STATION CASINOS INC
Form 10-Q
November 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **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 000-21640

STATION CASINOS, INC.

(Exact name of registrant as specified in its charter)

Nevada	**88-0136443**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1505 South Pavilion Center Drive, Las Vegas, Nevada
(Address of principal executive offices)

89135
(Zip Code)

(702) 495-3000
Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 (Check one):

Large accelerated filer ý   Accelerated filer o   Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at October 31, 2007**
Common stock, $0.01 par value	56,035,929

STATION CASINOS, INC.

INDEX

Part I. Financial Information

Item 1. Financial Statements

STATION CASINOS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,958	$ 116,898
Receivables, net	47,049	40,762
Inventories	11,271	9,676
Prepaid gaming tax	22,152	21,519
Prepaid expenses	18,410	12,696
Total current assets	197,840	201,551
Property and equipment, net	2,793,778	2,586,473
Goodwill	154,498	154,498
Land held for development	290,647	214,374
Investments in joint ventures	181,757	253,577
Native American development costs	196,691	181,153
Other assets, net	116,523	125,070
Total assets	$ 3,931,734	$ 3,716,696
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 114	$ 341
Accounts payable	18,414	19,558
Construction contracts payable	49,288	58,318
Accrued expenses and other current liabilities	180,035	173,689
Total current liabilities	247,851	251,906
Long-term debt, less current portion	3,626,139	3,468,487
Deferred income tax, net	133,124	109,788
Due to unconsolidated affiliate	100,000	
Distributions in excess of contributions and income of investment in joint venture	43,816	
Other long-term liabilities, net	71,706	73,373
Total liabilities	4,222,636	3,903,554
Commitments and contingencies		
Stockholders' deficit:		

	September 30, 2007	December 31, 2006
Common stock, par value $0.01; authorized 135,000,000 shares; 80,553,077 and 80,507,427 shares issued	593	593
Treasury stock, 24,516,779 and 23,245,751 shares, at cost	(1,149,935)	(1,039,804)
Additional paid-in capital	602,086	582,739
Accumulated other comprehensive loss	(16,302)	(10,782)
Retained earnings	272,656	280,396
Total stockholders' deficit	(290,902)	(186,858)
Total liabilities and stockholders' deficit	$ 3,931,734	$ 3,716,696

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

STATION CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Operating revenues:				
Casino	$ 254,169	$ 248,836	$ 775,323	$ 710,196
Food and beverage	60,372	57,637	184,800	152,784
Room	25,223	20,867	84,527	59,507
Other	20,097	19,894	57,040	51,728
Management fees	20,999	24,299	69,441	74,183
Gross revenues	380,860	371,533	1,171,131	1,048,398
Promotional allowances	(26,732)	(25,565)	(81,669)	(68,169)
Net revenues	354,128	345,968	1,089,462	980,229
Operating costs and expenses:				
Casino	98,218	93,776	290,500	254,905
Food and beverage	45,087	41,710	132,141	109,709
Room	9,464	8,584	28,010	21,967
Other	7,813	7,801	21,533	19,204
Selling, general and administrative	67,841	64,872	190,665	167,652
Corporate	15,717	12,032	54,430	44,791
Development	2,305	2,104	6,457	6,785
Depreciation and amortization	44,259	36,859	124,456	93,886
Preopening	636	(211)	1,649	27,477
Loss (gain) on asset disposals, net	140	1,458	(1,599)	680
Management agreement/lease termination	25		3,825	500
	291,505	268,985	852,067	747,556
Operating income	62,623	76,983	237,395	232,673
Earnings from joint ventures	8,943	9,044	29,831	30,884
Operating income and earnings from joint ventures	71,566	86,027	267,226	263,557
Other expense:				
Interest expense, net	(58,320)	(52,149)	(172,113)	(117,310)
Interest and other expense from joint ventures	(7,547)	(1,842)	(20,419)	(4,890)
	(65,867)	(53,991)	(192,532)	(122,200)
Income before income taxes	5,699	32,036	74,694	141,357
Income tax provision	(1,990)	(12,807)	(32,862)	(54,213)
Net income	$ 3,709	$ 19,229	$ 41,832	$ 87,144

	Three months ended September 30,		Nine months ended September 30,	
Earnings per common share:				
Basic	$ 0.07	$ 0.35	$ 0.77	$ 1.47
Diluted	$ 0.07	$ 0.34	$ 0.74	$ 1.43
Weighted average common shares outstanding:				
Basic	54,165	55,003	54,357	59,286
Diluted	56,129	56,712	56,247	61,099
Dividends declared per common share	$ 0.29	$ 0.29	$ 0.86	$ 0.79

