

AMERISTAR CASINOS INC

Form 10-K

March 16, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2005**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 0-22494**

**AMERISTAR CASINOS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

State or Other Jurisdiction of  
Incorporation or Organization

**88-0304799**

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

**3773 Howard Hughes Parkway**  
**Suite 490 South**

**Las Vegas, Nevada 89109**

(Address of Principal Executive Offices)

Registrant's Telephone Number, including area code: **(702) 567-7000**

Securities registered pursuant to Section 12(b) of the Act:

**None**

(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$.01 par value**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-Accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently-completed second fiscal quarter: approximately

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\$647,821,744, based on the last reported sale price of the registrant's Common Stock on the Nasdaq National Market on June 30, 2005.

As of March 1, 2006, 56,174,381 shares of Common Stock of the registrant were outstanding.

Portions of the registrant's definitive Proxy Statement for its June 9, 2006 Annual Meeting of Stockholders (which has not been filed as of the date of this filing) are incorporated by reference into Part III.

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*Unless the context indicates otherwise, all references in this Report to Ameristar or ACI refer to Ameristar Casinos, Inc. and all references to the Company, we, our, ours or us refer to Ameristar and its consolidated subsidiaries, collectively. This Report contains certain forward-looking statements, including management's plans and objectives 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 or words of similar meaning, with reference to us or our management. Similarly, statements that describe our future plans, objectives, strategies, financial results, financial position, operational expectations 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. Accordingly, actual results could differ materially from those contemplated by any forward-looking statements. In addition to the other cautionary statements relating to certain forward-looking statements throughout this Report, attention is directed to Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of some of the factors, risks and uncertainties that could materially affect the outcome of future results contemplated by forward-looking statements.*

*You should also be aware that while we communicate from time to time with securities analysts, we do not disclose to them any material non-public information, internal forecasts or other confidential business information. Therefore, you should not assume that we agree with any statement or report issued by any analyst, irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain projections, forecasts or opinions, those reports are not our responsibility.*

**PART I**

**Item 1. Business**

**Introduction**

We are a leading developer, owner and operator of casinos and related entertainment facilities in local and regional markets. Our seven properties in six markets exemplify the highest quality in design and construction and offer outstanding dining, lodging and entertainment options along with the most current gaming technology. Our strategy focuses on providing a dynamic total casino-entertainment experience and achieving a market-leading position in each of our markets.

Our casinos include the most spacious floors and typically have the greatest number of games in our markets. Our properties emphasize slot play and feature state-of-the-art slot machines, virtually all of which incorporate convenient ticket-in, ticket-out technology, and the newest multi-coin nickel and penny denomination games. We also offer a wide range of popular table games, including blackjack, craps and roulette, and live poker in the majority of our markets. We generally emphasize competitive minimum and maximum betting limits based on each market. Our gaming revenues are derived, and we expect them to continue to be derived, from a broad base of customers, and we do not depend upon high-stakes players. We extend credit to our Mississippi and Nevada gaming customers only in limited circumstances and limited amounts on a short-term basis and in accordance with the credit restrictions imposed by gaming regulatory authorities. The issuance of casino credit is prohibited in Missouri, Iowa and Colorado.

We offer a greater variety of dining choices than the other casinos in our markets. Our signature restaurant concepts include warm and intimate steakhouses, elaborate buffets with interactive display cooking and 24-hour casual dining restaurants. In addition, our dynamic sports bars feature the most

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advanced audio-visual technology in their markets. The private Star Clubs offer our select Star Awards members an exclusive and comfortable place to relax at all Ameristar-branded properties.

Our total entertainment strategy includes a wide range of entertainment, showcasing live local, regional and national talent. Our larger venues feature popular headliners in music and comedy, as well as professional boxing, while our highly themed Bottleneck Blues Bars and other showrooms set the stage for national and regional bands. Cabaret stages energize each of our casino floors with live entertainment.

The following table presents selected statistical and other information concerning our properties as of March 10, 2006.

	<b>Ameristar St. Charles</b>	<b>Ameristar Kansas City</b>	<b>Ameristar Council Bluffs</b>	<b>Ameristar Vicksburg</b>	<b>Mountain High Black Hawk<sup>(1)</sup></b>	<b>The Jackpot Properties<sup>(2)</sup></b>
Opening Year	1994	1997	1996	1994	2001	1956
Acquisition Year	2000	2000			2004	
Casino Square Footage (approx.)	130,000 <sup>(3)</sup>	140,000	38,500 <sup>(3)</sup>	44,500 <sup>(3)</sup>	67,000	29,000
Slot Machines (approx.)	3,244	3,073	1,651	1,502	1,456	1,009
Table Games	90 <sup>(4)</sup>	99 <sup>(4)</sup>	36	36	26 <sup>(4)</sup>	36 <sup>(4)</sup>
Hotel Rooms		184	444 <sup>(5)</sup>	149		416
Restaurants/Bars	7/6	11/9 <sup>(6)</sup>	4/4	3/3	3/3	5/4
Restaurant/Bar Seating Capacity	1,613/166	1,910/507 <sup>(6)</sup>	1,030/61	823/32	428/112	534/126
Guest Parking Spaces (approx.)	4,000	7,150	3,000	1,700	1,550	1,130
Other Amenities	300-Seat VIP Players Club; Gift Shop; Amusement Arcade	1,400-Seat Entertainment Facility; 18-Screen Movie Theater <sup>(7)</sup> ; Gift Shop; Amusement Arcade <sup>(7)</sup> ; 85-seat Star Club; Kids Quest Children's Activity Center <sup>(7)</sup>	Meeting Space; Indoor Swimming Pool; Exercise Facility; Gift Shop; Amusement Arcade; 75-seat VIP Players Club; Kids Quest Children's Activity Center <sup>(7)</sup>	Swimming Pool; Meeting Space; Gift Shop; Service Station; Convenience Store; Subway Franchise	Starbucks Coffee Bar; Gift Shop	3,550-Seat Outdoor Entertainment Facility; 356-Seat Showroom; Sports Book; Meeting Space; RV Park; Swimming Pool; Gift Shop; General Store; Service Station; Amusement Arcade; Styling Salon; Tennis Courts

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- (1) We acquired Mountain High on December 21, 2004. The property is currently undergoing a major expansion and renovation. To date, the various capital improvement projects have resulted in an increase in the gaming space, additional slot machines and table games, two new bars and increased parking capacity. For further discussion of the planned capital improvement projects at Mountain High, refer to Item 1. Business *Mountain High*.
- (2) Includes the operations of Cactus Petes Resort Casino and The Horseshu Hotel & Casino.
- (3) The Ameristar St. Charles casino increased to 130,000 square feet of gaming space on August 6, 2002 upon the opening of a completely new casino-entertainment facility. Expansions of the casinos at Ameristar Council Bluffs and Ameristar Vicksburg opened in November 1999 and December 1999, respectively.

- (4) Includes 19 poker tables at Ameristar St. Charles, 15 poker tables at Ameristar Kansas City, 14 poker tables at Mountain High and 6 poker tables at the Jackpot Properties.
- (5) Includes 284 rooms operated by affiliates of Kinseth Hospitality Corporation and located on land owned by us and leased to affiliates of Kinseth.
- (6) Includes a 52-seat food court and Arthur Bryant's Barbeque restaurant leased to, and operated by, third parties.
- (7) Leased to and operated by a third party.

**Ameristar St. Charles.** The 74,000 square-foot porte-cochere at Ameristar St. Charles provides a stunning entry to this expansive facility. Once inside, a dramatic fountain welcomes guests to a historically-themed streetscape that opens onto a complete casino entertainment experience.

The 130,000 square-foot casino floor ranks Ameristar St. Charles among the 15 largest state-licensed casinos in the U.S. The two-level gaming area feels spacious and open; it accommodates 3,244 slot and video poker machines and 90 table games, including a 19-table poker room.

Seven restaurants offer a range of choices, such as the upscale 47 Port Street Grill steakhouse with exhibition cooking, chef's tables and a private dining room; the chic King Cat Club martini bar; the Landmark Buffet with its multiple serving stations and intimate dining rooms named for local historic sites; and the Southern front-porch inspired Pearl's Oyster Bar. The 24-hour Falcon Diner recreates the American diner with comfortable booths, a soda fountain and Art Deco architecture. The Diner is complemented by a gourmet pastry and coffee bar. The Bottleneck Blues Bar features Southern cuisine as well as live headline entertainment, set off by eclectic Delta blues club decor. Amerisports Bar & Grill boasts a 34-foot-long video wall and two high-tech, giant video screens, which complement the state-of-the-art audio-video system that includes booths customized with personal screens and speakers.

Ameristar St. Charles won 13 Best of Casino Player Awards and seven Best of Midwest Gaming Awards in 2005.

We have recently commenced the construction of a 400-room, all-suite hotel, an indoor/outdoor swimming pool, a 7,000 square-foot full-service spa, 20,000 square feet of new meeting and conference facilities and an additional 2,000-space parking garage at our St. Charles property. The total cost of these projects is expected to be approximately \$240 million, with the completion dates projected to be the second quarter of 2006 for the conference



facilities, the fourth quarter of 2006 for the initial 1,400 spaces of the parking garage and the fourth quarter of 2007 for the hotel and the remainder of the garage.

