net of taxes | — | (7.1) | — | — | (7.1) |
| Net income (loss) | $ (0.4) | $ 32.8 | $ (2.4) | $ (30.4) | $ (0.4) |

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| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| For the nine months ended September 30, 2012 | | | | | |
| Statement of Operations | | | | | |
| Revenues: | | | | | |
| Gaming | $— | $ 778.0 | $ — | $— | $778.0 |
| Food and beverage | — | 55.9 | — | — | 55.9 |
| Other | 0.1 | 61.3 | 0.2 | — | 61.6 |
| | 0.1 | 895.2 | 0.2 | — | 895.5 |
| Expenses: | | | | | |
| Gaming | — | 432.0 | — | — | 432.0 |
| Food and beverage | — | 47.9 | — | — | 47.9 |
| General and administrative and other | 23.0 | 194.3 | 2.0 | — | 219.3 |
| Depreciation and amortization | 2.0 | 77.9 | 0.1 | — | 80.0 |
| Write-downs, reserves and recoveries | — | (0.8) | 1.7 | — | 0.9 |
| | 25.0 | 751.3 | 3.8 | — | 780.1 |
| Operating income (loss) | (24.9) | 143.9 | (3.6) | — | 115.4 |
| Equity earnings of subsidiaries | 120.2 | — | — | (120.2) | — |
| Interest expense and non-operating income, net | (85.4) | 11.7 | 6.3 | — | (67.4) |
| Loss on early extinguishment of debt | (20.7) | — | — | — | (20.7) |
| Loss from equity method investment | — | — | (4.2) | — | (4.2) |
| Income (loss) from continuing operations before inter-company activity and income taxes | (10.8) | 155.6 | (1.5) | (120.2) | 23.1 |
| Management fee & inter-company interest | 25.1 | (19.0) | (6.1) | — | — |
| Income tax expense | (3.7) | — | — | — | (3.7) |
| Income (loss) from continuing operations | 10.6 | 136.6 | (7.6) | (120.2) | 19.4 |
| Loss from discontinued operations, net of taxes | — | (8.7) | (0.1) | — | (8.8) |
| Net income (loss) | $10.6 | $ 127.9 | $ (7.7) | $(120.2) | $10.6 |

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| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| For the three months ended September 30, 2011 | | | | | |
| Statement of Operations | | | | | |
| Revenues: | | | | | |
| Gaming | $— | $ 254.5 | $ — | $— | $ 254.5 |
| Food and beverage | — | 18.7 | — | — | 18.7 |
| Other | — | 22.7 | — | — | 22.7 |
| | — | 295.9 | — | — | 295.9 |
| Expenses: | | | | | |
| Gaming | — | 145.6 | — | — | 145.6 |
| Food and beverage | — | 16.0 | — | — | 16.0 |
| General and administrative and other | 8.6 | 61.1 | — | — | 69.7 |
| Depreciation and amortization | 0.9 | 24.9 | — | — | 25.8 |
| Write-downs, reserves and recoveries | — | 1.3 | — | — | 1.3 |
| | 9.5 | 248.9 | — | — | 258.4 |
| Operating income (loss) | (9.5) | 47.0 | — | — | 37.5 |
| Equity earnings of subsidiaries | 31.6 | — | — | (31.6) | — |
| Interest expense and non-operating income, net | (26.9) | 1.8 | 1.1 | — | (24.0) |
| Loss on early extinguishment of debt | (0.2) | — | — | — | (0.2) |
| Loss from equity method investment | — | — | (0.5) | — | (0.5) |
| Income (loss) from continuing operations before inter-company activity and income taxes | (5.0) | 48.8 | 0.6 | (31.6) | 12.8 |
| Management fee & inter-company interest | 5.2 | (4.1) | (1.1) | — | — |
| Income tax expense | (1.0) | — | — | — | (1.0) |
| Income (loss) from continuing operations | (0.8) | 44.7 | (0.5) | (31.6) | 11.8 |
| Loss from discontinued operations, net of taxes | — | (12.6) | — | — | (12.6) |
| Net income (loss) | $ (0.8) | $ 32.1 | $ (0.5) | $ (31.6) | $ (0.8) |

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| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| For the nine months ended September 30, 2011 | | | | | |
| Statement of Operations | | | | | |
| Revenues: | | | | | |
| Gaming | $— | $ 755.6 | $ — | $— | $ 755.6 |
| Food and beverage | — | 53.0 | — | — | 53.0 |
| Other | 0.1 | 56.7 | — | — | 56.8 |
| | 0.1 | 865.3 | — | — | 865.4 |
| Expenses: | | | | | |
| Gaming | — | 437.3 | — | — | 437.3 |
| Food and beverage | — | 46.2 | — | — | 46.2 |
| General and administrative and other | 29.9 | 174.7 | — | — | 204.6 |
| Depreciation and amortization | 2.6 | 75.3 | — | — | 77.9 |
| Write-downs, reserves and recoveries | 0.5 | 7.4 | — | — | 7.9 |
| | 33.0 | 740.9 | — | — | 773.9 |
| Operating income (loss) | (32.9) | 124.4 | — | — | 91.5 |
| Equity earnings of subsidiaries | 77.1 | 0.2 | — | (77.3) | — |
| Interest expense and non-operating income, net | (80.8) | 4.0 | 1.1 | — | (75.7) |
| Loss on early extinguishment of debt | (0.2) | — | — | — | (0.2) |
| Loss from equity method investment | — | — | (0.5) | — | (0.5) |
| Income (loss) from continuing operations before inter-company activity and income taxes | (36.8) | 128.6 | 0.6 | (77.3) | 15.1 |
| Management fee & inter-company interest | 11.9 | (10.8) | (1.1) | — | — |
| Income tax expense | (2.6) | — | — | — | (2.6) |
| Income (loss) from continuing operations | (27.5) | 117.8 | (0.5) | (77.3) | 12.5 |
| Income (loss) from discontinued operations, net of taxes | — | (40.3) | 0.3 | — | (40.0) |
| Net income (loss) | $ (27.5) | $ 77.5 | $ (0.2) | $ (77.3) | $ (27.5) |

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| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| As of September 30, 2012 | | | | | |
| Balance Sheet | | | | | |
| Current assets | $57.8 | $ 113.0 | $ 37.4 | $— | $208.2 |
| Property and equipment, net | 21.8 | 1,660.4 | 1.5 | — | 1,683.7 |
| Other non-current assets | 49.2 | 76.5 | 15.0 | — | 140.7 |
| Investment in subsidiaries | 1,889.8 | — | — | (1,889.8) | — |
| Equity method investment | — | — | 114.0 | — | 114.0 |
| Assets of discontinued operations held for sale | — | 39.3 | — | (0.7) | 38.6 |
| Inter-company | 1.2 | — | — | (1.2) | — |
| | $2,019.8 | $ 1,889.2 | $ 167.9 | $(1,891.7) | $2,185.2 |
| Current liabilities | $57.3 | $ 153.7 | $ 0.7 | $— | $211.7 |
| Long-term debt (including current portion) | 1,441.2 | — | — | — | 1,441.2 |
| Other non-current liabilities | 11.8 | 10.6 | 0.3 | — | 22.7 |
| Liabilities of discontinued operations held for sale | — | 0.1 | — | — | 0.1 |
| Inter-company | — | — | 1.2 | (1.2) | — |
| Equity | 509.5 | 1,724.8 | 165.7 | (1,890.5) | 509.5 |
| | $2,019.8 | $ 1,889.2 | $ 167.9 | $(1,891.7) | $2,185.2 |
| As of December 31, 2011 | | | | | |
| Balance Sheet | | | | | |
| Current assets | $23.2 | $ 78.6 | $ 15.2 | $— | $117.0 |
| Property and equipment, net | 20.3 | 1,494.2 | 0.5 | — | 1,515.0 |
| Other non-current assets | 45.4 | 101.5 | — | — | 146.9 |
| Investment in subsidiaries | 1,706.0 | — | — | (1,706.0) | — |
| Equity method investment | — | — | 97.8 | — | 97.8 |
| Assets of discontinued operations held for sale | — | 74.5 | — | (0.6) | 73.9 |
| Inter-company | 1.2 | — | — | (1.2) | — |
| | $1,796.1 | $ 1,748.8 | $ 113.5 | $(1,707.8) | $1,950.6 |
| Current liabilities | $38.8 | $ 140.0 | $ 0.3 | $— | $179.1 |
| Long-term debt | 1,223.3 | 0.5 | — | — | 1,223.8 |
| Other non-current liabilities | 14.6 | 10.8 | — | — | 25.4 |
| Liabilities of discontinued operations held for sale | — | 2.9 | — | — | 2.9 |
| Inter-company | — | — | 1.2 | (1.2) | — |
| Equity | 519.4 | 1,594.6 | 112.0 | (1,706.6) | 519.4 |
| | $1,796.1 | $ 1,748.8 | $ 113.5 | $(1,707.8) | $1,950.6 |

