SmartPros Ltd.
Form 10-Q
May 07, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2013
Commission File Number 001-32300
SMARTPROS LTD.
(Exact name of small business issuer as specified in its charter)

Delaware	13-4100476
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12 Skyline Drive, Hawthorne, New York 10532

(Address of principal executive office)

(914) 345-2620
(Issuer’s telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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
Number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date: As of May 7, 2013, there were 4,680,941 shares of common stock outstanding.

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FORWARD-LOOKING STATEMENTS

Some of the statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” within the meaning of Section 21E of the Securities and Exchange Act of 1934. These statements relate to our plans and objectives for future operations as well as to market trends and expectations. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any expressed or implied future results, performance or achievements. The forward-looking statements included in this report are based on current expectations, plans and assumptions relating to the future operation of our business. These expectations, plans and assumptions involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our expectations, plans and assumptions underlying the forward-looking statements are reasonable, we cannot assure you that the forward-looking statements included in this report will, ultimately, prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included in this report, the fact that we have included forward-looking statements in this report should not be interpreted as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Forward-looking statements in this report include statements relating to our operating results, the development of new products, the timing of the launch of such products and the timing of any revenue to be generated from such products as well as statements regarding our plans for acquisitions. Whether or not our expectations regarding such forward-looking statements are ultimately realized depends on such factors as our ability to increase revenues, control costs, complete the development of new products in a timely manner and on budget, our ability to successfully market our products, general economic conditions, our ability to successfully identify acquisition candidates and our ability to successfully complete those acquisitions and integrate the newly acquired business into our existing operating and business platform.

The terms "we," "our," "us," or any derivative thereof, as used herein shall mean SmartPros Ltd., a Delaware corporation, its subsidiaries and it predecessors.

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PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SMARTPROS LTD. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$5,501,848	$4,918,543
Certificates of deposit	—	500,000
Accounts receivable, net of allowance for doubtful accounts of approximately $20,000 at March 31, 2013 and December 31, 2012, respectively	1,189,517	2,612,709
Prepaid expenses and other current assets	548,660	331,493
Current income tax benefit	220,000	—
Total Current Assets	7,460,025	8,362,745
Property and equipment, net	562,433	547,448
Goodwill	2,807,257	2,807,257
Other intangibles, net	3,453,124	3,530,744
Other assets, including restricted cash of $75,000	104,515	104,515
Deferred tax asset	600,000	600,000
Investment in joint venture	2,998	3,245
	7,530,327	7,593,209
Total Assets	$14,990,352	$15,955,954
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$468,003	$706,948
Accrued expenses	141,357	272,921
Dividend payable	70,244	58,936
Deferred revenue	4,917,804	5,006,496
Total Current Liabilities	5,597,408	6,045,301
Other liabilities	62,164	63,598
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.001 par value, authorized 1,000,000 shares, 0 shares issued and outstanding	—	—
Common stock, $.0001 par value, authorized 30,000,000 shares, 5,661,933 shares and 5,622,433 shares issued as of March 31, 2013 and December 31, 2012, respectively; and 4,680,941 shares and 4,714,914 shares outstanding as of March 31, 2013 and December 31, 2012, respectively	567	563
Additional paid-in capital	17,349,570	17,393,260
Accumulated deficit	(5,333,625)	(4,977,143)
Common stock in treasury, at cost – 980,992 and 907,519 shares at March 31, 2013 and December 31, 2012, respectively	(2,685,732)	(2,569,625)
Total Stockholders' Equity	9,330,780	9,847,055
Total Liabilities and Stockholders' Equity	$14,990,352	$15,955,954

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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SMARTPROS LTD. AND SUBSIDIARIES
Condensed Consolidated Statements of
Operations (Unaudited)

Net revenues
Cost of revenues
Gross profit
Operating Expenses:
Selling, general and administrative
Depreciation and amortization

Operating loss
Other Income (Expense):
Interest income (net)
Equity loss from joint venture

Loss before income tax
Benefit from income taxes
Net loss

Debt covenants

The agreement governing the Credit Facility requires the Company to comply with various affirmative and n
covenants, including restrictions on the incurrence of additional indebtedness, restrictions on dividend payments
requirements to maintain certain financial ratios and tests. As of June 30, 2010, the Company was required to m
calculated as consolidated debt divided by EBITDA (as defined) for the prior four full fiscal quarters, of no mor
leverage ratio, calculated as consolidated senior debt divided by EBITDA for the prior four full fiscal quarters, c
June 30, 2010 and December 31, 2009, the Company s leverage ratio was 4.95:1 and 4.87:1, respectively. The s
June 30, 2010 and December 31, 2009 was also 4.95:1 and 4.87:1, respectively.

