AMERISTAR CASINOS INC
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2007

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: 0-22494

AMERISTAR CASINOS, INC.

(Exact name of Registrant as Specified in its Charter)

Nevada	**88-0304799**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

3773 Howard Hughes Parkway
Suite 490 South
Las Vegas, Nevada 89169

(Address of principal executive offices)

(702) 567-7000

(Registrant s telephone number, including area code)

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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-Accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 5, 2007, 57,129,625 shares of Common Stock of the registrant were issued and outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 113,440	$ 101,140
Restricted cash	6,425	6,425
Accounts receivable, net	8,023	7,325
Income tax refunds receivable	2,086	2,164
Inventories	7,304	7,241
Prepaid expenses	15,027	11,689
Deferred income taxes	3,201	3,508
Total current assets	155,506	139,492
Property and Equipment, at cost:		
Buildings and improvements	1,254,772	1,090,777
Furniture, fixtures and equipment	450,981	404,709
	1,705,753	1,495,486
Less: accumulated depreciation and amortization	(544,893)	(477,780)
	1,160,860	1,017,706
Land	83,138	81,481
Construction in progress	343,460	186,507
Total property and equipment, net	1,587,458	1,285,694
Excess of purchase price over fair market value of net assets acquired	347,032	76,988
Other intangible assets	224,330	
Deposits and other assets	48,379	39,301
TOTAL ASSETS	$ 2,362,705	$ 1,541,475

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:

Accounts payable	$ 15,756	$ 14,443
Construction contracts payable	34,149	25,657
Accrued liabilities	101,184	71,462
Current maturities of long-term debt	4,211	4,344
Total current liabilities	155,300	115,906
Long-term debt, net of current maturities	1,597,788	878,668
Deferred income taxes	71,740	91,528
Deferred compensation and other long-term liabilities	42,119	21,209
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $.01 par value: Authorized 30,000,000 shares; Issued None		
Common stock, $.01 par value: Authorized 120,000,000 shares; Issued 57,908,211 and 56,935,403 shares; Outstanding 57,120,975 and 56,524,567 shares	579	569
Additional paid-in capital	230,309	199,951
Treasury stock, at cost (787,236 shares)	(17,674)	(8,014)
Retained earnings	282,544	241,658
Total stockholders equity	495,758	434,164
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,362,705	$ 1,541,475

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

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
REVENUES:				
Casino	$ 266,045	$ 254,724	$ 776,389	$ 765,923
Food and beverage	33,612	33,478	98,493	100,027
Rooms	8,177	7,521	22,049	21,364
Other	7,903	7,803	22,018	22,065
	315,737	303,526	918,949	909,379
Less: Promotional allowances	50,365	49,948	141,202	153,123
Net revenues	265,372	253,578	777,747	756,256
OPERATING EXPENSES:				
Casino	113,992	109,858	332,353	333,575
Food and beverage	17,812	17,219	51,294	51,398
Rooms	1,905	1,630	5,836	5,004
Other	5,115	5,162	14,532	14,768
Selling, general and administrative	58,013	50,068	164,306	151,807
Depreciation and amortization	22,532	23,329	70,051	69,859
Impairment loss on assets held for sale	50	59	166	350
Total operating expenses	219,419	207,325	638,538	626,761
Income from operations	45,953	46,253	139,209	129,495
OTHER INCOME (EXPENSE):				
Interest income	867	739	1,717	2,115
Interest expense, net	(12,449)	(12,373)	(34,914)	(38,140)
Loss on early retirement of debt				(26,264)
Net (loss) gain on disposition of assets	(1,301)	(8)	(1,305)	113
Other	386		11	
INCOME BEFORE INCOME TAX PROVISION	33,456	34,611	104,718	67,319
Income tax provision	13,482	13,526	43,523	25,586
NET INCOME	$ 19,974	$ 21,085	$ 61,195	$ 41,733
EARNINGS PER SHARE:				
Basic	$ 0.35	$ 0.38	$ 1.07	$ 0.74