The property is located immediately north of the Interstate 70 bridge over the Missouri River in the St. Louis metropolitan area, strategically situated to attract patrons from the St. Charles and greater St. Louis area, as well as tourists from outside the region. The property is also in close proximity to the new St. Charles convention facility. Interstate 70 is a 10-lane, east-west freeway offering easy accessibility to, and direct visibility of, the Ameristar St. Charles site.

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**Ameristar Kansas City.** Our largest property, Ameristar Kansas City, ranks among the 10 largest state-licensed casino floors in the U.S. The 140,000 square-foot casino floor offers a spacious layout and flow, along with open visibility from the streetscape. Further, the casino floor offers a high-limit area and the largest poker room in the Midwest. The casino features 3,073 slot and video poker machines and 99 table games, including a 15-table poker room.

Dining at Ameristar Kansas City reflects our strategy to offer more choices: guests can select from 11 restaurants and nine bars/lounges. The Great Plains Cattle Co. has a unique Kansas City-inspired atmosphere. Bugatti's Little Italy Café is recognized as a Don't Miss Dining Venue in the *Zagat Survey*; it was recently completely remodeled and includes a renovated patio dining area. The 24-hour Falcon Diner mirrors our Ameristar St. Charles diner and serves great American favorites and desserts. At the Horizons Buffet, guests experience eight stations, including American, Italian and Mexican cuisine. The Amerisports Brew Pub features state-of-the-art video and audio technology on 41 screens. The Brew Pub also features an exhibition brewery where customers can observe the production of Ameristar's award-winning private label beers and choose from a variety of menu items. Casual dining options are available at an open-seating food court, where we lease space to three national brands: Burger King, Sbarro Pizza, and Cold Stone Creamery.

The property also features a wide scope of entertainment options. The Star Pavilion seats approximately 1,400 guests and showcases headline entertainers and professional boxing. The distinctive Depot #9 Stage and Saloon, near the porte-cochere entrance to the property and connected to a historic Pullman railroad car, showcases local and regional bands. Finally, the casino cabaret provides nightly entertainment on the gaming floor.

A 184-room hotel, as well as a state-of-the-art 18-screen movie theater complex, gift shop, video game arcade and Kids Quest activity center, complete the amenities at Ameristar Kansas City. All are easily accessible via ample surface parking or a climate-controlled walkway from a 2,650-space parking garage. A complete renovation of all hotel rooms at our Kansas City property was completed in the third quarter of 2005. The new rooms have a rich color scheme combining espresso, cream and neutral tones. They feature distinctive custom-designed carpeting, furniture, and light fixtures; upscale European-style bedding; and plasma screen televisions. Finishes in the bathrooms include rich granite counter tops, plush oversized cotton bath sheets and luxury bath amenities.

The property was awarded the 2003, 2004 and 2005 Gold Award for Best Casino in *Ingram's Best of Business Edition* and Best Casino in the 2005 *Kansas City Magazine's* Best of Kansas City readers poll. *Ingram's* also awarded Ameristar Kansas City the 2004 Future of Business award for its investment in the community. Ameristar Kansas City received the 2005 Missouri Restaurant Association's Good Neighbor Award for outstanding philanthropy. Additionally, the *Midwest Gaming and Travel Magazine* readers poll voted Ameristar Kansas City Favorite Casino Hotel in Missouri for the past three years.

Located seven miles from downtown Kansas City, Missouri, Ameristar Kansas City is specifically designed to attract customers from the greater Kansas City area, as well as regional overnight guests. The property is in close proximity to the Interstate 435 bridge. Interstate 435 is a six-lane, north-south expressway offering easy access to, and direct visibility of, Ameristar Kansas City.

**Ameristar Council Bluffs.** Ameristar Council Bluffs features 38,500 square feet of gaming space with 1,651 slot machines and 36 table games.

The Ameristar Hotel and Main Street Pavilion comprise the property's landside facilities. A recent \$7 million hotel transformation has created an upscale residential ambiance in each of the property's 160 rooms. The new rooms including eight luxury suites and 32 upscale King Whirlpool rooms mirror the newly renovated rooms at our Kansas City property. Ameristar Council Bluffs has earned the American Automobile Association Four Diamond designation for the past eight years.

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On land, guests also find the exclusive Star Club players lounge; the upscale Waterfront Grill steakhouse with its open fireplace and intimate setting; the Heritage Buffet with its multiple cooking stations; and the Prairie Mill Cafe & Bakery, a 24-hour specialty restaurant and fresh bakery and coffee bar.

The Waterfront Grill has been named one of the Omaha area's top-10 restaurants by the *Omaha World-Herald*. The property won 22 Best of Casino Player Awards, as well as 15 Best of Midwest Gaming Awards, in 2005.

The new \$3.3 million Heritage Buffet replaced the Veranda Buffet. It features a completely remodeled dining room with a more intimate atmosphere, accented by wooden plank floors, knotty pine wood siding, brick walls and high quality materials such as leather seating and granite countertops. Historic Council Bluffs photos and a hand-picked selection of local Midwestern accessories and memorabilia give the room a familiar hometown touch. In the patio area, custom wooden dining chairs, a beautifully detailed wooden trellis and quaint planter boxes create a warm, comfortable atmosphere. The venue seats 348 guests, and includes a well-appointed private dining room with audio/video capabilities.

The Amerisports Bar and Cabaret offers dining and live entertainment, as well as 42 television screens, the largest of which is a 9 by 12 mega-screen. The property also has a casino cabaret featuring nightly entertainment. Other amenities include a Kids Quest activity center, fitness facility, indoor pool, gift shop, an ice cream and sweet shop and convention space.

We are currently considering several options to expand the gaming space, restaurants and other amenities at the Council Bluffs property.

Located across the Missouri River from Omaha, the property is adjacent to the Nebraska Avenue exit on Interstate 29, immediately north of the junction of Interstate 29 and Interstate 80.

**Ameristar Vicksburg.** Ameristar Vicksburg has been the long-time market leader, attributable to its superior location, premier product quality and outstanding dining and entertainment options.

The three-level dockside casino is significantly wider than other riverboat casinos in our market, providing a spacious feel. The casino features 44,500 square feet of gaming space, with 1,502 new-generation slot machines and 36 table games.

The Bottleneck Blues Bar, which is a Delta-style blues club with live entertainment and gaming, and the Casino Cabaret round out the property's entertainment offerings. Both venues feature at least two groups performing nightly.

Restaurants include the upscale Waterfront Grill that overlooks the Mississippi River, the Bottleneck Blues Bar Express Café, with regionally influenced express-service menu selections, and the 400-seat Heritage Buffet, which features seven specialty food stations along with private meeting facilities with audio/visual capabilities. An open floor plan with extensive use of booths creates a cozy, intimate dining area. As with its sister restaurants The Waterfront Grill and Bottleneck Blues Bar the Heritage Buffet's hallmark is lavish attention to detail. Rich appointment of millwork and quality materials such as real leather seating and granite countertops lend an upscale Craftsman-era ambiance to the room. Historic Vicksburg photos adorn the walls, adding a familiar hometown touch.

The 149-room hotel at Ameristar Vicksburg earned a Three Diamond rating from the American Automobile Association, and the property received the city's most Best of Casino Player Awards in 2005.

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We have commenced the first phase of our master expansion plan with the construction of a new 1,083-space parking garage, which is expected to be completed in the second quarter of 2007. In June 2006, we plan to commence an expansion of the casino vessel that will directly connect to the new parking garage. The expanded casino will allow for the addition of up to 800 slot machines. The expansion project will also include the addition of two new restaurants, a new Star Club for our VIP guests, a poker room, a retail shop and other amenities. This project is slated for a mid-year 2007 completion.

Ameristar Vicksburg is located one-quarter mile north of Interstate 20 in Vicksburg, Mississippi. The property is visible from the highway exit ramp and is the closest casino to I-20, a major east-west thoroughfare that connects Atlanta and Dallas. Ameristar Vicksburg caters primarily to guests from the Vicksburg and Jackson, Mississippi and Monroe, Louisiana areas. The nearby Vicksburg National Military Park attracts more than one million visitors annually.

**Mountain High.** We acquired Mountain High in Black Hawk, Colorado on December 21, 2004. It is one of the largest casinos in Colorado and currently offers approximately 67,000 square feet for gaming, with 1,456 slot machines and 26 table games, including 14 poker tables.

Other amenities at the property include an upscale steak and seafood restaurant, a seven-station buffet, a casino deli with a menu featuring grilled items and stone-fired pizza, a Merk & Tyler Gift Shop and a Starbucks Coffee Bar.

We intend to invest a total of approximately \$260 million in capital expenditures to improve the competitiveness of the property. The planned capital improvements include reconfiguring and expanding the gaming area, introducing cashless slot technology and other gaming equipment upgrades, constructing a 534-room AAA Four Diamond-quality hotel and additional covered parking, upgrading the food and beverage outlets and adding a casual dining restaurant. As of December 31, 2005, we had spent approximately \$57.2 million on these capital improvement projects.

To date, we have made significant progress toward the completion of our planned improvements, including the expansion of the parking garage, which nearly doubled the capacity to 1,550 parking spaces, that was completed in November 2005 and the remodeling of the casino and non-gaming venues on the first floor that was substantially completed in December 2005. In March 2006, we completed the second floor of the casino, which included an additional 700 slot machines. We intend to rebrand Mountain High under the Ameristar name on April 1, 2006. The construction of the hotel is planned to begin in the second quarter of 2006 and is expected to be completed in mid-year 2008.