The Indenture governing the Notes contains covenants that limit the Company s and its Restricted Subsidiar
ability to, among other things, (i) pay dividends or make distributions, repurchase equity securities, prepay subo
investments, (ii) incur additional debt or issue certain disqualified stock or preferred stock, (iii) create liens on a
consolidate with another company or sell all or substantially all assets and (v) enter into transactions with affilia
the Indenture, if ACI experiences certain changes of control, each holder of the Notes can require ACI to repurc
holder s outstanding Notes at a price of 101% of the principal amount thereof, plus accrued and unpaid interest
to the repurchase date.

As of June 30, 2010 and December 31, 2009, the Company was in compliance with all applicable covenants.

Note 7 Derivative instruments and hedging activities

From time to time, the Company seeks to manage interest rate risk associated with variable rate borrowings t instruments designated as cash flow hedges.

In 2008, the Company entered into two forward interest rate swaps with two different commercial banks to fi LIBOR-based borrowings under the Credit Facility. Both swaps were designated as cash flow hedges and matur to each of the interest rate swap agreements, the Company was obligated to make quarterly fixed rate payments counterparty was obligated to make quarterly floating rate payments to the Company based on three-month LIB amount.

The following table presents the principal terms, fair value and balance sheet classification of the Company instruments as of June 30, 2010 and December 31, 2009 (dollars in thousands):

			Fair Value of Liability		
Effective Date	Notional Amount (1)	Fixed Rate Paid	June 30, 2010	December 31, 2009	Ma I
July 18, 2008	$ 500,000	3.20%	$ 717	$ 7,747	J
October 20, 2008	463,000	2.98%	613	7,512	J
	$ 963,000		$ 1,330	$ 15,259	

(1) The original notional amount of $600.0 million for the October 20, 2008 swap was reduced by $62.0 million in the first half of 2010 and $75.0 million in 2009 as a result of the reduction of revolving loan commitments under the Credit Facility.

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For the six months ended June 30, 2010, the swaps increased the Company s interest expense by $15.3 million. During the next 12 months, the Company estimates that an additional $1.5 million will be reclassified as an increase to interest expense.

During the six months ended June 30, 2010, the Company repaid $62.0 million of the principal balance outstanding under the revolving credit facility. As a result, the Company terminated $62.0 million of the October 20, 2008 swap in the first half of 2010. The Company concluded this termination did not impact the overall effectiveness of the swaps. Accordingly, the Company continued its historical accounting for the swaps. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The Company may enter into additional swap transactions or other interest rate protection agreements in the future, although it has no current intention to do so.

Note 8 Fair value measurements

The Company measures the fair value of its interest rate swaps and its deferred compensation plan assets and liabilities on a recurring basis pursuant to ASC Topic 820. ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value driver is observable.

Level 3: Unobservable inputs in which little or no market data is available, therefore requiring an entity to develop its own assumptions.

The following table presents the Company s financial assets and liabilities that were accounted for at fair value as of June 30, 2010 (amounts in thousands):

	Fair Value Measurements Using:		
	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Deferred compensation plan assets	$	$ 16,435	$
Liabilities:			
Interest rate swap contracts	$	$ 1,330	$
Deferred compensation plan liabilities	$	$ 12,598	$

The valuation techniques used to measure the fair value of the Company s interest rate swap contracts, which are with counterparties that have high credit ratings, were derived from pricing models, such as discounted cash flow techniques. The Company s discounted cash flow techniques use observable market inputs, such as LIBOR-based yield curves. The fair value of the deferred compensation assets is based on the cash-surrender value of rabbi trust-owned life insurance policies, which are invested in variable life insurance separate accounts

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that are similar to mutual funds. These investments are in the same accounts and purchased in substantially the same amounts as the deferred compensation plan participants selected investments, which represent the underlying liabilities to participants. Liabilities under the deferred compensation plan are recorded at amounts due to participants, based on the fair value of participants selected investments.

Fair value of long-term debt

The estimated fair value of the Company s long-term debt at June 30, 2010 was approximately $1.616 billion, versus its book value of $1.614 billion. The estimated fair value of the Company s long-term debt at December 31, 2009 was approximately $1.704 billion, versus its book value of $1.677 billion. The estimated fair value of the Notes and the term loan facility debt was based on quoted market prices on or about June 30, 2010 and December 31, 2009. The estimated fair value of the revolving loan facility debt was based on its bid price on or about June 30, 2010 and December 31, 2009.

Note 9 Stock-based compensation

The Company accounts for its stock-based compensation in accordance with ASC Topic 718. Stock-based compensation expense totaled $3.1 million and $2.6 million for the three months ended June 30, 2010 and 2009, respectively. During the first six months of 2010 and 2009, stock-based compensation expense was $7.3 million and $5.2 million, respectively. During the six months ended June 30, 2010, no associated future income tax benefit was recognized and $0.1 million was recognized during the six months ended June 30, 2009. As of June 30, 2010, there was approximately $22.7 million of total unrecognized compensation cost related to unvested stock-based compensation arrangements granted under the Company s stock incentive plans. This unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.5 years.