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| | Pinnacle Entertainment, Inc. | 100% Owned Guarantor Subsidiaries(a) | 100% Owned Non-Guarantor Subsidiaries(b) | Consolidating and Eliminating Entries | Pinnacle Entertainment, Inc. Consolidated |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| For the nine months ended September 30, 2012 | | | | | |
| Statement of Cash Flows | | | | | |
| Cash provided by (used in) operating activities | $(123.3) | $235.9 | $58.7 | $— | $171.3 |
| Capital expenditures and other | (9.3) | (209.8) | (47.4) | — | (266.5) |
| Cash used in investing activities | (9.3) | (209.8) | (47.4) | — | (266.5) |
| Change in notes payable and other | 159.3 | — | — | — | 159.3 |
| Cash provided by financing activities | 159.3 | — | — | — | 159.3 |
| Increase in cash and cash equivalents | 26.7 | 26.1 | 11.3 | — | 64.1 |
| Cash and cash equivalents, beginning of period | 17.3 | 48.0 | 15.0 | — | 80.3 |
| Cash and cash equivalents, end of period | $44.0 | $74.1 | $26.3 | $— | $144.4 |
| For the nine months ended September 30, 2011 | | | | | |
| Statement of Cash Flows | | | | | |
| Cash provided by (used in) operating activities | $(76.1) | $160.5 | $33.7 | $— | $118.1 |
| Capital expenditure and other | (9.6) | (145.5) | (95.9) | — | (251.0) |
| Cash used in investing activities | (9.6) | (145.5) | (95.9) | — | (251.0) |
| Change in notes payable | 22.6 | — | — | — | 22.6 |
| Cash provided by financing activities | 22.6 | — | — | — | 22.6 |
| Increase (decrease) in cash and cash equivalents | (63.1) | 15.0 | (62.2) | — | (110.3) |
| Cash and cash equivalents, beginning of period | 76.9 | 41.6 | 76.9 | — | 195.4 |
| Cash and cash equivalents, end of period | $13.8 | $56.6 | $14.7 | $— | $85.1 |

(a) The following material subsidiaries are identified as guarantors of our senior and senior subordinated notes: ACE Gaming, LLC; AREP Boardwalk Properties LLC; Belterra Resort Indiana, LLC; Boomtown, LLC; Casino Magic, LLC; Casino One Corporation; Louisiana-I Gaming; PNK (Baton Rouge) Partnership; PNK (Biloxi) LLC; PNK (BOSSIER CITY), Inc.; PNK Development 7, LLC; PNK Development 8, LLC; PNK Development 9, LLC; PNK Development 13, LLC; PNK (ES), LLC; PNK (LAKE CHARLES), L.L.C.; PNK (Ohio), LLC; PNK (Ohio) II, LLC; PNK (Ohio) III, LLC; PNK (RENO), LLC; PNK (River City), LLC; PNK (STLH), LLC; and PNK (ST. LOUIS RE), LLC. In addition, certain other immaterial subsidiaries are also guarantors of our senior and senior subordinated notes.

(b) Guarantor subsidiaries of our senior and senior subordinated notes exclude; a subsidiary that owns 26% of the equity in ACDL; a subsidiary with with $3.9 million in cash and cash equivalents as of September 30, 2012; a subsidiary with approximately $19.0 million in total assets as of September 30, 2012; a subsidiary with $25.1

million in total assets as of September 30, 2012; a subsidiary with $4.3 million in total assets as of September 30, 2012; and certain non-material subsidiaries.

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Note 10—Segment Information

We use Consolidated Adjusted EBITDA (as defined below) and Adjusted EBITDA for each segment (as defined below) to compare operating results among our segments and allocate resources. The following table highlights our Adjusted EBITDA for each segment and reconciles Consolidated Adjusted EBITDA to income from continuing operations for the three and nine months ended September 30, 2012 and 2011.

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Revenues: | | | | |
| L'Auberge Lake Charles | $99.5 | $98.2 | $297.3 | $283.1 |
| St. Louis (a) | 98.5 | 98.4 | 299.2 | 288.5 |
| Boomtown New Orleans | 27.9 | 32.2 | 92.6 | 102.5 |
| Belterra Casino Resort | 41.6 | 42.1 | 120.3 | 117.4 |
| Boomtown Bossier City | 19.8 | 21.1 | 62.8 | 65.4 |
| L'Auberge Baton Rouge | 13.1 | — | 13.1 | — |
| River Downs | 3.5 | 3.9 | 9.9 | 8.5 |
| Other | 0.3 | — | 0.3 | — |
| Total Revenue | $304.2 | $295.9 | 895.5 | $865.4 |
| Adjusted EBITDA (b): | | | | |
| L'Auberge Lake Charles | $31.5 | $29.7 | $91.6 | $79.5 |
| St. Louis (a) | 25.5 | 22.3 | 76.3 | 63.3 |
| Boomtown New Orleans | 7.7 | 10.3 | 28.7 | 34.2 |
| Belterra Casino Resort | 9.9 | 8.7 | 26.3 | 21.9 |
| Boomtown Bossier City | 4.3 | 4.6 | 14.8 | 14.6 |
| L'Auberge Baton Rouge | 1.5 | — | 1.5 | — |
| River Downs | (0.5) | (0.7) | (1.3) | (1.7) |
| Other | (0.2) | — | (0.2) | — |
| | 79.7 | 74.9 | 237.7 | 211.8 |
| Corporate expenses (c) | (5.6) | (6.2) | (15.9) | (22.0) |
| Consolidated Adjusted EBITDA (b) | 74.1 | 68.7 | 221.8 | 189.8 |
| Other benefits (costs): | | | | |
| Depreciation and amortization | (27.6) | (25.8) | (80.0) | (77.9) |
| Pre-opening and development costs | (11.5) | (2.5) | (18.5) | (7.2) |
| Share-based compensation expense | (1.7) | (1.6) | (7.0) | (5.3) |
| Write-downs, reserves and recoveries, net | (0.1) | (1.3) | (0.9) | (7.9) |
| Net interest expense, net of capitalized interest | (23.0) | (24.0) | (67.4) | (75.7) |
| Loss from equity method investment | (1.4) | (0.5) | (4.2) | (0.5) |
| Loss on early extinguishment of debt | — | (0.2) | (20.7) | (0.2) |
| Income tax expense | (2.0) | (1.0) | (3.7) | (2.6) |
| Income from continuing operations | $6.8 | $11.8 | $19.4 | $12.5 |

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| | For the nine months ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (in millions) | |
| Capital expenditures: | | |
| L'Auberge Baton Rouge | $207.6 | $69.6 |
| L'Auberge Lake Charles | 10.1 | 13.2 |
| St. Louis (a) | 22.3 | 10.2 |
| Boomtown New Orleans | 4.8 | 3.1 |
| Belterra Casino Resort | 1.9 | 2.4 |
| Boomtown Bossier City | 2.0 | 2.1 |
| River Downs | 1.3 | 0.1 |
| Corporate and other, including development projects and discontinued operations | 5.0 | 10.1 |
| | $255.0 | $110.8 |

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (in millions) | |
| Assets | | |
| L'Auberge Lake Charles | $313.2 | $317.3 |
| L'Auberge Baton Rouge | 391.0 | 208.5 |
| St. Louis (a) | 756.4 | 752.0 |
| Boomtown New Orleans | 74.6 | 75.5 |
| Belterra Casino Resort | 172.9 | 180.0 |
| Boomtown Bossier City | 83.4 | 86.1 |
| River Downs | 47.1 | 45.5 |
| Corporate and other, including development projects and discontinued operations | 346.6 | 285.7 |
| | $2,185.2 | $1,950.6 |

(a) Our St. Louis segment consists of Lumière Place (which includes the Lumière Place Casino, the Pinnacle-owned Four Seasons Hotel St. Louis and HoteLumière) and River City.

(b) We define Consolidated Adjusted EBITDA as earnings before depreciation, amortization, pre-opening and development expenses, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, gain (loss) on sale of certain assets, interest income and expense, income (loss) from equity method investments, loss on early extinguishment of debt, loss on sale of discontinued operations, discontinued operations and income taxes. We define Adjusted EBITDA for each segment as earnings before depreciation, amortization, pre-opening and development expenses, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, gain (loss) on sale of certain assets, interest income and expense and income taxes. We use Consolidated Adjusted EBITDA and Adjusted EBITDA for each segment to compare operating results among our properties and between accounting periods. Consolidated Adjusted EBITDA and Adjusted EBITDA have economic substance because they are used by management as a performance measure to analyze the performance of our business, and is especially relevant in evaluating large, long-lived casino-hotel projects because it provides 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 as they are discontinued. We also review pre-opening and development expenses 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 EBITDA and Adjusted EBITDA are useful measures for investors because it is an indicator of the strength and performance of ongoing business operations, including our ability to service debt and fund capital expenditures, acquisitions and 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, our credit agreement and bond indentures require compliance with financial measures similar to Consolidated Adjusted EBITDA. Consolidated Adjusted EBITDA should not be considered

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as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Consolidated Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

(c) Corporate expenses represent unallocated payroll, professional fees, travel expenses and other general and administrative expenses not directly related to our casino and hotel operations.

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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 contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

EXECUTIVE SUMMARY

Pinnacle Entertainment, Inc. is an owner, operator and developer of casinos and related hospitality and entertainment facilities. We operate L'Auberge Lake Charles in Lake Charles, Louisiana; River City Casino and Lumière Place in St. Louis, Missouri; Boomtown New Orleans in New Orleans, Louisiana; Belterra Casino Resort in Vevay, Indiana; and Boomtown Bossier City in Bossier City, Louisiana. We opened L'Auberge Baton Rouge in Baton Rouge, Louisiana on September 1, 2012. In addition, we own and operate a racetrack facility, River Downs, in Cincinnati, Ohio and a live and televised poker tournament series, Heartland Poker Tour. We also own a 26% stake in ACDL, a British Columbia corporation that is developing Vietnam's first integrated resort near Ho Chi Minh City. In June 2012, we closed the previously announced sale of our Boomtown Reno operations.

In April 2012, we entered into agreements to execute a series of transactions that would result in us acquiring 75.5% of the equity of Retama Partners, Ltd. ("RPL"), the owner of the racing license for Retama Park Racetrack. The acquisition of the equity of RPL is subject to the receipt of all applicable regulatory approvals and additional agreements with Retama Development Corporation, a local corporation organized and acting on behalf of the City of Selma as owner of Retama Park, with closing expected by the end of the first quarter of 2013.

