AMERISTAR CASINOS INC
Form 10-Q
November 09, 2005

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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, 2005

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 89109
(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 an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No þ

As of November 2, 2005, 55,853,088 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, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 82,776	$ 86,523
Restricted cash	6,474	4,486
Accounts receivable, net	4,097	6,454
Inventories	7,132	6,927
Prepaid expenses	11,957	8,764
Deferred income taxes	52,570	52,570
Assets held for sale	596	596
Total current assets	165,602	166,320
Property and Equipment, at cost:		
Buildings and improvements	970,553	951,858
Furniture, fixtures and equipment	345,121	308,182
	1,315,674	1,260,040
Less: accumulated depreciation and amortization	(369,414)	(310,679)
	946,260	949,361
Land	71,748	70,106
Construction in progress	92,081	24,717
Total property and equipment, net	1,110,089	1,044,184
Excess of purchase price over fair market value of net assets acquired	78,709	79,612
Deposits and other assets	29,077	25,353
TOTAL ASSETS	$ 1,383,477	$ 1,315,469
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		

Accounts payable	$	14,777	$	12,904
Construction contracts payable		13,983		5,063
Income taxes payable		6,520		1,567
Accrued liabilities		77,374		70,903
Current maturities of long-term debt		274,921		4,502
Total current liabilities		387,575		94,939
Long-term debt, net of current maturities		467,853		761,799
Deferred income taxes		141,239		126,339
Deferred compensation and other long-term liabilities		14,548		11,092
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 and outstanding 55,843,320 shares at September 30, 2005 and 54,882,310 shares at December 31, 2004		558		549
Additional paid-in capital		178,474		166,450
Retained earnings		193,230		154,301
Total stockholders equity		372,262		321,300
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	1,383,477	$	1,315,469

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 OPERATIONS
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues:				
Casino	$ 241,287	$ 215,001	$ 725,346	$ 642,216
Food and beverage	32,023	28,828	92,818	86,073
Rooms	6,804	6,959	18,762	20,019
Other	6,720	6,370	18,657	17,785
	286,834	257,158	855,583	766,093
Less: Promotional allowances	48,243	41,507	138,018	126,074
Net revenues	238,591	215,651	717,565	640,019
Operating Expenses:				
Casino	106,885	94,768	320,439	285,716
Food and beverage	16,554	16,314	48,665	47,342
Rooms	1,653	1,706	4,913	4,912
Other	4,405	4,244	12,192	10,736
Selling, general and administrative	47,153	39,321	138,671	115,555
Depreciation and amortization	21,319	18,888	63,011	54,016
Impairment loss on assets held for sale	143	100	683	196
Total operating expenses	198,112	175,341	588,574	518,473
Income from operations	40,479	40,310	128,991	121,546
Other Income (Expense):				
Interest income	184	69	532	157
Interest expense, net	(14,850)	(13,806)	(45,321)	(43,029)
Loss on early retirement of debt		(202)	(184)	(673)
Other	(407)	50	(1,545)	(46)
Income Before Income Tax Provision	25,406	26,421	82,473	77,955
Income tax provision	9,306	9,820	30,491	30,434
Net Income	$ 16,100	$ 16,601	$ 51,982	$ 47,521

Earnings Per Share:

Basic	$ 0.29	$ 0.31	$ 0.94	$ 0.88
Diluted	$ 0.28	$ 0.30	$ 0.91	$ 0.86
Weighted Average Shares Outstanding:				
Basic	55,825	54,218	55,582	53,971
Diluted	57,232	55,559	57,139	55,489

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, 2005	Nine Months Ended September 30, 2004
Cash Flows from Operating Activities:		
Net income	$ 51,982	$ 47,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,011	54,016
Amortization of debt issuance costs and debt discounts	3,115	3,359
Loss on early retirement of debt	184	673
Net change in deferred compensation liability	370	177
Impairment loss on assets held for sale	683	196
Net loss (gain) on disposition of assets	1,545	(176)
Net change in deferred income taxes	15,803	25,258
Tax benefit from stock option exercises	5,788	3,482
Increase in restricted cash	(1,988)	(1,795)
Decrease in accounts receivable, net	2,357	904
Decrease in income tax refund receivable		184
Increase in inventories	(205)	(314)
Increase in prepaid expenses	(3,193)	(999)
Decrease in assets held for sale		179
Increase (decrease) in accounts payable	1,873	(8,039)
Increase in income taxes payable	4,953	
Increase (decrease) in accrued liabilities	6,471	(350)
Total adjustments	100,767	76,755
Net cash provided by operating activities	152,749	124,276
Cash Flows from Investing Activities:		
Capital expenditures	(132,178)	(62,816)
Increase (decrease) in construction contracts payable	8,920	(8,033)
Proceeds from sale of assets	1,064	732
Increase in deposits and other non-current assets	(3,125)	(2,491)
Net cash used in investing activities	(125,319)	(72,608)
Cash Flows from Financing Activities:		
Cash dividends paid	(13,053)	(10,141)