The weighted-average fair value at the grant date of stock options granted during the quarter ended June 30, 2010 was $5.58. There were no options granted during the second quarter of 2009. During the six months ended June 30, 2010 and 2009, the weighted-average fair value of options granted was $6.40 and $5.06, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions for the three months and six months ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted-average assumptions:				
Expected stock price volatility	51.7%	*	50.6%	62.9%
Risk-free interest rate	1.7%	*	2.2%	1.5%
Expected option life (years)	4.5	*	4.5	4.2
Expected annual dividend yield	2.5%	*	2.4%	1.9%

* The Company did not grant any options during the quarter ended June 30, 2009.

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Stock option activity during the six months ended June 30, 2010 was as follows:

	Options (In Thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2009	5,090	$ 20.40		
Granted	21	17.47		
Exercised	(236)	8.23		
Forfeited or expired	(442)	20.30		
Outstanding at June 30, 2010	4,433	$ 21.08	4.6	$ 4,195
Exercisable at June 30, 2010	2,760	$ 21.38	3.1	$ 2,918

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been realized by the option holders had all option holders exercised their options on June 30, 2010. The intrinsic value of a stock option is the excess of the Company s closing stock price on June 30, 2010 over the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised during the six months ended June 30, 2010 and 2009 was $2.3 million and $2.2 million, respectively.

The following table summarizes the Company s unvested stock option activity for the six months ended June 30, 2010:

	Shares (Amounts in Thousands)	Weighted-Average Exercise Price (per Share)
Unvested at December 31, 2009	1,780	$ 20.57
Granted	21	17.47
Vested	(57)	21.92
Forfeited	(71)	19.83
Unvested at June 30, 2010	1,673	$ 20.59

The following table summarizes the Company s unvested restricted stock unit and performance share unit activity for the six months ended June 30, 2010:

	Units (Amounts in Thousands)	Weighted-Average Grant Date Fair Value (per Unit)
Unvested at December 31, 2009	1,453	$ 17.34
Granted	88	15.68
Vested	(141)	15.09
Forfeited	(52)	15.42

Unvested at June 30, 2010	1,348	$	17.54

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Note 10 Income taxes

At June 30, 2010 and December 31, 2009, unrecognized tax benefits totaled $5.3 million and $5.1 million, respectively. The total amount of unrecognized benefits that would affect the effective tax rate if recognized was $1.2 million at June 30, 2010 and $1.1 million at December 31, 2009. As of June 30, 2010, accrued interest and penalties totaled $0.6 million, of which $0.4 million would affect the effective tax rate if recognized.

The effective income tax rate was 38.8% for the quarter ended June 30, 2010, compared to 44.9% for the same period in 2009. For the six months ended June 30, 2010 and 2009, the effective income tax rates were 34.9% and 43.4%, respectively.

In connection with the impairment of intangible assets at Ameristar East Chicago, the Company recorded a deferred tax benefit of $22.8 million during the second quarter of 2010. The tax effect of the impairment was reflected in the effective income tax rate for the six months ended June 30, 2010.

The Company files income tax returns in numerous jurisdictions. The statutes of limitations vary by jurisdiction, with certain of these statutes expiring without examination each year. With the normal expiration of statutes of limitations, the Company anticipates that the amount of unrecognized tax benefits will decrease by $1.8 million within the next 12 months, of which $0.2 million would affect the effective tax rate if recognized.

Note 11 Commitments and contingencies

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

Self-Insurance Reserves. The Company is self-insured for various levels of general liability, workers compensation and employee health coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accrued estimates of incurred but not reported claims. At June 30, 2010 and December 31, 2009, the estimated liabilities for unpaid and incurred but not reported claims totaled $10.4 million and $11.1 million, respectively. The Company considers historical loss experience and certain unusual claims in estimating these liabilities. The Company believes the use of this method to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident or illness frequency and severity and other factors can materially affect the estimates for these liabilities.

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

Overview

We develop, own and operate casinos and related hotel, food and beverage, entertainment and other facilities, with eight properties in operation in Missouri, Indiana, Iowa, Mississippi, Colorado and Nevada. Our portfolio of casinos consists of: Ameristar Casino Resort Spa St. Charles (serving the St. Louis, Missouri metropolitan area); Ameristar Casino Hotel Kansas City (serving the Kansas City metropolitan area); Ameristar Casino Hotel East Chicago (serving the Chicagoland area); Ameristar Casino Hotel Council Bluffs (serving Omaha, Nebraska and southwestern Iowa); Ameristar Casino Hotel Vicksburg (serving Jackson, Mississippi and Monroe, Louisiana); Ameristar Casino Resort Spa Black Hawk (serving the Denver metropolitan area); and Cactus Petes Resort Casino and The Horseshu Hotel and Casino in Jackpot, Nevada (serving Idaho and the Pacific Northwest).

Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those patrons spend per visit. Additionally, our operating results may be affected by, among other things, overall economic conditions affecting the disposable income of our patrons, weather conditions affecting our properties, achieving and maintaining cost efficiencies, competitive factors, gaming tax increases and other regulatory changes, the commencement of new gaming operations, charges associated with debt refinancing or property acquisition and disposition transactions, construction at existing facilities and general public sentiment regarding travel. We may experience significant fluctuations in our quarterly operating results due to seasonality and other factors. Consequently, our operating results for any quarter or year are not necessarily comparable and may not be indicative of future periods results.

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

General Economic Conditions. The weak economic conditions continue to adversely impact the gaming industry and our Company. We believe our guests have reduced their discretionary spending as a result of uncertainty and instability relating to employment and the credit, investment and housing markets.

Ameristar Black Hawk. On July 2, 2009, we implemented positive regulatory changes at our Black Hawk property that extended casino operating hours from 18 hours daily to 24 hours daily, increased the maximum single bet limit from $5 to up to $100 and allowed for additional table games, including roulette and craps. Also, on September 29, 2009, we opened a 536-room luxury hotel and spa featuring upscale furnishings and amenities. The hotel includes a versatile meeting and ballroom center and has Black Hawk s only full-service spa and an enclosed rooftop swimming pool with indoor/outdoor whirlpool facilities. Ameristar Black Hawk offers destination resort amenities and services that we believe are unequaled in the Denver gaming market. As a result of these regulatory changes and the opening of the new hotel, second quarter net revenues and operating income increased year-over-year by 81.7% and 358.7%, respectively, and the property increased its second quarter market share on a year-over-year basis from 18.4% to 26.7%.

East Chicago Bridge Closure and Intangible Asset Impairment. During the fourth quarter of 2009, the highway bridge near our Ameristar East Chicago property was permanently closed by the Indiana Department of Transportation due to safety concerns. The bridge closure has made access to the property inconvenient for many of our guests and has significantly impacted the property s admission levels and operating results. As a result, in the fourth quarter of 2009, we recorded a non-cash impairment charge of $111.7 million ($66.2 million on an after-tax basis) for the goodwill related to our East Chicago property acquisition.
The bridge closure continues to significantly impact our business, resulting in a year-over-year decrease in second quarter net revenues of 25.6%. In the second quarter of 2010, we recorded an additional non-

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cash impairment charge of $56.0 million ($33.2 million on an after-tax basis) for the goodwill and gaming license. The adverse business impact is expected to continue unless and until improved access to the property is developed.
The Indiana Department of Transportation recently announced a plan to make improvements to an alternate route to the Ameristar East Chicago property. These improvements include converting a portion of the route from surface streets to highway and enhancing street lighting and signage. The improvements are scheduled to be completed in two phases, with the initial phase estimated to be completed in late 2010 and the second phase in mid-2012.

Ameristar St. Charles. In early March 2010, a gaming operator opened a new casino facility located in the southeastern portion of St. Louis County, approximately 30 miles from our St. Charles property. The additional competition has adversely affected the financial performance of Ameristar St. Charles and the other facilities operating in the market. The new casino contributed to declines in our property s net revenues and operating income of 11.6% and 17.5%, respectively, from the prior-year second quarter.

Debt and Interest Expense. At June 30, 2010, total debt was $1.61 billion. Net repayments totaled $28.0 million during the second quarter of 2010, including a $27.0 million repayment of a portion of the principal balance outstanding under the revolving credit facility. After taking into consideration the repayments, we have $118.6 million due in November 2010, with approximately $122 million available for borrowing under the extended portion of the revolving credit facility. We intend to repay all 2010 debt maturities with cash from operations and availability under the extended portion of the revolving credit facility. At June 30, 2010, our leverage and senior leverage ratios (each as defined in the senior credit facility) were required to be no more than 6.00:1 and 5.50:1, respectively. As of that date, our leverage ratio and senior leverage ratio were each 4.95:1.

Our interest expense has increased significantly as a result of the senior credit facility amendment, senior notes issuance and extension of our revolving loan facility that all took place in 2009. For the second quarter of 2010, consolidated net interest expense increased by $8.5 million compared to the prior-year second quarter. Additionally, capitalized interest decreased from $2.4 million for the second quarter of 2009 to $0.2 million in the 2010 second quarter, due to the completion of the Ameristar Black Hawk hotel. As a result of the expiration of the interest rate swaps on July 19, 2010, we expect a decrease in interest expense compared to prior periods.

