

STATION CASINOS INC  
Form 10-Q  
May 14, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**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 000-21640**

**STATION CASINOS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or  
organization)

**88-0136443**

(I.R.S. Employer Identification No.)

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**2411 West Sahara Avenue, Las Vegas, Nevada**  
(Address of principal executive offices)

**89102**  
(Zip Code)

**(702) 367-2411**  
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  No

Indicate by check mark whether the registrant is an accelerated filer. Yes  No

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

<b>Class</b>	<b>Outstanding at April 30, 2003</b>
Common stock, \$0.01 par value	57,147,870

STATION CASINOS, INC.

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## STATION CASINOS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

	March 31, 2003	December 31, 2002
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 57,097	\$ 59,339
Receivables, net	10,569	15,423
Inventories	4,734	4,875
Prepaid gaming tax	13,498	13,260
Prepaid expenses	7,654	5,765
Deferred income tax	2,880	3,847
Total current assets	96,432	102,509
Property and equipment, net	1,048,686	1,046,051
Goodwill and other intangibles, net	167,081	167,498
Land held for development	103,107	102,205
Investments in joint ventures	77,218	75,209
Note receivable	46,895	34,487
Other assets, net	72,199	70,388
Total assets	\$ 1,611,618	\$ 1,598,347
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 107	\$ 122
Accounts payable	11,795	8,534
Accrued payroll and related	24,062	25,666
Accrued interest payable	20,916	15,356
Accrued progressives	5,938	6,098
Accrued group insurance	4,149	6,761
Accrued expenses and other current liabilities	20,118	26,262
Total current liabilities	87,085	88,799
Long-term debt, less current portion	1,179,053	1,165,600
Deferred income tax, net	59,031	52,777
Other long-term liabilities, net	21,970	20,493
Total liabilities	1,347,139	1,327,669
Commitments and contingencies		

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Stockholders' equity:			
Common stock, par value \$0.01; authorized 135,000,000 shares; 67,253,742 and 66,689,773 shares issued		460	454
Treasury stock, 10,105,872 and 8,730,872 shares, at cost	(134,106)		(109,462)
Additional paid-in capital	322,150		316,714
Deferred compensation - restricted stock	(19,480)		(20,232)
Accumulated other comprehensive loss	(2,005)		(1,695)
Retained earnings	97,460		84,899
Total stockholders' equity	264,479		270,678
Total liabilities and stockholders' equity	\$	1,611,618	\$ 1,598,347

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 March 31,	
	2003	2002
Operating revenues:		
Casino	\$ 160,961	\$ 161,837
Food and beverage	32,690	33,839
Room	12,469	12,615
Other	10,008	10,835
Management fees	1,516	1,241
Gross revenues	217,644	220,367
Promotional allowances	(18,083)	(18,300)
Net revenues	199,561	202,067
Operating costs and expenses:		
Casino	64,891	64,785
Food and beverage	19,711	19,933
Room	4,765	4,888
Other	4,091	3,627
Selling, general and administrative	38,264	39,411
Corporate expense	7,881	7,752
Depreciation and amortization	18,014	18,386
Impairment loss	1,394	
	159,011	158,782
Operating income	40,550	43,285
Earnings from joint ventures	4,904	2,912
Operating income and earnings from joint ventures	45,454	46,197
Other income (expense):		
Interest expense, net	(24,270)	(24,118)
Interest expense from joint ventures	(1,448)	(1,480)
Other	202	129
	(25,516)	(25,469)
Income before income taxes and cumulative effect of change in accounting principle	19,938	20,728
Income tax provision	(7,377)	(7,669)

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Income before cumulative effect of change in accounting principle		12,561		13,059
Cumulative effect of change in accounting principle, net of applicable income tax benefit of \$7,170				(13,316)
Net income (loss)	\$	12,561	\$	(257)
Basic and diluted earnings per common share:				
Income before cumulative effect of change in accounting principle:				
Basic	\$	0.22	\$	0.23
Diluted	\$	0.21	\$	0.22
Net income (loss):				
Basic	\$	0.22	\$	
Diluted	\$	0.21	\$	
Weighted average common shares outstanding:				
Basic		57,417		57,483
Diluted		61,051		59,958

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)