We operate casino properties, all of which include gaming and dining facilities, and some of which include hotel, retail and other amenities. In addition, we operate one racetrack and a poker tour. 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 pay interest, repay debt costs and fund maintenance capital expenditures.

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 guest rewards programs. We seek to improve margins 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 properties, while growing the number and quality of our facilities by pursuing gaming entertainment opportunities we can improve or develop. We intend to diversify our guest demographics and revenue sources by growing our portfolio of operating properties both domestic and foreign, 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.

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RESULTS OF OPERATIONS

The following table highlights our results of operations for the three and nine months ended September 30, 2012 and 2011. As discussed in Note 10 to our unaudited Condensed Consolidated Financial Statements, we report segment operating results based on revenues and Adjusted EBITDA. Such segment reporting is on a basis consistent with how we measure our business and allocate resources internally. See Note 10 to our unaudited Condensed Consolidated Financial Statements for more information regarding our segment information. The following table highlights our Adjusted EBITDA for each segment and reconciles Consolidated Adjusted EBITDA (defined below) to income (loss) from continuing operations in accordance with U.S. GAAP.

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Revenues: | | | | |
| L'Auberge Lake Charles | $99.5 | $98.2 | $297.3 | $283.1 |
| St. Louis (a) | 98.5 | 98.4 | 299.2 | 288.5 |
| Boomtown New Orleans | 27.9 | 32.2 | 92.6 | 102.5 |
| Belterra Casino Resort | 41.6 | 42.1 | 120.3 | 117.4 |
| Boomtown Bossier City | 19.8 | 21.1 | 62.8 | 65.4 |
| L'Auberge Baton Rouge | 13.1 | — | 13.1 | — |
| River Downs | 3.5 | 3.9 | 9.9 | 8.5 |
| Other | 0.3 | — | 0.3 | — |
| Total Revenue | $304.2 | $295.9 | 895.5 | $865.4 |
| Adjusted EBITDA (b): | | | | |
| L'Auberge Lake Charles | $31.5 | $29.7 | $91.6 | $79.5 |
| St. Louis (a) | 25.5 | 22.3 | 76.3 | 63.3 |
| Boomtown New Orleans | 7.7 | 10.3 | 28.7 | 34.2 |
| Belterra Casino Resort | 9.9 | 8.7 | 26.3 | 21.9 |
| Boomtown Bossier City | 4.3 | 4.6 | 14.8 | 14.6 |
| L'Auberge Baton Rouge | 1.5 | — | 1.5 | — |
| River Downs | (0.5) | (0.7) | (1.3) | (1.7) |
| Other | (0.2) | — | (0.2) | — |
| | 79.7 | 74.9 | 237.7 | 211.8 |
| Corporate expenses | (5.6) | (6.2) | (15.9) | (22.0) |
| Consolidated Adjusted EBITDA (b) | 74.1 | 68.7 | 221.8 | 189.8 |
| Other benefits (costs): | | | | |
| Depreciation and amortization | (27.6) | (25.8) | (80.0) | (77.9) |
| Pre-opening and development costs | (11.5) | (2.5) | (18.5) | (7.2) |
| Share-based compensation expense | (1.7) | (1.6) | (7.0) | (5.3) |
| Write-downs, reserves and recoveries, net | (0.1) | (1.3) | (0.9) | (7.9) |
| Net interest expense, net of capitalized interest | (23.0) | (24.0) | (67.4) | (75.7) |
| Loss from equity method investment | (1.4) | (0.5) | (4.2) | (0.5) |
| Loss on early extinguishment of debt | — | (0.2) | (20.7) | (0.2) |
| Income tax expense | (2.0) | (1.0) | (3.7) | (2.6) |
| Income from continuing operations | $6.8 | $11.8 | $19.4 | $12.5 |

(a) Our St. Louis segment consists of Lumière Place (which includes the Lumière Place Casino, the Pinnacle-owned Four Seasons Hotel St. Louis and HoteLumière) and River City.

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(b) We define Consolidated Adjusted EBITDA as earnings before depreciation, amortization, pre-opening and development expenses, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, gain (loss) on sale of certain assets, interest income and expense, income (loss) from equity method investments, loss on early extinguishment of debt, loss on sale of discontinued operations, discontinued operations and income taxes. We define Adjusted EBITDA for each segment as earnings before depreciation, amortization, pre-opening and development expenses, non-cash share-based compensation, asset impairment costs, write-downs, reserves, recoveries, gain (loss) on sale of certain assets, interest income and expense and income taxes. We use Consolidated Adjusted EBITDA and Adjusted EBITDA for each segment to compare operating results among our properties and between accounting periods. Consolidated Adjusted EBITDA and Adjusted EBITDA have economic substance because they are used by management as a performance measure to analyze the performance of our business, and is especially relevant in evaluating large, long-lived casino-hotel projects because it provides 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 as they are discontinued. We also review pre-opening and development expenses 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 EBITDA and Adjusted EBITDA are useful measures for investors because it is an indicator of the strength and performance of ongoing business operations, including our ability to service debt and fund capital expenditures, acquisitions and 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, our credit agreement and bond indentures require compliance with financial measures similar to Consolidated Adjusted EBITDA. Consolidated Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Consolidated Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

Segment comparison of the three and nine months ended September 30, 2012 and 2011

L'Auberge Lake Charles

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | | For the nine months ended September 30, | | Percentage Increase/(Decrease) | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | | 2012 | 2011 | 2012 vs. 2011 | |
| | (in millions) | | | | | | | |
| Gaming revenues | $85.6 | $85.4 | 0.2 | % | $257.8 | $248.3 | 3.8 | % |
| Total revenues | 99.5 | 98.2 | 1.3 | % | 297.3 | 283.1 | 5.0 | % |
| Operating income | 25.8 | 24.0 | 7.5 | % | 74.3 | 63.0 | 17.9 | % |
| Adjusted EBITDA | 31.5 | 29.7 | 6.1 | % | 91.6 | 79.5 | 15.2 | % |

L'Auberge Lake Charles, our largest property, had an increase in revenues and Adjusted EBTIDA for the three and nine months ended September 30, 2012 as compared to the prior-year period, as a result of the a continued focus on the efficiency of the operation and utilization of assets, and due to a non-recurring charge related to the launch of our mychoice customer loyalty program in 2011. In addition, improvements made throughout the property have helped increase gaming revenues. Operating efficiencies have been achieved through consolidating tasks through a shared services arrangement across our Louisiana properties. Despite increases to revenues and Adjusted EBITDA for the three and nine months ended September 30, 2012, operating performance was negatively impacted by Hurricane Isaac.

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St. Louis

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $84.6 | $83.5 | 1.4 % | $257.8 | $247.8 | 4.0 % |
| Total revenues | 98.5 | 98.4 | 0.1 % | 299.2 | 288.5 | 3.7 % |
| Operating income | 11.7 | 7.7 | 51.9 % | 33.8 | 21.3 | 58.7 % |
| Adjusted EBITDA | 25.5 | 22.3 | 14.3 % | 76.3 | 63.3 | 20.5 % |

The St. Louis segment consists of River City and Lumière Place (which includes the Lumière Place Casino, the Pinnacle-owned Four Seasons Hotel St. Louis and HoteLumière). Revenues have remained consistent for the three months ended September 30, 2012 as compared to the prior-year period, and have increased during the nine months ended September 30, 2012 as compared to the 2011 period due to the maturation of the River City property. The Adjusted EBITDA increase reflects the benefits of a heightened focus on operating and marketing efficiencies primarily realized through our shared services arrangement in this market and due to a non-recurring charge related to the launch of our mychoice customer loyalty program in 2011. Beginning in the first quarter of 2012, we began accounting for medical claims through an enterprise-wide pooling of medical and related expenses, and allocating such expenses to each operating segment ratably based upon participant headcount. Previously, medical claims were expensed directly to the operating segment in which the participant resided. The use of medical claim pooling has no impact on Consolidated Adjusted EBITDA, but has impacted individual operating segments. For the nine months ended September 30, 2012, relative to using the prior medical expense allocation methodology, the use of medical pooling had a negative impact of $2.2 million on Adjusted EBITDA for St. Louis.

Boomtown New Orleans

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $26.8 | $31.0 | (13.5 )% | $88.8 | $98.7 | (10.0 )% |
| Total revenues | 27.9 | 32.2 | (13.4 )% | 92.6 | 102.5 | (9.7 )% |
| Operating income | 6.1 | 8.7 | (29.9 )% | 26.0 | 29.2 | (11.0 )% |
| Adjusted EBITDA | 7.7 | 10.3 | (25.2 )% | 28.7 | 34.2 | (16.1 )% |

Boomtown New Orleans' revenue and Adjusted EBITDA decreased for the three and nine months ended September 30, 2012 as compared to the prior-year period. Boomtown New Orleans performance was negatively impacted by Hurricane Isaac, as well as general difficult market conditions and operating challenges. We are making select facility improvements to increase the property's competitiveness, which includes plans to build a 150-room hotel tower with a budget of $20 million and completion expected in late-2013 or early-2014. We also continue to refine marketing programs to drive additional profitable revenue.

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Belterra Casino Resort

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $35.2 | $35.2 | — % | $103.2 | $99.9 | 3.3 % |
| Total revenues | 41.6 | 42.1 | (1.2 )% | 120.3 | 117.4 | 2.5 % |
| Operating income | 6.8 | 5.5 | 23.6 % | 17.1 | 12.2 | 40.2 % |
| Adjusted EBITDA | 9.9 | 8.7 | 13.8 % | 26.3 | 21.9 | 20.1 % |

During the three and nine months ended September 30, 2012, revenues for Belterra have remained consistent from the prior-year period, while Adjusted EBITDA has increased primarily due to expense controls and a non-recurring charge related to the launch of our mychoice customer loyalty program in 2011. Due to the change in medical claims expense discussed above, the use of medical pooling had a favorable impact of $1.3 million on Adjusted EBITDA for Belterra for the nine months ended September 30, 2012.

