AMERISTAR CASINOS INC
Form 10-Q
May 10, 2006

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 March 31, 2006

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 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 May 1, 2006, 56,200,695 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)

	March 31, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 107,863	$ 106,145
Restricted cash	6,425	6,474
Accounts receivable, net	6,167	5,242
Inventories	7,202	6,926
Prepaid expenses	10,299	9,184
Deferred income taxes	5,665	5,672
Total current assets	143,621	139,643
Property and Equipment, at cost:		
Buildings and improvements	1,050,749	1,015,443
Furniture, fixtures and equipment	373,952	358,192
	1,424,701	1,373,635
Less: accumulated depreciation and amortization	(410,876)	(391,014)
	1,013,825	982,621
Land	75,580	75,524
Construction in progress	77,375	75,151
Total property and equipment, net	1,166,780	1,133,296
Excess of purchase price over fair market value of net assets acquired	77,891	78,192
Deposits and other assets	31,252	32,855
TOTAL ASSETS	$ 1,419,544	$ 1,383,986
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 11,856	$ 12,627
Construction contracts payable	13,334	9,500

Income taxes payable	842	3,373
Accrued liabilities	70,595	83,889
Current maturities of long-term debt	4,225	4,374
Total current liabilities	100,852	113,763
Long-term debt, net of current maturities	821,981	776,029
Deferred income taxes	92,568	94,445
Deferred compensation and other long-term liabilities	18,196	16,039
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 56,195,083 shares at March 31, 2006 and 55,958,358 shares at December 31, 2005	562	560
Additional paid-in capital	184,872	179,989
Retained earnings	200,513	203,161
Total stockholders equity	385,947	383,710
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,419,544	$ 1,383,986

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,	
	2006	**2005**
Revenues:		
Casino	$ 262,212	$ 242,368
Food and beverage	34,224	30,287
Rooms	6,635	5,733
Other	6,941	5,590
	310,012	283,978
Less: Promotional allowances	53,918	43,869
Net revenues	256,094	240,109
Operating Expenses:		
Casino	115,099	105,523
Food and beverage	17,068	15,757
Rooms	1,753	1,499
Other	4,558	3,792
Selling, general and administrative	51,294	46,244
Depreciation and amortization	22,572	20,818
Impairment loss on assets held for sale	93	193
Total operating expenses	212,437	193,826
Income from operations	43,657	46,283
Other Income (Expense):		
Interest income	620	119
Interest expense, net	(13,540)	(15,261)
Loss on early retirement of debt	(26,264)	
Net gain (loss) on disposition of assets	116	(687)
Income Before Income Tax Provision	4,589	30,454
Income tax provision	1,971	11,224
Net Income	$ 2,618	$ 19,230
Earnings Per Share:		
Basic	$ 0.05	$ 0.35
Diluted	$ 0.05	$ 0.34

Cash Dividends Declared Per Share	$ 0.09	$ 0.08
Weighted Average Shares Outstanding:		
Basic	56,063	55,234
Diluted	57,125	56,904

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, 2006	2005
Cash Flows from Operating Activities:		
Net income	$ 2,618	$ 19,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,572	20,818
Amortization of debt issuance costs and debt discounts	245	1,035
Stock option compensation expense	2,094	
Loss on early retirement of debt	26,264	
Net change in deferred compensation liability	200	528
Impairment loss on assets held for sale	93	193
Net (gain) loss on disposition of assets	(116)	687
Net change in deferred income taxes	(1,569)	3,998
Excess tax benefit from stock option exercises	(1,334)	4,000
Decrease in restricted cash	49	
(Increase) decrease in accounts receivable, net	(925)	2,149
(Increase) decrease in inventories	(276)	65
Increase in prepaid expenses	(1,115)	(460)
(Decrease) increase in accounts payable	(771)	640
(Decrease) increase in income taxes payable	(1,197)	1,672
Decrease in accrued liabilities	(13,294)	(4,633)
Total adjustments	30,920	30,692
Net cash provided by operating activities	33,538	49,922
Cash Flows from Investing Activities:		
Capital expenditures	(56,358)	(33,698)
Increase in construction contracts payable	3,834	645
Proceeds from sale of assets	325	42
Increase in deposits and other non-current assets	(698)	(555)
Net cash used in investing activities	(52,897)	(33,566)
Cash Flows from Financing Activities:		
Cash dividends paid	(5,266)	(4,334)
Proceeds from revolving loan facility	425,000	

Principal payments of long-term debt	(381,152)	(2,152)
Premium on early redemption of senior subordinated notes	(20,425)	
Proceeds from stock option exercises	1,457	4,542
Excess tax benefit from stock option exercises	1,334	
Debt issuance costs	129	
Net cash provided by (used in) financing activities	21,077	(1,944)
Net Increase in Cash and Cash Equivalents	1,718	14,412
Cash and Cash Equivalents Beginning of Period	106,145	86,523
Cash and Cash Equivalents End of Period	$ 107,863	$ 100,935
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	$ 28,533	$ 24,599
Cash paid for federal and state income taxes	$ 4,850	$ 1,574

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 Ameristar Black Hawk (formerly known as Mountain High; 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 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, 2005.