	Three Months Ended March 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 12,561	\$ (257)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,014	18,386
Amortization of debt discount and issuance costs	780	1,108
Impairment loss	1,394	
Cumulative effect of change in accounting principle		20,486
Changes in assets and liabilities:		
Decrease in receivables, net	4,854	3,238
(Increase) decrease in inventories and prepaid expenses	(1,986)	532
Increase (decrease) in deferred income tax	7,221	(1,450)
Increase (decrease) in accounts payable	3,261	(12,892)
(Decrease) increase in accrued expenses and other current liabilities	(4,960)	8,144
Other, net	(1,848)	(372)
Total adjustments	26,730	37,180
Net cash provided by operating activities	39,291	36,923
Cash flows from investing activities:		
Capital expenditures	(21,053)	(5,926)
Increase in note receivable	(12,408)	(574)
Proceeds from sale of land, property and equipment	783	8,495
Other, net	(3,512)	(555)
Net cash (used in) provided by investing activities	(36,190)	1,440
Cash flows from financing activities:		
Payments under bank facility with maturity dates less than three months, net	(45,800)	(48,100)
Borrowings under bank facility, maturity dates greater than three months	60,000	10,000
Principal payments on notes payable	(15)	(2,991)
Purchase of treasury stock	(24,644)	
Proceeds from exercise of stock options	5,442	1,394
Other, net	(326)	(21)
Net cash used in financing activities	(5,343)	(39,718)
Cash and cash equivalents:		
Decrease in cash and cash equivalents	(2,242)	(1,355)
Balance, beginning of period	59,339	66,117
Balance, end of period	\$ 57,097	\$ 64,762



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Supplemental cash flow disclosures:

Cash paid for interest, net of \$6 and \$1,058 capitalized	\$	17,667	\$	14,745
Cash received for income taxes, net	\$	4,196	\$	454

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), a Nevada corporation, is a gaming and entertainment company that currently owns and operates eight major hotel/casino properties (one of which is 50 percent owned) and three smaller casino properties (one of which is 50 percent owned), in the Las Vegas metropolitan area. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Palace Station Hotel & Casino, Inc. (Palace Station), Boulder Station, Inc. (Boulder Station), Texas Station, LLC (Texas Station), Sunset Station, Inc. (Sunset Station), Santa Fe Station, Inc. (Santa Fe Station), Fiesta Station, Inc. (Fiesta Rancho), Lake Mead Station, Inc. (Fiesta Henderson), Wild Wild West Gambling Hall & Hotel (Wild Wild West) and Wildfire Casino (Wildfire). The Company also owns a 50% interest in Barley's Casino & Brewing Company (Barley's) and Green Valley Ranch Gaming, LLC (Green Valley Ranch Station), and a 6.7% interest in the Palms Casino Resort, which are accounted for under the equity method. The Company is the managing partner for both Barley's and Green Valley Ranch Station. All significant intercompany accounts and transactions have been eliminated.

On January 27, 2003, the Company purchased substantially all of the assets of the Wildfire for \$8.0 million from Bauchman Gaming Ventures, LLC, a company owned by the two brothers-in-law of Scott M Nielson, the Company's Executive Vice President and Chief Legal Officer. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated based on estimated fair values at the date of acquisition and did not result in any goodwill.

The accompanying condensed consolidated financial statements included herein have been prepared by the Company, 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 the Company believes 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 months ended March 31, 2003 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Certain amounts in the condensed consolidated financial statements for the three months ended March 31, 2002 have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on the previously reported net income.

**2. Goodwill and Other Intangibles**

The Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, in June 2001. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only

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approach. Amortization of goodwill, including goodwill recorded in past business combinations, ceased upon the adoption of SFAS No. 142. The Company implemented SFAS No. 142 on January 1, 2002 and tested for impairment in accordance with the provisions of SFAS No. 142 and will annually perform such test. As a result of an independent third party appraisal, the Company recorded an impairment loss in the three months ended March 31, 2002 of \$13.3 million, net of the applicable tax benefit, related to the acquisition of Fiesta Rancho, which is shown as a cumulative effect of a change in accounting principle in the Company's condensed consolidated statements of operations. Fiesta Rancho was purchased in early

2001, and there were no events or changes in circumstances ( triggering events ) during the course of 2001 that would have indicated the recoverability of the carrying amount of the property should be assessed. As a result, there was no requirement to test for impairment under the provisions of SFAS No. 121, which was the primary literature regarding the impairment of an asset prior to the adoption of SFAS No. 142. Also, in connection with the acquisition of Fiesta Rancho, the Company acquired the customer list and is amortizing it over five years. The customer list was valued at \$5.0 million at the time of the purchase and as of March 31, 2003, had a net book value of approximately \$3.2 million. The amortization expense related to the customer list for the three months ended March 31, 2003 and 2002 was approximately \$0.3 million and is expected to remain the same in future periods until fully amortized.