By law, Colorado casinos may only offer slot machines, blackjack and poker and no single wager may exceed \$5.

Mountain High is located in the center of the Black Hawk gaming district, approximately 40 miles west of Denver, Colorado, and caters primarily to patrons from the Denver metropolitan area.

**The Jackpot Properties.** Cactus Petes Resort Casino and The Horseshu Hotel & Casino are both located in Jackpot, Nevada, just south of the Idaho border. The Jackpot properties have been operating since 1956, and embody our cornerstone values of superior product quality, premier amenities and exciting entertainment.

Together, the Jackpot properties feature approximately 29,000 square feet of gaming space with 1,009 slot machines and 36 table games, including 6 poker tables, as well as a sports book.

The properties resort amenities include 416 hotel rooms, with 30 deluxe hot-tub suites; an Olympic-sized pool and heated spa; a styling salon; lighted tennis courts; a recreational vehicle park; and access to

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a nearby 18-hole golf course. In addition, a general store and a service station serve guests and regional travelers. Dining selections include an extensive buffet, Plateau Steaks and Seafood, a 24-hour casual dining restaurant, and a Pizza Hut. Additionally, we opened a casual Mexican grill, Pancho Villa, at the Horseshu in March 2005. Cactus Petes Gala Showroom features nationally known entertainment.

Cactus Petes and The Horseshu have long held Four Diamond and Three Diamond ratings, respectively, from the American Automobile Association; Cactus Petes has been named Best Hotel/Resort in rural Nevada for eight consecutive years since 1998 by *Nevada Magazine*.

The properties are located on Nevada State Highway 93, a major regional north-south route, and serve customers primarily from Idaho, and secondarily from Oregon, Washington, Montana, northern California and the southwestern Canadian provinces.

### **Our Business Strategies**

Our key business strategies are to: (1) develop the highest quality facilities in our markets with a wide range of amenities; (2) lead our markets in slot technology; (3) emphasize branding and marketing; and (4) employ efficient, hands-on management. These strategies are designed to create a complete entertainment experience and provide courteous and efficient service that meets or exceeds our customers' expectations.

The core components of our business strategies are as follows:

#### ***High Quality Facilities; Diverse Range of Amenities***

We believe we have designed and built the highest quality state-of-the-art facilities in each of the markets in which we operate. Inherent in our project development process is the effective collaboration, coordination and cooperation of our operations and design/construction teams. As a result, our facilities are of superior quality and include cutting-edge technology, which provides our guests with an exciting and complete entertainment experience. We believe Mountain High will be of a comparable quality and design level as our other properties once we complete our planned capital improvements.

We feel that the number and diversity of our amenities is key to attracting customers and developing repeat business. We seek to broaden our appeal by offering more amenities than our competition. We believe that more choices attract more types of customers. Our properties offer restaurants ranging from casual to upscale, and customers can choose from entertainment options ranging from cabaret lounges and sports bars to outdoor amphitheaters and multipurpose entertainment pavilions. Some examples of our non-gaming amenities that have proven successful are our high-tech Amerisports Bars (Council Bluffs, St. Charles and Kansas City), our signature steakhouses (Company-wide), the Falcon Diner (St. Charles and Kansas City) and our unique Bottleneck Blues Bars (Vicksburg and St. Charles). In addition, our properties regularly feature nationally known entertainers, including Tony Bennett, Boys II Men, Bill Engvall, Merle Haggard, Heart, BB King, Martina McBride, Meatloaf, REO Speedwagon, Smokey Robinson, Keith Urban, Damon Wayans and ZZ Top.

#### ***Leading Our Markets in Slot Technology***

Slot machines are the core driver of our casino business. We believe that leading our markets in slot machine trends is essential to our success. We led our markets in the introduction of ticket-in, ticket-out technology and have fully implemented coinless slot machines at our Ameristar-branded properties. We were also the first operator in our markets to introduce a large supply of new-generation nickel and penny video reel slot machines. Although many of our competitors now offer these machines, we believe that we gained a significant competitive advantage by leading this trend. We also continue to focus on the

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most appropriate product mix. We continually analyze slot utilization and slot machine win per unit to determine the most profitable slot machine mix.

**Branding and Marketing**

Our branding and marketing efforts are designed to support each of our properties as the number one casino and entertainment destination in their respective markets. Our multi-tiered players clubs are designed to identify and reward guests based on their level of play. Our best players receive enhanced personalized service and additional benefits through our hosting and ambassador teams. We communicate our entertainment and promotional activities to our guests through targeted direct mail as well as traditional media channels (television, print, radio and outdoor advertising).

**Hands-on Management**

Since the inception of the Company, we have developed a number of best practice processes and strategies for our operations. We believe we have enhanced our revenues and minimized our costs by practicing a hands-on management approach at the property and corporate levels. To fully benefit from this management style, we also build into our processes a high level of collaboration and communication among our seven properties and corporate team. Working together permits us to continually refine these processes and at the same time more efficiently manage our business. We have centralized the strategic aspects of operations, marketing, food and beverage, hotel and gaming. In administration, we have centralized many aspects of purchasing, payroll, human resources, information technology and other departments. The centralization of these strategic functions allows our properties to focus on the tactical aspects of our business, including guest service, player development, team member relations, food quality, etc.

**Future Expansion**

We continually evaluate opportunities to expand our operations through a variety of means, including entering new North American or overseas markets created by the legalization or expansion of casino gaming, developing new casinos or buying existing casinos in established casino gaming markets and expanding through continued growth at our existing properties. Although our preference is to own and operate each of our gaming properties, we may also consider expansion opportunities involving management contracts or joint ventures.

We review on an ongoing basis the operating performance of each of our existing properties and the feasibility of enhancing their performance through targeted capital expenditure programs. In doing so, we assess the anticipated relative costs and benefits of the projects under consideration, the availability of cash flows and debt financing to fund capital expenditures and competitive and other relevant factors. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding planned internal capital improvement projects.

**Markets**

The following table presents a summary of the market characteristics and market performance of our Ameristar-branded properties as of December 31, 2005.

	<b>Ameristar St. Charles</b>	<b>Ameristar Kansas City</b>	<b>Ameristar Council Bluffs</b>	<b>Ameristar Vicksburg</b>
Adult population within 50 miles	1.9 million	1.5 million	700,000	400,000
Adult population within 100 miles	2.8 million	2.0 million	1.2 million	1.0 million
No. of market participants	5	4	3	4
	10			

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	<b>Ameristar St. Charles</b>	<b>Ameristar Kansas City</b>	<b>Ameristar Council Bluffs</b>	<b>Ameristar Vicksburg</b>
2005 annual market gaming revenue \$ in millions	\$ 959.6	\$ 688.6	\$ 434.0	\$ 273.1
2005 market growth rate	4.2%	1.7%	3.8%	10.5%
2005 market share	31.9%	36.7%	43.1%	46.7%
2004 market share	32.0%	35.1%	40.9%	45.4%
2005 market share rank	#1	#1	#1	#1

Jackpot, Nevada is just across the border from the State of Idaho. The primary market area for the Jackpot Properties is Twin Falls (located approximately 45 miles north of Jackpot) and Boise (located approximately 150 miles from Jackpot). The primary market area comprises approximately 600,000 adults. The balance of the Jackpot properties' customers comes primarily from the northwestern United States and southwestern Canada. As of December 31, 2005, the Jackpot properties had 63% of the slot machines and 71% of the table games in the Jackpot market.

The Black Hawk-Central City gaming market is located approximately 40 miles west of Denver, Colorado. In 2005, this market generated \$604.5 million in gaming revenues, accounting for 72% of the gaming revenues within the State of Colorado. Black Hawk, with 21 of the 27 casinos in the market, generated approximately 88% of the market's gaming revenues in 2005. The primary trading areas for the Black Hawk-Central City market are residents from Denver, Boulder, Golden and Fort Collins, Colorado, as well as Wyoming and western Nebraska. Approximately 2.0 million adults reside within 50 miles of Black Hawk and over 2.8 million adults reside within 100 miles.

**Competition*****St. Charles***

Ameristar St. Charles competes with four other gaming operations located in the metropolitan St. Louis area. Two of these competitors are located in the State of Illinois. Unlike the State of Missouri, Illinois does not impose a \$500 per person, per two-hour session buy-in limit, does not require a casino-issued identification card to enter a casino and allows credit play. However, Illinois casinos are limited in the number of gaming positions allowed and are subject to a higher rate of gaming taxes than Missouri casinos.

Although there were no major capital improvements or expansions in the St. Louis market in 2005, several announced capital projects related to casino entertainment facilities are expected to be completed within the next three years. Construction has commenced on a \$400 million casino entertainment complex at Laclede's Landing in downtown St. Louis, approximately 22 miles from Ameristar St. Charles. The new facility, which will incorporate a remodeled Embassy Suites hotel, is slated to open in late 2007 and will feature a mix of restaurants, conference space, and a 90,000 square-foot casino. The President Casino, also located in downtown St. Louis, is currently operating in bankruptcy and the fate of this operation remains unclear. The Laclede's Landing developer is also currently in the process of seeking the necessary zoning and permit approvals for a development project in Lemay, which is located in the southeastern portion of St. Louis County, approximately 30 miles from our St. Charles property. The Lemay project is expected to include a \$375 million hotel and casino entertainment complex and is currently slated for opening in mid-2008.