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

STATION CASINOS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Nine months ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net income	$ 41,832	$ 87,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	124,456	93,886
Excess tax benefit from exercise of stock options	(1,806)	(1,758)
Share-based compensation	16,981	17,856
Earnings from joint ventures,	(9,412)	(25,994)
Distributions of earnings from joint ventures	82,115	815
Amortization of debt discount, premium and issuance costs	3,946	3,456
Changes in assets and liabilities:		
Receivables, net	(6,287)	(28,242)
Inventories and prepaid expenses	(7,942)	(10,679)
Deferred income tax	24,391	34,777
Accounts payable	(1,144)	7,179
Accrued expenses and other current liabilities	(9,786)	8,083
Other, net	5,740	4,555
Total adjustments	221,252	103,934
Net cash provided by operating activities	263,084	191,078
Cash flows from investing activities:		
Capital expenditures	(412,144)	(680,050)
Construction contracts payable	(9,030)	15,301
Proceeds from sale of land, property and equipment	9,966	1,545
Investments in joint ventures	(66,917)	(12,502)
Distributions in excess of earnings from joint ventures	106,616	
Native American development costs	(15,538)	(12,990)
Other, net	(3,029)	(14,109)
Net cash used in investing activities	(390,076)	(702,805)
Cash flows from financing activities:		
Borrowings under bank facility with maturity dates less than three months, net	150,200	757,200
Proceeds from the issuance of senior subordinated notes, net		698,500
Proceeds from issuance of related party promissory note	100,000	
Exercise of stock options	560	1,109
Excess tax benefit from exercise of stock options	1,806	1,758
Debt issuance costs	(388)	(8,349)
Payment of dividends	(32,938)	(48,891)
Purchase of treasury stock	(110,131)	(880,027)
Other, net	(57)	(93)

	Nine months ended September 30,	
Net cash provided by financing activities	109,052	521,207
Cash and cash equivalents:		
(Decrease) increase in cash and cash equivalents	(17,940)	9,480
Balance, beginning of period	116,898	85,552
Balance, end of period	$ 98,958	$ 95,032
Supplemental cash flow disclosures:		
Cash paid for interest, net of $14,230 and $23,617 capitalized, respectively	$ 194,530	$ 106,858
Capital expenditures financed by debt	$ 3,453	$ 9,873
Cash dividend declared and unpaid	$ 16,112	$
Cash paid for income taxes, net	$	$ 34,283
Land contributed to joint venture	$	$ 47,340

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

STATION CASINOS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

Station Casinos, Inc. (the "Company", "Station", "we", "our", "ours" or "us"), a Nevada corporation, is a gaming and entertainment company that currently owns and operates nine major hotel/casino properties (one of which is 50% owned) and seven smaller casino properties (two of which are 50% owned), in the Las Vegas metropolitan area, as well as manages a casino for a Native American tribe. The accompanying condensed consolidated financial statements include the accounts of Station, its wholly owned subsidiaries and MPM Enterprises, LLC (which is 50% owned by Station and required to be consolidated). Investments in all other 50% or less owned affiliated companies are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated.

The accompanying condensed consolidated financial statements included herein have been prepared by Station, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods have been made. The results for the three and nine months ended September 30, 2007 are not necessarily indicative of results to be expected for the full fiscal year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2006.

Certain amounts in the condensed consolidated financial statements for the three and nine months ended September 30, 2006 have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on the previously reported net income.

Merger Transaction

On November 7, 2007, the Company completed its merger (the "Merger") with FCP Acquisition Sub, a Nevada corporation ("Merger Sub"), pursuant to which Merger Sub merged with and into the Company with the Company continuing as the surviving corporation. The Merger was completed pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of February 23, 2007 and amended as of May 4, 2007, among the Company, Fertitta Colony Partners LLC, a Nevada limited liability company ("Parent"), and Merger Sub.

