

March 12, 2008

Key Metrics

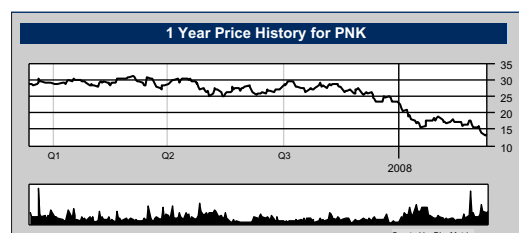
PNK - NYSE	\$13.72
Pricing Date	03/11/2008
Price Target	NA
52-Week Range	\$31.34-\$13.20
Shares Outstanding (mm)	59.9
Market Capitalization (\$mm)	\$821.8
3-Mo Average Daily Volume	908,382
Institutional Ownership	83%
Debt/Total Capital	44.4%
ROE	NM
Book Value/Share	\$17.46
Price/Book	0.8x
Dividend Yield	NA
LTM EBITDA Margin	18.30%

EPS(\$) FY: December

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	0.19	--	(0.04)E	--	--
2Q-Jun	0.23	--	0.05E	--	--
3Q-Sep	0.27	--	0.12E	--	--
4Q-Dec	(0.07)	--	0.06E	--	--
FY	0.61	--	0.20E	--	0.49E
P/E	22.5x	--	68.6x	--	28.0x

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	232.8	--	255.6E	--	--
2Q-Jun	232.9	--	271.5E	--	--
3Q-Sep	238.4	--	275.6E	--	--
4Q-Dec	219.5	--	258.9E	--	--
FY	923.7	--	1,061.6E	--	1,215.7E



Company Description: Pinnacle Entertainment, Inc. (www.pnkinc.com) owns and operates casinos in Nevada, Louisiana, Missouri, Indiana, Argentina, and The Bahamas. Pinnacle is also developing new casinos in Missouri, Louisiana, and New Jersey.

Pinnacle Entertainment, Inc.

Rating: Hold

Transitioning Coverage; Awaiting a Better Entry Point

Investment Highlights:

- **We are transitioning coverage of Pinnacle Entertainment with a new Hold rating.** Pinnacle's current operations, recent project openings, and development pipeline should generate consistent EBITDA growth over the next three to five years. That said, the next two quarters may prove challenging, reflecting a focus on revenues rather than profitability at the recently opened Lumière Place in Downtown St. Louis. Also, we believe increased marketing in the Baton Rouge market will likely keep a lid on margin expansion in Lake Charles in 1Q08. As such, we think the consensus EPS estimates are too high for 1Q08 and 2Q08. Accordingly, we would like to see the first quarter or two play out before we become more constructive with our rating.
- **Shares of PNK currently trade at 5.8x our FY08 EBITDA estimate of \$176mm.** Typically, we apply an enterprise multiple of EBITDA in the historical 5x to 7x range on regional gaming assets. Given the long-term growth prospects for the company and anticipated greater future diversification of the property portfolio, we believe that Pinnacle's shares should trade at the high end of the historical range, at 7x. Despite PNK's long-term appeal, we believe the company may have difficulty satisfying the Street's EPS expectations for the first half of 2008. As such, we think patient investors will likely be rewarded with a better entry point.
- **We estimate that the company has sufficient financial flexibility to open the River City casino project in mid-2009.** Beyond that, we estimate management would need to tap into the capital markets to finance its pipeline.
- **We estimate FY08 EBITDA should increase by 4% Y/Y to \$176mm.** The increase reflects the addition of Lumière Place and growth from L'Auberge du Lac, offset by normalized results from post-hurricane Boomtown New Orleans and weakness at the President casino. Our adjusted 2008 EPS estimate of \$0.20 represents a projected Y/Y decline of 68%, which reflects our expectation for increased depreciation expense and net interest costs. The consensus estimate for FY08 EPS is \$0.41, within a range of \$0.26 to \$0.83.
- **Our FY09 EBITDA and EPS estimates are \$222mm and \$0.49,** which suggest 26% and 148% Y/Y growth. Our forecasts reflect a focus on profitability at Lumière Place, a strong showing at L'Auberge du Lac, and the addition of River City casino. The consensus estimate for FY09 EPS is \$0.65, within a range of \$0.26 to \$0.97.