**3. Investments in Joint Ventures**

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The Company has investments in two 50% owned joint ventures, Green Valley Ranch Station and Barley s, and a 6.7% investment in a joint venture that operates 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 the Company s share of earnings, losses and distributions of the joint ventures. The investment balance also includes interest capitalized during the construction period, which is amortized against the earnings of the joint venture. Investments in joint ventures consist of the following (amounts in thousands):

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	<b>(unaudited)</b>	
Green Valley Ranch Station (50.0%)	\$ 58,302	\$ 55,685
Barley s (50.0%)	2,766	2,740
Palms Casino Resort (6.7%)	16,150	16,784
Investments in joint ventures	\$ 77,218	\$ 75,209

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

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	<b>(unaudited)</b>	
Current assets	\$ 46,088	\$ 45,607
Property and equipment and other assets, net	530,277	534,302
Current liabilities	55,568	58,380
Long-term debt and other liabilities	207,510	208,264
Stockholders equity	313,287	313,265

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

	<b>Three months ended March 31,</b>	
	<b>2003</b>	<b>2002</b>
Net revenues	\$ 79,465	\$ 63,559
Operating costs and expenses	62,374	56,271
Operating income	17,091	7,288
Interest expense, net	3,729	5,366
Net income	\$ 13,362	\$ 1,922

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The Company is the managing partner for both Barley s and Green Valley Ranch Station and receives a management fee equal to 10% of Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ) from Barley s and 2% of revenues and approximately 5% of EBITDA from Green Valley Ranch Station, which is included in net revenues on the Company s condensed consolidated statements of operations. Management fees earned in connection with Green Valley Ranch Station were approximately \$1.4 million and \$1.2 million for the three months ended March 31, 2003 and 2002, respectively. The operating earnings from these joint ventures are shown as a separate line item on the Company s condensed consolidated statements of operations after operating income. In addition, interest expense from these joint ventures is shown as a separate component under other income (expense) in the Company s condensed consolidated statements of operations. The following table identifies the total equity earnings from joint ventures (amounts in thousands, unaudited):

	Three months ended March 31,			
	2003		2002	
Operating earnings from joint ventures	\$	4,904	\$	2,912
Interest expense from joint ventures		(1,448)		(1,480)
Total equity earnings from joint ventures	\$	3,456	\$	1,432

*Green Valley Ranch Station*

Green Valley Ranch Station is owned by a 50/50 joint venture between the Company and GCR Gaming. During the third quarter of 2001, the Company completed financing for Green Valley Ranch Station. The financing was completed with a group of banks, and originally provided for borrowings up to \$165.0 million at a margin above the LIBOR rate of up to 250 basis points. The available borrowings have reduced to \$145.8 million as of March 31, 2003. Also during the third quarter of 2001, Green Valley Ranch Station entered into an agreement to swap the majority of this floating rate to a fixed rate that will approximate 6.9% during the term of the loan. The loan requires a limited make-well of \$44.0 million, if necessary (based on operating results of the property). Pursuant to the make-well agreement, if Green Valley Ranch Station fails to comply with the Fixed Charge Coverage Ratio or the Leverage Ratio (both as defined in the Green Valley Ranch credit agreement), the partners will be required to make cash equity contributions in such amounts as required, which will result in pro forma compliance with the covenants. The make-well is a joint and several obligation of each partner, with GCR Gaming's obligation collateralized. As of December 31, 2002, the Company had contributed approximately \$0.6 million for obligations related to the make-well agreement and has not been required to make any payments in 2003. The make-well agreement will terminate upon achieving a debt to Adjusted EBITDA (as defined) ratio of less than or equal to 3.00 to 1.00 and producing Adjusted EBITDA before management fees of at least \$42.0 million. As of March 31, 2003, the debt to Adjusted EBITDA ratio was 3.56 to 1.00. The outstanding balance of the Green Valley Ranch Station revolving credit facility as of March 31, 2003, was approximately \$140.0 million. In addition to the bank financing, Green Valley Ranch Station has secured equipment and other financing which had an outstanding balance of approximately \$28.1 million as of March 31, 2003.

