STATION CASINOS INC
Form 10-Q
November 08, 2005

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, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 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.)

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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ý No 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 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, 2005
Common stock, $0.01 par value	68,488,724

STATION CASINOS, INC.

INDEX

Part I.	**Financial Information**
Item 1.	Financial Statements
	Condensed Consolidated Balance Sheets - September 30, 2005 (unaudited) and December 31, 2004
	Condensed Consolidated Statements of Operations (unaudited) - Three and nine months ended September 30, 2005 and 2004
	Condensed Consolidated Statements of Cash Flows (unaudited) - Nine months ended September 30, 2005 and 2004
	Notes to Condensed Consolidated Financial Statements (unaudited)
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
Part II.	**Other Information**
Item 1.	Legal Proceedings
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibits
Signature	

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

STATION CASINOS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	September 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,587	$ 68,417
Receivables, net	18,287	21,452
Inventories	6,209	5,459
Prepaid gaming tax	19,001	16,432
Prepaid expenses	10,250	7,761
Total current assets	119,334	119,521
Property and equipment, net	1,813,024	1,367,957
Goodwill and other intangibles, net	154,792	155,775
Land held for development	205,317	167,729
Investments in joint ventures	127,576	106,598
Other assets, net	249,441	128,004
Total assets	$ 2,669,484	$ 2,045,584
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 97	$ 16,917
Accounts payable	11,996	10,351
Construction contracts payable	88,984	36,298
Accrued expenses and other current liabilities	113,736	112,450
Total current liabilities	214,813	176,016
Long-term debt, less current portion	1,739,675	1,321,296
Deferred income tax, net	62,082	20,094
Other long-term liabilities, net	43,860	39,257
Total liabilities	2,060,430	1,556,663
Commitments and contingencies		
Stockholders equity:		
Common stock, par value $0.01; authorized 135,000,000 shares; 78,675,752 and 77,298,227 shares issued	575	561
Treasury stock, 10,232,320 and 10,185,343 shares, at cost	(140,962)	(137,714)
Additional paid-in capital	612,531	567,939
Deferred compensation - restricted stock	(74,651)	(77,598)
Accumulated other comprehensive loss	531	(611)
Retained earnings	211,030	136,344
Total stockholders equity	609,054	488,921
Total liabilities and stockholders equity	$ 2,669,484	$ 2,045,584

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, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Operating revenues:				
Casino	$ 206,412	$ 181,048	$ 613,321	$ 533,016
Food and beverage	35,789	34,418	109,341	103,451
Room	14,009	13,426	46,071	42,545
Other	14,159	10,644	38,209	30,973
Management fees	24,028	19,995	70,930	62,174
Gross revenues	294,397	259,531	877,872	772,159
Promotional allowances	(18,060)	(16,669)	(54,107)	(50,155)
Net revenues	276,337	242,862	823,765	722,004
Operating costs and expenses:				
Casino	71,737	69,391	213,163	203,239
Food and beverage	25,310	25,355	76,534	74,212
Room	5,159	5,418	15,726	15,601
Other	4,904	4,369	13,222	12,582
Selling, general and administrative	46,076	44,129	134,449	126,906
Corporate	14,592	11,311	42,856	33,874
Development	2,047	2,113	6,749	8,309
Depreciation and amortization	26,053	21,935	75,523	62,117
Preopening	1,651	233	3,454	577
Lease terminations			11,654	
	197,529	184,254	593,330	537,417
Operating income	78,808	58,608	230,435	184,587
Earnings from joint ventures	8,956	7,038	28,356	18,249
Operating income and earnings from joint ventures	87,764	65,646	258,791	202,836
Other income (expense):				
Interest expense, net	(20,466)	(18,595)	(58,316)	(58,500)
Interest and other expense from joint ventures	(1,473)	(894)	(5,299)	(3,271)
Loss on early retirement of debt	(600)		(1,278)	(93,265)
Other	(3,384)	(487)	(3,598)	(3,299)
	(25,923)	(19,976)	(68,491)	(158,335)
Income before income taxes	61,841	45,670	190,300	44,501
Income tax provision	(22,881)	(16,584)	(70,091)	(16,163)
Net income	$ 38,960	$ 29,086	$ 120,209	$ 28,338
Basic and diluted earnings per common share:				
Net income:				
Basic	$ 0.57	$ 0.45	$ 1.77	$ 0.45
Diluted	$ 0.56	$ 0.43	$ 1.73	$ 0.43
Weighted average common shares outstanding:				
Basic	68,355	65,052	67,901	63,647