EQUITY RESEARCH

Investment Thesis

We are transitioning coverage of Pinnacle Entertainment with a Hold rating. Pinnacle's current operations, recent project openings, and development pipeline should generate consistent EBITDA growth over the next three to five years. That said, we think the next two quarters will likely prove challenging, reflecting a focus on revenues rather than profitability at the recently opened Lumière Place casino in Downtown St. Louis. Additionally, the company's Lake Charles casino, L'Auberge du Lac, will likely post weak margins in 1Q08 due to an increased marketing campaign that targeted the Baton Rouge area. As a result, we believe the current 1Q08 EPS consensus estimate of \$0.03 is too high. We believe (\$0.04) should be closer to the mark. Also, the 2Q08 EPS consensus estimate of \$0.11 appears aggressive, in our opinion. We expect Pinnacle to earn \$0.05 in the second quarter. Accordingly, we would like to see the first quarter or two play out before we become more constructive with our rating.

Valuation

Shares of PNK currently trade at 5.8x (adjusted for construction in progress and the value of Pinnacle's land in Atlantic City) our FY08 EBITDA estimate of \$176mm. In addition to the factors stated above, we believe the recent rash of gloomy economic data has taken a toll on the stock. Moreover, the recent turmoil in the credit markets has turned Pinnacle's "can't miss" project pipeline into a question mark. Typically, we apply an enterprise multiple of EBITDA in the historical 5x to 7x range on regional gaming assets. Given the long-term growth prospects for the company and anticipated greater future diversification of the property portfolio, we believe that Pinnacle's shares should trade at the high end of the historical range, at 7x. Despite PNK's long-term appeal, we believe the company may have difficulty satisfying the Street's EPS expectations in 1Q08 and 2Q08. Although we believe downside risk to the shares is relatively limited at current levels, we think patient investors will likely be rewarded with a better entry point.

Outlook

We believe Pinnacle will likely sacrifice FY08 EBITDA at Lumière Place to grab market share. The company launched a marketing war in St. Louis that is expected to last throughout 1H08. We look for the property to breakeven on the EBITDA line in that time. Typically, we do not applaud such a move, but Lumière Place is Pinnacle's first foray into the St. Louis market and it competes with two powerful companies, Harrah's and Ameristar (NASDAQ - ASCA - \$18.08; Buy). Additionally, this marketing spend should raise awareness of Pinnacle's brand, which should help the mid-2009 opening of the company's second St. Louis casino. We expect Pinnacle to curb its marketing budget in 2H08, after it has grabbed its targeted share of the market, and return the focus to profitability in 2009.

We estimate FY08 EBITDA to increase by 4% year over year to \$176mm, reflecting the addition of Lumière Place and growth from L'Auberge du Lac. Our adjusted EPS estimate of \$0.20 suggests a year-over-year decline of 68%, which reflects our expectation for increased depreciation expense (new properties and expansions) and net interest costs (higher debt levels). The current consensus estimate for FY08 EPS is \$0.41, within a range of \$0.26 to \$0.83. Our FY09 EBITDA and adjusted EPS estimates are \$222mm and \$0.49, which suggest 26% and 148% year-over-year growth. Our forecasts reflect a focus on profitability at Lumière Place, a strong showing at L'Auberge du Lac, and the addition of the River City casino. The current consensus estimate for FY09 EPS is \$0.65, within a range of \$0.26 to \$0.97.

Growth Projects

We estimate that the company has sufficient financial flexibility to open its St. Louis County (River City) casino project in mid-2009. Beyond that, we estimate management would need to tap into the capital markets to finance its growth pipeline.

On February 26, 2008, CEO Dan Lee stated on Pinnacle's 4Q07 conference call that the credit market window was "essentially closed or expensive." The recent credit market turmoil compels Pinnacle to take a measured approach to its growth pipeline and only proceed with projects that will generate above-average expected returns. As a result, we believe the Baton Rouge and Sugarcane Bay (Lake Charles, LA) casino-hotel projects are the top priorities given their return potential. (We exclude the River City casino project because it is already under construction and scheduled for a mid-2009 opening.) However, the non-casino hotel project in New Orleans will likely be put on a shelf, given its relatively low-return potential.