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, 2005.

Note 2 Recently issued accounting pronouncements

SFAS No. 123(R)

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (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.

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The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. The impact of adopting SFAS No. 123(R) is discussed in Note 4 Accounting for stock-based compensation.

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 reduced net operating cash flows and increased net financing cash flows for the three months ended March 31, 2006.

SFAS No. 154

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively, with all prior period financial statements presented on the basis of the new accounting principle unless it is impracticable to do so. SFAS No. 154 also provides that a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate effected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a restatement. SFAS No. 154 was effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 may impact the Company s future results of operations, financial position or cash flows in an amount the Company cannot currently determine.

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.

On April 29, 2005, the Company s Board of Directors declared a 2-for-1 split of the Company 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. All references to the number of common shares and per-share amounts in this Quarterly Report give effect to the stock split.

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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 March 31,	
	2006	2005
	(Amounts in thousands)	
Weighted average number of shares outstanding basic earnings per share	56,063	55,234
Dilutive effect of stock options	1,062	1,670
Weighted average number of shares outstanding diluted earnings per share	57,125	56,904

For the three months ended March 31, 2006, the potentially dilutive stock options excluded from the earnings per share computation, as their effect would be anti-dilutive, totaled 0.1 million. There were no anti-dilutive stock options for the three months ended March 31, 2005.

Note 4 Accounting for 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 14.0 million (net of options which terminate or are canceled without being exercised), subject to certain limitations. To date, the Company has not granted any awards of restricted stock. The Compensation Committee of the Board of Directors administers the plans and has broad discretion to establish the terms of stock option awards, including without limitation the power to set the term (up to 10 years), vesting schedule and exercise price of stock option awards.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with APB No. 25 and related interpretations. The Company also followed the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. The Company adopted SFAS No. 123(R) using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Quarterly Report have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options.

There was $2.1 million of compensation cost related to non-qualified stock options recognized in operating results (included in selling, general and administrative expenses) for the three months ended March 31, 2006. The associated future income tax benefit recognized was $1.3 million during the three months ended March 31, 2006. Basic and diluted earnings per common share for the three months ended March 31, 2006 would have been $0.07 if the Company had not adopted SFAS No. 123(R), compared to reported basic and diluted earnings per common share of $0.05. As of March 31, 2006, there was approximately $22.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our stock incentive plans. This unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.9 years.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. Expected volatility is based on historical volatility trends as well as implied future volatility observations as determined by independent third parties. In determining the expected life of the option grants, the

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Company used historical data to estimate option exercise and employee termination behavior. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant. The following table sets forth the assumptions used to determine compensation cost for the Company s non-qualified stock options consistent with the requirements of SFAS No. 123(R).

	Three Months Ended March 31, 2006
Weighted-average assumptions:	
Expected stock price volatility	41.3%
Risk-free interest rate	4.4%
Expected option life (years)	4.2
Expected annual dividend yield	1.5%

Under APB No. 25 there was no compensation cost recognized for the Company s non-qualified stock options awarded in the three months ended March 31, 2005 as these non-qualified stock options had an exercise price equal to the market value of the underlying stock at the grant date. The following table sets forth pro forma information as if compensation cost had been determined consistent with the requirements of SFAS No. 123.

		Three Months Ended March 31, 2005 (Amounts in thousands, except per share data)
Net income:		
As reported	$	19,230
Deduct: compensation expense under fair value-based method (net of tax)		(222)
Pro forma	$	19,008
Basic earnings per share:		
As reported	$	0.35
Pro forma (net of tax)	$	0.34
Diluted earnings per share:		
As reported	$	0.34
Pro forma (net of tax)	$	0.33

The following sets forth fair value per share information, including related assumptions, used to determine compensation cost consistent with the requirements of SFAS No. 123:

	Three Months Ended March 31, 2005
Weighted-average fair value per share of options granted during the period (estimated on grant date using Black-Scholes-Merton option pricing model)	$ 12.03
Weighted-average assumptions:	
Expected stock price volatility	47.7%
Risk-free interest rate	4.3%
Expected option life (years)	5.3
Expected annual dividend yield	1.1%

The following table summarizes information about stock option activity for the three months ended March 31, 2006:

	Options (Amounts in Thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Amounts in Thousands)
Outstanding at December 31, 2005	5,782	$ 15.96		
Granted	54	24.54		
Exercised	(237)	6.09		
Forfeited or expired	(45)	18.87		
Outstanding at March 31, 2006	5,554	$ 16.44	6.4	$ 50,582
Options exercisable at March 31, 2006	1,738	$ 14.11	6.2	$ 19,831

The weighted average fair value of options granted during the three months ended March 31, 2006 was $10.13. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the three months ended March 31, 2006 was $3.9 million. During the three months ended March 31, 2006, the amount of cash received from the exercise of stock options was $1.5 million.