Results of Operations

The following table sets forth certain information concerning our consolidated cash flows and the results of operations of our operating properties:

AMERISTAR CASINOS, INC. AND SUBSIDIARIES
SUMMARY CONSOLIDATED FINANCIAL DATA
(Dollars in Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Consolidated Cash Flow Information:				
Net cash provided by operating activities	$ 37,515	$ 57,165	$ 107,301	$ 126,204
Net cash used in investing activities	$ (14,620)	$ (45,920)	$ (31,191)	$ (96,404)
Net cash used in financing activities	$ (33,290)	$ (2,953)	$ (74,697)	$ (9,496)
Net Revenues:				
Ameristar St. Charles	$ 64,791	$ 73,311	$ 135,100	$ 150,483
Ameristar East Chicago	50,959	68,495	106,979	136,122
Ameristar Kansas City	55,421	58,656	110,045	118,826
Ameristar Council Bluffs	38,456	39,989	77,382	82,239
Ameristar Vicksburg	29,503	31,026	60,154	64,145
Ameristar Black Hawk	37,510	20,649	74,464	41,045
Jackpot Properties	16,364	16,776	31,499	31,880
Consolidated net revenues	$ 293,004	$ 308,902	$ 595,623	$ 624,740
Operating Income (Loss):				
Ameristar St. Charles	$ 13,636	$ 16,523	$ 31,454	$ 38,438
Ameristar East Chicago	(54,525)	11,055	(49,926)	23,582
Ameristar Kansas City	14,423	15,951	28,700	32,607
Ameristar Council Bluffs	11,895	11,482	23,824	24,207
Ameristar Vicksburg	8,931	8,493	19,017	19,274
Ameristar Black Hawk	9,155	1,996	16,828	5,871
Jackpot Properties	3,451	4,032	6,437	7,301
Corporate and other	(12,964)	(13,954)	(29,581)	(26,401)
Consolidated operating (loss) income	$ (5,998)	$ 55,578	$ 46,753	$ 124,879
Operating Income (Loss) Margins(1):				
Ameristar St. Charles	21.0%	22.5%	23.3%	25.5%
Ameristar East Chicago	-107.0%	16.1%	-46.7%	17.3%
Ameristar Kansas City	26.0%	27.2%	26.1%	27.4%
Ameristar Council Bluffs	30.9%	28.7%	30.8%	29.4%

Ameristar Vicksburg	30.3%	27.4%	31.6%	30.0%
Ameristar Black Hawk	24.4%	9.7%	22.6%	14.3%
Jackpot Properties	21.1%	24.0%	20.4%	22.9%
Consolidated operating (loss) income margin	-2.0%	18.0%	7.8%	20.0%

(1) Operating income (loss) margin is operating income (loss) as a percentage of net revenues.

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The following table presents detail of our net revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands, Unaudited)			
Casino Revenues:				
Slots	$ 277,267	$ 276,939	$ 557,162	$ 564,247
Table games	32,836	34,995	63,654	66,747
Other	3,017	3,592	6,844	7,410
Casino revenues	313,120	315,526	627,660	638,404
Non-Casino Revenues:				
Food and beverage	32,674	34,808	65,935	72,773
Rooms	20,245	15,810	39,632	30,486
Other	8,453	8,615	16,182	16,814
Non-casino revenues	61,372	59,233	121,749	120,073
Less: Promotional Allowances	(81,488)	(65,857)	(153,786)	(133,737)
Total Net Revenues	$ 293,004	$ 308,902	$ 595,623	$ 624,740

Net Revenues

Consolidated net revenues for the quarter ended June 30, 2010 decreased $15.9 million, or 5.1%, from the second quarter of 2009. The decrease in consolidated net revenues was primarily attributable to the weak economy, the bridge closure in East Chicago and increased competition that opened in the first quarter of 2010 in our St. Charles market. Second quarter 2010 net revenues declined on a year-over-year basis at six of our seven gaming locations while Ameristar Black Hawk s net revenues increased by $16.9 million, or 81.7%, when compared to second quarter 2009. Ameristar Black Hawk s net revenue increase is due to the opening of the new hotel on September 29, 2009 and the implementation of the beneficial regulatory reform on July 2, 2009.

During the three months ended June 30, 2010, consolidated promotional allowances increased $15.6 million (23.7%) from the corresponding 2009 period. The increase in promotional allowances was primarily the result of additional promotional spending related to the new hotel in Black Hawk and our efforts to attract guests to our East Chicago property following the bridge closure.

For the six months ended June 30, 2010, consolidated net revenues decreased $29.1 million, or 4.7%, from the corresponding 2009 period. During the first six months of 2010, net revenues declined from the corresponding 2009 period by 21.4% at Ameristar East Chicago, 10.2% at Ameristar St. Charles, 7.4% at Ameristar Kansas City, 6.2% at Ameristar Vicksburg, 5.9% at Ameristar Council Bluffs and 1.2% at our Jackpot properties. We believe the weak economic conditions, the bridge closure in East Chicago, the increased competition in our St. Charles market, unusually low table games hold percentages and inclement weather conditions adversely impacted financial results throughout the first half of 2010. The decline in net revenues at our properties was partially mitigated by the performance of Ameristar Black Hawk. Our Black Hawk property s net revenues increased by $33.4 million, or 81.4%, for the first six months of 2010 when compared to the corresponding 2009 period. The increase is attributable to the opening of the new hotel and implementation of the beneficial regulatory reform as noted above.