Also, during the company's conference call, Mr. Lee went on to say that if the credit markets do not improve, then Pinnacle would not build its Atlantic City mega-resort, which we believe may cost north of \$2 billion. However, we think Mr. Lee was painting a worst-case scenario and we expect the company to follow through with the project. We estimate that the returns from this project will be in the 12% to 14% range, but more importantly, that this property will mark Pinnacle's first move into a major gaming market. Additionally, Pinnacle won't likely need to arrange the financing for the project until late 2009, which we believe leaves ample time for a rebound in the credit markets.

Under Construction

River City Casino—St. Louis County

Construction of the River City casino began in early November 2005. The property is located in Lemay, a relatively densely populated southern suburb of St. Louis, wherein there is currently no other riverboat catering to this market. Lemay is about 10 miles south of Pinnacle's Lumière Place. The first phase of the project includes a 90,000-square-foot casino (2,300 slot machines and 60 table games), a multi-purpose facility, and several restaurants, at a total cost of \$375mm. The company expects to complete phase one in mid-2009. The second phase for the River City project is expected to include a hotel with a minimum of 100 guest rooms at an estimated cost of \$75mm; no start date for phase two has been announced. We estimate that phase one is worth roughly \$2 per share in value.

High-Expected-Return Projects

Sugarcane Bay - Lake Charles, Louisiana

Pinnacle plans to use one of two licenses it acquired from Harrah's Lake Charles in 2006 to build a new \$350mm casino adjacent to L'Auberge du Lac, which should help alleviate L'Auberge's capacity constraints and enable Pinnacle to expand its already leading market share. The new Sugarcane Bay casino is expected to include 400 guest rooms and a single-level casino with 1,500 slot machines and 50 table games; no opening date is scheduled. We estimate that this project could add up to \$1 per share in value; however, we do not include it in our valuation given the lack of details regarding financing and a construction timeline.

Riviere - Baton Rouge, Louisiana

Pinnacle owns 517 acres of land and are the majority co-owner of an additional 58 acres of land approximately 10 miles south of downtown Baton Rouge, Louisiana. The company has the requisite approvals from the Louisiana Gaming Control Board (LGCB) and the voters of East Baton Rouge Parish to build a \$250 million casino-resort hotel named Riviere. The project will utilize the other gaming license Pinnacle acquired from Harrah's Lake Charles. Pinnacle is currently in the design phase of this project. We do not expect a shovel in the ground for another 18 months with an opening date likely sometime in the 2010-2011 timeframe. We estimate that this project is worth \$1 in per share value; however, we do not include it in our valuation given the murky details regarding financing and a cloudy construction timeline.

Important Projects***Atlantic City***

Pinnacle owns approximately 22 acres of land located on the center boardwalk in Atlantic City. It plans to build a mega-resort mirrored after the highly successful Borgata, located in the Marina district in Atlantic City. The design and construction of such a casino-resort is expected to require four or five years and cost a minimum of \$1.5 billion (we believe it will cost more than \$2 billion when all is said and done). Given the current status of the credit markets, we do not expect financing to be arranged until late 2009. As such, we believe the property will likely open in the 2012-2013 timeframe. We estimate that this project could add \$4-5 per share in value; however, we do not include it in our valuation given the current status of the credit markets and the lack of a visible opening date.

Low-Priority Projects***Expansion Project - New Orleans, Louisiana***

The \$150mm project includes a single-level riverboat casino that houses 1,600 slot machines and 60 table games, as well as a 200-room, four-star hotel. The site also features non-gaming amenities such as a pool, a spa, a salon, an expanded nightclub, an Asian restaurant, additional meeting space, and an expanded buffet. Pinnacle has postponed this project indefinitely given the current status of the credit markets and the fact that the New Orleans market has stabilized and the competitive advantage that Boomtown experienced post-hurricane Katrina is gone.