Note 5 Long-term debt

On November 10, 2005, the Company obtained a $1.2 billion senior secured credit facility that provides for a seven-year $400.0 million term loan facility and a five-year $800.0 million revolving loan facility.

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.

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At March 31, 2006, the Company s principal debt outstanding consisted of $425.0 million under the revolving loan facility and $399.0 million under the term loan facility. As of March 31, 2006, the amount of the revolving loan facility available for borrowing was $369.6 million, after giving effect to $5.4 million of outstanding letters of credit. All mandatory principal repayments have been made through March 31, 2006.

The borrowing under the term loan facility bears interest at the London Interbank Offered Rate (LIBOR) plus 150 basis points or the base rate plus 50 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.

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

The agreement governing the senior credit facilities 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 March 31, 2006 and December 31, 2005, the Company was in compliance with all applicable covenants.

Note 6 Commitments and contingencies

Litigation. From time to time, the Company is a party to litigation, most of which arises in the ordinary course of business. The Company is not currently a party to any litigation that management believes would be likely to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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 March 31, 2006 and December 31, 2005, the estimated liabilities for unpaid and incurred but not reported claims totaled $10.0 million and $10.1 million, respectively. The Company utilizes actuaries who consider 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 estimates 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 prior to the Company s purchase of that 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 March 31, 2006. However, effective April 3, 2006, the amount outstanding under this letter of credit was reduced to $2.6 million and may be further reduced as principal and interest mature under 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 March 31, 2006, the Company had paid $1.0 million in shortfalls and other costs. As required by the agreements, the Company anticipates that it will 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 March 31, 2006.

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

Overview

We develop, own and operate casinos and related hotel, food and beverage, entertainment and other facilities, with seven properties in operation in Missouri, Iowa, Mississippi, Colorado and Nevada. Our 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 Ameristar Black Hawk (formerly known as Mountain High; serving the Denver, Colorado metropolitan area).

Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those patrons spend per visit. Management uses various metrics to evaluate these factors. Key metrics include: market share, representing our share of gross gaming revenues in each of our markets other than Jackpot and our share of gaming devices in the Jackpot market (Nevada does not publish separate gaming revenue statistics for this market); admissions, representing the number of patrons admitted to our casinos in jurisdictions that record admissions; and win per admission, representing the amount of gaming revenues we generate per admission.

Our operating results may be affected by, among other things, competitive factors, gaming tax increases, the commencement of new gaming operations, charges associated with debt refinancing or property acquisition and disposition transactions, construction at existing facilities, general public sentiment regarding travel, overall economic conditions affecting the disposable income of our patrons and weather conditions affecting our properties. Consequently, our operating results for any quarter or year are not necessarily comparable and may not be indicative of future periods results.

The following significant factors and trends should be considered in analyzing our operating performance:

Promotional spending and marketing. For the quarter ended March 31, 2006, promotional allowances at our properties increased $10.0 million (22.9%) over the prior-year quarter while net revenues increased only 6.7%. The increase in our rate of promotional spending was partially attributable to our ongoing efforts to strengthen the Ameristar brand through targeted marketing, as evidenced by a 10.6% increase in rated play for the quarter ended March 31, 2006 compared to the same period in 2005. In addition to improving rated play, our promotional spending also increased as a result of our efforts to maintain market share leadership in the increasingly competitive Missouri and Iowa markets. The St. Louis market has developed into a more competitive environment, in response to which we were required to increase marketing and promotional spending at Ameristar St. Charles to maintain our competitive position in the market. The increasingly competitive market and our efforts to attract rated players contributed to a 1.1

percentage point decrease in operating income margin from the prior-year first quarter at our St. Charles property. Our Kansas City property was also impacted by increased competition in the first quarter of 2006 that partially contributed to a $2.9 million rise in promotional allowances and a 3.5 percentage point decline in operating income margin compared to the first quarter of 2005. The competition in the Council Bluffs market intensified when our land-based competitor completed a major expansion and rebranding during the first quarter of 2006 that contributed to declines in our property s operating income margin and market share from the prior-year first quarter.

Ameristar Black Hawk. On April 1, 2006, we rebranded our newly renovated and expanded casino in Black Hawk, Colorado. Ameristar Black Hawk, formerly known as Mountain High Casino, now features an expanded parking garage with 1,550 parking spaces, refurbished and rebranded dining venues, additional gaming space, 1,600 slot machines and an upscale Star Club for our top players. The construction of a 33-story, 536-room Four Diamond-quality hotel is planned to begin in the second quarter of 2006 and is expected to be completed in mid-year 2008. Although this property s financial performance was adversely impacted by construction disruption during the first quarter of 2006, we believe the quality and scope of the property will ultimately enable us to become the market share leader in the greater Denver market. We expect the total cost of our planned capital improvements at Ameristar Black Hawk to be approximately $260 million, which will bring our total investment in the property to approximately $380 million. Capital expenditures relating to the remodeling and expansion projects totaled $17.8 million during the first quarter of 2006.

Post-hurricane improvement at Ameristar Vick