In East St. Louis, Illinois, a gaming operator has announced plans for a \$150 million casino barge project that is expected to upgrade the current facility in phases prior to the opening of the Laclede's Landing project. The initial phase is a \$50 million expansion project that will replace the existing 25,000 square-foot casino. The new casino will consist of 36,000 square feet of casino space and will be located several hundred feet away, which will likely minimize construction disruption. Phase one is expected to commence at the end of the first quarter of 2006 and be completed by June 2007. The second and third phases of the project will include additional restaurants and hotel rooms, a new entertainment facility and a parking garage. Estimated completion dates for the second and third phases have not been announced.





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The Alton Belle Casino in Alton, Illinois, across the Mississippi River and north of St. Louis, had a change in control in connection with the acquisition of its parent company by another gaming company in mid-2005. The acquiring company has not announced plans for any changes it may make at the Alton Belle.

The addition of two gaming licenses in the St. Louis market, as well as any replacement or upgrade to the President or Alton Belle casinos, would result in additional competition for Ameristar St. Charles. The State of Illinois has one dormant gaming license that it has announced it intends to reissue in the greater Chicago area. Accordingly, we do not anticipate any new competition in the Illinois portion of the St. Louis market.

***Kansas City***

Ameristar Kansas City competes with three other gaming operations located in and around Kansas City, Missouri. A competitor in Riverside, Missouri, located approximately 13 miles from Ameristar Kansas City, is currently constructing a hotel and replacing its parking garage. The project is slated for completion in the second quarter of 2007. In the fourth quarter of 2005, our primary competitor completed a \$107 million property renovation, which included the addition of 206 hotel rooms, several new restaurants, an expanded parking area, a nightclub and several new non-gaming amenities. The other competitor did not undertake any major capital improvements or expansions in 2005.

The Kansas City market is currently insulated from other casino gaming markets, with no competing markets within 50 miles. The diverse amenity base of the Kansas City area casinos should serve to mitigate impact upon outer market table game play to the Kansas City region. However, see Item 1A. Risk Factors for information concerning proposed legislation that would legalize casino gaming in or near Kansas City, Kansas, which is in close proximity to Ameristar Kansas City.

***Council Bluffs***

Ameristar Council Bluffs operates one of three gaming licenses issued for the Council Bluffs gaming market pursuant to an operating agreement with Iowa West Racing Association. The two other competitors are operated by a single company and consist of another riverboat casino and a pari-mutuel racetrack casino, which currently only offers slot machines. In 2004, the Iowa legislature enacted a bill which permits the operation of table games and video poker at pari-mutuel racetracks. The competing racetrack casino is developing an \$87 million expansion of its land-based facility, which will be rebranded and include 68,000 square feet of gaming space (inclusive of space for newly approved table games), a 1,200-space parking garage and several other non-gaming amenities. The project is scheduled for completion in March 2006. We anticipate that this will create increased competition for Ameristar Council Bluffs.

The Council Bluffs market is currently insulated from other casino gaming markets, with the nearest competing gaming jurisdiction located approximately 90 miles away. In 2004, the electorate of the State of Nebraska considered various proposals to legalize casino gaming. None of the referenda were approved, which approvals could have had a material impact on the Council Bluffs casino gaming market. In the future, the State of Nebraska may again consider legalization of casino gaming which, if passed, would likely result in increased competition for Ameristar Council Bluffs. See Item 1A. Risk Factors for further discussion of these matters.

***Vicksburg***

Ameristar Vicksburg competes with three other gaming operations located in Vicksburg. One competitor completed a \$5 million renovation of its buffet in mid-2005. Another competitor is currently undergoing an expansion project that will create additional restaurant space and is slated for completion

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in mid-2006. There were no major capital improvements or expansions by the other Vicksburg market competitor in 2005. Since the third quarter of 2005, the Vicksburg market has received increased patron visitation resulting from the destruction and subsequent closure of the majority of casinos in the Mississippi Gulf Coast region from Hurricane Katrina. This increase in visitation has diminished in the first quarter of 2006 following the reopening of three casinos in Biloxi, Mississippi, and we expect that it will further diminish as more Gulf Coast casinos reopen later this year.

In February 2006, one of our competitors in Vicksburg announced the sale of its property to a privately owned company. The sale is pending regulatory approval and is expected to be completed in the second or third quarter of 2006. The new owner has not yet disclosed its plans for the property.

Several potential gaming sites still exist in or near Vicksburg and from time to time potential competitors have proposed the development of additional casinos. In early 2005, the Mississippi Gaming Commission granted preliminary approval for the fifth and sixth casino licenses in the Vicksburg market. One developer has proposed building a \$200 million casino facility, which includes a 250-room hotel, parking garage and other non-gaming amenities. This project was originally planned to start construction at the beginning of 2006, but a recent announcement indicated the commencement of construction will be delayed to 2007. The other proposal calls for the construction of a \$40 million casino facility with limited amenities. To proceed, additional approvals are required from the Mississippi Gaming Commission. At this time, the earliest either of these projects could open would be late 2007 or early 2008. In addition, proposals have been made from time to time to develop additional Native American casinos in Louisiana and Mississippi, some of which could be competitive with the Vicksburg market if completed.

The Vicksburg market also faces regional competition from two casinos owned by a Native American tribe in Philadelphia, Mississippi, located about 70 miles east of Jackson and 115 miles east of Vicksburg. Vicksburg is also subject to competition from four casinos and one slots-only racetrack in Shreveport and Bossier City, Louisiana, located approximately 175 miles from Vicksburg.

***Black Hawk***

Mountain High competes with approximately 26 other gaming operations located in the Black Hawk-Central City gaming market in Colorado. Of the competing casinos, only five are considered large competitors, with over 20,000 square feet of gaming space. Mountain High has the largest gaming floor of any casino in the Black Hawk market. Mountain High's primary competitor is one of the first major casinos encountered when entering Black Hawk from Denver via Route 119. This competitor recently completed a \$94 million expansion of its property and the adjacent gaming establishment it purchased in 2003. The expansion of the combined properties increased the number of hotel rooms and parking capacity and connected the two properties via an enclosed skywalk. A partial expansion of the parking complex and gaming area was completed in the fourth quarter of 2004 with on-going construction throughout 2005. The remainder of the parking and hotel complex was completed in February 2006.

In 2005, the Black Hawk market was adversely affected by the closure of Route 119, a primary artery for drive-in traffic from the Denver metropolitan area, for three months due to rockslides. The road closure decreased overall visitation to the Black Hawk market and resulted in increased visitation to Central City, Colorado casinos due to easier access to this market off of Interstate 70.

The Black Hawk-Central City gaming market is currently insulated from other casino gaming markets, with no competing markets within 50 miles. However, there have been several proposals for the development of a Native American casino located in the Denver metropolitan area. Should a casino development in the Denver area occur, the Black Hawk-Central City market would face increased competition. See Item 1A. Risk Factors for more information.

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***Jackpot***

The Jackpot properties compete with four other hotels and motels (three of which also have casinos) in Jackpot. There were no major capital improvements or expansions in the Jackpot market in 2005. There has been one proposal from a private development company to construct a 200-room casino in Jackpot. It is unclear at this time whether the developer will obtain the necessary local permit approvals and secure financing for this project. We are not aware of any other expansion plans by existing or potential competitors in Jackpot in the near future. In the State of Idaho, casinos on Native American land operate video lottery terminals ( VLTs ), which are similar to slot machines. One casino near Pocatello has approximately 950 VLTs and is operated by the Shoshone-Bannock Tribes.

In November 2002, the Idaho electorate passed Proposition 1, which legalized specific ticket-pay gaming machines on Native American reservations in the state, along with a limited growth plan allowing an increase of 5% in machine count per year, not to exceed 25% over the next 10 years, with a subsequent renegotiation of compacts thereafter. A legal challenge to Proposition 1 has been filed and is currently pending. Litigation is also pending concerning the scope of gaming permitted under the compact between the State of Idaho and the Shoshone-Bannock Tribes.

In addition, casino gaming on Native American lands in both western Washington and northeastern Oregon has been in operation for several years and casinos also operate in Alberta, Canada.

***Other***

In addition to the competition that our properties face from other casinos in their geographic markets, we also compete, to a lesser extent, with casinos in other locations, including major tourist destinations such as Las Vegas, with gaming on cruise ships and with other forms of legalized gaming in the United States, including state-sponsored lotteries, racetracks, off-track wagering, Internet and other account wagering and card parlors.

**Employees and Labor Relations**

As of March 1, 2006, we employed approximately 7,460 full- and part-time employees. None of our employees is employed pursuant to collective bargaining or other union arrangements. We believe our employee relations are good.

**Incorporation**

Ameristar was incorporated in Nevada in 1993.

**Government Regulation**

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. We are required to obtain and maintain gaming licenses in each of the jurisdictions in which we conduct gaming. The limitation, conditioning or suspension of gaming licenses could (and the revocation or non-renewal of gaming licenses would) materially adversely affect our operations in that jurisdiction. In addition, changes in law that restrict or prohibit our gaming operations in any jurisdiction could have a material adverse effect on us.