As a result of the Merger, approximately 24.1% of the issued and outstanding shares of non-voting common stock of the Company is owned by Fertitta Partners LLC, a Nevada limited liability company ("Fertitta Partners"), which is owned by affiliates of Frank J. Fertitta III, Chairman and Chief Executive Officer of Station, affiliates of Lorenzo J. Fertitta, Vice Chairman and President of Station, affiliates of Blake L. Sartini and Delise F. Sartini, and certain officers and other members of management of the Company. The remaining 75.9% of the issued and outstanding shares of non-voting common stock of the Company is owned by FCP Holding, Inc., a Nevada corporation and a wholly-owned subsidiary of Parent ("FCP HoldCo"). Parent is owned by an affiliate of Colony Capital, LLC ("Colony") and affiliates of Frank J. Fertitta III and Lorenzo J. Fertitta. Substantially simultaneously with the consummation of the Merger, shares of voting common stock of Station were issued for nominal consideration to FCP VoteCo LLC, a Nevada limited liability company ("FCP VoteCo"), which is owned by Frank J. Fertitta III, Lorenzo J. Fertitta and Thomas J. Barrack, Jr., the Chairman and Chief Executive Officer of Colony.

At the effective time of the Merger, each outstanding share of our common stock, including any rights associated therewith (other than shares of our common stock owned by FCP, Merger Sub, FCP Holding, Inc., a wholly-owned subsidiary of FCP ("FCP HoldCo"), Fertitta Partners or any wholly-owned subsidiary of the Company or shares of our common stock held in treasury by us) was cancelled and converted into the right to receive $90 in cash, without interest. Following the consummation of the Merger, the Company is privately owned through FCP HoldCo, Fertitta Partners and FCP VoteCo. Station common stock ceased trading on the New York Stock Exchange at market close on November 7, 2007, and will no longer be listed on any exchange or quotation system.

Recently Issued Accounting Standards

In February 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement 115" that provides companies with an option to report certain financial assets and liabilities in their entirety at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The fair value option may be applied instrument by instrument, and may be applied only to entire instruments. A business entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We are evaluating our options provided for under this statement and their potential impact on its financial statements when implemented. SFAS 159 is being reviewed in conjunction with the requirements of SFAS 157 discussed below.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value for both assets and liabilities through a fair value hierarchy and expands disclosure requirements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are evaluating SFAS 157 and have not yet determined the impact adoption will have on the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. ("FIN") 48, "Accounting for Uncertainty of Income Taxes," which addresses the uncertainty of income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years that begin after December 15, 2006. We have adopted FIN 48 as of January 1, 2007, as required. As a result of the adoption of FIN 48, the Company recognized a $3.0 million increase in the liability for unrecognized tax benefits. This increase has been accounted for as a reduction to the January 1, 2007 balance of retained earnings in the amount of $0.5 million. Further discussion regarding the adoption of FIN 48 can be found in Note 10.

2. Investments in Joint Ventures

We have various investments in 50% owned joint ventures, and a 6.7% investment in a joint venture that owns the Palms Casino Resort in Las Vegas, Nevada, that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by our share of earnings, losses and distributions of the joint ventures. The investment balance also includes interest capitalized during the construction period. Investments in joint ventures consist of the following (amounts in thousands):

	September 30, 2007	December 31, 2006
	(unaudited)	
Green Valley Ranch (50.0%)(a)	$	$ 135,271
Aliante Station (50.0%)	102,160	56,812
Rancho Road (50.0%)	47,343	28,285
Palms Casino Resort (6.7%)	17,525	18,089
Sunset GV (50.0%)	8,315	8,029
Barley's (50.0%)	3,207	3,580
The Greens (50.0%)	3,207	3,511
Investments in joint ventures	$ 181,757	$ 253,577

(a) In February 2007, we received a distribution in excess of our investment in Green Valley Ranch resulting in a deficit of approximately $43.8 million as of September 30, 2007 which is recorded as a long-term liability on our condensed consolidated balance sheets.

Summarized balance sheet information for the joint ventures is as follows (amounts in thousands):

	September 30, 2007	December 31, 2006
	(unaudited)	
Current assets	$ 103,916	$ 90,581
Property and equipment and other assets, net	1,815,875	1,394,021
Current liabilities	104,208	103,551
Long-term debt and other liabilities	1,311,358	628,788
Members' equity	504,225	752,263

Summarized results of operations for the joint ventures is as follows (amounts in thousands, unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net revenues	$ 139,929	$ 117,973	$ 419,836	$ 362,703
Operating costs and expenses	117,185	95,565	338,152	281,359
Operating income	22,744	22,408	81,684	81,344
Interest and other expense, net	(23,013)	(10,770)	(56,344)	(16,711)
Net (loss) income	$ (269)	$ 11,638		