Diluted		69,772		67,769		69,302		66,300
Dividends paid per common share	$	0.250	$	0.175	$	0.670	$	0.475

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, 2005	Nine Months Ended September 30, 2004
Cash flows from operating activities:		
Net income	$ 120,209	$ 28,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75,523	62,117
Loss on early retirement of debt	1,278	93,265
Deferred income tax	43,703	(25,643)
Tax benefit from exercise of stock options	24,066	37,856
Earnings from joint ventures, net	(23,057)	(14,978)
Amortization of debt discount, premium and issuance costs	2,444	2,231
Changes in assets and liabilities:		
Receivables, net	3,165	9,990
Inventories and prepaid expenses	(5,824)	(2,850)
Accounts payable	1,645	(12,103)
Accrued expenses and other current liabilities	(429)	(20,100)
Other, net	14,023	13,098
Total adjustments	136,537	142,883
Net cash provided by operating activities	256,746	171,221
Cash flows from investing activities:		
Capital expenditures	(580,158)	(237,914)
Proceeds from sale of land, property and equipment	21,673	27,066
Accrued construction contracts payable	338,622	33,659
Payments on construction contracts	(285,936)	(12,934)
Advances to tribes	(121,847)	(19,926)
Other, net	9,115	1,528
Net cash used in investing activities	(618,531)	(208,521)
Cash flows from financing activities:		
Redemption of senior and senior subordinated notes	(34,272)	(1,028,815)
Proceeds from the issuance of senior and senior subordinated notes, net	358,250	1,248,214
Borrowings (payments) under bank facility with maturity dates less than three months, net	74,000	(127,000)
Payments under bank facility, maturity dates greater than three months		(50,000)
Proceeds from exercise of stock options	14,151	33,596
Debt issuance costs	(4,211)	(14,922)
Payment of dividends	(45,523)	(30,339)
Purchase of treasury stock	(3,248)	(1,620)
Other, net	(192)	(255)
Net cash provided by financing activities	358,955	28,859
Cash and cash equivalents:		
Decrease in cash and cash equivalents	(2,830)	(8,441)
Balance, beginning of period	68,417	62,272
Balance, end of period	$ 65,587	$ 53,831
Supplemental cash flow disclosures:		
Cash paid for interest, net of $13,528 and $4,408 capitalized	$ 66,663	$ 63,626
Cash paid (received) for income taxes, net	$ 2,149	$ (3,027)
Supplemental disclosure of non-cash items:		
Acquisition of assets through assumption of debt	$ 3,467	$

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% owned and managed by the Company) under the Station and Fiesta brand names and five smaller casino properties (one of which is 50% owned and managed by the Company), 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 the Company, its wholly owned subsidiaries and MPM Enterprises, LLC (which is 50% owned by the Company 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 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 U.S. generally accepted accounting principles 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 and nine months ended September 30, 2005 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, 2004.

Certain amounts in the condensed consolidated financial statements for the three and nine months ended September 30, 2004 have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on the previously reported net income.

2. Investments in Joint Ventures

The Company has investments in two 50% owned joint ventures, Green Valley Ranch and Barley s, 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 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):

	September 30, 2005 (unaudited)	December 31, 2004
Green Valley Ranch (50.0%)	$ 106,023	$ 85,274
Barley s (50.0%)	3,721	2,984
Palms Casino Resort (6.7%)	17,832	18,340
Investments in joint ventures	$ 127,576	$ 106,598

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

	September 30, 2005 (unaudited)	December 31, 2004
Current assets	$ 62,531	$ 72,451
Property and equipment and other assets, net	791,655	633,592
Current liabilities	65,789	60,605
Long-term debt and other liabilities	348,194	243,430
Stockholders equity	440,203	402,008

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net revenues	$ 108,996	$ 93,905	$ 320,815	$ 283,467
Operating costs and expenses	84,893	73,387	246,819	223,675
Operating income	24,103	20,518	73,996	59,792
Interest and other expense, net	(1,215)	(2,979)	(10,245)	(7,648)
Net income	$ 22,888	$ 17,539	$ 63,751	$ 52,144