***Missouri***

The ownership and operation of riverboat and dockside gaming facilities in Missouri are subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Missouri Gaming Commission. The Missouri Riverboat Gaming Act (the Missouri Act ) provides for the licensing and regulation of riverboat and dockside gaming operations on the Mississippi and Missouri

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Rivers in the State of Missouri and the licensing and regulation of persons who distribute gaming equipment and supplies to gaming licensees.

The Missouri Gaming Commission has discretion to approve gaming license applications for permanently moored ( dockside ) casinos, powered ( excursion ) riverboat casinos and barges and to determine the number, location and type of excursion gambling boats allowed each licensee. Due to safety concerns, all gaming vessels on the Missouri River are permitted to be moored in moats within 1,000 feet of the river. Gaming licenses are initially issued for two one-year periods and must be renewed every two years thereafter. The gaming licenses at Ameristar Kansas City and Ameristar St. Charles are next subject to renewal in December 2006. No gaming licensee may pledge or transfer in any way any license, or any interest in a license, issued by the Missouri Gaming Commission. As a result, the gaming licenses of our wholly owned Missouri subsidiaries were not pledged to secure our senior credit facilities.

The issuance, transfer and pledge of ownership interests in a gaming licensee are also subject to strict notice and approval requirements. Missouri Gaming Commission regulations prohibit a licensee from doing any of the following without at least 60 days prior notice to the Missouri Gaming Commission, and during such period, the Missouri Gaming Commission may disapprove the transaction or require the transaction be delayed pending further investigation:

any transfer or issuance of an ownership interest in a gaming licensee that is not a publicly held entity or a holding company that is not a publicly held entity, and

any pledge or grant of a security interest in an ownership interest in a gaming licensee that is not a publicly held entity or a holding company that is not a publicly held entity; provided that no ownership interest may be transferred in any way pursuant to any pledge or security interest without separate notice to the Missouri Gaming Commission at least 30 days prior to such transfer, which restriction must be specifically included in the pledge or grant of a security interest.

Under the Missouri Act, all members of our Board of Directors, certain members of our management and certain of our employees associated with our gaming business are required to obtain and maintain occupational licenses. Currently, all such persons required to obtain occupational licenses have obtained them. The Missouri Gaming Commission may deny an application for a license for any cause that it deems reasonable.

Substantially all loans, leases, sales of securities and similar financing transactions by a gaming licensee must be reported to and approved by the Missouri Gaming Commission. Missouri Gaming Commission regulations require a licensee to notify the Missouri Gaming Commission of its intention to consummate any of the following transactions at least 15 days prior to such consummation, and the Missouri Gaming Commission may reopen the licensing hearing prior to or following the consummation date to consider the effect of the transaction on the licensee's suitability:

any issuance of an ownership interest in a publicly held gaming licensee or a publicly held holding company, if such issuance would involve, directly or indirectly, an amount of ownership interest equaling 5% or greater of the ownership interest in the gaming licensee or holding company after the issuance is complete,

any private incurrence of debt equal to or exceeding \$1 million by a gaming licensee or holding company that is affiliated with the holder of a license,

any public issuance of debt by a gaming licensee or holding company that is affiliated with the holder of a license, and

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any significant related party transaction as defined in the regulations.

The Missouri Gaming Commission may waive or reduce the 15-day notice requirement.

The Missouri Act imposes operational requirements on riverboat operators, including a charge of \$2 per gaming customer per two-hour cruise that licensees must pay to the Missouri Gaming Commission, certain minimum payout requirements, a 20% tax on adjusted gross receipts, prohibitions against providing credit to gaming customers (except, subject to certain conditions, for the use of credit and debit cards and the cashing of checks) and a requirement that each licensee reimburse the Missouri Gaming Commission for all costs of any Missouri Gaming Commission staff necessary to protect the public on the licensee's riverboat. Licensees must also submit audited quarterly and annual financial reports to the Missouri Gaming Commission and pay the associated auditing fees. Other areas of operation which are subject to regulation under Missouri rules are the size, denomination and handling of chips and tokens, the surveillance methods and computer monitoring of electronic games, accounting and audit methods and procedures, and approval of an extensive internal control system. The Missouri rules also require that all of an operator's chips, tokens, dice, playing cards and electronic gaming devices must be acquired from suppliers licensed by the Missouri Gaming Commission, or another person or entity approved by the Missouri Gaming Commission.

The Missouri Act provides for a buy-in limit of \$500 per person per two-hour cruise. Although the Missouri Act provides no limit on the amount of riverboat space that may be used for gaming, the Missouri Gaming Commission can impose space limitations through the adoption of rules and regulations. Additionally, United States Coast Guard safety regulations could affect the amount of riverboat space that may be devoted to gaming. The Missouri Act also includes requirements as to the form of riverboats, which must resemble Missouri's riverboat history to the extent practicable and include certain non-gaming amenities. All licensees currently operating riverboat gaming operations in Missouri are authorized to conduct all or a portion of their operations on a dockside basis, and open and continuous boarding is permitted.

The Missouri Act requires each licensee to post a bond or other security to guarantee that the licensee complies with its statutory obligations. The Missouri Act also gives the Missouri Gaming Commission the authority to require gaming licensees to post a bond or other form of security to the State of Missouri to, among other things, guarantee the completion of an expansion of a gaming facility within a time period determined by the Missouri Gaming Commission.

To promote safety, the Missouri Gaming Commission has required that gaming entertainment barges obtain annual certification from the American Bureau of Shipping.

If the Missouri Gaming Commission decides that a gaming subsidiary violated a gaming law or regulation, the Missouri Gaming Commission could limit, condition, suspend or revoke the license of the gaming subsidiary. In addition, a gaming subsidiary, its parent company and the persons involved could be subject to substantial fines for each separate violation. Limitation, conditioning or suspension of any gaming license could (and revocation of any gaming license would) materially adversely affect Ameristar and our gaming subsidiaries' gaming operations.

The Missouri Gaming Commission regulates the issuance of excursion liquor licenses, which authorize the licensee to serve, offer for sale, or sell intoxicating liquor aboard any excursion gambling boat, or facility immediately adjacent to and contiguous with the excursion gambling boat, which is owned and operated by the licensee. An excursion liquor license is granted for a one-year term by the Missouri Gaming Commission and is renewable annually. The Commission can discipline an excursion liquor licensee for any violation of Missouri law or the Missouri Gaming Commission's rules. Licensees are responsible for the conduct of their business and for any act or conduct of any employee on the premises that is in violation of the Missouri Act or the rules of the Missouri Gaming Commission.

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Missouri Gaming Commission liquor control regulations also include prohibitions on certain intoxicating liquor promotions and a ban on fees accepted for advertising products. Only Class A licensees can obtain a liquor license from the Missouri Gaming Commission. Class A licenses are licenses granted by the Commission to allow the holder to conduct gambling games on an excursion gambling boat and to operate an excursion gambling boat. The sale of alcoholic beverages produced at the Brew Pub at Ameristar Kansas City is subject to licensing, control and regulation by the City of Kansas City, Missouri, Clay County, the State of Missouri and the Division of Alcohol, Tobacco and Firearms of the U.S. Treasury Department.

***Iowa***

Ameristar's Council Bluffs operations are conducted by our wholly owned subsidiary, Ameristar Casino Council Bluffs, Inc. ( ACCBI ), and are subject to Chapter 99F of the Iowa Code and the regulations promulgated thereunder. ACCBI's gaming operations are subject to the licensing and regulatory control of the Iowa Racing and Gaming Commission (the Iowa Gaming Commission ).

Under Iowa law, wagering on a gambling game is legal when conducted by a licensee on an excursion gambling boat. An excursion gambling boat is an excursion boat or moored barge. Gambling game means any game of chance authorized by the Iowa Gaming Commission. In 2004, the Iowa legislature eliminated the mandatory cruising requirement for an excursion gambling boat, and ACCBI's riverboat is now classified as a permanently moored vessel.

The legislation permitting riverboat gaming in Iowa authorizes the granting of licenses to qualified sponsoring organizations. A qualified sponsoring organization is defined as a person or association that can show to the satisfaction of the Iowa Gaming Commission that the person or association is eligible for exemption from federal income taxation under Section 501(c)(3), (4), (5), (6), (7), (8), (10) or (19) of the Internal Revenue Code (hereinafter not-for-profit corporation ). The not-for-profit corporation is permitted to enter into operating agreements with persons qualified to conduct riverboat gaming operations. Such operators must be approved and licensed by the Iowa Gaming Commission. On January 27, 1995, the Iowa Gaming Commission authorized the issuance of a license to conduct gambling games on an excursion gambling boat to Iowa West Racing Association, a not-for-profit corporation organized for the purpose of facilitating riverboat gaming in Council Bluffs (the Association ). The Association has entered into a sponsorship agreement with ACCBI authorizing ACCBI to operate riverboat gaming operations in Council Bluffs under the Association's gaming license (the Operator's Contract ), and the Iowa Gaming Commission has approved this contract. The term of the Operator's Contract runs until March 31, 2010.

Under Iowa law, a license to conduct gambling games may be issued in a county only if the county electorate has approved such gambling games. Although the electorate of Pottawattamie County, which includes the City of Council Bluffs, most recently reauthorized by referendum in 2002 the gambling games conducted by ACCBI, a reauthorization referendum must be submitted to the electorate in the general election to be held in 2010 and each eight years thereafter. Each such referendum requires the affirmative vote of a majority of the persons voting thereon. In the event a reauthorization referendum is defeated in 2010 or thereafter, the licenses granted to the Association and ACCBI would not be subject to renewal and ACCBI would be required to cease conducting gambling games. After a referendum has been held which defeated a proposal to conduct gambling games on excursion gambling boats, another referendum on a proposal to conduct gambling games on excursion gambling boats may not be held for at least eight years.