Boomtown Bossier City

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $18.6 | $19.5 | (4.6 )% | $58.9 | $60.9 | (3.3 )% |
| Total revenues | 19.8 | 21.1 | (6.2 )% | 62.8 | 65.4 | (4.0 )% |
| Operating income | 2.8 | 3.1 | (9.7 )% | 10.2 | 10.0 | 2.0 % |
| Adjusted EBITDA | 4.3 | 4.6 | (6.5 )% | 14.8 | 14.6 | 1.4 % |

Boomtown Bossier City's revenues and Adjusted EBITDA have declined for the three months ending September 30, 2012 compared with the results in the prior period while Adjusted EBITDA increased for the nine months ended September 30, 2012 compared with the results in the prior period. Boomtown Bossier City continues to face a very competitive operating environment, but cost discipline has permitted the property to maintain Adjusted EBITDA despite revenue challenges. The Adjusted EBITDA is also reflective of a non-recurring charge related to the launch of our mychoice customer loyalty program in 2011.

L'Auberge Baton Rouge

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/(Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $11.5 | $— | NM | $11.5 | $— | NM |
| Total revenues | 13.1 | — | NM | 13.1 | — | NM |
| Operating loss | (15.3 ) | — | NM | (15.3 ) | — | NM |
| Adjusted EBITDA | 1.5 | — | NM | 1.5 | — | NM |

We opened L'Auberge Baton Rouge on September 1, 2012. As such, the three and nine months ended September 30, 2012 include only one month of operations. The first month of operations are not necessarily indicative of future performance, as they include many one time pre-opening and development charges, and we expect operating efficiencies as the property matures, consistent with most property openings.

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River Downs

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/(Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Gaming revenues | $— | $— | NM | $— | $— | NM |
| Total revenues | 3.5 | 3.9 | (10.3 )% | 9.9 | 8.5 | 16.5 % |
| Operating loss | (0.7 ) | (0.9 ) | (22.2 )% | (2.0 ) | (2.2 ) | (9.1 )% |
| Adjusted EBITDA (loss) | (0.5 ) | (0.7 ) | (28.6 )% | (1.3 ) | (1.7 ) | (23.5 )% |

River Downs offers live thoroughbred horse racing from mid-April through Labor Day, as well as simulcast wagering throughout the year. Revenues increased during the nine months ended September 30, 2012 as compared to the prior-year period, despite declines during the third quarter. Adjusted EBITDA (loss) has decreased for the three and nine months ended September 30, 2012 as compared to 2011 due to improved cost efficiencies.

Other

Other results include results of our newly acquired Heartland Poker Tour, among other items. In July 2012, we purchased the assets of Heartland Poker Tour for total consideration of $4.6 million.

Other factors affecting income from continuing operations

The following is a description of the other costs and benefits affecting income from continuing operations for the three and nine months ended September 30, 2012 and 2011, respectively:

| | For the three months ended September 30, | | Percentage Increase/(Decrease) | For the nine months ended September 30, | | Percentage Increase/ (Decrease) |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | | | | |
| Other costs: | | | | | | |
| Corporate expenses | $(5.6 ) | $(6.2 ) | (9.7 )% | $(15.9 ) | $(22.0 ) | (27.7 )% |
| Depreciation and amortization | (27.6 ) | (25.8 ) | 7.0 % | (80.0 ) | (77.9 ) | 2.7 % |
| Pre-opening and development costs | (11.5 ) | (2.5 ) | 360.0 % | (18.5 ) | (7.2 ) | 156.9 % |
| Share-based compensation expense | (1.7 ) | (1.6 ) | 6.3 % | (7.0 ) | (5.3 ) | 32.1 % |
| Write-downs, reserves and recoveries, net | (0.1 ) | (1.3 ) | (92.3 )% | (0.9 ) | (7.9 ) | (88.6 )% |
| Loss from equity method investment | (1.4 ) | (0.5 ) | 180.0 % | (4.2 ) | (0.5 ) | 740.0 % |
| Loss on early extinguishment of debt | — | (0.2 ) | NM | (20.7 ) | (0.2 ) | NM |
| Net interest expense, net of capitalized interest | (23.0 ) | (24.0 ) | (4.2 )% | (67.4 ) | (75.7 ) | (11.0 )% |
| Income tax expense | (2.0 ) | (1.0 ) | 100.0 % | (3.7 ) | (2.6 ) | 42.3 % |

NM — Not Meaningful

Corporate expenses represent unallocated payroll and benefits, professional fees, rent, travel expenses and other general and administrative expenses not directly incurred by our casino and hotel operations. Efforts to eliminate non-value added expenses at our Las Vegas headquarters, as well as the ramp up of cost savings and property allocations related to our shared service centers supporting our properties in the Midwest and Louisiana also contributed to the decline. During the nine months ended September 30, 2012, we incurred charges totaling $0.6 million related to severance costs and office relocation charges, as compared to $2.7 million in the prior-year period. Due to the change in medical claims expense discussed above, the use of medical pooling had a favorable impact $0.9

million on corporate expenses for the nine months ended September 30, 2012.

Depreciation and amortization expense increased for the three and nine months ended September 30, 2012 as compared to the prior-year periods due to the opening of L'Auberge Baton Rouge.

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Pre-opening and development costs for the three and nine months ended September 30, 2012 and 2011 consist of the following:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Baton Rouge | $9.6 | $1.1 | $14.7 | $3.1 |
| Other | 1.9 | 1.4 | 3.8 | 4.1 |
| Total pre-opening and development costs | $11.5 | $2.5 | $18.5 | $7.2 |

Share-based compensation expense

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Shared-based compensation expense | $1.7 | $1.6 | $7.0 | $5.3 |

Share-based compensation expense relates to the fair value of options on the date of issuance. Share-based compensation expense increased in the nine months ended September 30, 2012 due to the increased fair value of our options granted to management and the board of directors in May 2012, and due to the modification of options granted to our board of directors.

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Loss (gain) on disposal of assets | $0.4 | $1.3 | $(0.8) | $7.4 |
| Reserve on uncollectable loan receivable | (0.3) | — | 1.7 | — |
| Impairment of assets | — | — | — | 0.1 |
| Legal settlement expense | — | — | — | 0.4 |
| Write-downs, reserves and recoveries, net | $0.1 | $1.3 | $0.9 | $7.9 |

Loss (gain) on disposal of assets: We recorded a loss of $0.4 million and $1.7 million during the three and nine months ended September 30, 2012 related to the disposal of slot and other equipment at our properties. During the nine months ended September 30, 2012, this loss was offset by a net gain of $2.5 million related to settlement proceeds received from the U.S. Army Corps of Engineers related to the consideration for land commandeered and severance damages associated with construction of a floodwall and easement designation on our property in New Orleans, Louisiana. In April 2011, we donated land with a book value of $5.7 million to the City of Lake Charles, Louisiana, and recognized a loss accordingly. The remaining loss incurred during the three and nine months ended September 30, 2011 relates to the disposal of slot and other equipment at our properties.

Reserve on uncollectable loan receivable: In January 2012, we made a $2.0 million loan to Federated Sports Gaming, Inc. ("FSG"), and in February 2012, FSG filed for protection under Chapter 11 of the U.S. Bankruptcy Code. As a result of the filing, we determined it was appropriate to fully reserve for the loan receivable during the first quarter of 2012. In July 2012, we purchased the assets of FSG for total consideration of $4.6 million, of which $4.3 million was cash and $0.3 million was credit against a portion of the previously made loan, which amount shown as a recovery as of September 30, 2012.

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Interest expense consists of the following:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Interest expense | $29.2 | $27.1 | $85.7 | $81.2 |
| Interest income | (0.2) | (0.1) | (0.5) | (0.3) |
| Capitalized interest | (6.0) | (3.0) | (17.8) | (5.2) |
| Total interest expense, net of capitalized interest | $23.0 | $24.0 | $67.4 | $75.7 |

Interest expense is capitalized on internally constructed assets at our overall weighted average cost of borrowing. Capitalized interest increased in 2012 as compared to 2011 due to L'Auberge Baton Rouge construction prior to the September 2012 opening, our River City expansion project and our investment in ACDL. We have capitalized interest on our investment in ACDL, as ACDL has not begun its principal operations, which consists of the Ho Tram Strip beachfront complex of integrated resorts and residential developments in southern Vietnam. ACDL currently has activities in progress to commence these planned operations, and is using all funds to acquire assets for the future operations. Once ACDL opens the first phase of this development, which is expected to occur in 2013, the investment will no longer qualify for capitalization of interest.

Loss on equity method investment: We hold a 26% ownership interest in ACDL, which is accounted for under the equity method. Under the equity method, the carrying value is adjusted for our share of ACDL's earnings and losses, as well as capital contributions to and distributions from ACDL. During the three and nine months ended September 30, 2012, our proportional share of ACDL's losses totaled $1.4 million and $4.2 million, respectively, which under our accounting policy reflects the loss of ACDL on a one quarter lag.

Loss on early extinguishment of debt: During the nine months ended September 30, 2012, we redeemed all $385 million in aggregate principal amount of our existing 7.50% senior subordinated notes due 2015. We recorded a $20.7 million loss on early extinguishment of debt as a result of this transaction, related to the redemption premium, the ratable write off of unamortized deferred financing fees and original issuance discounts.