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 and other 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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Operating earnings from joint ventures	$ 8,956	$ 7,038	$ 28,356	$ 18,249
Interest and other expense from joint ventures	(1,473)	(894)	(5,299)	(3,271)
Net earnings from joint ventures	$ 7,483	$ 6,144	$ 23,057	$ 14,978

Green Valley Ranch

Green Valley Ranch is owned by a 50/50 joint venture between the Company and GCR Gaming. In December 2004, Green Valley Ranch entered into a new $250 million Second Amended and Restated Loan Agreement (the Green Valley Facility), which refinanced the existing $250 million revolving credit facility and term loan. The Green Valley Facility extends the maturity of the revolving portion to December 2009 and the term loan portion to December 2011. The outstanding balance of the Green Valley Ranch revolving credit facility as of September 30, 2005, was approximately $198.5 million.

3. Management Fees

The Company manages Thunder Valley on behalf of the United Auburn Indian Community (the UAIC) and receives a management fee equal to 24% of net income (as defined in the management agreement). The Company is also the managing partner for both Green Valley Ranch and Barley s and receives a management fee equal to 2% of revenues and approximately 5% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) from Green Valley Ranch and 10% of EBITDA from Barley s. The Company s management fees are included in net revenues on the Company s condensed consolidated statements of operations.

United Auburn Indian Community

The Company has entered into a Development Services Agreement and a Management Agreement with the UAIC. The Company s seven-year Management Agreement was approved by the National Indian Gaming Commission (the NIGC) and expires in June 2010. Pursuant to those agreements, and in compliance with a Memorandum of Understanding entered into by the UAIC and Placer County, California, the Company and the UAIC developed Thunder Valley, a gaming and entertainment facility on approximately 49 acres located approximately seven miles north of Interstate 80 on Highway 65, in Placer County, California, near Sacramento, which opened on June 9, 2003. In June 2004, the UAIC successfully negotiated a new Tribal-State Gaming Compact (the Amended Compact) with the State of California which was subsequently approved by the United States Department of the Interior (the DOI). The Amended Compact allows an unlimited number of slot machines at Thunder Valley and extends the term an additional 10 years to 2030. The Amended Compact also includes a revenue sharing agreement with the State of California. The UAIC will pay approximately $33.8 million annually to the State of California commencing in January 2005 and additional annual fees ranging from $11,000 to $13,200 per machine for any slot machines added above the 1,906 machines that were in operation at Thunder Valley prior to the Amended Compact.

4. Long-term Debt

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

	September 30, 2005 (unaudited)	December 31, 2004
Revolving credit facility, $1.0 billion limit at September 30, 2005, due December 31, 2009, interest at a margin above the Alternate Base Rate or the Eurodollar Rate (6.0% at September 30, 2005)	$ 125,500	$ 51,500
6 1/2% senior subordinated notes, interest payable semi-annually, principal due February 1, 2014, callable February 1, 2009	450,000	450,000
6% senior notes, interest payable semi-annually, principal due April 1, 2012, callable April 1, 2008, net of unamortized discount of $1.5 million at September 30, 2005	448,494	448,354
6 7/8% senior subordinated notes, interest payable semi-annually, principal due March 1, 2016, callable March 1, 2009, net of unamortized premium of $8.1 million at September 30, 2005	708,141	350,000
9 7/8% senior subordinated notes, principal due July 1, 2010, called July 1, 2005		17,332
8 3/8% senior notes, principal due February 15, 2008, called February 15, 2005		16,894
Other long-term debt, interest at 6.0% at September 30, 2005, maturity dates ranging from 2007 to 2008	9,481	6,060
Total long-term debt	1,741,616	1,340,140
Current portion of long-term debt	(97)	(16,917)
Market value of interest rate swaps	(1,844)	(1,927)
Total long-term debt, net	$ 1,739,675	$ 1,321,296

Revolving Facility

In December 2004, the Company increased its available borrowing capacity under its revolving credit facility (the Revolving Facility) to $1.0 billion and extended the maturity by two years to December 2009. The Revolving Facility contains no principal amortization. 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 (as defined in the Revolving Facility). As of

September 30, 2005, the Borrowers margin above the Eurodollar Rate on borrowings under the Revolving Facility was 1.38%. The maximum margin for Eurodollar Rate borrowings is 2.13%. The maximum margin for Alternate Base Rate borrowings is 0.88%. As of September 30, 2005, the fee for the unfunded portion of the Revolving Facility was 0.25%.