Substantially all of ACCBI's material transactions are subject to review and approval by the Iowa Gaming Commission. Written and oral contracts and business arrangements involving a related party or in which the term exceeds three years or the total value exceeds \$100,000 are agreements that qualify for submission to and approval by the Iowa Gaming Commission ( Qualifying Agreements ). Qualifying

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Agreements are limited to: (1) obligations that expense, encumber or lend ACCBI assets to anyone other than a not-for-profit entity or a unit of government for the payment of taxes and utilities; (2) any disposal of ACCBI assets or the provision of goods and services at less than market value to anyone other than a not-for-profit entity or a unit of government; (3) a previously approved Qualifying Agreement, if consideration exceeds the approved amount by the greater of \$100,000 or 25%; and (4) any type of contract, regardless of value or term, where a third party provides electronic access to cash or credit for a patron of the facility. Each Qualifying Agreement must be submitted to the Iowa Gaming Commission within 30 days of execution. Iowa Gaming Commission approval must be obtained prior to implementation, unless the Qualifying Agreement contains a written clause stating that the agreement is subject to Iowa Gaming Commission approval. Qualifying Agreements that are ongoing or open-ended need only be submitted on initiation, unless there is a material change in terms or noncompliance with the requirement that consideration be given to the use of Iowa resources, goods and services. Additionally, contracts negotiated between ACCBI and a related party must be accompanied by economic and qualitative justification.

ACCBI is required to notify the Iowa Gaming Commission of the identity of each director, corporate officer and owner, partner, joint venturer, trustee or any other person who has a beneficial interest of 5% or more, direct or indirect, in ACCBI. The Iowa Gaming Commission may require ACCBI to submit background information on such persons. The Iowa Gaming Commission may require ACCBI to provide a list of persons holding beneficial ownership interests in ACCBI of less than 5%. For purposes of these rules, beneficial interest includes all direct and indirect forms of ownership or control, voting power or investment power held through any contract, lien, lease, partnership, stockholding, syndication, joint venture, understanding, relationship, present or reversionary right, title or interest or otherwise. The Iowa Gaming Commission may suspend or revoke the license of a licensee in which a director, corporate officer or holder of a beneficial interest includes or involves any person or entity which is found to be ineligible as a result of want of character, moral fitness, financial responsibility, professional responsibility or due to failure to meet other criteria employed by the Iowa Gaming Commission.

ACCBI must submit detailed financial, operating and other reports to the Iowa Gaming Commission. ACCBI must file weekly and monthly gaming reports indicating adjusted gross receipts received from gambling games and the total number and amount of money received from admissions. Additionally, ACCBI must file annual financial statements covering all financial activities related to its operations for each fiscal year. ACCBI must also keep detailed records regarding its equity structure and owners.

Iowa has a graduated wagering tax equal to 5% of the first \$1.0 million of annual adjusted gross receipts, 10% of the next \$2.0 million of annual adjusted gross receipts and 22% of annual adjusted gross receipts over \$3.0 million for an excursion gambling boat. In addition, the state charges other fees on a per-customer basis. Additionally, ACCBI pays to the City of Council Bluffs a fee equal to \$0.50 per passenger. Under the Operator's Contract, ACCBI also pays the Association a graduated fee equal to 5% of the first \$30 million of annual adjusted gross receipts, 4% of the next \$30 million of annual adjusted gross receipts, 3% of the next \$30 million of annual adjusted gross receipts, 2% of the next \$30 million of annual adjusted gross receipts and 0.5% of the next \$30 million of annual adjusted gross receipts (up to \$150,000,000 of annual adjusted gross receipts). ACCBI was also required to pay a special additional assessment of approximately \$3.6 million in 2005 and will be required to pay a similar special assessment in 2006, which assessments are recoverable as a credit against future gaming taxes beginning in 2010.

All persons participating in any capacity at a gaming facility, with the exception of certified law enforcement officers while they are working for the facility as uniformed officers, are required to obtain occupational licenses from the Iowa Gaming Commission. All such licenses require annual renewal. The Iowa Gaming Commission has broad discretion to deny or revoke any occupational license.

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If the Iowa Gaming Commission decides that a gaming law or regulation has been violated, the Iowa Gaming Commission has the power to assess fines, revoke or suspend licenses or to take any other action as may be reasonable or appropriate to enforce the gaming rules and regulations.

ACCBI is subject to licensure by the Alcoholic Beverages Division ( ABD ) of the Iowa Department of Commerce, which administers and enforces the laws of the State of Iowa concerning alcoholic beverages. Additionally, ACCBI is subject to liquor ordinances adopted by local authorities. A local authority may adopt ordinances governing establishments that are located within their jurisdiction. Local ordinances may be more restrictive than state law, but they may not conflict with state law. The ABD and the local authorities have full power to suspend or revoke any license for the serving of alcoholic beverages.

***Mississippi***

The ownership and operation of casino gaming facilities in the State of Mississippi are subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Mississippi Gaming Commission (the Mississippi Commission ).

The Mississippi Gaming Control Act (the Mississippi Act ) is similar to the Nevada Gaming Control Act. The Mississippi Commission has adopted regulations that are also similar in many respects to the Nevada gaming regulations.

The laws, regulations and supervisory procedures of the Mississippi Commission are based upon declarations of public policy that are concerned with, among other things, (1) the prevention of unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (2) the establishment and maintenance of responsible accounting practices and procedures; (3) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing for reliable record keeping and requiring the filing of periodic reports with the Mississippi Commission; (4) the prevention of cheating and fraudulent practices; (5) providing a source of state and local revenues through taxation and licensing fees; and (6) ensuring that gaming licensees, to the extent practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Commission. We believe that our compliance with the licensing procedures and regulatory requirements of the Mississippi Commission will not affect the marketability of our securities. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our Mississippi gaming operations.

The Mississippi Act provides for legalized gaming in each of the 14 counties that border the Gulf Coast or the Mississippi River, but only if the voters in the county have not voted to prohibit gaming in that county. Currently, gaming is permissible in nine of the 14 eligible counties in the state and gaming operations take place in seven counties. Traditionally, Mississippi law required gaming vessels to be located on the Mississippi River or on navigable waters in eligible counties along the Mississippi River or in the waters lying south of the counties along the Mississippi Gulf Coast. Recently, however, the Mississippi legislature amended the Mississippi Act to permit licensees in the three counties along the Gulf Coast to establish land-based casino operations provided that the gaming areas do not extend more than 800 feet beyond the 19-year mean high water line, except in Harrison County, where the 800-foot limit can be extended as far as the southern boundary of Highway 90.

The Mississippi Act permits unlimited stakes gaming on a 24-hour basis and does not restrict the percentage of space which may be utilized for gaming. The Mississippi Act permits substantially all traditional casino games and gaming devices.



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We and any subsidiary of ours that operates a casino in Mississippi (a Mississippi Gaming Subsidiary ) are subject to the licensing and regulatory control of the Mississippi Commission. As the sole stockholder of Ameristar Casino Vicksburg, Inc. ( ACVI ), we are registered under the Mississippi Act as a publicly traded corporation (a Registered Corporation ). As a Registered Corporation, we are required periodically to submit detailed financial and operating reports to the Mississippi Commission and furnish any other information which the Mississippi Commission may require. If we are unable to continue to satisfy the registration requirements of the Mississippi Act, we and any Mississippi Gaming Subsidiary cannot own or operate gaming facilities in Mississippi. No person may become a stockholder of or receive any percentage of profits from a Mississippi Gaming Subsidiary without first obtaining licenses and approvals from the Mississippi Commission. We have obtained such approvals in connection with our ownership of ACVI.

A Mississippi Gaming Subsidiary must maintain a gaming license from the Mississippi Commission to operate a casino in Mississippi. Such licenses are issued by the Mississippi Commission subject to certain conditions, including continued compliance with all applicable state laws and regulations. There are no limitations on the number of gaming licenses that may be issued in Mississippi. Gaming licenses require the payment of periodic fees and taxes, are not transferable, are issued for a three-year period (and may be continued for two additional three-year periods) and must be renewed periodically thereafter. ACVI most recently was granted a renewal of its gaming license by the Mississippi Commission on January 25, 2006. This license expires on January 24, 2009.

Certain of our officers and employees and the officers, directors and certain key employees of our Mississippi Gaming Subsidiary must be found suitable or approved by the Mississippi Commission. We believe that we have obtained, applied for or are in the process of applying for all necessary findings of suitability with respect to such persons affiliated with Ameristar or ACVI, although the Mississippi Commission, in its discretion, may require additional persons to file applications for findings of suitability. In addition, any person having a material relationship or involvement with Ameristar or ACVI may be required to be found suitable, in which case those persons must pay the costs and fees associated with such investigation. The Mississippi Commission may deny an application for a finding of suitability for any cause that it deems reasonable. Changes in certain licensed positions, including changes in any person's corporate position or title, must be reported to the Mississippi Commission. In addition to having authority to deny an application for a finding of suitability, the Mississippi Commission has jurisdiction to disapprove a change in such person's corporate position or title and such changes must be reported to the Mississippi Commission. The Mississippi Commission has the power to require us and any Mississippi Gaming Subsidiary to suspend or dismiss officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Mississippi.