Income taxes: Our effective tax rate for continuing operations for the three and nine months ended September 30, 2012 was 22.5%, or an expense of $2.0 million, and 16.0%, or an expense of $3.7 million, respectively, as compared to an effective tax rate of 7.5%, or an expense of $1.0 million, and 17.2%, or an expense of $2.6 million, respectively for the prior-year period. Our tax rate differs from the statutory rate of 35.0% due to the effects of permanent non-deductible expenses, the recording of a valuation allowance against a portion of our deferred tax assets generated in the current year, and a reserve for unrecognized tax benefits. A substantial portion of our tax provision represents state taxes in the jurisdiction of Indiana and Louisiana where we have no valuation allowance. In March 2012, the Internal Revenue Service commenced an examination of our corporate income tax returns for the years 2009 and 2010. In June 2012, we received notification from the California Franchise Tax Board that it will begin an examination of our franchise tax return for the years 2007, 2008, and 2009. In August 2012, we received notification from the Indiana Department of Revenue that we have been selected for an examination of our income tax return for the years 2008, 2009, and 2010. Our Indiana income tax filings for the years 2005, 2006, and 2007 are also currently under appeal.

Discontinued operations: Discontinued operations as of September 30, 2012 consist primarily of our Boomtown Reno operations and our Atlantic City operations.

Boomtown Reno: In November 2011, we entered into a definitive agreement to sell our Boomtown Reno operations. In June 2012, we closed the sale of our Boomtown Reno operations for total proceeds of approximately $12.9 million, resulting in a loss of $1.1 million. At closing, the casino-resort buyers were granted a one year option to purchase 100% of the Company's membership interest in PNK (Reno), LLC, including 27 acres of additional land adjacent to

Boomtown Reno, for incremental consideration of $3.8 million. In addition, we continue to hold approximately 780 acres of remaining excess land surrounding Boomtown Reno as a discontinued operation. Other than minimal costs associated with the remaining excess land, we expect no continuing costs from the Boomtown Reno operations.

Atlantic City: In the first quarter of 2010, we made the decision to sell our Atlantic City operation. Since that time, we have actively marketed the land and related operations, however, events and circumstances beyond our control have extended the period to complete the sale of this operation beyond one year. We have continued to reflect the business as discontinued

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operations and the related assets and liabilities as held for sale. We have entered into a letter of intent to dispose of our land holdings in Atlantic City and expect to enter into a definitive agreement by the end of the fourth quarter of 2012. During the third quarter of 2012, our Atlantic City land holdings, along with other related assets, were written down to net realizable value. As such, we recorded an impairment of $6.9 million during the quarter ended September 30, 2012.

Revenue, expense and net loss from discontinued operations are summarized as follows:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in millions) | | | |
| Revenues | $0.6 | $12.6 | $18.7 | $30.7 |
| Operating loss | $(7.3) | $(12.8) | $(9.2) | $(40.2) |
| Income tax benefit | 0.2 | 0.2 | 0.4 | 0.2 |
| Loss from discontinued operations, net of income taxes | $(7.1) | $(12.6) | $(8.8) | $(40.0) |

Net assets for entities and operations included in discontinued operations are summarized as follows:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| | (in millions) | |
| Assets: | | |
| Land, buildings, riverboats and equipment, net | $36.6 | $54.4 |
| Other assets, net | 2.0 | 19.5 |
| | $38.6 | $73.9 |
| Liabilities: | | |
| Total liabilities | $0.1 | $2.9 |
| Net Assets | $38.5 | $71.0 |

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2012, we held $144.4 million of cash and cash equivalents and $6.3 million of restricted cash. We estimate that approximately $70.0 million is needed to fund our casino cages, slot machines and day-to-day operating and corporate accounts. We have short-term investments in corporate bonds and commercial paper totaling approximately $14.5 million. As of September 30, 2012, we had no borrowings on our $410 million amended and restated credit facility and had $8.8 million committed under various letters of credit. In March 2012, we completed an offering of $325 million in 7.75% senior subordinated notes due 2022 and entered into a $325 million term loan, as discussed below. We anticipate borrowings under our credit facility in the future to fund development and expansion projects and other general corporate needs. In July 2012, the Board of Directors authorized a share repurchase program of up to $100 million of our shares of common stock. As of September 30, 2012, we have purchased 2.5 million shares of common stock at a cost of $28.6 million.

We generally produce significant positive cash flows from operations, though this is not always reflected in our reported net income due to large non-cash charges such as depreciation. However, our ongoing liquidity will depend on a number of factors, including available cash resources, cash flow from operations, funding of construction of our development projects and our compliance with covenants contained in the Credit Facility and the indentures governing our senior subordinated notes and senior notes.

| | For the nine months ended September 30, | | Percentage Increase/(Decrease) |
|---|---|---|---|
| | 2012 | 2011 | 2012 vs. 2011 |
| | (in millions) | | |
| Net cash provided by operating activities | $171.3 | $118.1 | 45.0 % |
| Net cash used in investing activities | $(266.5 ) | $(251.0 ) | 6.2 % |
| Net cash provided by financing activities | $159.4 | $22.6 | 605.3 % |

Operating Cash Flow

Our cash provided by operating activities in the nine months ended September 30, 2012, as compared to the prior-year period, increased due to improved results from operations. In addition, the increase is partially attributed to the timing of payments on accounts payable and accrued expense and $8.2 million we received during the first quarter of 2012 related to a property tax refund from the City of Atlantic City, for which we recorded a gain and associated receivable as of December 31, 2011.

Investing Cash Flow

The following is a summary of our capital expenditures for the nine months ended September 30, 2012 and 2011 by property or development project.

| | For the nine months ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (in millions) | |
| L'Auberge Baton Rouge | $207.6 | $69.6 |
| L’Auberge Lake Charles | 10.1 | 13.2 |
| St. Louis | 22.3 | 10.2 |
| Boomtown New Orleans | 4.8 | 3.1 |
| Boomtown Bossier City | 2.0 | 2.1 |
| Belterra | 1.9 | 2.4 |
| Other | 6.3 | 10.2 |
| Total capital expenditures | $255.0 | $110.8 |

During the first quarter of 2012, we broke ground on the construction of a 1,600 space parking structure at River City. We anticipate completion of this element of our River City expansion project by the end of 2012. The second phase of this expansion, a 200-room hotel and multi-purpose event center is expected to commence by the end of 2012 and be completed in

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late 2013. As of September 30, 2012, we have spent approximately $23 million of the $82 million River City expansion project budget.

We filed a license application with the Ohio Lottery Commission to operating video lottery terminals at River Downs in Cincinnati, Ohio. We plan to develop a gaming entertainment facility comprising approximately 1,600 video lottery terminals, multiple food and beverage outlets, over 1,600 parking spaces and new racing facilities. We expect the project to cost approximately $209 million, excluding license fees, original acquisition costs and capitalized interest, and plan to open the facility in the first half of 2014.

In July 2012, the Board of Directors approved plans to build a 150-guestroom hotel tower at our Boomtown New Orleans property, with a project budget of $20 million, and an expected completion date in late-2013 or early-2014.

We entered into an agreement to invest an additional $15.6 million in Asian Coast Development (Canada), Ltd. ("ACDL") as part of a $60 million capital raise. As a result of this commitment, we maintained our 26% ownership in ACDL. As of September 30, 2012, ACDL has received approximately $54 million of the $60 million total capital raise, inclusive of $14.0 million we contributed. The remaining funding is expected to occur during the fourth quarter of 2012.

We have short-term investments in corporate bonds and commercial paper classified as held-to-maturity investments as we have the positive intent and ability to hold these securities to maturity. At September 30, 2012, we hold $4.4 million in
corporate bonds and $10 million in commercial paper.

Our intention is to use existing cash resources, expected cash flows from operations and funds available under our Credit Facility to fund operations, maintain existing properties, make necessary debt service payments, repurchase shares of our common stock, fund the development of our projects, and explore other growth opportunities. 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 Credit Facility is contingent upon, among other things, meeting customary financial and other covenants. If we are unable to borrow under our Credit Facility, 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 on-going 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. Because of the current economic environment, 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.

For further discussion of our projects and associated capital needs, see the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” within our Annual Report on Form 10-K for the year ended December 31, 2011.

Financing Cash Flow

Credit Facility

In August 2011, we entered into the Fourth Amended and Restated Credit Agreement ("Credit Facility") with a revolving credit commitment of $410 million. As of September 30, 2012, we had $8.8 million committed under various letters of credit and no borrowings under our Credit Facility. The Credit Facility expires and all amounts outstanding thereunder are due and payable in full on August 2, 2016.

The Credit Facility permits us, in the future, to increase the commitments under the Credit Facility and to obtain term loan commitments, in each case from existing or new lenders that are willing to commit to such an increase, so long as we are in pro-forma compliance with the Credit Facility's financial and other covenants, including a consolidated senior secured debt ratio and a consolidated total leverage ratio.

The proceeds of the Credit Facility may be used for general corporate purposes, including the payment of certain expenditures associated with the construction and development of L'Auberge Baton Rouge, River Downs and River City.

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The Credit Facility does not have any debt repayment obligations prior to maturity. We are obligated to make mandatory prepayments of indebtedness under the Credit Facility from the net proceeds of certain debt offerings, certain asset sales and dispositions and certain casualty events, subject in certain cases to our right to reinvest proceeds. In addition, we will be required to prepay borrowings under the Credit Facility with a percentage of our “excess cash flow” (as defined in the Credit Facility, and reduced for cash flow applied to permitted capital spending). We do not believe such payments will be required in the next few years. We have the option to prepay all or any portion of the indebtedness under the Credit Facility at any time without premium or penalty.