The Revolving Facility contains certain financial and other covenants. These include a maximum funded debt to Adjusted EBITDA ratio for the Borrowers combined of 2.50 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 September 30, 2005, the Borrowers funded debt to Adjusted EBITDA ratio was 0.37 to 1.00 and the fixed charge coverage ratio was 2.26 to 1.00. In addition, the Revolving Facility has financial and other covenants, which require that the maximum consolidated funded debt to Adjusted EBITDA ratio can be no more than 5.50 to 1.00 through December 31, 2005, which reduces to 5.25 to 1.00 on March 31, 2006 through December 31, 2006, to 5.00 to 1.00 on March 31, 2007 through December 31, 2007, to 4.75 to 1.00 on March 31, 2008 through December 31, 2008 and to 4.50 to 1.00 on March 31, 2009. Other covenants limit prepayments of indebtedness or rent (including subordinated debt other than re-financings meeting certain criteria), asset dispositions, dividends, indebtedness, investments and capital expenditures. As of September 30, 2005, the Company s consolidated funded debt to Adjusted EBITDA ratio was 3.86 to 1.00. The Company has pledged the stock of all of its major subsidiaries.

Senior and Senior Subordinated Notes

On June 15 and September 1, 2005, the Company issued $200.0 million and $150.0 million, respectively, of additional 6 7/8% senior subordinated notes due in March 2016 which were add-ons to the $350.0 million of senior subordinated notes issued by the Company in February 2004. Proceeds from these offerings were used to repay outstanding borrowings under the Revolving Facility, for capital expenditures related to its development projects and for general corporate purposes.

On February 15, 2005, the Company redeemed the remaining $16.9 million of outstanding 8 3/8% senior notes due 2008 and on July 1, 2005 the Company redeemed the remaining $17.4 million of outstanding 9 7/8% senior subordinated notes due 2010. As a result of these redemptions, the Company recorded a loss on early retirement of debt of approximately $0.6 million and $1.3 in the three and nine-months ended September 30, 2005, respectively, to reflect the write-off of the unamortized loan costs, discount and call premium.

During the first quarter 2004, the Company refinanced substantially all of its senior and senior subordinated notes. The Company issued $1.25 billion in new senior and senior subordinated notes which consists of $450.0 million 6% senior notes due in April 2012, $450.0 million 6 1/2% senior subordinated notes due in February 2014 and $350.0 million 6 7/8% senior subordinated notes due in March 2016. The proceeds from these offerings were used to redeem or repurchase the $199.9 million 8 7/8% senior subordinated notes due in December 2008, to repurchase $357.6 million of the 9 7/8% senior subordinated notes due in July 2010, to repurchase $383.1 million of the 8 3/8% senior notes due in February 2008 and to reduce amounts outstanding under the Revolving Facility. As a result of these redemptions, the Company recorded a loss on early retirement of debt of approximately $93.3 million in the nine months ended September 30, 2004 to reflect the write-off of the unamortized loan costs, unamortized discount, call premium, tender fee and consent payments which were partially offset by the fair value of the interest rate swaps that were tied directly to the redeemed senior and senior subordinated notes.

The indentures (the Indentures) governing the Company s senior and senior subordinated notes (the Notes) contain certain customary financial and other covenants, which limit the Company and its subsidiaries ability to incur additional debt. At September 30, 2005, the Company s Consolidated Coverage Ratio (as defined in the Indentures) was 4.4 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 in the Indentures) for the four most recent quarters, plus $15 million. 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 indenture governing the senior notes contains a limitation on liens the Company can incur.