Diluted	$ 0.34	$ 0.37	$ 1.05	$ 0.73
CASH DIVIDENDS DECLARED PER SHARE	$ 0.10	$ 0.09	$ 0.31	$ 0.28
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	57,206	56,090	57,043	56,131
Diluted	58,293	57,184	58,303	57,177

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

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash Flows from Operating Activities:		
Net income	$ 61,195	$ 41,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,051	69,859
Amortization of debt issuance costs and debt discounts	969	803
Stock-based compensation expense	9,010	6,662
Loss on early retirement of debt		26,264
Net change in deferred compensation liability	(696)	217
Impairment loss on assets held for sale	166	350
Net loss (gain) on disposition of assets	1,305	(113)
Net change in deferred income taxes	11,482	(2,742)
Excess tax benefit from stock option exercises	(4,432)	(1,751)
Changes in operating assets and liabilities:		
Restricted cash		49
Accounts receivable, net	3,727	42
Income tax refunds receivable	78	
Inventories	179	(259)
Prepaid expenses	(2,128)	(4,618)
Accounts payable	380	(1,093)
Income taxes payable		(501)
Accrued liabilities	20,578	3,506
Net cash provided by operating activities	171,864	138,408
Cash Flows from Investing Activities:		
Net cash paid for Resorts East Chicago acquisition	(671,420)	
Capital expenditures	(196,218)	(173,117)
Increase in construction contracts payable	8,492	11,594
Proceeds from sale of assets	281	321
Increase in deposits and other non-current assets	(9,844)	(5,185)
Net cash used in investing activities	(868,709)	(166,387)
Cash Flows from Financing Activities:		
Proceeds from revolving loan facility	737,000	460,000
Principal payments of long-term debt	(18,337)	(383,396)
Premium on early redemption of senior subordinated notes		(20,425)

Cash dividends paid	(17,539)	(15,784)
Proceeds from stock option exercises	16,915	2,603
Purchases of treasury stock	(9,660)	(8,014)
Excess tax benefit from stock option exercises	4,432	1,751
Debt issuance costs	(3,666)	(153)
Net cash provided by financing activities	709,145	36,582
Net Increase in Cash and Cash Equivalents	12,300	8,603
Cash and Cash Equivalents Beginning of Period	101,140	106,145
Cash and Cash Equivalents End of Period	$ 113,440	$ 114,748
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	$ 30,684	$ 49,332
Cash paid for federal and state income taxes	$ 32,101	$ 29,748
Non-cash Investing and Financing Activities:		
Acquisition of Resorts East Chicago		
Fair value of non-cash assets acquired	$ 681,820	$
Less net cash paid	(671,420)	
Liabilities assumed	$ 10,400	$

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

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Principles of consolidation and basis of presentation

The accompanying condensed consolidated financial statements include the accounts of Ameristar Casinos, Inc. (ACI) and its wholly owned subsidiaries (collectively, the Company). Through its subsidiaries, the Company owns and operates eight casino properties in seven markets. The Company s portfolio of casinos consists of: Ameristar St. Charles (serving greater St. Louis, Missouri); Ameristar Kansas City (serving the Kansas City, Missouri metropolitan area); Ameristar Council Bluffs (serving Omaha, Nebraska and southwestern Iowa); Ameristar Vicksburg (serving Jackson, Mississippi and Monroe, Louisiana); Ameristar Black Hawk (serving the Denver, Colorado metropolitan area); Cactus Petes and The Horseshu in Jackpot, Nevada (serving Idaho and the Pacific Northwest); and Resorts East Chicago (serving the Chicagoland area). The Company views each property as an operating segment and all such operating segments have been aggregated into one reporting segment. All significant intercompany transactions have been eliminated.

The Company acquired Resorts East Chicago on September 18, 2007. Accordingly, the condensed consolidated financial statements reflect Resorts East Chicago s operating results only from the acquisition date.

The accompanying condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the disclosures required by generally accepted accounting principles. However, they do contain all adjustments (consisting of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the Company s financial position, results of operations and cash flows for the interim periods included therein. The interim results reflected in these financial statements are not necessarily indicative of results to be expected for the full fiscal year.