On December 31, 2001, Green Valley Ranch Station entered into an interest rate swap that is matched to a portion of its revolving facility, which terminates on December 29, 2006. At March 31, 2003, the notional amount was \$102.0 million, and decreases by varying amounts each quarter until it reaches \$20.0 million on September 29, 2006 through the termination date. In March 2002, Green Valley Ranch Station entered into an additional interest rate swap that terminates on March 28, 2007, and is matched to a portion of its equipment financing. The notional amount of this interest rate swap at March 31, 2003, was \$24.0 million and decreases by \$1.5 million each quarter. The interest rate swaps have converted a portion of Green Valley Ranch Station's floating rate debt to a fixed rate. As of March 31, 2003, Green Valley Ranch Station was paying a weighted average fixed rate of 4.33% on the interest rate swaps and was receiving a weighted average floating rate based on three-month LIBOR of 1.29%. These interest rate swaps were also priced to have no value at inception. As a result of the mark-to-market valuation of the interest rate swaps as of March 31, 2003, the Company recorded approximately \$2.0 million for its share of the Green Valley Ranch

Station interest rate swaps in accumulated other comprehensive loss in the Company's condensed consolidated balance sheets.

#### 4. Long-term Debt

Long-term debt consists of the following (amounts in thousands):

	March 31, 2003 (unaudited)	December 31, 2002
Revolving credit facility, \$365.0 million limit at March 31, 2003, due September 30, 2007, interest at a margin above the Alternate Base Rate or the Eurodollar Rate (4.2% at March 31, 2003)	\$ 191,400	\$ 177,200
8 <sup>3</sup> / <sub>8</sub> % senior notes, interest payable semi-annually, principal due February 15, 2008	400,000	400,000
9 <sup>7</sup> / <sub>8</sub> % senior subordinated notes, interest payable semi-annually, principal due July 1, 2010, net of unamortized discount of \$1.2 million at March 31, 2003	373,797	373,769
8 <sup>7</sup> / <sub>8</sub> % senior subordinated notes, interest payable semi-annually, principal due December 1, 2008	199,900	199,900
Other long-term debt, collateralized by equipment, monthly installments including interest of 8.0% at March 31, 2003	107	122
Total long-term debt	1,165,204	1,150,991
Current portion of long-term debt	(107)	(122)
Market value of interest rate swaps	13,956	14,731
Total long-term debt, net	\$ 1,179,053	\$ 1,165,600

##### *Revolving Facility*

In September 2002, the Company completed financing on a new \$365.0 million revolving credit facility (the Revolving Facility). The Revolving Facility contains no principal amortization and matures in September 2007. The Borrowers are the major operating subsidiaries and the Revolving Facility is secured by substantially all of the Company's assets. Borrowings under the Revolving Facility bear interest at a margin above the Alternate Base Rate or the Eurodollar Rate (each, as defined in the Revolving Facility), as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Revolving Facility, will vary quarterly based on the Company's combined consolidated ratio of debt to Adjusted EBITDA (each, as defined in the Revolving Facility). As of March 31, 2003, the Borrowers' margin above the Eurodollar Rate on borrowings under the Revolving Facility was 2.25%. The maximum margin for Eurodollar Rate borrowings is 2.50%. The maximum margin for Alternate Base Rate borrowings is 1.25%. As of March 31, 2003, the fee for the unfunded portion of the Revolving Facility was 0.50%.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.25 to 1.00 for each quarter and a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.50 to 1.00 for each quarter. As of March 31, 2003, the Borrowers' funded debt to Adjusted EBITDA ratio was 0.82 to 1.00 and the fixed charge coverage ratio was 3.01 to 1.00. In addition, the Revolving Facility has financial and other covenants, which state that the maximum consolidated funded debt to Adjusted EBITDA ratio can be no more than 5.50 to 1.00 through June 30, 2003, which reduces to 5.00 to 1.00 on September 30, 2003 through June 30, 2005, to 4.75 to 1.00 on September 30, 2005 through December 31, 2005, to 4.50 to 1.00 on March 31, 2006 through June 30, 2006 and to 4.00 to 1.00 on September 30, 2006. Other covenants limit prepayments of indebtedness or



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rent (including subordinated debt other than re-financings meeting certain criteria), limitations on asset dispositions, limitations on dividends, limitations on indebtedness, limitations on investments and limitations on capital expenditures. As of March 31, 2003, the Company's consolidated funded debt to Adjusted EBITDA ratio was 4.88 to 1.00. The Company has pledged the stock of all of its major subsidiaries.