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Pinnacle Entertainment (PNK)

Income Statement Model

(\$ in thousands except per share)

Year ends December	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08E	2Q08E	3Q08E	4Q08E	2008E	2009E
Revenues	912,362	232,827	232,884	238,433	219,508	923,652	255,584	271,517	275,550	258,907	1,061,558	1,215,695
Y/Y change	24.8%	-0.6%	1.8%	0.7%	3.2%	1.2%	9.8%	16.6%	15.6%	17.9%	14.9%	14.5%
EBITDA												
Boomtown New Orleans	80,972	14,551	14,294	13,468	11,867	54,180	12,437	12,418	12,303	12,241	49,400	50,388
Belterra Casino Resort	37,289	9,591	11,461	10,489	7,710	39,251	9,274	11,120	10,327	7,993	38,713	39,100
Boomtown Bossier City	23,039	5,580	4,415	4,389	3,477	17,861	4,830	4,490	4,609	3,749	17,679	18,972
Boomtown Reno	6,800	593	1,934	2,072	(1,134)	3,465	(1,209)	1,214	1,173	685	1,862	3,787
L'Auberge (Lake Charles, LA)	72,364	16,745	20,878	21,811	15,823	75,257	16,581	23,136	23,648	21,433	84,797	88,022
Lumiere Place - St. Louis City	-	-	-	-	(642)	(642)	(340)	395	6,382	6,951	13,389	40,066
River City Casino - St. Louis County	-	-	-	-	-	-	-	-	-	-	-	14,014
The Admiral Riverboat Casino	385	3,436	1,682	1,623	511	7,252	44	42	43	42	171	85
International	9,176	2,944	1,972	4,374	3,487	12,777	3,390	2,346	3,926	3,227	12,888	15,171
Embassy Suites and Other	1,553	(611)	259	(97)	-	(449)	-	-	-	-	-	-
Corporate Expense	(23,535)	(9,010)	(10,935)	(11,106)	(8,813)	(39,864)	(10,313)	(10,463)	(10,713)	(11,113)	(42,602)	(47,502)
Total EBITDA	208,043	43,819	45,960	47,023	32,286	169,088	34,692	44,698	51,699	45,208	176,297	222,104
Total EBITDA Margin	22.8%	18.8%	19.7%	19.7%	14.7%	18.3%	13.6%	16.5%	18.8%	17.5%	16.6%	18.3%
Y/Y change	50.4%	-28.2%	-17.5%	-15.0%	-10.7%	-18.7%	-20.8%	-2.7%	9.9%	40.0%	4.3%	26.0%
Depreciation & amortization	(69,167)	(20,544)	(18,920)	(18,924)	(22,649)	(81,037)	(27,586)	(27,636)	(27,686)	(27,761)	(110,670)	(115,430)
Stock-based compensation	(5,516)	(2,212)	(2,337)	(1,857)	(2,020)	(8,426)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)	(9,000)
Pre-opening & development costs	(29,773)	(11,535)	(13,778)	(12,161)	(23,309)	(60,783)	-	-	-	-	-	-
Total Operating Income	103,587	9,528	10,925	14,081	(15,692)	18,842	5,106	15,062	22,012	15,447	57,627	97,674
Operating Margin	11.4%	4.1%	4.7%	5.9%	-7.1%	2.0%	2.0%	5.5%	8.0%	6.0%	5.4%	8.0%
Interest Income	14,206	4,482	4,479	4,301	2,249	15,511	1,800	1,000	1,000	750	4,550	2,000
Interest Expense	(53,678)	(9,288)	(6,403)	(5,875)	(4,149)	(25,715)	(10,942)	(10,697)	(10,697)	(9,697)	(42,034)	(49,480)
Other	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	64,115	4,722	9,001	12,507	(17,592)	8,638	(4,037)	5,365	12,315	6,500	20,142	50,194
Provision for Income Taxes	(29,205)	(1,436)	(3,568)	(5,189)	(594)	(10,787)	1,615	(2,146)	(4,926)	(2,600)	(8,057)	(20,078)
Tax Rate	45.6%	30.4%	39.6%	41.5%	-3.4%	124.9%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Extraordinary items	23,992	-	2,749	(1,669)	(315)	765	-	-	-	-	-	-
Discontinued operations	17,870	(377)	1,720	(670)	(694)	(21)	-	-	-	-	-	-
GAAP Net Income (Loss)	76,772	2,909	9,902	4,979	(19,195)	(1,405)	(2,422)	3,219	7,389	3,900	12,085	30,117
Fully Diluted GAAP EPS	\$1.56	\$0.05	\$0.16	\$0.08	(\$0.32)	(\$0.02)	(\$0.04)	\$0.05	\$0.12	\$0.06	\$0.20	\$0.49
RECONCILIATION TO ADJUSTED EPS												
Extraordinary items	(23,992)	-	(2,749)	1,669	315	(765)	-	-	-	-	-	-
Discontinued operations	(17,870)	377	(1,720)	670	694	21	-	-	-	-	-	-
Preopening and other	17,870	8,027	8,316	8,892	13,927	39,162	-	-	-	-	-	-
Adjusted Net Income (Loss)	52,780	11,313	13,749	16,210	(4,259)	37,013	(2,422)	3,219	7,389	3,900	12,085	30,117
Adjusted EPS	\$1.08	\$0.19	\$0.23	\$0.27	(\$0.07)	\$0.61	(\$0.04)	\$0.05	\$0.12	\$0.06	\$0.20	\$0.49
Y/Y change	NM	-48.2%	-29.6%	-16.2%	-198.3%	-43.4%	-121.1%	-76.5%	-54.6%	-189.5%	-67.8%	147.5%
Average Diluted Shares Out	49,242	59,119	61,096	60,998	59,852	60,266	59,852	60,852	61,252	61,252	60,802	61,752