At any time, the Mississippi Commission has the power to investigate and require the finding of suitability of any record or beneficial stockholder of Ameristar. The Mississippi Act requires any person who acquires more than 5% of any class of voting securities of a Registered Corporation, as reported to the Securities and Exchange Commission, to report the acquisition to the Mississippi Commission, and such person may be required to be found suitable. Also, any person who becomes a beneficial owner of more than 10% of any class of voting securities of a Registered Corporation, as reported to the Securities and Exchange Commission, must apply for a finding of suitability by the Mississippi Commission and must pay the costs and fees that the Mississippi Commission incurs in conducting the investigation. If a stockholder who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information, including a list of beneficial owners.

The Mississippi Commission generally has exercised its discretion to require a finding of suitability of any beneficial owner of more than 5% of any class of voting securities of a Registered Corporation. However, under certain circumstances, an institutional investor, as defined in the Mississippi

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Commission's regulations, which acquires more than 10% but not more than 15% of the voting securities of a Registered Corporation may apply to the Mississippi Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of the Registered Corporation, any change in the corporate charter, bylaws, management, policies or operations of the Registered Corporation or any of its gaming affiliates, or any other action which the Mississippi Commission finds to be inconsistent with holding the voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes include (1) voting on all matters voted on by stockholders; (2) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in the Registered Corporation's management, policies or operations; and (3) such other activities as the Mississippi Commission may determine to be consistent with such investment intent.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Mississippi Commission may be found unsuitable. The same restrictions apply to a record owner of our securities if the record owner, after request, fails to identify the beneficial owner. Any person found unsuitable and who holds, directly or indirectly, any beneficial ownership of our securities beyond such time as the Mississippi Commission prescribes may be guilty of a misdemeanor. We may be subject to disciplinary action if, after receiving notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any Mississippi Gaming Subsidiary owned by us, the company involved (1) pays the unsuitable person any dividend or other distribution upon such person's voting securities; (2) recognizes the exercise, directly or indirectly, of any voting rights conferred by securities held by the unsuitable person; (3) pays the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain limited and specific circumstances; or (4) fails to pursue all lawful efforts to require the unsuitable person to divest himself of the securities, including, if necessary, the immediate purchase of the securities for cash at fair market value.

We may be required to disclose to the Mississippi Commission, upon request, the identities of the holders of our debt or other securities. In addition, under the Mississippi Act, the Mississippi Commission, in its discretion, may require the holder of any debt security of a Registered Corporation to file an application, be investigated and be found suitable to own the debt security if the Mississippi Commission has reason to believe that the holder's ownership of such debt securities would be inconsistent with the declared policies of the State.

Although the Mississippi Commission generally does not require the individual holders of obligations such as notes to be investigated and found suitable, the Mississippi Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instruments exercises a material influence over the gaming operations of the entity in question. Any holder of debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Commission in connection with such an investigation.

If the Mississippi Commission determines that a person is unsuitable to own a debt security, then the Registered Corporation may be sanctioned, including the loss of its approvals, if without the prior approval of the Mississippi Commission it (1) pays to the unsuitable person any dividend, interest, or any distribution whatsoever; (2) recognizes any voting right by the unsuitable person in connection with those securities; (3) pays the unsuitable person remuneration in any form; or (4) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

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Each Mississippi Gaming Subsidiary must maintain in Mississippi a current ledger with respect to the ownership of its equity securities and we must maintain in Mississippi a current list of our stockholders, which must reflect the record ownership of each outstanding share of any class of our equity securities. The ledger and stockholder lists must be available for inspection by the Mississippi Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We must also render maximum assistance in determining the identity of the beneficial owner.

The Mississippi Act requires that the certificates representing securities of a Registered Corporation bear a legend indicating that the securities are subject to the Mississippi Act and the regulations of the Mississippi Commission. We have received from the Mississippi Commission a waiver of this legend requirement. The Mississippi Commission has the power to impose additional restrictions on the holders of our securities at any time.

Substantially all material loans, leases, sales of securities and similar financing transactions by a Registered Corporation or a Mississippi Gaming Subsidiary must be reported to or approved by the Mississippi Commission. A Mississippi Gaming Subsidiary may not make a public offering of its securities, but may pledge or mortgage casino facilities. A Registered Corporation may not make a public offering of its securities without the prior approval of the Mississippi Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi or to retire or extend obligations incurred for those purposes. Such approval, if given, does not constitute a recommendation or approval of the investment merits of the securities subject to the offering. We have received a waiver of the prior approval requirement with respect to public offerings and private placements of securities, subject to certain conditions, including the ability of the Mississippi Commission to issue a stop order with respect to any such offering if the staff determines it would be necessary to do so.

Under the regulations of the Mississippi Commission, a Mississippi Gaming Subsidiary may not guarantee a security issued by an affiliated company pursuant to a public offering, or pledge its assets to secure payment or performance of the obligations evidenced by securities issued by an affiliated company, without the prior approval of the Mississippi Commission. A pledge of the stock of a Mississippi Gaming Subsidiary and the foreclosure of such a pledge are ineffective without the prior approval of the Mississippi Commission. Moreover, restrictions on the transfer of an equity security issued by a Mississippi Gaming Subsidiary or its holding companies and agreements not to encumber such securities are ineffective without the prior approval of the Mississippi Commission. We have obtained approvals from the Mississippi Commission for such guarantees, pledges and restrictions in connection with offerings of securities, subject to certain restrictions, but we must obtain separate prior approvals from the Mississippi Commission for pledges and stock restrictions imposed in connection with certain financing transactions. Moreover, the regulations of the Mississippi Commission require us to file a Loan to Licensees Report within 30 days following certain financing transactions and the offering of certain debt securities. If the Mississippi Commission were to deem it appropriate, the Mississippi Commission could order any such transaction rescinded.

Changes in control of us through merger, consolidation, acquisition of assets, management or consulting agreements or any act or conduct by a person by which he or she obtains control may not occur without the prior approval of the Mississippi Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Mississippi Commission in a variety of stringent standards prior to assuming control of the Registered Corporation. The Mississippi Commission also may require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control to be investigated and licensed as part of the approval process relating to the transaction.

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The Mississippi legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Mississippi and Registered Corporations may be injurious to stable and productive corporate gaming. The Mississippi Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Mississippi's gaming industry and to further Mississippi's policy to (1) assure the financial stability of corporate gaming operators and their affiliates; (2) preserve the beneficial aspects of conducting business in the corporate form; and (3) promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in certain circumstances, required from the Mississippi Commission before a Registered Corporation may make exceptional repurchases of voting securities (such as repurchases which treat holders differently) in excess of the current market price and before a corporate acquisition opposed by management can be consummated. Mississippi's gaming regulations also require prior approval by the Mississippi Commission of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purpose of acquiring control of the Registered Corporation.

Neither we nor any Mississippi Gaming Subsidiary may engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Commission. The Mississippi Commission may require determinations that, among other things, there are means for the Mississippi Commission to have access to information concerning the out-of-state gaming operations of us and our affiliates. We previously have obtained a waiver of foreign gaming approval from the Mississippi Commission for operations in other states in which we conduct gaming operations and will be required to obtain the approval or a waiver of such approval from the Mississippi Commission prior to engaging in any additional future gaming operations outside of Mississippi.

The Mississippi Commission has imposed on us the requirement to adopt and maintain a Company-wide gaming compliance program, and has approved our existing Gaming Compliance Program that was previously approved by the Nevada regulatory authorities as satisfying this requirement. See Nevada.

If the Mississippi Commission were to determine that we or ACVI had violated a gaming law or regulation, the Mississippi Commission could limit, condition, suspend or revoke our approvals and the license of ACVI, subject to compliance with certain statutory and regulatory procedures. In addition, we, ACVI and the persons involved could be subject to substantial fines for each separate violation. Because of such a violation, the Mississippi Commission could attempt to appoint a supervisor to operate the casino facilities. Limitation, conditioning or suspension of any gaming license or approval or the appointment of a supervisor could (and revocation of any gaming license or approval would) materially adversely affect us, our gaming operations and our results of operations.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Mississippi and to the counties and cities in which a Mississippi Gaming Subsidiary's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually. Gaming taxes are based upon the following: (1) a percentage of the gross gaming revenues received by the casino operation; (2) the number of gaming devices operated by the casino; or (3) the number of table games operated by the casino.

The license fee payable to the State of Mississippi is based upon gaming receipts (generally defined as gross receipts less payouts to customers as winnings) and the current maximum tax rate imposed is 8% of all gaming receipts in excess of \$134,000 per month. The foregoing license fees we pay are allowed as a credit against ACVI's Mississippi income tax liability for the year paid. The gross revenues fee imposed by the City of Vicksburg equals approximately 4% of gaming receipts.

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The Mississippi Commission's regulations require as a condition of licensure or license renewal that an existing licensed gaming establishment's plan include adequate parking facilities in close proximity to the casino complex and infrastructure facilities, such as hotels, which amount to at least 100% of the casino cost. The Mississippi Commission's current infrastructure requirement applies to new casinos or acquisitions of closed casinos. Ameristar Vicksburg was grandfathered under a prior version of that regulation that required that the infrastructure investment be equal to only 25% or more of the casino cost.