*Senior and Senior Subordinated Notes*

The indentures governing the Company's senior subordinated notes (the "Notes") and senior notes (the "Indentures") contain certain customary financial and other covenants, which limit the Company and its subsidiaries' ability to incur additional debt and to pay dividends. At March 31, 2003, the Company's Consolidated Coverage Ratio (as defined in the Indentures) was 2.27 to 1.00. The Indentures provide that the Company may not incur additional indebtedness, other than specified types of indebtedness, unless the Consolidated Coverage Ratio is at least 2.00 to 1.00. In the event the Company's Consolidated Coverage Ratio is below 2.00 to 1.00, the covenant limits the Company's ability to incur additional indebtedness for borrowings under the Revolving Facility not to exceed the greater of \$200 million or 1.5 times Operating Cash Flow (as defined) for the four most recent quarters, plus \$15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the Indentures significantly restricts the Company's ability to pay dividends on its capital stock. The Indentures also give the holders of the Notes the right to require the Company to purchase the Notes at 101% of the principal amount of the Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the Indentures) of the Company. In addition, the indentures governing the Senior Notes contain substantially the same covenants as the Company's senior subordinated notes as well as a limitation on liens the Company can incur.

During 2001, the Company entered into various interest rate swaps with members of its bank group to manage interest expense. The interest rate swaps have converted a portion of the Company's fixed-rate debt to a floating rate. As of March 31, 2003, the Company had one remaining interest rate swap agreement with a total notional amount of \$50.0 million in which it pays a floating rate at March 31, 2003 of approximately 3.70% and receives a fixed rate at March 31, 2003 of approximately 8.38%. The interest rate swap terminates in 2008. The net effect of all of the interest rate swaps resulted in a reduction in interest expense of \$0.9 million and \$3.1 million for the three months ended March 31, 2003 and 2002, respectively.

The interest rate swaps that the Company entered into qualify for the "shortcut" method allowed under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which allows for an assumption of no ineffectiveness. As such, there is no income statement impact from changes in the fair value of the hedging instruments. Instead, the fair value of the instrument is recorded as an asset or liability on the Company's balance sheet with an offsetting adjustment to the carrying value of the related debt. In accordance with SFAS No. 133, the Company recorded assets of \$4.8 million and \$5.3 million as of March 31, 2003 and December 31, 2002, respectively, representing the fair value of the interest rate swaps and a corresponding increase in long-term debt, as these interest rate swaps are considered highly effective under the criteria established by SFAS No. 133.

In December 2002, the Company terminated an interest rate swap with a notional amount of \$100 million, which was due to terminate in 2010. The interest rate swap was terminated at its market value and, as a result, the Company received approximately \$9.5 million. This interest rate swap was tied directly to the \$375 million 9<sup>3</sup>/<sub>4</sub>% senior subordinated notes. The mark-to-market adjustment will be amortized as a reduction of interest expense over the original contract life of the interest rate swap and as of March 31, 2003 and December 31, 2002, the remaining balance of \$9.1 million and \$9.4 million, respectively, is included in long-term debt on the Company's condensed consolidated balance sheets.

## **5. Stockholders' Equity**

During the three months ended March 31, 2003, the Company repurchased approximately 1.4 million shares of its common stock for approximately \$24.6 million. As of March 31, 2003, the Company had acquired 10.1 million shares at a cost of approximately \$134.1 million. The Company is authorized to repurchase up to approximately 19.5 million shares of its common stock.