Sources: Company reports and Morgan Joseph & Co. Inc. estimates

Gaming Company Comparative Valuation Analysis

Company	Tkr	Rtg	Price (as of) 3/11/08	52-Week High	52-Week Low	FD Shares	Mkt Cap	Estimated (2) EPS		P/E		Estimated (2) (3) EBITDA		EV/EBITDA	
								2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
<i>Casino Operators</i>															
Ameristar Casinos	ASCA	Buy ⁽¹⁾	\$18.08	\$38.00	\$17.24	58.5	1,058.0	\$1.31	\$1.53	13.8x	11.8x	338.1	370.0	7.9x	7.3x
Boyd Gaming	BYD	Hold	19.18	54.22	18.45	88.5	1,697.7	1.37	1.46	14.0x	13.1x	532.8	570.5	7.2x	6.5x
Isle of Capri	ISLE	Buy ⁽¹⁾	7.61	28.24	7.26	30.4	231.5	0.03	0.36	NM	21.1x	225.6	252.3	7.3x	5.9x
Monarch Casino	MCRI	Hold ⁽¹⁾	16.80	31.41	15.89	19.3	323.4	1.17	1.41	14.4x	11.9x	45.6	53.7	5.6x	5.4x
Pinnacle Entertainment	PNK	Hold	13.72	31.34	13.20	59.9	821.2	0.20	0.49	NM	28.2x	176.3	208.1	5.8x	5.5x
Trump Entertainment	TRMP	Buy ⁽¹⁾	3.43	19.41	2.90	40.4	138.4	(0.75)	(0.39)	NA	NA	175.8	214.7	8.1x	7.8x
Arithmetic avg										14.1x	17.2x			7.0x	6.4x
Mkt wtd avg										10.1x	15.6x			7.0x	6.4x

(1) Ratings are the last ratings issued by Morgan Joseph & Co. Inc. These are not the ratings of Justin Sebastiano.

