AMERISTAR CASINOS INC
Form 10-Q
May 15, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

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

For the transition period from to

Commission file number: 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 [X] No [ ]

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 [X] No [ ]

As of May 9, 2003, 26,310,233 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

ASSETS
(Amounts in Thousands)
(Unaudited)

	December 31, 2002	March 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 90,573	$ 86,926
Accounts receivable, net	4,952	4,315
Income tax refund receivable	11,614	1,953
Inventories	6,585	6,273
Prepaid expenses	9,413	7,675
Deferred income taxes	8,545	10,315
Assets held for sale	335	305
Total current assets	132,017	117,762
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation and amortization of $186,986 and $200,580, respectively	916,377	913,229
EXCESS OF PURCHASE PRICE OVER FAIR MARKET VALUE OF NET ASSETS ACQUIRED	82,020	81,719
DEPOSITS AND OTHER ASSETS	26,893	26,923
TOTAL ASSETS	$ 1,157,307	$ 1,139,633

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

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS-CONTINUED

LIABILITIES AND STOCKHOLDERS EQUITY
(Amounts in Thousands, Except Share Data)
(Unaudited)

	December 31, 2002	March 31, 2003
CURRENT LIABILITIES:		
Accounts payable	$ 17,044	$ 13,607
Construction contracts payable	26,510	11,150
Accrued liabilities	63,343	53,531
Current obligations under capitalized leases	1,231	1,262
Current maturities of long-term debt	36,628	37,880
Total current liabilities	144,756	117,430
OBLIGATIONS UNDER CAPITALIZED LEASES, net of current maturities	953	626
LONG-TERM DEBT, net of current maturities	759,712	748,664
DEFERRED INCOME TAXES AND OTHER LONG-TERM LIABILITIES	49,690	58,229
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value: Authorized 30,000,000 shares; Issued None		
Common stock, $.01 par value: Authorized 60,000,000 shares; Issued and outstanding 26,244,985 shares at December 31, 2002 and 26,279,619 shares at March 31, 2003	262	263
Additional paid-in capital	146,631	146,981
Accumulated other comprehensive loss	(2,960)	(2,543)
Retained earnings	58,263	69,983
Total stockholders equity	202,196	214,684
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$1,157,307	$1,139,633

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 March 31, 2002	2003
REVENUES:		
Casino	$156,325	$183,760
Food and beverage	18,516	24,765
Rooms	5,619	5,506
Other	4,145	4,650
	184,605	218,681
Less: Promotional allowances	21,810	30,161
Net revenues	162,795	188,520
OPERATING EXPENSES:		
Casino	70,073	84,519
Food and beverage	11,202	14,113
Rooms	1,800	1,601
Other	2,746	3,408
Selling, general and administrative	31,463	34,385
Depreciation and amortization	10,095	15,011
Impairment loss on assets held for sale		452
Total operating expenses	127,379	153,489
Income from operations	35,416	35,031
OTHER INCOME (EXPENSE):		
Interest income	48	107
Interest expense, net	(10,640)	(16,594)
Other	(49)	(113)
INCOME BEFORE INCOME TAX PROVISION	24,775	18,431
Income tax provision	9,326	6,711
NET INCOME	$ 15,449	$ 11,720

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

	Three Months Ended March 31, 2002	2003
EARNINGS PER SHARE:		
Net Income:		
Basic	$ 0.60	$ 0.45
Diluted	$ 0.57	$ 0.44
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	25,964	26,259
Diluted	27,032	26,743

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)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,449	$ 11,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,095	15,011
Amortization of debt issuance costs and debt discounts	1,107	1,237
Change in value of interest rate collar agreement	135	(497)
Impairment loss on assets held for sale		452
Net loss on disposition of assets	43	111
Change in deferred income taxes	5,864	6,762
Decrease in accounts receivable, net	1,496	637
Decrease in income tax refund receivable		9,661
Decrease (increase) in inventories	(85)	312
Decrease in prepaid expenses	487	1,738
Decrease in assets held for sale		30
Decrease in accounts payable	(3,772)	(3,437)
Decrease in accrued liabilities	(6,985)	(9,812)
Increase in other current liabilities	1,890	338
Total adjustments	10,275	22,543
Net cash provided by operating activities	25,724	34,263
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(72,133)	(12,513)
Increase (decrease) in construction contracts payable	10,941	(15,360)
Proceeds from sale of assets	44	87
Decrease (increase) in deposits and other non-current assets	17	(21)
Net cash used in investing activities	(61,131)	(27,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	42,000	
Principal payments of long-term debt and capitalized leases	(2,918)	(10,246)
Debt issuance costs and amendment fees		(160)
Proceeds from stock option exercises	1,027	303
Net cash (used in) provided by financing activities	40,109	(10,103)

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-CONTINUED
(Amounts in Thousands)
(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,702	(3,647)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	41,098	90,573
CASH AND CASH EQUIVALENTS END OF PERIOD	$45,800	$ 86,926
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest, net of amounts capitalized	$19,487	$ 25,900
Cash paid for federal and state income taxes (net of refunds received)	$ 214	$(10,692)

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 six casino properties in five markets. The Company s properties consist of Ameristar Casino St. Charles, located in St. Charles, Missouri serving the St. Louis metropolitan area; Ameristar Casino Hotel Kansas City, located in Kansas City, Missouri; Ameristar Casino Hotel Council Bluffs, located in Council Bluffs, Iowa serving the Omaha, Nebraska/Council Bluffs metropolitan area; Ameristar Casino Hotel Vicksburg, located in Vicksburg, Mississippi; and Cactus Petes Resort Casino and The Horseshu Hotel & Casino, located in Jackpot, Nevada at the Idaho border. 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 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 and its results of operations 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 available from 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, 2002.