Certain of the Company s accounting policies require that the Company apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company s judgments are based in part on its historical experience, terms of existing contracts, observance of trends in the gaming industry and information obtained from independent valuation experts or other outside sources. There is no assurance, however, that actual results will conform to estimates. To provide an understanding of the methodology the Company applies, significant accounting policies and basis of presentation are discussed where appropriate in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report. In addition, critical accounting policies and estimates are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Note 2 Recently issued accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 clarifies how to measure fair value as permitted under other accounting pronouncements, but does not require any new fair value measurements. The Company is required to adopt SFAS No. 157 as of January 1, 2008. For some entities, the application of this statement will change current practice. The adoption of SFAS No. 157 is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

Note 3 Earnings per share

The Company calculates earnings per share in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share are computed by dividing reported earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution from all potentially dilutive securities such as stock options. For the periods presented, all outstanding options with an exercise price lower than the market price have been included in the calculation of diluted earnings per share.

The weighted average number of shares of common stock and common stock equivalents used in the computation of basic and diluted earnings per share consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Amounts in Thousands)			
Weighted average number of shares outstanding - basic earnings per share	57,206	56,090	57,043	56,131
Dilutive effect of stock options	1,087	1,094	1,260	1,046
Weighted average number of shares outstanding - diluted earnings per share	58,293	57,184	58,303	57,177

The potentially dilutive stock options excluded from the earnings per share computation, as their effect would be anti-dilutive, totaled 1.4 million and 2.8 million for the three months ended September 30, 2007 and 2006, respectively, and 1.3 million and 1.5 million for the nine months ended September 30, 2007 and 2006, respectively.

Note 4 Income taxes

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon the adoption of FIN 48, the Company recorded a reduction of $2.7 million to the

January 1, 2007 retained earnings balance as a cumulative effect adjustment.

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The total amount of unrecognized tax benefits as of September 30, 2007 was $30.8 million, of which $3.8 million would affect the effective tax rate if recognized. The gross increase in the amount of unrecognized tax benefits during the nine months ended September 30, 2007 was $9.1 million, including: $3.3 million relating to the derecognition of certain state income tax benefits in prior periods; $4.9 million associated with the treatment of certain capital expenditures in prior periods that if recognized would not change the effective tax rate; $0.5 million relating to the derecognition of certain state income tax benefits in the current period and $0.4 million associated with the treatment of certain capital expenditures in the current period that if recognized would not change the effective tax rate. The gross decrease in the amount of unrecognized tax benefits during the nine months ended September 30, 2007 was $1.2 million. This decrease was mostly attributable to the recognition of tax benefits from tax positions taken in a prior period due to the completion of examination by taxing authorities.

Interest and penalties related to income taxes are classified as income tax expense in the Company s financial statements. Accrued interest and penalties totaled $3.6 million as of September 30, 2007.

In 2005, the IRS completed an examination of the Company s federal income tax returns for all years prior to 2002. The Company believes tax years prior to 2002 are effectively settled. However, the Company s federal income tax returns remain open to examination for the tax years 2002 through 2006. The open tax years for Missouri are 2001 through 2006. For Iowa and Mississippi, the open tax years are 2003 through 2006. For Colorado, the open tax years are 2004 through 2006.

Note 5 Long-term debt

On November 10, 2005, the Company obtained a $1.2 billion senior secured credit facility that provided for a seven-year, $400.0 million term loan facility and a five-year, $800.0 million revolving loan facility. The revolving loan facility includes a $75.0 million letter of credit sub-facility and a $25.0 million swingline loan sub-facility.

On September 6, 2007, the Company amended its senior credit facility to increase the total amount of permitted incremental loan commitments from $400.0 million to $600.0 million. The amendment also increased the maximum permitted leverage ratio and senior leverage ratio (both as defined in the senior credit facility) for fiscal quarters ending on and after September 30, 2007; raised the interest rate add-on for the Company s term loan by 50 basis points; and permitted the Company to acquire Resorts East Chicago for an amount (including related transaction costs and expenses) not to exceed $700.0 million, without reducing the amount the Company could spend for other permitted acquisitions. The Company paid one-time cash amendment fees totaling approximately $3.1 million. The incremental loans are subject to the same interest rates and terms of payment as the existing revolving loans. On September 18, 2007, the Company borrowed $660.0 million of revolving loans to fund the acquisition of Resorts East Chicago.