The Company has historically entered into various interest rate swaps with members of its bank group to manage interest expense. As of September 30, 2005, the Company has an interest rate swap with a notional amount of $50.0 million that is tied directly to the Company s 6% senior notes. The interest rate swap converts a portion of the Company s fixed-rate debt to a floating-rate based upon three month LIBOR rates. At September 30, 2005, the Company paid a rate based on LIBOR, which approximated 5.18% and received a rate of 6.00%. The interest rate swap terminates in April 2012. In May 2005, the Company terminated interest rate swaps with a notional amount of $200.0 million, which were due to terminate in 2014. The Company paid $0.1 million to terminate the interest rate swaps which represents their market value at the date of termination. The net effect of the interest rate swaps resulted in a reduction in interest expense of $0.1 million and $1.8 million for the three months ended September 30, 2005 and 2004, respectively. The net effect of the interest rate swaps resulted in a reduction in interest expense of $2.1 million and $5.7 million for the nine months ended September 30, 2005 and 2004, respectively.

The interest rate swaps that the Company entered into qualify for the shortcut method allowed under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (and as amended by SFAS No.138), 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 a liability of $1.7 million and $2.2 million as of September 30, 2005 and December 31, 2004, respectively, representing the fair value of the interest rate swaps and a corresponding decrease in long-term debt, as these interest rate swaps are considered highly effective under the criteria established by SFAS No. 133.

5. Stockholders Equity

During the nine months ended September 30, 2005, the Company repurchased 46,977 shares of its common stock for approximately $3.2 million. As of September 30, 2005, the Company had acquired approximately 10.2 million shares at a cost of approximately $141.0 million for a weighted average cost of $13.78 per share. The Company is authorized to repurchase approximately 10.4 million additional shares of its common stock as of September 30, 2005. Under the most restrictive of its debt covenants, the Company could spend approximately $551.2 million on such purchases.

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. The Company has recorded its 50% interest in the mark-to-market valuation of the interest rate swaps at Green Valley Ranch as other comprehensive income. Comprehensive income was computed as follows (amounts in thousands, unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
Net income	$ 38,960	$ 29,086	$ 120,209	$ 28,338
Mark-to-market valuation of interest rate swaps, net of tax	758	(1,098)	1,142	224
Comprehensive income	$ 39,718	$ 27,988	$ 121,351	$ 28,562

10

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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Weighted average common shares outstanding (used in calculation of basic earnings per share)	68,355	65,052	67,901	63,647
Potential dilution from the assumed exercise of stock options	1,417	2,717	1,401	2,653
Weighted average common and common equivalent shares outstanding (used in calculation of diluted earnings per share)	69,772	67,769	69,302	66,300

On December 2, 2005, the Company will pay a quarterly cash dividend of $0.25 per share to shareholders of record on November 11, 2005. During the nine months ended September 30, 2005, the Company paid a quarterly cash dividend of $0.21 per share to shareholders of record on February 11, 2005 and May 13, 2005 and a quarterly cash dividend of $0.25 per share to shareholders of record on August 12, 2005 for a total of approximately $45.5 million.

During the nine months ended September 30, 2004, the Company paid a quarterly cash dividend of $0.125 per share to shareholders of record on February 12, 2004 and a quarterly cash dividend of $0.175 to shareholders of record on May 14, 2004 and August 13, 2004 for a total of approximately $30.3 million.

6. Future Development

Red Rock Resort Spa and Casino

In April 2004, the Company commenced construction of Red Rock Resort Spa and Casino (Red Rock) located on Charleston Boulevard at the Interstate 215/Charleston interchange in the Summerlin master-planned community in Las Vegas, Nevada. The initial phase of the property is expected to be completed near the end of the first quarter of 2006. Construction of phase II at Red Rock began in October 2005 and is expected to be completed by the end of 2006. The total project will include over 2,800 slot machines, 850 hotel rooms, 94,000 square-feet of meeting and convention space, a 35,000 square-foot spa, nine full service restaurants, a 16-screen movie theater complex, a night club and private pool club to be operated by Midnight Oil Company, both indoor and outdoor entertainment venues and parking for almost 5,500 vehicles. The total cost of Red Rock, including the phase II expansion, is expected to be approximately $925 million, of which approximately $481.6 million has been spent as of September 30, 2005.

On July 27, 2005, the Company entered into a joint venture with Cloobeck Molasky Partners I, LLC (Cloobeck Molasky) to develop a high-end residential project on approximately 8 acres located adjacent to the hotel and resort-pool area at Red Rock. It is anticipated that the residential project will contain up to 600 luxury units. Pursuant to the terms of the operating agreement, the Company will contribute the 8 acres of land noted above, and as a result own 80% of the joint venture and Cloobeck Molasky will own 20%. Subject to obtaining local approvals, sales of the residential towers are expected to begin in 2006.