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, 2002.

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. The Company previously recorded expenses associated with its targeted direct mail coin coupon offerings as casino, rooms and selling, general and administrative expenses. These charges of $7.3 million for the quarter ended March 31, 2002 have been reclassified as an increase to promotional allowances to be consistent with industry practice. In addition, the Company previously recorded progress towards the point-based complimentary goods and services/cash rebates of $4.4 million for the quarter ended March 31, 2002 as a reduction of casino revenue. The Company has reclassified these charges as an increase to promotional allowances to be consistent with industry practice.

Note 2 Long-term debt

At March 31, 2003, the Company s principal long-term debt was composed of $388.0 million of senior credit facilities and $380.0 million in aggregate principal amount of 10.75% senior subordinated notes due 2009. At March 31, 2003, the senior credit facilities consisted of a $75 million revolving credit facility, $75 million term loan facility, term loan A and term loan B (which had $0, $70.3 million, $28.3 million and $289.4 million outstanding, respectively). At March 31, 2003, the amount of the revolving credit facility available for borrowing was $67.6 million, after giving effect to $7.4 million of outstanding letters of credit. Each of the facilities bears interest at a variable rate equal, at the Company s option, to LIBOR (in the case of Eurodollar loans) or the prime rate (in the case of base rate loans), plus an applicable margin. The senior credit facilities and the indenture governing the senior subordinated notes require the Company to comply with various financial and other covenants. At March 31, 2003, the Company was in compliance with all covenants.

The Company seeks to manage interest rate risk associated with variable rate borrowings through balancing fixed-rate and variable-rate borrowings and the use of derivative financial instruments designated as cash flow hedges. Derivative financial instruments are recognized as assets or liabilities, with changes in fair value affecting net income or comprehensive income (loss). Under an interest rate swap agreement entered into in April 2001, the interest rate on $100 million of LIBOR-based borrowings under the senior credit facilities is fixed at 5.07% plus the applicable margin. As of March 31, 2003, the liability associated with the swap agreement was $3.8 million. The Company paid $0.9 million and $0.8 million of additional interest expense for the quarters ended March 31, 2003 and 2002, respectively, as a result of this interest rate swap agreement.

Under an interest rate collar agreement entered into in 1998, $50.0 million of LIBOR-based borrowings under the revolving credit/term loan facility and term loan A of the senior credit facilities have a LIBOR floor rate of 5.39% and a LIBOR ceiling rate of 6.75%, plus the applicable margin. The collar agreement terminates on June 30, 2003. At March 31, 2003, the value of the collar agreement ($0.5 million) was recorded as a liability in other long-term liabilities in the accompanying condensed consolidated balance sheets. During the three months ended March 31, 2003 and 2002, the Company reduced interest expense by $0.5 million and $0.1 million, respectively, as a result of a decrease in the liability associated with the collar agreement.

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Note 3 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 is set forth in the table below. All outstanding stock options with an exercise price lower than the market price as of the last day of each period presented have been included in the calculation of diluted earnings per share.

	Three Months Ended March 31,	
	2002	**2003**
	(Amounts in Thousands)	
Weighted average number of shares outstanding - basic earnings per share	25,964	26,259
Dilutive effect of stock options	1,068	484
Weighted average number of shares outstanding - diluted earnings per share	27,032	26,743

Note 4 - Commitments and contingencies

The Company s employee health care benefits program is self-funded up to a maximum amount per claim. Claims in excess of this maximum amount are fully insured through a stop-loss insurance policy. Accruals are based on claims filed and estimates of claims incurred but not reported. At December 31, 2002 and March 31, 2003, the Company s liabilities for unpaid and incurred but not reported claims totaled $3.6 million and $4.0 million, respectively, and are included in accrued liabilities in the accompanying consolidated balance sheets. While the total cost of claims incurred depends on future developments, in management s opinion, recorded reserves are adequate to cover the payment of future claims.

Note 5 - Comprehensive income

Comprehensive income represents all changes in stockholders equity from non-owner sources during each period presented. Comprehensive income includes changes in the fair value of the interest rate swap agreement described in Note 2 above.

	Three Months Ended March 31,	
	2002	**2003**
	(Amounts in Thousands)	
Net income	$ 15,449	$ 11,720
Adjustment to fair value of the interest rate swap agreement (net of tax effect)	631	417
Comprehensive income	$ 16,080	$ 12,137

Note 6 - Accounting for Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an Amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results and specifies the form, content and location of those disclosures. The Company adopted the disclosure requirements of SFAS No. 148 as of December 31, 2002.

The Company does not currently plan to transition to the fair value-based method and will continue to account for stock incentive plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). Under SFAS No. 123, all employee stock option grants are considered compensatory. SFAS No. 123 provides, among other things, that companies may elect to account for employee stock options using APB No. 25. Had compensation cost for these plans been determined consistent with 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. The table also discloses the weighted average assumptions used in estimating the fair value of each option grant on the date of grant using the Black-Scholes option pricing model and the estimated weighted average fair value of the options granted. The model assumes no expected future dividend payments on the Company s common stock for the options granted in 2002 and 2003.

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	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003
	(Dollars in thousands, except per share data)	
Net income:		
As reported	$15,449	$11,720
Deduct: compensation expense under fair value-based method (net of tax)	(293)	(641)
Pro forma	$15,156	$11,079
Basic earnings per share:		
As reported	$ 0.60	$ 0.45
Pro forma (net of tax)	$ 0.58	$ 0.42
Diluted earnings per share:		