The interest rate margins for revolving credit loans under the Credit Facility depend on our performance, measured by a consolidated total leverage ratio, which, in general, is the ratio of consolidated total debt (less excess cash, as defined in the Credit Facility) to annualized adjusted EBITDA, as defined in the Credit Facility. The Credit Facility bears interest, at our option, at either a LIBOR rate plus a margin ranging from 1.75% to 3.50% or at a base rate plus a margin ranging from 0.25% to 2.00%, in either case based on our consolidated total leverage ratio. The undrawn revolver facility bears a commitment fee for unborrowed amounts of 0.25% to 0.75% per annum based on our consolidated total leverage ratio.

The Credit Facility has, among other things, financial covenants and other affirmative and negative covenants. As of September 30, 2012, the Credit Facility requires compliance with the following ratios: (1) maximum consolidated total leverage ratio of 7.25 to 1.00; (2) minimum consolidated interest coverage ratio of 1.75 to 1.00; and (3) maximum consolidated senior secured debt ratio of 2.75 to 1.00. In addition, the Credit Facility has covenants that limit the amount of senior unsecured debt we may incur to $1.5 billion, unless our maximum consolidated total leverage ratio is less than 6.00 to 1.00. As of September 30, 2012, we were in compliance with each of these ratios, and compliance with these ratios does not have a material impact on our financial flexibility, including our ability to incur new indebtedness.

The obligations under the Credit Facility are secured by most of our assets and the assets of our domestic restricted subsidiaries, including a pledge of the equity interests in our domestic subsidiaries (except where such pledge is prohibited by gaming regulations) and, if and when formed or acquired, by a pledge of up to 66% of the then-outstanding equity interests of our foreign restricted subsidiaries. Our obligations under the Credit Facility are also guaranteed by our existing and future domestic restricted subsidiaries and are required to be guaranteed by our foreign restricted subsidiaries, if and when such foreign restricted subsidiaries are formed or acquired, unless such guarantee causes material adverse tax, foreign gaming or foreign law consequences. Subsidiaries with approximately $52.3 million in total assets as of September 30, 2012; a subsidiary that holds our investment in ACDL; our Atlantic City subsidiaries and each of our foreign subsidiaries are currently unrestricted subsidiaries for purposes of the Credit Facility.

The Credit Facility provides for customary events of default with corresponding grace periods, in most cases, including payment defaults, cross defaults with certain other indebtedness to third parties, breaches of covenants and bankruptcy events. In the case of a continuing default, the lenders may, among other remedies, accelerate payment of all obligations due from the borrowers to the lenders, charge the borrowers a default rate of interest on all then-outstanding or thereafter incurred obligations, and terminate the lenders' commitments to make any further loans or issue any further letters of credit. In the event of certain defaults, the commitments of the lenders will be automatically terminated and all outstanding obligations of the borrowers will automatically become due. In addition, the lenders may take possession of, and enforce the borrowers' rights with respect to, the borrowers' collateral, including selling the collateral.

Term Loan

On March 19, 2012, as contemplated under the Credit Facility, we entered into an Incremental Facility Activation Notice and New Lender Supplement (the "Incremental Facility Notice").

The Incremental Facility Notice notified the Administrative Agent of our activation of a $325 million Incremental Term Loan (the "Term Loan") under the Credit Facility. We used a portion of the Term Loan, to redeem a portion of our then existing 7.50% senior subordinated notes due 2015. The Term Loan matures with all outstanding principal amounts due and payable on March 19, 2019, provided that such maturity date shall be accelerated to May 1, 2017, if any portion of our 8.625% senior notes due August 1, 2017 are outstanding on May 1, 2017. The Term Loan requires debt repayment obligations of $3.25 million per year payable in equal quarterly payments, with any remaining amount of the Term Loan required to be repaid in full on the maturity date. The Term Loan bears interest, at our option, at either a LIBOR rate plus a margin of 3.00% or at a base rate plus a margin of 1.50%. The LIBOR rate carries a floor of 1.0%.

In connection with the Term Loan, we entered into the First Amendment to the Credit Facility (the "First Amendment"). The First Amendment made conforming amendments to the Credit Facility in connection with the Term Loan pursuant to the

Incremental Facility Notice, including providing for a LIBOR floor of 1.0% for the Term Loan. In addition, the First Amendment provides that under the Credit Facility we will be required to maintain consolidated total leverage ratio from September 30, 2016 and thereafter of 4.50 to 1.00 and the consolidated interest coverage ratio from September 30, 2016 and thereafter of 2.00 to 1.00. The Incremental Facility Notice and First Amendment are considered loan documents under the Credit Facility and are governed by the terms and conditions set forth under the Credit Facility as described above.

Senior and Senior Subordinated Indebtedness

As of September 30, 2012, we had outstanding $450 million aggregate principal amount of 8.625% senior notes due 2017 (“8.625% Notes”), $325 million aggregate principal amount of 7.75% senior subordinated notes due 2022 (“7.75% Notes”), and $350 million aggregate principal amount of 8.75% senior subordinated notes due 2020 (“8.75% Notes”).

On March 19, 2012, we issued $325 million in aggregate principal amount of 7.75% Notes. The 7.75% Notes were issued in a public offering pursuant to a Registration Statement on Form S-3, at par, with interest payable on April 1 and October 1 of each year, beginning October 1, 2012. Net of initial purchasers’ fees and various costs and expenses, net proceeds from the offering were approximately $318.3 million. We used all of the net proceeds of the 7.75% Notes offering and a portion of the net proceeds from the Term Loan to redeem all $385 million in aggregate principal amount of our 7.50% senior subordinated notes due 2015 and to repay all $70.0 million in then outstanding revolving credit borrowings under the Credit Facility.

The 8.625% Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior debt, including debt under our Credit Facility. The 8.625% Notes are, however, effectively subordinated to our Credit Facility, which is secured by a first priority lien, as well as any other secured debt which may be issued in the future. The 8.625% Notes are guaranteed on a senior basis by certain of our current and future domestic restricted subsidiaries. The 8.625% Notes rank senior to our existing 8.75% Notes and 7.75% Notes.

The 8.75% Notes and 7.75% Notes are unsecured senior subordinated obligations and rank subordinate in right of payment to all of our and our subsidiary guarantors’ existing and future indebtedness, except indebtedness that expressly provides that it ranks equal or subordinate in right of payment to the 8.75% Notes and 7.75% Notes. The 8.75% Notes and 7.75% Notes are guaranteed on a senior subordinated basis by certain of our current and future domestic restricted subsidiaries. The 8.75% Notes and the 7.75% Notes are subordinated to our 8.625% Notes and to our Credit Facility.

Under the indenture governing the 8.625% Notes, among other debt baskets, we are permitted to incur the greater of $750 million or 3.5x Consolidated EBITDA (as defined in the indenture) in senior indebtedness and secured indebtedness, which debt basket excludes the 8.625% Notes. Under the indentures governing the 8.75% Notes and 7.75% Notes, we are permitted to incur the greater of $1.5 billion or 2.5x Consolidated EBITDA (as defined in the indentures) in senior indebtedness. Under these senior secured indebtedness baskets, we are permitted in certain circumstances to incur senior unsecured indebtedness. In addition, the indentures governing the 8.625% Notes, the 8.75% Notes and the 7.75% Notes include other debt incurrence baskets, including a permitted refinancing basket and a general debt basket, the most restrictive of which permits the greater of $250 million or 5% of Consolidated Total Assets (as defined in the indentures). Under all three indentures, we may also incur additional indebtedness if, after giving effect to the indebtedness proposed to be incurred, our Consolidated Coverage Ratio (essentially, a ratio of adjusted EBITDA to interest) for a trailing four-quarter period on a pro forma basis (as defined in the indentures) would be at least 2.0 to 1.0. Our Consolidated Coverage Ratio (as defined in the indentures) under all three indentures was above 2.0 to 1.0 as of September 30, 2012.

The 8.625% Notes, 8.75% Notes and 7.75% Notes become callable at a premium over their face amount on August 1, 2013, May 15, 2015, and April 1, 2017, respectively. Such premiums decline periodically as the notes progress towards their respective maturities. All of our notes are redeemable prior to their first call dates at a price that reflects a yield to the first call that is equivalent to the applicable Treasury bond yield plus 0.5 percentage points.

Share Repurchase Plan

In July 2012, the Board of Directors authorized a share repurchase program of up to $100 million of our shares of common stock. As of September 30, 2012, we have purchased 2.5 million shares of common stock at a cost of $28.6 million. As of November 7, 2012, we have repurchased 3.6 million shares of common stock.

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## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

There were no material changes during the three months ended September 30, 2012, to our contractual obligations and commitments as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012.

## CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies and estimates can be found in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011. 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 in our Annual Report on Form 10-K for the year ended December 31, 2011. There were no newly identified critical accounting policies and estimates in the third quarter of 2012, nor were there any material changes to the critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

## 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-K, 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 e are intended to identify forward-looking statements. Such forward-looking statements, which may include, without limitation, expected results of operations, 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, our share repurchase authorization and timing and ability to repurchase shares of our common stock under a share repurchase program, our ability to enter into an agreement to sell our Atlantic City land holdings, our ability to sell or otherwise dispose of discontinued operations, the projected opening date for MGM Grand Ho Tram, the ability of ACDL to fund the development of the Ho Tram Strip project and each of its phases, our ability to close on our investment in Retama Partners, Ltd., the owners of the license of Retama Park Racetrack, the state of the economy, anticipated completion and opening schedule of our various projects, anticipated results for our various projects, expansion plans, construction schedules, video lottery terminals becoming operational at Ohio racetracks, gaming becoming legal at Texas racetracks, 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, 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. Factors that may cause our actual performance to differ materially from that contemplated by such forward-looking statements include, among others, the various risk factors discussed below, in addition to general domestic and international economic and political conditions, as well as market conditions in our industry. For more information on the potential factors that could affect our operating results and financial condition in addition to the risk factors described below, review our other filings (other than any portion of such filings that are furnished under applicable SEC rules rather than filed) with the SEC. 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 recent downturns in the economy or other changes we cannot accurately predict;
- 

- the global financial crisis and recession has affected our business and financial condition, and may continue to affect us in ways that we currently cannot accurately predict;
- our substantial development plans for capital-intensive projects will require us to borrow significant amounts under our amended and restated credit facility and, depending on which projects are pursued to completion, may cause us to incur substantial additional indebtedness;
- our present indebtedness 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

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experience adverse effects of interest rate fluctuations;

- our indebtedness imposes restrictive covenants on us;
- the gaming industry is very competitive and increased competition, including through legislative legalization or expansion of gaming by states such as Texas, Kentucky, Ohio and Illinois or through Native American gaming facilities and internet gaming, could adversely affect our financial results;
- subsequent phases to certain of our existing projects and potential enhancements at our properties may require us to raise additional capital;
- insufficient or lower-than-expected results generated from our new developments and acquired properties may negatively affect the market for our securities; our new properties may compete with our existing properties;
- rising operating costs at our gaming properties could have a negative impact on our business;
- we are 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;
- we derived 52% of our revenues in 2011 from our casinos located in Louisiana and are especially subject to certain risks, including economic and competitive risks, associated with the conditions in that area and in the states from which we draw patrons;
- some of our casinos are located on leased property. If we default on one or more leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected casino;
- 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;
- 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;
- we are subject to extensive governmental regulations that impose restrictions on the ownership and transfer of our securities;
- 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;
- ACDL, the privately held company that is developing a complex of integrated resorts in Vietnam, is relying on funding from a credit facility from a syndicate of Vietnamese banks to complete the first phase of the company's Ho Tram Strip resort project. The syndicate of banks has suspended funding pending ACDL's receipt of an amendment to the Investment Certificate. As a result of the suspension of funding and additional working capital needs requested by the manager of the first resort, ACDL does not have sufficient cash resources to complete the first phase of the Ho Tram Strip resort project, all of which could result in the cessation of construction at the site of the first phase of the Ho Tram Strip resort project and therefore could materially adversely affect our investment in ACDL;
- We face many other risks associated with our investment in ACDL, such as ACDL's ability to raise capital to fund the development of subsequent phases of the planned resort complex and business and regulatory risks, among other risks, in investing an entity conducting gaming operations in Vietnam;
- adverse weather conditions, road construction, gasoline shortages and other factors affecting our facilities and the areas in which we operating could make it more difficult for potential customers to travel to our properties and deter customers from visiting our properties;
- 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;
- natural disasters have made it more challenging for us to obtain similar levels of Weather Catastrophe Occurrence/Named Windstorm, Flood and Earthquake insurance coverage for our properties compared to the levels before the 2005 hurricane;
- fluctuations in the trading volume and market price of shares of our common stock, general business and market conditions and management's determination of alternative needs and uses of the our cash resources may affect the our share repurchase program;

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- we may experience delays in entering into an agreement to sell the our Atlantic City land holdings due to circumstances beyond our control or an agreement may not be entered into at all;
- we may incur property or other losses that are not adequately covered by insurance, which may harm our results of operations;
- our gaming operations rely heavily on technology services and an uninterrupted supply of electrical power. Our security system and all of our slot machines are controlled by computers and reliant on electrical power to operate;
- climate change, climate change regulations and greenhouse effects could adversely impact our operations and markets;
- work stoppages, organizing drives and other labor problems could interrupt our future profits;
- we are subject to litigation which, if adversely determined, could cause us to incur substantial losses;
- we face environmental and archaeological regulation of our real estate;
- our reputation and business may be harmed from cyber security risk and we may be subject to legal claims if there is a loss, disclosure or misappropriation of or access to our customers' or our business partners' or our own information or other breaches of our information security;
- we face risks associated with growth and acquisitions; 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.

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" and "Management’s Discussion and Analysis of Financial Condition and Results of Operations" sections contained in this Quarterly Report on Form 10-Q, as well as the "Risk Factors" and "Management Discussion and Analysis of Financial Condition and Results of Operations" sections contained in our Annual Report on Form 10-K for the year ended December 31, 2011 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, which are hereby incorporated by reference into this Quarterly Report on Form 10-Q. 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

At times, 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 Credit Facility. As of September 30, 2012, we had $8.8 million committed under various letters of credit under our Credit Facility and no borrowings under our revolving Credit Facility. Any borrowings outstanding under our revolving Credit Facility accrue interest at LIBOR plus a margin determined by our current consolidated leverage ratio, which margin was 2.25% as of September 30, 2012. In addition, we had $323.4 million outstanding under a Term Loan under our Credit Facility. The Term Loan bears interest, at our option, at either a LIBOR rate plus a margin of 3.00% or at a base rate plus a margin of 1.50%. The LIBOR rate carries a floor of 1.0%. The Term Loan currently bears interest at 4.0%.

As of September 30, 2012, if LIBOR rates were to decrease by one percentage point, our annual interest expense would not decrease, assuming constant debt levels. If LIBOR rates were to increase by one percentage point, our annual interest expense would increase by approximately $0.7 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 at September 30, 2012. At September 30, 2012, we did not hold any material investments in market-risk-sensitive instruments of the type described in Item 305 of Regulation S-K.

| Liabilities | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | | Thereafter | | Total | | Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | | | | | | | | | |
| Credit Facility | $— | | $— | | $— | | $— | | $— | | $— | | $— | | $— |
| Interest Rate | — | % | — | % | — | % | — | % | — | % | — | % | — | % | |
| Term Loan | $813 | | $3,250 | | $3,250 | | $3,250 | | $3,250 | | $309,563 | | $323,376 | | $322,987 |
| Interest Rate | 4.00 | % | 4.00 | % | 4.00 | % | 4.00 | % | 4.00 | % | 4.00 | % | 4.00 | % | |
| 7.75% Notes | $— | | $— | | $— | | $— | | $— | | $325,000 | | $325,000 | | $351,000 |
| Fixed Rate | 7.75 | % | 7.75 | % | 7.75 | % | 7.75 | % | 7.75 | % | 7.75 | % | 7.75 | % | |
| 8.625% Notes | $— | | $— | | $— | | $— | | $— | | $450,000 | | $450,000 | | $487,125 |
| Fixed Rate | 8.625 | % | 8.625 | % | 8.625 | % | 8.625 | % | 8.625 | % | 8.625 | % | 8.625 | % | |
| 8.75% Notes | $— | | $— | | $— | | $— | | $— | | $350,000 | | $350,000 | | $384,125 |
| Fixed Rate | 8.75 | % | 8.75 | % | 8.75 | % | 8.75 | % | 8.75 | % | 8.75 | % | 8.75 | % | |

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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 Exchange Act) as of September 30, 2012. Based on this evaluation, the Company’s management, including the CEO and the CFO, concluded that, as of September 30, 2012, 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, 2012 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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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 set forth under Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for year ended December 31, 2011.

ACDL, the privately held company that is developing a complex of integrated resorts in Vietnam, is relying on funding from a credit facility from a syndicate of Vietnamese banks to complete the first phase of ACDL's Ho Tram Strip resort project. The syndicate of banks has suspended funding, pending ACDL's receipt of an amendment to the Investment Certificate. As a result of the suspension of funding and additional working capital needs requested by the manager of the first resort, ACDL does not have sufficient cash resources to complete the first phase of the Ho Tram Strip resort project, all of which could result in the cessation of construction at the site of the first phase of the Ho Tram Strip resort project and therefore could materially adversely affect our investment in ACDL.

PNK Development 18, LLC, ("PNK 18"), one of our wholly owned unrestricted subsidiaries, owns 26% of Asian Coast Development (Canada) Ltd., a British Columbia corporation ("ACDL"). Entities affiliated with Harbinger Capital Partners (collectively, “Harbinger”) are the majority shareholders of ACDL. ACDL's wholly owned subsidiary Ho Tram Company Limited ("HTP") is the owner and developer of the Ho Tram Strip beachfront complex of destination integrated resorts, residential developments and golf course in the Province of Ba Ria-Vung Tau in southern Vietnam (the "Ho Tram Strip"). As a minority shareholder of ACDL, our ability to control the management, record keeping, operations and decision-making of ACDL is limited.

In 2008, ACDL received an investment certificate from the Government of Vietnam for the development of the Ho Tram Strip, HTP is currently constructing and developing the first phase of the first integrated resort. The first phase is scheduled to open in the first quarter of 2013 and the golf course is scheduled to partially open in March of 2013 and fully in September of 2013.

HTP obtained an Official Letter from the Provincial Government extending the deadline for developing the Ho Tram Strip under the investment certificate. HTP is currently in default of the deadlines set out in the Official Letter for completing the first phase of the first resort and golf course.

ACDL and HTP have applied to amend the investment certificate to incorporate the deadlines provided for in the Official Letter into the investment certificate and to extend further the deadlines for completing the first phase of the first resort and the golf course. The amendment would remedy the default and, among other things, confirm the project's entitlement to operate prized gaming upon completion and opening of the first phase of the first resort as provided for in the Official Letter. The process to approve the amendment to the investment certificate has been slower than ACDL had expected. While the Provincial Government has indicated its support for this amendment and ACDL expects the amendment to the investment certificate to be granted, there can be no assurance that it will be granted and if so as to the timing of such amendment. Additionally, delays in the establishment of regulatory protocols could delay the start of operation of the prized games.