Santa Fe Station Expansion

In 2003, the Company began a $54 million phase II expansion at Santa Fe Station. The expansion included additional casino space, slot machines, a new movie theater complex, an upgrade of the property s bowling center, a new entertainment venue and bar, a new Kid s Quest facility and other amenities as well as removal of the ice arena. The additional slot machines, upgrade of the bowling center, removal of the ice arena and new entertainment venue were completed during 2004. The remaining items were completed in the second quarter of 2005.

In October 2005, the Company began a $120 million phase III master-planned expansion at Santa Fe Station which will include a 2,900-space parking garage, a 500-seat buffet, 400 additional slot machines, a remodeled and expanded race and sports book, a 15,000 square-foot meeting and banquet facility and a new center bar. The entire project will include approximately 125,000 square-feet of additional space. Construction of this project is expected to be completed in phases beginning in the third quarter of 2006 through the fourth quarter of 2006.

Fiesta Henderson Expansion

In October 2005, the Company began a $70 million phase II master-planned expansion at Fiesta Henderson which will include a 1,500-space parking garage, 350 additional slot machines, a remodeled and expanded race and sports book and a 12-screen movie theater complex. Construction of the project is expected to be completed in the third quarter of 2006 with the exception of the movie theater complex which is expected to be completed in the summer of 2007.

Green Valley Ranch

In October 2005, the Company began a $110 million phase III master-planned expansion at Green Valley Ranch which will include a 1,500-space parking garage, additional slot machines, a new race and sports book, a new poker room, a 500-seat entertainment lounge, 14,000 square-feet of convention space and two new restaurants. Construction of this project is expected to be completed in phases from the fourth quarter of 2006 through early 2007.

The Federated Indians of Graton Rancheria

The Company has entered into Development and Management Agreements with the Federated Indians of the Graton Rancheria (the FIGR), a federally recognized Native American tribe. Pursuant to those agreements, 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 24% of the facility s net income. The Company will also receive a development fee equal to 2% of the cost of the project upon the opening of the facility.

In August 2003, the Company entered into an option to purchase 360 acres of land just west of the Rohnert Park city limits in Sonoma County, California. In August 2005, the Company purchased 180 acres of the optioned property and an additional 90 acres. The property purchased is approximately one-quarter mile from Highway 101 and approximately 43 miles from downtown San Francisco. In October 2003, the FIGR entered into a Memorandum of Understanding with the City of Rohnert Park. 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 DOI accepting the land into trust on behalf of the FIGR and approval of the Management Agreement by the NIGC. Prior to obtaining third-party financing, the Company will contribute significant financial support to the project. As of September 30, 2005, the Company had advanced approximately $124.9 million toward the development of this project, primarily to perform due diligence and secure real estate for the FIGR project, which is included in other assets, net on the Company s condensed consolidated balance sheets. Funds advanced by the Company are expected to be repaid with the proceeds of the project financing or from the FIGR s gaming revenues. In addition, the Company has agreed to pay approximately $11.3 million upon achieving certain milestones, which will not be reimbursed. As of September 30, 2005, approximately

$2.0 million of these payments had been made and were recorded in development expense as incurred. The timing of this type of project is difficult to predict and is dependent upon the receipt of the necessary governmental and regulatory approvals. There can be no assurances when or if these approvals will be obtained.

Gun Lake Tribe

On November 13, 2003, the Company agreed to purchase a 50% interest in MPM Enterprises, LLC, a Michigan limited liability company (MPM). Concurrently with the Company s agreement to purchase that interest, MPM and the Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians, a federally recognized Native American tribe commonly referred to as the Gun Lake Tribe (Gun Lake), entered into Amended Development and Management Agreements, pursuant to which MPM will assist Gun Lake in developing and operating a gaming and entertainment project to be located in Allegan County, Michigan. The Company has agreed to pay $6.0 million for its 50% interest in MPM, which is payable upon achieving certain milestones and is not reimbursable. As of September 30, 2005, approximately $2.0 million of these payments had been made and were recorded in development expense as incurred. An additional $12.0 million in total may be paid by the Company in years six and seven of the Amended Management Agreement, subject to certain contingencies. Under the terms of the Amended Development Agreement, the Company has agreed to arrange financing for the ongoing development costs and construction of the project. As of September 30, 2005, the Company had advanced approximately $27.3 million toward the development of this project, primarily to secure real estate for the project, which is included in other assets, net on the Company s condensed consolidated balance sheets. Funds advanced by the Company are expected to be repaid from the proceeds of the project financing or from Gun Lake s gaming revenues. The Amended Management Agreement has a term of seven years from the opening of the facility and provides for a management fee of 30% of the project s net income to be paid to MPM. Pursuant to the terms of the MPM Operating Agreement, the Company s portion of the management fee is 50% of the first $24 million of management fees earned, 83% of the next $24 million of management fees and 93% of any management fees in excess of $48 million.