Proceeds from revolving credit facility	10,000	
Principal payments of long-term debt	(34,025)	(47,660)
Proceeds from stock option exercises	6,245	4,115
Debt issuance costs	(344)	
Net cash used in financing activities	(31,177)	(53,686)
Net Decrease in Cash and Cash Equivalents	(3,747)	(2,018)
Cash and Cash Equivalents Beginning of Period	86,523	78,220
Cash and Cash Equivalents End of Period	$ 82,776	$ 76,202
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	$ 52,441	$ 50,098
Cash paid for federal and state income taxes (net of refunds received)	$ 5,693	$ 2,286

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

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 seven casino properties in six 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); Cactus Petes and The Horseshu in Jackpot, Nevada (serving Idaho and the Pacific Northwest); and Mountain High in Black Hawk, Colorado (serving the Denver, Colorado metropolitan 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 Mountain High on December 21, 2004. Accordingly, the condensed consolidated financial statements include Mountain High s operating results only for the three months and nine months ended September 30, 2005.

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 also 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, 2004.

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, 2004.

Certain reclassifications, having no effect on net income, have been made to the prior periods condensed consolidated financial statements to conform to the current periods presentation.

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Note 2 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 earnings per share.

On April 29, 2005, ACI s Board of Directors declared a 2-for-1 split of ACI s $0.01 par value common stock, which was distributed at the close of business on June 20, 2005. As a result of the split, 27.9 million additional shares were issued, common stock increased by $0.3 million and additional paid-in capital was reduced by $0.3 million. All references to the number of common shares and per-share amounts in this Quarterly Report give effect to the stock split.

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,**	
	2005	**2004**	**2005**	**2004**
	(Amounts in Thousands)			
Weighted average number of shares outstanding basic earnings per share	55,825	54,218	55,582	53,971
Dilutive effect of stock options	1,407	1,341	1,557	1,518
Weighted average number of shares outstanding diluted earnings per share	57,232	55,559	57,139	55,489

The potentially dilutive stock options excluded from the earnings per share computation, as their effect would be anti-dilutive, totaled 139,800 and 201,548 for the three months ended September 30, 2005 and 2004, respectively, and 61,748 and 102,510 for the nine months ended September 30, 2005 and 2004, respectively.

Note 3 Accounting for stock-based compensation

The Company currently accounts for stock incentive plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related interpretations. Under APB No. 25, compensation expense is recognized on the date of grant only if the current market price of the underlying common stock at the date of grant exceeds the exercise price. Had the Company determined compensation cost based on the fair value at the grant date for stock options under Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), the Company s net income and earnings per share would have been adjusted to the pro forma amounts in the following table.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Amounts in Thousands, Except Per Share Data)			
Net income:				
As reported	$ 16,100	$ 16,601	$ 51,982	$ 47,521
Deduct: compensation expense under fair value-based method (net of tax)	(287)	(747)	(1,768)	(1,764)
Pro forma	$ 15,813	$ 15,854	$ 50,214	$ 45,757
Basic earnings per share:				
As reported	$ 0.29	$ 0.31	$ 0.94	$ 0.88
Pro forma (net of tax)	$ 0.28	$ 0.29	$ 0.90	$ 0.85
Diluted earnings per share:				
As reported	$ 0.28	$ 0.30	$ 0.91	$ 0.86
Pro forma (net of tax)	$ 0.28	$ 0.29	$ 0.88	$ 0.82

For purposes of computing the pro forma compensation expense, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rates of 4.2% as of September 30, 2005 and 3.6% as of September 30, 2004; expected lives of 5 years as of September 30, 2005 and 6 years as of September 30, 2004; and expected volatility of 48% as of September 30, 2005 and 51% as of September 30, 2004. The model assumes dividend payments of $0.3125 for the year ending December 31, 2005 and $0.25 for the year ended December 31, 2004. The estimated weighted-average fair value per share of options granted was $3.14 as of September 30, 2005 and $2.54 as of September 30, 2004.

Note 4 Recently issued accounting pronouncements

On December 16, 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which is a revision to SFAS No. 123. SFAS No. 123(R) supersedes APB No. 25 and amends SFAS No. 95, Statement of Cash Flows. Among other items, SFAS No. 123(R) requires the recognition of compensation expense in an amount equal to the fair value of share-based payments, including employee stock options and restricted stock, granted to employees. The Company is required to adopt SFAS No. 123(R) no later than January 1, 2006.