At September 30, 2007, the Company s principal debt outstanding primarily consisted of $1.2 billion under the revolving loan facility and $393.0 million under the term loan facility. As of September 30, 2007, the amount of the revolving loan facility available for borrowing was $187.7 million, after giving effect to $5.3 million of outstanding letters of credit. All mandatory principal repayments have been made through September 30, 2007.

As a result of the amendment described above, the borrowing under the term loan facility now bears interest at the London Interbank Offered Rate (LIBOR) plus 200 basis points or the base rate plus 100 basis points, at the Company s option. Borrowings under the revolving loan facility currently bear interest at LIBOR plus 100 basis points or the base rate plus 0 basis points. The LIBOR margin is subject to adjustment between 75 and 175 basis points and the base rate margin is subject to adjustment between 0 and 75 basis points, in each case depending on the Company s leverage ratio.

The agreement governing the senior credit facility requires the Company to comply with various affirmative and negative financial and other covenants, including restrictions on the incurrence of additional indebtedness, restrictions on dividend payments and other restrictions and requirements to maintain certain financial ratios and tests. As of September 30, 2007, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 6.25:1, and maintain a senior leverage ratio, defined as senior debt divided by EBITDA, of no more than 5.25:1. As of September 30, 2007 and December 31, 2006, the Company s leverage ratio

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was 4.72:1 and 3.33:1, respectively. The senior leverage ratio as of September 30, 2007 and December 31, 2006 was 4.71:1 and 3.32:1, respectively. As of September 30, 2007 and December 31, 2006, the Company was in compliance with all other applicable covenants.

On February 15, 2006, the Company redeemed all $380.0 million outstanding principal amount of its 10.75% senior subordinated notes due 2009 at a redemption price of 105.375% of the principal amount, plus $20.4 million in accrued and unpaid interest to the redemption date. The redemption of the notes was funded through borrowings under the revolving loan facility. The retirement of the notes resulted in a one-time charge for loss on early retirement of debt in the first quarter of 2006 of approximately $26.3 million on a pre-tax basis.

In connection with obtaining the senior credit facility on November 10, 2005, each of ACI s subsidiaries (the Guarantors) entered into a guaranty (the Guaranty) pursuant to which the Guarantors guaranteed ACI s obligations under the senior credit facility. The obligations of ACI under the senior credit facility, and of the Guarantors under the Guaranty, are secured by substantially all of the assets of ACI and the Guarantors.

Note 6 Stock-based compensation

The Company has various stock incentive plans for directors, officers, employees, consultants and advisers of the Company. The plans permit the grant of options to purchase common stock intended to qualify as incentive stock options or non-qualified stock options and also provide for the award of restricted stock. The maximum number of shares available for issuance under the plans is 16.0 million (net of options that terminate or are canceled without being exercised), subject to certain limitations. The Compensation Committee of the Board of Directors administers the plans and has broad discretion to establish the terms of stock awards, including, without limitation, the power to set the term (up to 10 years), vesting schedule and exercise price of stock options.

Stock-based compensation expense totaled $3.3 million and $2.5 million for the three months ended September 30, 2007 and 2006, respectively. During the first nine months of 2007 and 2006, stock-based compensation expense was $9.0 million and $6.7 million, respectively. As of September 30, 2007, there was approximately $22.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the stock incentive plans. This unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.2 years.

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The following table sets forth fair value per share information, including related assumptions, used to determine compensation cost for the Company. There were no stock options granted during the quarter ended September 30, 2007. Accordingly, no fair value per share information is presented for that period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted-average fair value per share of options granted during the period (estimated on grant date using Black-Scholes-Merton option pricing model)				