For the six months ended June 30, 2010, consolidated promotional allowances increased 15.0% from the same 2009 period as a result of the factors mentioned above.

Operating Income (Loss)

In the second quarter of 2010, consolidated operating income decreased $61.6 million, or 110.8%, from the second quarter of 2009, primarily as a result of the non-cash impairment charge of $56.0 million recorded in the second quarter of 2010 that eliminates the remaining net book value of goodwill associated with the acquisition of the East Chicago property and reduces the carrying value of the property s gaming license to $12.6 million. Ameristar St. Charles operating income decreased by $2.9 million, or 17.5%, when compared to second quarter 2009. This is mainly the result of the new competitor entering the St. Charles market in the first quarter of 2010. The improved performance of Ameristar Black Hawk tempered the year-over-year decline in the second quarter 2010 consolidated operating income. Ameristar Black Hawk s operating income increased by $7.2 million, or 358.7%, when compared to second quarter 2009 due to the benefit of the new hotel and regulatory reform described above. Also, during the second quarter of 2010, operating income increased from the corresponding 2009 period by 5.2% at Ameristar Vicksburg and 3.6% at Ameristar Council Bluffs, indicating these properties are continuing to operate efficiently despite slight declines in net revenues.

For the three months ended June 30, 2010, corporate expense declined $1.0 million, or 7.1%, due mostly to a decrease in benefits expense in the second quarter of 2010.

For the six months ended June 30, 2010, our operating income was $46.8 million, compared to $124.9 million for the corresponding 2009 period. The decrease is primarily attributable to the $56.0 million non-cash impairment charge recorded in the second quarter of 2010 and the new competition entering the St. Charles market. Ameristar Black Hawk s operating income increased by $11.0 million, or 186.6%, due to the factors mentioned above.

Interest Expense

The following table summarizes information related to interest on our long-term debt:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in Thousands, Unaudited)			
Interest cost	$ 34,216	$ 27,968	$ 68,929	$ 47,105
Less: Capitalized interest	(157)	(2,366)	(430)	(4,588)
Interest expense, net	$ 34,059	$ 25,602	$ 68,499	$ 42,517
Cash paid for interest, net of amounts capitalized	$ 46,703	$ 20,437	$ 63,750	$ 37,707
Weighted-average total debt outstanding	$ 1,643,520	$ 1,662,726	$ 1,665,856	$ 1,665,093
Weighted-average interest rate	8.2%	5.4%	8.2%	5.1%

For the quarter ended June 30, 2010, consolidated interest expense, net of amounts capitalized, increased $8.5 million (33.0%) from the 2009 second quarter. Year to date, consolidated interest expense, net of amounts capitalized, increased $26.0 million (61.1%) from the first six months of 2009. The increase is due primarily to higher interest rate add-ons resulting from the senior credit facility amendment, increased interest expense from the issuance of the senior unsecured notes and the incremental interest incurred on the portion of the revolving

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credit facility that was extended. Additionally, since we have opened the Black Hawk hotel, we no longer capitalize interest on the associated debt, which has caused our net interest expense to rise relative to prior periods.

Income Taxes

Our effective income tax rate was 38.8% for the quarter ended June 30, 2010, compared to 44.9% for the corresponding 2009 period. For the six months ended June 30, 2010 and 2009, the effective income tax rates were 34.9% and 43.4%, respectively. Excluding the impact of the intangible asset impairment at Ameristar East Chicago, the effective tax rate for the six months ended June 30, 2010 would have been 44.4%.

Net Income (Loss)

For the three months ended June 30, 2010, we recognized a consolidated net loss of $24.9 million, compared to net income of $14.3 million for the quarter ended June 30, 2009. Diluted loss per share was $0.43 in the quarter ended June 30, 2010, compared to diluted earnings per share of $0.25 in the corresponding prior-year quarter. For the six months ended June 30, 2010 and 2009, we reported a net loss of $14.2 million and net income of $44.2 million, respectively. The decrease is primarily due to the $56.0 million East Chicago impairment charge. Diluted loss per share was $0.25 for the first six months of 2010, compared to diluted earnings per share of $0.76 in the corresponding prior-year period. The impairment charge adversely affected diluted earnings per share by $0.56 for the six months ended June 30, 2010.