SFAS No. 130, Reporting Comprehensive Income, requires companies to disclose other comprehensive income and the components of such income. Comprehensive income is the total of net income and all other non-stockholder changes in equity. For the three months ended March 31, 2003, the Company recorded its 50% interest in the mark-to-market valuation of the interest rate swaps at Green Valley

Ranch Station as other comprehensive loss. Comprehensive income (loss) was computed as follows (amounts in thousands, unaudited):

	Three months ended March 31,			
	2003		2002	
Net income (loss)	\$	12,561	\$	(257)
Mark-to-market valuation of interest rate swaps, net of tax		(310)		
Comprehensive income (loss)	\$	12,251	\$	(257)

The weighted average number of common shares used in the calculation of basic and diluted earnings per share consisted of the following (amounts in thousands, unaudited):

	Three months ended March 31,	
	2003	2002
Weighted average common shares outstanding (used in calculation of basic earnings per share)	57,417	57,483
Potential dilution from the assumed exercise of stock options	3,634	2,475
Weighted average common and common equivalent shares outstanding (used in calculation of diluted earnings per share)	61,051	59,958

## 6. Asset Impairment

The Company recorded an impairment loss of \$1.4 million in the three months ended March 31, 2003 primarily related to the write off of the Company's investment in a new slot product development. The impairment of this asset was based upon a decision by the Company to no longer pursue the development of certain slot products. As a result, all of the development costs that the Company had incurred were written off, as they were deemed to have no value.

## 7. Future Development

### *United Auburn Indian Community*

The Company has entered into a Development Services Agreement and a Management Agreement with the United Auburn Indian Community (the UAIC). Pursuant to those agreements, and in compliance with a Memorandum of Understanding entered by the UAIC and Placer County, California, the Company and the UAIC are developing Thunder Valley Casino, a gaming and entertainment facility on 49 acres located approximately seven miles north of Interstate 80, in Placer County, California, near Sacramento. On September 17, 2002, the United States Department of the Interior accepted the land into trust on behalf of the UAIC. The acceptance of the land into trust followed the decision of the United States District Court for the District of Washington, D.C., dismissing a lawsuit filed by the cities of Roseville and Rocklin, California,

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and Citizens for Safer Communities, which challenged the United States Department of the Interior's decision to accept the land into trust. Immediately following the District Court's decision, the plaintiffs appealed the decision to the Washington, D.C. court of appeals and filed an emergency motion for stay of the District Court's decision. The court of appeals denied the plaintiffs' emergency action. The parties have filed briefs setting forth their arguments, and rebutting the other party's arguments, concerning the issue on appeal. No date for oral arguments has been set. Notwithstanding the denial of the plaintiffs' emergency motion and the acceptance of the land into trust, there can be no assurances that the plaintiffs will not seek other extraordinary remedies and there can be no assurances as to the ultimate outcome of the plaintiffs' pending appeal. The Company's seven-year Management Agreement was approved by the National Indian Gaming Commission in December 2002. Upon the opening of Thunder Valley Casino, the Company will receive a management fee equal to 24% of the facility's income. The Company will also receive a development fee equal to 2% of the cost of the project. The development fee is payable upon the opening of the facility.

It is anticipated that Thunder Valley Casino will have approximately 1,900 Class III slot machines and approximately 100 table games, including a private VIP gaming area. The facility will have numerous dining and entertainment amenities, including a center pit bar, three specialty restaurants, a 500-seat buffet, a food court and parking for over 3,000 vehicles. Construction began on October 26, 2002, and the Company anticipates that the casino, center pit bar, buffet and food court will open in June 2003 with the remainder of the facility to be completed during 2003. The cost of the project is expected to be approximately \$215 million. The Company also assisted the UAIC in obtaining \$142.5 million of financing for the project through a group of lenders, with the Company providing an unlimited completion guaranty and credit support for all amounts outstanding under such financing. Any amounts required to be paid under the completion guaranty are recoverable from the UAIC after the facility has opened. The Company has evaluated its obligations related to the completion guaranty in accordance with FASB Interpretation No. 45 and does not believe that the amount will be material. The Company and the UAIC are currently working on completing the remainder of the financing; however, to the extent the additional funds cannot be raised through third parties, the Company will fund any shortfall. As of March 31, 2003, the Company had advanced approximately \$46.9 million to the UAIC for the development of Thunder Valley Casino, which is included as a note receivable on the Company's condensed consolidated balance sheets. Based on the current terms of the credit financing, the Company's advances cannot be repaid prior to the maturity of the credit facility, which is scheduled for January 2009. The Company's advances to the UAIC are subordinated to the credit facility and carry an interest rate of 10%, which will be recorded upon the opening of the facility. As of March 31, 2003, the accrued interest on the Company's advances to the UAIC was approximately \$3.7 million.