The adoption of SFAS No. 123(R) will have an impact on the Company s results of operations, but it will not have any impact on the Company s overall financial position. The Company is currently evaluating the provisions of SFAS No. 123(R) to determine its impact on future financial statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

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Note 5 Long-term debt

At September 30, 2005, the Company s principal debt outstanding consisted of $362.2 million under term loan B-1 and the revolving credit facility of its senior secured credit facilities and $380.0 million in aggregate principal amount of 10.75% senior subordinated notes due 2009. At September 30, 2005, the amount of the $75.0 million revolving credit facility available for borrowing was $59.3 million. The revolving credit facility expires in December 2005. The term loan B-1 and the revolving credit facility bear interest at a variable rate based, at the Company s option, on LIBOR (Eurodollar loans) or the prime rate (base rate loans), plus an applicable margin.

The Company is required to comply with various affirmative and negative financial and other covenants under the senior credit facilities and the indenture governing the senior subordinated notes. These covenants include, among other things, restrictions on the incurrence of additional indebtedness, restrictions on dividend payments and other restrictions, as well as requirements to maintain certain financial ratios and tests. The Company amended the senior credit facilities in August 2005 to increase the allowable cumulative dividend payments from $25.0 million to $32.5 million. As of September 30, 2005 and December 31, 2004, the Company was in compliance with all applicable covenants.

Without any changes to, or the replacement of, the senior credit facilities, it is likely that the Company would violate covenants relating to permitted capital expenditures for the year ending December 31, 2005. However, the Company is in the process of replacing its existing senior credit facilities. The replacement senior secured credit facilities will include a $400.0 million seven-year term loan and a five-year revolving credit facility with capacity for borrowing up to $800.0 million. The term loan and the revolving credit facility will bear interest at a variable rate based, at the Company s option, on LIBOR (Eurodollar loans) or the prime rate (base rate loans), plus an applicable margin. All of the Company s operating subsidiaries will guarantee the new senior credit facilities. Under the terms of the new debt, the Company will be required to comply with various affirmative and negative financial and other covenants, including limitations on capital expenditures, investments, restricted payments, asset sales and other indebtedness. The Company will also be required to maintain certain financial ratios and tests. The replacement senior credit facilities are expected to be completed in November 2005.

In connection with the anticipated replacement of the senior credit facilities, the Company expects to redeem all of the outstanding senior subordinated notes. The notes are redeemable beginning on February 15, 2006 at 105.375% of the principal amount, plus accrued interest. The Company anticipates the early retirement of the senior subordinated notes will reduce the Company s average interest rate and provide significant savings related to interest expense, although it will result in a one-time charge for loss on early retirement of debt.

All of ACI s current operating subsidiaries (the Guarantors) have jointly and severally, and fully and unconditionally, guaranteed the senior subordinated notes. Each of the Guarantors is a wholly owned subsidiary of ACI and the Guarantors constitute substantially all of ACI s direct and indirect subsidiaries. ACI is a holding company with no operations or material assets independent of those of the Guarantors, other than its investment in the Guarantors, and the aggregate assets, liabilities, earnings and equity of the Guarantors are substantially equivalent to the assets, liabilities, earnings and equity on a consolidated basis of the Company. Separate financial statements and certain other disclosures concerning the Guarantors are not presented because, in the opinion of management, such information is not material to investors. Other than customary restrictions imposed by applicable corporate statutes, there are no restrictions on the ability of the Guarantors to transfer funds to ACI in the form of cash dividends, loans or advances.

Note 6 Commitments and contingencies

Self-Insurance Reserves. The Company is self-insured for various levels of general liability, workers compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accrued estimates of incurred but not reported claims. At September 30, 2005 and December 31, 2004, the estimated liabilities for unpaid and incurred but not reported claims totaled $10.5 million and $7.9 million, respectively. The Company considers historical loss experience and certain unusual claims in estimating these liabilities, based upon statistical data provided by the independent third party administrators of the various programs. The Company believes the use of this method to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident or illness frequency and severity and other factors can materially affect the estimate for these liabilities.

Guarantees. In December 2000, the Company assumed several agreements with the Missouri 210 Highway Transportation Development District (Development District) that had been entered into in order to assist the Development District in the financing of a highway improvement project in the area around the Ameristar Kansas City property. In order to pay for the highway improvement project, the Development District issued revenue bonds totaling $9.0 million with scheduled maturities from 2006 through 2011.

The Company has provided an irrevocable standby letter of credit from a bank in support of obligations of the Development District for certain principal and interest on the revenue bonds. The amount outstanding under this letter of credit was $4.4 million as of September 30, 2005 and may be subsequently reduced as principal and interest mature on the revenue bonds. Additionally, the Company is obligated to pay any shortfall in the event that amounts on deposit are insufficient to cover the obligations under the bonds, as well as any costs incurred by the Development District that are not payable from the taxed revenues used to satisfy the bondholders. Through September 30, 2005, the Company had paid $0.8 million in shortfalls and other costs. As required by the agreements, the Company anticipates that it will ultimately be reimbursed for these shortfall payments by the Development District from future available cash flow, as defined, and has recorded a corresponding receivable as of September 30, 2005.

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