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Liquidity and Capital Resources

Cash Flows Summary

Our cash flows consisted of the following:

	Six Months Ended June 30, 2010	2009
	(In Thousands, Unaudited)	
Net cash provided by operating activities	$ 107,301	$ 126,204
Cash flows from investing activities:		
Capital expenditures	(24,532)	(77,384)
Decrease in construction contracts payable	(3,098)	(15,229)
Proceeds from sale of assets	101	428
Increase in deposits and other non-current assets	(3,662)	(4,219)
Net cash used in investing activities	(31,191)	(96,404)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt and other borrowings	12,000	659,485
Principal payments of debt	(76,194)	(642,344)
Debt issuance and amendment costs	(131)	(22,484)
Cash dividends paid	(12,157)	(6,038)
Proceeds from stock option exercises	1,940	1,897
Purchases of treasury stock	(155)	(144)
Excess tax benefit from stock option exercises		132
Net cash used in financing activities	(74,697)	(9,496)
Net increase in cash and cash equivalents	$ 1,413	$ 20,304

For the six months ended June 30, 2010, net cash provided by operating activities decreased $18.9 million from 2009, mostly as a result of changes in several of our working capital assets and liabilities in 2010.

Capital expenditures during the first half of 2010 included minor construction projects, slot machine purchases and the acquisition of long-lived assets relating to various capital maintenance projects at all of our properties.

Capital expenditures during the first half of 2009 were primarily related to the hotel project at Ameristar Black Hawk that totaled $55.9 million. Other capital expenditures during the first half of 2009 included slot machine purchases and the acquisition of long-lived assets relating to various capital maintenance projects at all of our properties.

During the first half of 2010, our Board of Directors declared two cash dividends of $0.105 per share, which were paid on March 15, 2010 and June 25, 2010. No cash dividend was paid in the first quarter of 2009 due to the temporary suspension of dividend payments following the third quarter of 2008. In April 2009, our Board of Directors reinstituted a cash dividend of $0.105 per share that was paid in the second quarter of 2009.

During the first half of 2010, net debt repayments totaled $64.2 million, including $62.0 million of repayments of a portion of the principal balance outstanding under the revolving credit facility. After taking into consideration the repayments, we have $118.6 million due in November 2010, with approximately $122 million available for borrowing under the extended portion of the revolving credit facility. We intend to repay all 2010

debt maturities with cash from operations and availability under the extended portion of the revolving credit facility. At June 30, 2010, our leverage and senior leverage ratios (each as defined in the senior credit facility) were required to be no more than 6.00:1 and 5.50:1, respectively. As of that date, our leverage ratio and senior leverage ratio were each 4.95:1.

All mandatory principal repayments have been made through June 30, 2010. As of June 30, 2010, the amount of the revolving loan facility available for borrowing was $152.9 million, after giving effect to $4.1 million of outstanding letters of credit. In July 2010, we made an additional repayment of $16.0 million of the principal balance outstanding under the revolving credit facility.

In connection with the issuance of the senior unsecured notes and the senior credit facility amendment, we paid one-time fees and expenses totaling approximately $22.5 million during the first six months of 2009, most of which was capitalized and will be amortized over the respective remaining terms of the senior credit facility. During the second quarter of 2009, deferred debt issuance costs totaling approximately $5.2 million were expensed as a result of the early retirement of a portion of the outstanding revolving credit facility.

Our interest expense has increased significantly as a result of the senior credit facility amendment, senior notes issuance and extension of our revolving loan facility that took place in 2009. For the first half of 2010, consolidated net interest expense increased by $26.0 million compared to same period of the prior year. Additionally, capitalized interest decreased from $4.6 million for the first half of 2009 to $0.4 million in the 2010 first half, due to the completion of the Ameristar Black Hawk hotel.

The credit facility accrues interest based on the applicable margin plus LIBOR, or the base rate, as defined in the credit facility agreement. Our interest rate swap agreements, which effectively fixed the rate of interest payable under the credit facility, expired on July 19, 2010. We anticipate our interest expense to decline due to the termination of these agreements since the rates we paid under the swap agreements were substantially greater than the current floating rate under the credit facility, the remaining term of the credit facility is relatively short and the LIBOR and base rates used in calculating the credit facility interest rate are expected to remain at low levels for the foreseeable future.

In addition to the availability under the senior credit facility, we had $97.9 million of cash and cash equivalents at June 30, 2010, approximately $70.0 million of which were required for daily operations.

Historically, we have funded our daily operations through net cash provided by operating activities and our significant capital expenditures primarily through operating cash flows, bank debt and other debt financing. If our existing sources of cash are insufficient to meet our operations and liquidity requirements, we will be required to seek additional financing that would likely be more expensive than our senior credit facility and/or scale back our capital plans, reduce other expenditures or reduce or discontinue the payment of dividends in the future. Any loss from service of our properties for any reason could materially adversely affect us, including our ability to fund daily operations and to satisfy debt covenants.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission Regulation S-K.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the estimated useful lives assigned to our assets, asset impairment, health benefit reserves, workers compensation and general liability reserves, purchase price allocations made in connection with acquisitions, the determination of bad debt reserves and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based in part on our historical experience, terms of existing contracts, observance of trends in the gaming industry and information obtained from independent valuation experts or other outside sources. We cannot assure you that our actual results will conform to our estimates. For additional information on critical accounting policies and estimates, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Forward-Looking Statements