The proposed project will be located on approximately 145 acres on Highway 131 near 129th Avenue, approximately 25 miles north of Kalamazoo, Michigan. As currently contemplated, the project will include up to 2,500 slot machines, 75 table games, a buffet and specialty restaurants. Construction of the project includes the conversion of an existing 192,000 square-foot building into the casino and entertainment facility. Development of the gaming and entertainment project and operation of Class III gaming is subject to certain governmental and regulatory approvals, including, but not limited to, the signing of a gaming compact by the Governor of the State of Michigan, the DOI accepting the land into trust on behalf of Gun Lake and approval of the Management Agreement by the NIGC. On February 27, 2004, the DOI issued a Finding Of No Significant Impact with respect to the proposed project. On May 13, 2005, the DOI published in the Federal Register a Notice of Final Agency Determination (the Determination) to take certain land into trust for the benefit of Gun Lake. The publication commenced a thirty-day period in which interested parties could seek judicial review of the Determination. On June 13, 2005, Michigan Gambling Opposition filed a complaint (the Complaint) in the United States District Court, District of Columbia, seeking declaratory and injunctive relief against the DOI and officials of the DOI. The Complaint seeks judicial review of the Determination. On July 27, 2005, Gun Lake filed a motion to intervene in that lawsuit. On September 1, 2005, the District Court granted Gun Lake s motion to intervene. As with all litigation, no assurances can be provided as to the outcome of that lawsuit. Prior to obtaining third-party financing, the Company will contribute significant financial support to the project. The timing of this type of project is difficult to predict and is dependent upon the receipt of the necessary governmental and regulatory approvals. There can be no assurances when or if these approvals will be obtained.

Mechoopda Indian Tribe

The Company has entered into Development and Management Agreements with the Mechoopda Indian Tribe of Chico Rancheria, California (the MITCR), a federally recognized Native American tribe. Pursuant to those agreements, the Company will assist the MITCR in developing and operating a gaming and entertainment facility to be located on a portion of approximately 650 acres in Butte County, California, at the intersection of State Route 149 and Highway 99, approximately 10 miles southeast of Chico, California and 80 miles north of Sacramento, California. Under the terms of the Development Agreement, the Company has agreed to arrange the financing for the ongoing development costs and construction of the facility. Funds advanced by the Company are expected to be repaid from the proceeds of the facility financing or from the MITCR s gaming revenues. As of September 30, 2005, the Company had advanced approximately $6.7 million toward the development of this project, primarily to secure real estate for future development, which is included in other assets, net on the Company s condensed consolidated balance sheets. In addition, the Company has agreed to pay approximately $2.2 million upon achieving certain milestones, which will not be reimbursed. As of September 30, 2005, $50,000 of these payments had been made and were recorded in development expense as incurred. The Management Agreement has a term of seven years from the opening of the facility and provides for a management fee of 24% of the facility s net income. As currently contemplated, the facility will include approximately 700 slot machines, 12 table games and dining and entertainment amenities. Development of the facility is subject to certain governmental and regulatory approvals, including, but not limited to, negotiating a gaming compact with the State of California, the DOI accepting land into trust on behalf of the MITCR and approval of the Management Agreement by the NIGC. Prior to obtaining third-party financing, the Company will contribute significant financial support to the project. The timing of this type of project is difficult to predict and is dependent upon the receipt of the necessary governmental and regulatory approvals. There can be no assurances when or if these approvals will be obtained.

North Fork Rancheria of Mono Indian Tribe

The Company has