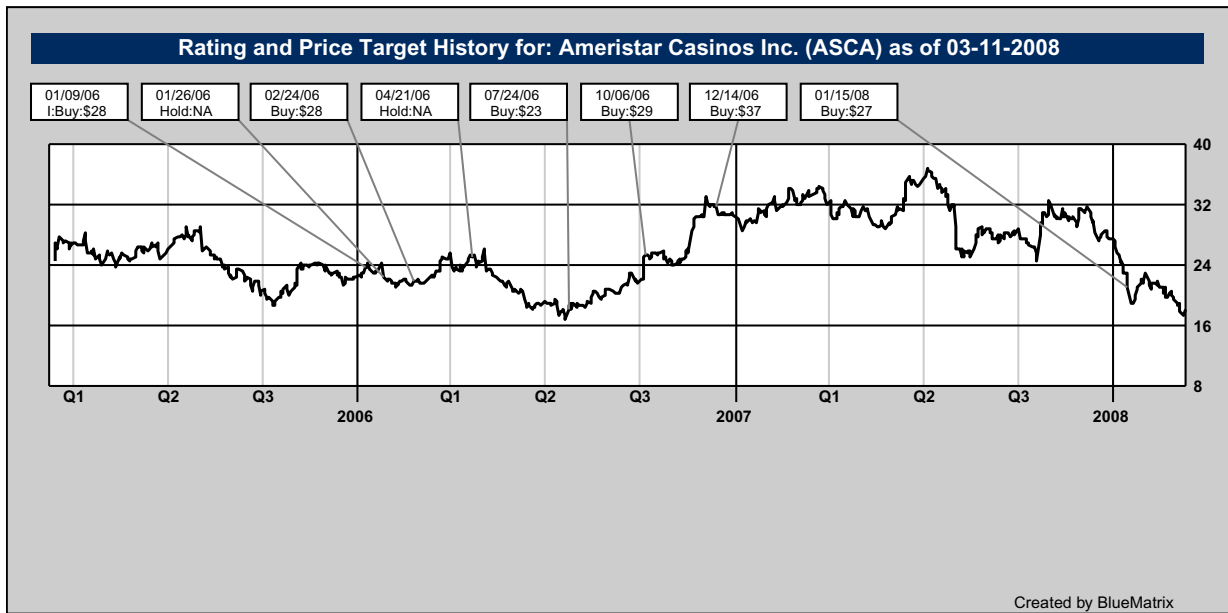
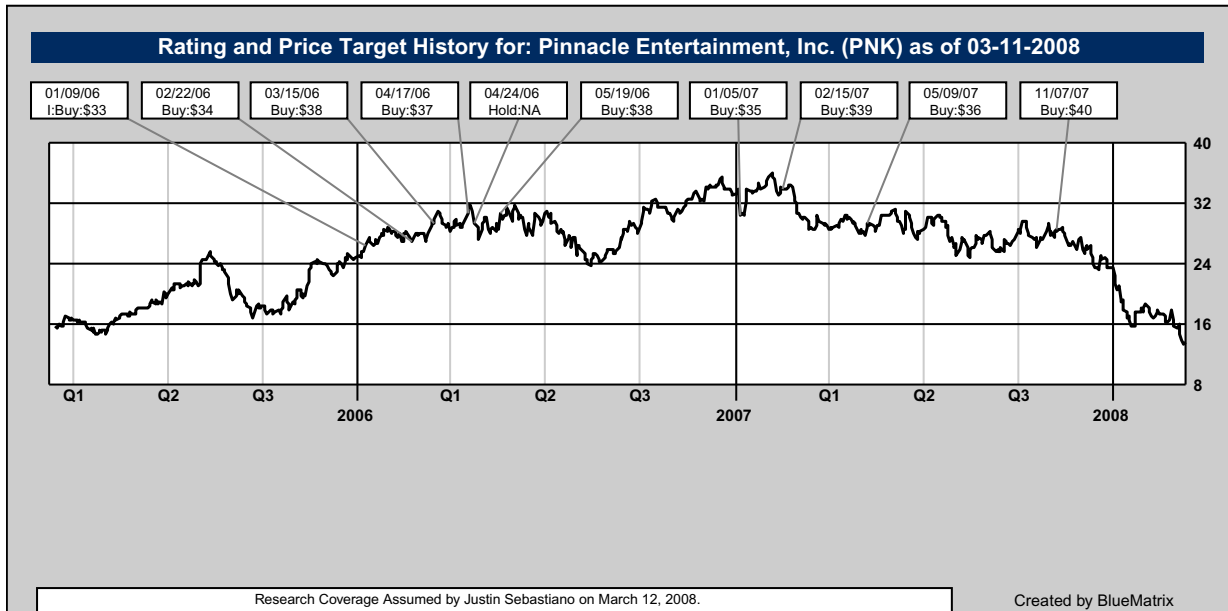
(2) Data for Isle of Capri Casinos have been calendarized for December yearend. The company's fiscal year ends April of the following year.

(3) Our FY09 EBITDA estimate for PNK excludes the partial year expected contribution from River City casino (\$14M) for this table.

For further information regarding our valuation methodologies, go to http://www.morganjoseph.com/research_equity_reports.php

Source: Morgan Joseph & Co. estimates and company reports.

Required Disclosures



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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	60.55	34.85
HOLD [H]	39.45	11.63
SELL [S]	0.00	0.00

Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
 B) Hold means market-type risk adjusted performance; potential source of funds.
 C) Sell means expected to underperform the market.

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