A material portion of the funding for the first phase of the first resort is being provided to HTP by a syndicate of Vietnamese joint stock banks pursuant to a $175 million credit facility. Through October 31, 2012, HTP's lenders have loaned approximately $79 million to HTP. HTP has expected, and continues to expect, to draw fully on the credit facility to complete the first phase of the first resort over the next several months since construction activity has increased substantially. In addition, ACDL plans to obtain a working capital credit facility prior to opening.

ACDL has advised us that certain issues have arisen with respect to the funding of the first phase of the Ho Tram Strip. First, the Vietnamese banks have suspended funding under the credit facility until the amendment to the investment certificate has been granted. Accordingly, HTP is currently unable to draw upon the credit facility at a time when construction activity on the first phase of the first resort has increased significantly. ACDL and HTP have limited cash resources of their own to draw upon to fund continued construction activity. Without either the lenders' resumption of funding under the credit facility or the infusion of additional funding from alternative sources on an expedited basis, construction at the project site will likely cease in the near term. As discussed above, the timing of the approval of the amendment to the investment certificate is uncertain. The

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inability to complete the final stages of construction and fit out and the inability of HTP to pay its contractors and vendors for work that they have completed may result in material adverse consequences to the Ho Tram Strip project, including the risk that its various vendors, contractors, consultants and management company could exercise their various remedies under their agreements including termination. Further, if construction ceases, it may be difficult or impossible or to complete the construction even if funding under the credit facility resumed or alternative funding is obtained.

Second, ACDL has also advised us that based on revised projections of the working capital from the manager of the first resort, HTP would be required to obtain additional capital beyond the previously disclosed $35 million yet-to-be-committed working capital facility. This would be required even assuming the resumption of funding under existing financing commitments from the syndicate of Vietnamese banks and Harbinger (collectively, the “ACDL Lenders”). The amount of additional working capital needs is still under review. If the Vietnamese banks are not prepared to provide the $35 million working capital credit facility or if additional working capital is required, additional funding will have to be obtained. Given the uncertainties surrounding its investment certificate and its existing lending agreements, it is uncertain if HTP will be able to secure such working capital facility.

With respect to the funding commitments that ACDL has already obtained for such first phase, ACDL is relying on various agreements with the ACDL Lenders to provide funding for construction of the first phase of the first integrated resort, which will require ACDL to comply with certain covenants and conditions. It is uncertain whether ACDL will be able to comply with these covenants and conditions. In addition, it is uncertain whether the ACDL Lenders will continue to have the financial capacity to comply with such obligations to fund their respective obligations. In the event that the ACDL Lenders do not fund their financial obligations, it is uncertain whether ACDL will be able to replace the funds to be provided by the ACDL Lenders in a timely manner, or at all, or on terms that are acceptable to ACDL and its shareholders.

In light of the foregoing, it is uncertain whether the first phase of the first resort will be completed. It is not clear what would happen if the first phase is not completed, including what actions the Vietnam government might take in such event. If the first phase is not completed, this would have a negative impact on our investment in ACDL and we could lose our entire investment in ACDL.

We face many other risks associated with our investment in ACDL, such as ACDL's ability to raise capital to fund the development of subsequent phases of the planned resort complex and business and regulatory risks, among other risks, in investing an entity conducting gaming operations in Vietnam.

In the future, ACDL will need to obtain funding for subsequent phases of the Ho Tram Strip. It is uncertain whether any subsequent phases of the first integrated resort or the second integrated resort of the Ho Tram Strip will be developed. If HTP is unable to build the resort complex as planned, it will have a negative impact on our investment in ACDL. It is not clear what actions the Vietnam government might take in the event that the Ho Tram Strip is not developed in accordance with the investment certificate (as amended from time to time).

Further, the resorts in the Ho Tram Strip will be new developments with no history of operations. It is uncertain whether ACDL will be able to attract a sufficient number of hotel guests, gaming customers and other visitors to the Ho Tram Strip to make its operations profitable.

HTP's operations will be subject to the significant business, economic, regulatory and competitive uncertainties and contingencies frequently encountered by new businesses in new gaming jurisdictions and other risks associated with this investment, many of which are beyond ACDL's, HTP's or our control. The gaming elements of the businesses will be subject to regulation by the government of Vietnam and uncertainty exists as to how such regulation will affect HTP's gaming operations. Because ACDL and HTP have no operating history, it may be more difficult for them to prepare for and respond to these types of risks than for a company with an established business and operating cash flow. If ACDL and HTP are not able to manage these risks successfully, it could negatively impact our investment. These and other risks could result in the failure to recover our investment in ACDL or to realize any gains in respect thereof.

ACDL will have operations outside the United States, which will expose us to complex foreign and U.S. regulations inherent in doing business in Vietnam. We are subject to regulations imposed by the Foreign Corrupt Practices Act, (the "FCPA"), and other anti-corruption laws that generally prohibit U.S. companies and their intermediaries from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business. Violations of the FCPA and other anti-corruption laws may result in severe criminal and civil sanctions as well as other penalties. The SEC and U.S. Department of Justice have increased their enforcement activities with respect to the FCPA.

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Internal control policies and procedures and the compliance program that ACDL has implemented to deter prohibited practices may not be effective in prohibiting its employees, contractors or agents from violating or circumventing our policies and the law. Even though our investment in ACDL is through an unrestricted subsidiary under our debt agreements, if ACDL's or our employees or agents fail to comply with applicable laws or company policies governing ACDL's international operations, we and our subsidiaries may face investigations, prosecutions and other legal and regulatory proceedings and actions which could result in civil penalties, administrative remedies and criminal sanctions which could, in turn, serve as the basis for the initiation of like proceedings by gaming regulators in one or more of the states wherein we and our subsidiaries hold gaming licenses. Any determination that we have violated the FCPA could have a material adverse effect on our financial condition and on the gaming licenses and approvals held by us and our subsidiaries.

Compliance with international and U.S. laws and regulations that apply to ACDL's international operations increases the cost of doing business in foreign jurisdictions. ACDL will also deal with significant amounts of cash in its operations and we will be subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations by ACDL could have a negative effect on our 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, 2012.

| Period | Total Number of Shares (or Units) Purchased (1) | Average Price Paid per Share (or Unit) (2) | 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 (3) |
|---|---|---|---|---|
| July 1-July 31, 2012 | 195,619 | $10.44 | 195,008 | $97,963,511 |
| August 1-August 31, 2012 | 1,407,000 | $11.16 | 1,407,000 | $82,263,834 |
| September 1-September 30, 2012 | 912,895 | $11.95 | 912,800 | $71,356,688 |
| Total | 2,515,514 | $11.39 | 2,514,808 | $71,356,688 |

(1) The total number of shares purchased for the quarter includes shares surrendered, or deemed surrendered, in satisfaction of tax withholding obligations in connection with stock awards, totaling 611 shares for the month of July 2012 and 95 shares for the month of September 2012.

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

(3) As announced on July 25, 2012, the Company's Board of Directors approved a share repurchase plan or up to $100 million. We may use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. The authorization, as amended, does not specify an expiration date.

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Item 6. Exhibits

| Exhibit Number | Description of Exhibit |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Pinnacle Entertainment, Inc., as amended, is hereby incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed on May 9, 2005. (SEC File No. 001-13641). |
| 3.2 | Restated Bylaws of Pinnacle Entertainment, Inc., as of May 24, 2011, are hereby incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 26, 2011. (SEC File No. 001-13641). |
| 10.1* | First Amendment to the Amended and Restated Shareholders Agreement, dated as of September 28, 2012 by and among Asian Coast Development (Canada) Ltd., Harbinger II S.a.r.l., Blue Line ACDL, Inc., Breakaway ACDL, Inc., Credit Distressed Blue Line Master Fund, Ltd., Global Opportunities Breakaway Ltd., Harbinger China Dragon Intermediate Fund, L.P., PNK Development 18, LLC and PNK Development 31, LLC. |
| 10.2† | Form of Online Stock Option Grant Notice and Award Agreement for the Pinnacle Entertainment, Inc. 2005 Equity and Performance Incentive Plan, As Amended (Team Member) is hereby incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-8 filed on September 24, 2012. (SEC File No. 333-184044). |
| 10.3 | Amended and Restated Shareholders Agreement dated as of August 29, 2012 by and among PNK Development 18, LLC, PNK Development 31, LLC, Harbinger II S.a.r.l, Blue Line ACDL, Inc., Credit Distressed Blue Line Master Fund, Ltd., Global Opportunities Breakaway Ltd., Breakaway ACDL, Inc., Harbinger China Dragon Intermediate Fund, L.P. and Asian Coast Development (Canada) Ltd. is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 4, 2012 (SEC File No. 001-13641). |
| 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** | Financial Statements from Pinnacle Entertainment Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language):<br><br>(i) unaudited Condensed Consolidated Statements of Operations;<br>(ii) unaudited Condensed Consolidated Statements of Comprehensive Income (Loss);<br>(iii) unaudited Condensed Consolidated Balance Sheets;<br>(iv) unaudited Condensed Consolidated Statements of Cash Flows; and<br>(v) Notes to unaudited Condensed Consolidated Financial Statements. |

* Filed herewith.
** Furnished herewith.

† Management contract or compensatory plan or arrangement.

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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.<br>(Registrant) |
| Date: November 9, 2012 | By: /s/ Carlos A. Ruisanchez<br>Carlos A. Ruisanchez<br>Executive Vice President and Chief Financial Officer<br>(Authorized Officer, Principal Financial Officer and Principal Accounting Officer) |

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