#### *The Federated Indians of Graton Rancheria*

In April 2003, the Company entered into Development and Management Agreements with the Federated Indians of Graton Rancheria (the FIGR) pursuant to which the Company will assist the FIGR in developing and operating a gaming and entertainment project to be located in Sonoma County, California. The FIGR selected the Company to assist it in designing, developing and financing the project and, upon opening, the Company will manage the facility on behalf of the FIGR. The Management Agreement has a term of seven years from the opening of the facility and the Company will receive a management fee equal to 22% of the facility's income.

The proposed project will be located on a portion of approximately 2,000 acres at the intersection of Lakeville Road and Highway 37 in Sonoma County, California. Development of the gaming and entertainment project is subject to certain governmental and regulatory approvals, including, but not limited to, negotiating a gaming compact with the State of California, the United States Department of the Interior accepting the land into trust on behalf of the FIGR and approval of the Management Agreement by the NIGC. No assurances can be given as to when, or if, the necessary government and regulatory approvals will be received. Prior to the receipt of such government and regulatory approvals, the Company likely will contribute significant credit support to this project.

#### *Land Held for Development*

The Company has acquired certain parcels of land in the Las Vegas valley and in Sacramento, California as part of its development activities. The Company's decision whether to proceed with any new gaming opportunity is dependent upon future economic and regulatory factors, the availability of financing and competitive and strategic considerations. As many of these considerations are beyond the Company's control, no assurances can be made that it will be able to secure additional, acceptable financing in order to proceed with any particular project. As of March 31, 2003, the Company had \$103.1 million of land held for development that consists primarily of five sites that are owned or leased, which comprise 151 acres in the Las Vegas valley and 98 acres in the Sacramento area near the Thunder Valley Casino project. In addition, the Company has options to purchase a total of 34 acres adjacent to one of the sites in the Las Vegas valley. The Rhodes Ranch site, located at the intersection of Durango Road and the Southern Beltway/Interstate 215 in the southwest quadrant of Las Vegas, consists of two parcels totaling 73 acres. As of March 31, 2003, the Company owned a 41 acre parcel and in April 2003, exercised its option to purchase an additional 32 acre parcel and paid approximately \$10.7 million. The Boulder/Tropicana site is a 68-acre site consisting of two parcels at the intersection of Boulder Highway and Tropicana Avenue in eastern Las Vegas. The Company is leasing (with an option to purchase) 34 acres of the site and holds an option to purchase the adjacent 34-acre parcel. The Company also owns a 49-acre gaming-entitled parcel in southwest Las Vegas at the

intersection of Flamingo

Road and Interstate 215 and a 27-acre gaming-entitled parcel at the intersection of Boulder Highway and Nellis Boulevard.

In July 2002, the Company entered into an agreement that gives it the right to acquire approximately 73 acres of land in the Summerlin master-planned community in Las Vegas, Nevada. The land is located on Charleston Boulevard at the Interstate 215/Charleston interchange. The purchase price for the land is approximately \$65 million. The Company exercised its option to purchase the property and made a payment of \$6.4 million in October 2002, which will be fully applicable to the purchase price. The Company anticipates completing the purchase during the second quarter of 2003; however, no assurances can be made that the purchase will actually be completed.

### 8. Stock Based Employee Compensation

The Company accounts for its stock-based employee compensation programs using the intrinsic value method under APB Opinion No. 25 and related interpretations. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing method. Accordingly, compensation expense recognized was different than what would have been otherwise recognized under the fair value based method defined in SFAS No. 123, Accounting for Stock-Based Compensation. Had compensation expense for the programs been determined in accordance with SFAS No. 123, the effect on the Company's net income (loss) and basic and diluted earnings (loss) per common share would have been as follows (amounts in thousands, except per share data, unaudited):

	Three months ended March 31,			
	2003		2002	
Net income (loss):				
As reported	\$	12,561	\$	(257)
Stock-based compensation expense reported in net income		173		
Stock-based compensation expense under fair value method		(1,287)		(1,224)
Pro forma net income (loss)	\$	11,447	\$	(1,481)
Earnings (loss) per common share:				