This Quarterly Report contains certain forward-looking statements, including the plans and objectives of management for our business, operations and financial performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that, should or words of similar meaning, with reference to us management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including but not limited to uncertainties concerning operating cash flow in future periods, our borrowing capacity under the senior credit facility or any replacement financing, our properties future operating performance, our ability to undertake and complete capital expenditure projects in accordance with established budgets and schedules, changes in competitive conditions, regulatory restrictions and changes in regulation or legislation (including gaming tax laws) that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. In addition to the other risks and uncertainties mentioned in connection with certain forward-looking statements throughout this Quarterly Report, attention is directed to Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009 for a discussion of the factors, risks and uncertainties that could affect our future results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our senior credit facility. Outstanding amounts borrowed under our senior credit facility bear interest at a rate equal to LIBOR (in the case of Eurodollar loans) or the prime interest rate (in the case of base rate loans), plus an applicable margin, or add-on. As of June 30, 2010, we had $975.0 million outstanding under our senior credit facility, bearing interest at variable rates indexed to three-month LIBOR. Since substantially all of this debt was hedged pursuant to interest rate swap agreements (as described in further detail below) and our other debt consists of the Notes that bear interest at a fixed rate, a hypothetical 1% interest rate increase at that date would have no impact on our pre-tax earnings.

At June 30, 2010, we had in effect two interest rate swap agreements, both of which terminated on July 19, 2010. (See Note 7 Derivative instruments and hedging activities of Notes to Consolidated Financial Statements for more discussion of the interest rate swaps.) These swaps effectively fixed three-month LIBOR on a $963.0 million notional amount at a weighted-average rate of 3.09%. At June 30, 2010, three-month LIBOR was approximately 0.53%. Therefore, the expiration of these swaps (assuming three-month LIBOR remains constant at its June 30, 2010 level) would result in an annual decrease in interest expense (and an increase in pre-tax earnings) of $24.6 million.

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As a result of the expiration of these swaps on July 19, 2010, we are exposed to interest rate risk such that an increase, after such date, in LIBOR of 0.5%, 1.0% and 1.5% would result in an increase in annualized interest expense under our senior credit facility (and a decrease in pre-tax earnings) of approximately $4.9 million, $9.8 million and $14.6 million, respectively. However, the net effect of the expiration of the swaps, together with an increase in LIBOR of 0.5%, 1.0% and 1.5% from its June 30, 2010 level immediately after the expiration of the swaps, would be an annual decrease in interest expense (and increase in pre-tax earnings) of $19.8 million, $14.9 million and $10.0 million, respectively.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements or other identified risks. To accomplish this objective, we have used interest rate swaps as part of our cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. We do not use derivatives for trading or speculative purposes and do not have any derivatives that are not designated as hedges. We may enter into additional swap transactions or other interest rate protection agreements from time to time in the future. However, the May 2009 refinancing of a substantial portion of our variable-rate debt with the fixed-rate senior unsecured notes reduces our exposure to interest rate risk and, accordingly, we have determined not to renew the use of interest rate swaps in the near term following their expiration on July 19, 2010.

Should we elect to use derivative instruments to hedge exposure to changes in interest rates in the future, we again would be exposed to the potential failure of our counterparties to perform under the terms of the agreements. We would minimize this risk by entering into interest rate swap agreements with highly rated commercial banks.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company s management, including our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by this Quarterly Report.

(b) Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company s management, including our Chief Executive Officer and our Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the second fiscal quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the second fiscal quarter of 2010.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

We incorporate by reference the risk factors discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009.

Adverse weather conditions or natural disasters in the areas in which we operate, or other conditions that restrict access to our properties, could have an adverse effect on our results of operations and financial condition.

In July 2010, the Missouri Department of Transportation indicated that it expects to temporarily close for major maintenance one span of a bridge over which Interstate 70 crosses the Missouri River near Ameristar St. Charles. The bridge is a significant (though not exclusive) access route to our property from St. Louis County. The closure reportedly could last up to a year and would mean that both directions of traffic would share one span, increasing congestion and potentially necessitating ingress and egress ramp restrictions. The project is expected to start between the end of 2011 and the end of 2013. We are monitoring the plans, but do not yet have enough information to forecast the closure s impact on access for our guests, the property s business levels or its operating results.

Item 6. Exhibits

Exhibit Number	Description of Exhibit	Method of Filing
31.1	Certification of Gordon R. Kanofsky, Chief Executive Officer and Vice Chairman, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.
31.2	Certification of Thomas M. Steinbauer, Senior Vice President of Finance, Chief Financial Officer and Treasurer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERISTAR CASINOS, INC.

Registrant

Date: August 9, 2010

By: /s/ Thomas M. Steinbauer
Thomas M. Steinbauer
Senior Vice President of Finance, Chief Financial Officer and Treasurer