The sale of alcoholic beverages at Ameristar Vicksburg is subject to licensing, control and regulation by the Alcoholic Beverage Control Division of the Mississippi State Tax Commission (the ABC) and by the City of Vicksburg. Ameristar Vicksburg is located in a designated special resort area, which allows ACVI to serve alcoholic beverages on a 24-hour basis. If ABC regulations are violated, the ABC has the power to limit, condition, suspend or revoke any license for the serving of alcoholic beverages or to place such licensee on probation with or without conditions. Certain officers and managers of ACVI must be investigated by the ABC in connection with ACVI's liquor permit and changes in certain key positions must be approved by the ABC.

***Colorado***

As prescribed by the Colorado Limited Gaming Act of 1991 (the Colorado Act), the ownership and operation of limited stakes gaming facilities in Colorado are subject to the Colorado Gaming Regulations (the Colorado Regulations) and final authority of the Colorado Limited Gaming Control Commission (the Colorado Commission). The Colorado Act also created the Colorado Division of Gaming within the Colorado Department of Revenue to license, supervise and enforce the conduct of limited stakes gaming in Colorado.

The application of Ameristar Casino Black Hawk, Inc. (ACBHI) for operator and retail gaming licenses for Mountain High Casino in Black Hawk was approved by the Colorado Commission on December 16, 2004. ACBHI took possession of and began to operate Mountain High Casino on December 21, 2004. The Colorado Act requires that applications for renewal of operator and retail gaming licenses be filed with the Commission up to 120 days prior to the expiration of the current licenses. ACBHI's operator and retail gaming licenses were renewed by the Commission on November 17, 2005.

The Colorado Act declares public policy on limited stakes gaming to be that: (1) the success of limited stakes gaming is dependent upon public confidence and trust that licensed limited stakes gaming is conducted honestly and competitively; the rights of the creditors of licensees are protected; and gaming is free from criminal and corruptive elements; (2) public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gaming devices and equipment; (3) all establishments where limited gaming is conducted and where gambling devices are operated, and all manufacturers, sellers and distributors of certain gambling devices and equipment, must therefore be licensed, controlled and assisted to protect the public health, safety, good order and the general welfare of the inhabitants of the state to foster the stability and success of limited stakes gaming and to preserve the economy, policies and free competition in Colorado; and (4) no applicant for a license or other affirmative Colorado Commission approval has any right to a license or to the granting of the approval sought. Having the authority to impose fines, the Colorado Commission has broad discretion to issue, condition, suspend for up to six months, revoke, limit or restrict at any time the following licenses: slot machine manufacturer or distributor, operator, retail gaming, support and key employee gaming licenses. With limited exceptions applicable to licensees that are publicly traded entities, no person may sell, lease, purchase, convey or acquire any interest in a retail gaming or operator license or business without the prior approval of the Colorado Commission. Any license issued or other Colorado Commission

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approval granted pursuant to the Colorado Act is a revocable privilege, and no holder acquires any vested rights therein.

Pursuant to an amendment to the Colorado Constitution (the Colorado Amendment ), limited stakes gaming became lawful in the cities of Central City, Black Hawk and Cripple Creek on October 1, 1991. Limited stakes gaming means a maximum single bet of \$5 on slot machines and in the card games of blackjack and poker.

Limited stakes gaming is confined to the commercial districts of these cities as defined by Central City on October 7, 1981, by Black Hawk on May 4, 1978, and by Cripple Creek on December 3, 1973. In addition, the Colorado Amendment restricts limited stakes gaming to structures that conform to the architectural styles and designs that were common to the areas prior to World War I, and that conform to the requirements of applicable city ordinances regardless of the age of the structures. Under the Colorado Amendment, no more than 35% of the square footage of any building and no more than 50% of any one floor of any building may be used for limited stakes gaming. Persons under the age of 21 cannot participate in limited stakes gaming. The Colorado Amendment also prohibits limited stakes gaming between the hours of 2:00 a.m. and 8:00 a.m. and allows limited stakes gaming to occur in establishments licensed to sell alcoholic beverages.

The Colorado Amendment requires an annual tax of up to 40% on the total amount wagered less all payouts to players. With respect to games of poker, the tax is calculated based on the sums wagered which are retained by the licensee as compensation, which must be consistent with the minimum and maximum amounts established by the Colorado Commission. Annually the Colorado Commission, as mandated by the Colorado Regulations, conducts rule-making hearings concerning the gaming tax rate and device fee rate for the subsequent gaming year. However, rigid compliance with the Colorado Regulations is not mandatory and shall in no way be construed to limit the time periods or subject matters which the Colorado Commission may consider in determining the various tax rates. Generally, the Colorado Commission receives testimony during its April, May and June meetings prior to making a determination regarding the tax rate for the subsequent year. The current gaming tax rate structure, which has been in effect since 1999, is:

0.25% up to and including \$2 million of the subject amounts;

2% on amounts from \$2 million to \$4 million;

4% on amounts from \$4 million to \$5 million;

11% on amounts from \$5 million to \$10 million;

16% on amounts from \$10 million to \$15 million; and

20% on amounts over \$15 million.

The City of Black Hawk also assesses three monthly device fees that are based on the number of slot machines operated. Those consist of a \$62.50 fee per device per month with an exemption on the first 50 devices. There is also a business improvement district device fee of \$7.42 per device and a transportation device fee of \$6.41 per device.

The Colorado Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term publicly traded corporation includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any

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ownership interest held by a publicly traded corporation, holding company or intermediary company thereof, where the ownership interest directly or indirectly is, or will be upon approval of the Colorado Commission, 5% or more of the entire licensee. In any event, if the Colorado Commission determines that a publicly traded corporation or a subsidiary, intermediary company or holding company has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by such entity, the Colorado Commission may require the entity to comply with the disclosure regulations contained in Rule 4.5.

Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Colorado Commission no later than 10 business days after the initial filing of a registration statement with the Securities and Exchange Commission. Licensed publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution. Licensees to whom Rule 4.5 applies must include in their charter documents provisions that restrict the rights of the licensees to issue voting interests or securities except in accordance with the Colorado Act and the Colorado Regulations; limit the rights of persons to transfer voting interests or securities of licensees except in accordance with the Colorado Act and the Colorado Regulations; and provide that holders of voting interests or securities of licensees found unsuitable by the Colorado Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a suitable person, as determined by the Colorado Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest, the securities may not be voted and may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Pursuant to Rule 4.5, persons who acquire direct or indirect beneficial ownership of (a) 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of incorporation the Rule 4.5 charter language provisions; or (b) 5% or more of the beneficial interest in a gaming licensee directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee, referred to as qualifying persons, shall notify the Division of Gaming within 10 days of such acquisition, are required to submit all requested information and are subject to a finding of suitability as required by the Division of Gaming or the Colorado Commission. Licensees also must notify any qualifying persons of these requirements. A qualifying person other than an institutional investor whose interest equals 10% or more must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such securities. Licensees must also notify any qualifying persons of these requirements. Whether or not notified, qualifying persons are responsible for complying with these requirements.

A qualifying person who is an institutional investor under Rule 4.5 and who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such interests.

The Colorado Regulations provide for exemption from the requirements for a finding of suitability when the Colorado Commission finds such action to be consistent with the purposes of the Colorado Act.

Pursuant to Rule 4.5, persons found unsuitable by the Colorado Commission must be removed from any position as an officer, director or employee of a licensee, or from a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Colorado Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their

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affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interest. The Colorado Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license.

The Colorado Regulations require that every officer, director and stockholder of private corporations or equivalent office or ownership holders for non-corporate applicants, and every officer, director or stockholder holding either a 5% or greater interest or controlling interest of a publicly traded corporation or owners of an applicant or licensee, shall be a person of good moral character and submit to a full background investigation conducted by the Division of Gaming and the Colorado Commission. The Colorado Commission may require any person having an interest in a license to undergo a full background investigation and pay the cost of investigation in the same manner as an applicant.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by State and local authorities. Alcoholic beverage licenses are revocable and nontransferable. State and local licensing authorities have full power to limit, condition, suspend for as long as six months or revoke any such licenses.

There are various classes of retail liquor licenses which may be issued under the Colorado Liquor Code. A gaming licensee may sell malt, vinous or spirituous liquors only by the individual drink for consumption on the premises. An application for an alcoholic beverage license in Colorado requires notice, posting and a public hearing before the local liquor licensing authority prior to approval. The Colorado Department of Revenue's Liquor Enforcement Division must also approve the application. ACBHI has been approved for a hotel and restaurant liquor license by both the local Black Hawk licensing authority and the State Division of Liquor Enforcement for Mountain High Casino.

***Nevada***

The ownership and operation of casino gaming facilities in Nevada are subject to: (1) the Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, the Nevada Act); and (2) various local regulations. Our operations are subject to the licensing and regulatory control of the Nevada Gaming Commission (Nevada Commission), the Nevada State Gaming Control Board (Nevada Board), and the Liquor Board of Elko County. The Nevada Commission, the Nevada Board and the Liquor Board of Elko County are collectively referred to in this section as the Nevada Gaming Authorities.

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things, (1) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity; (2) the establishment and maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues; (3) providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (4) the prevention of cheating and fraudulent practices; and (5) providing a source of state and local revenues through taxation and licensing fees. Change in such laws, regulations and procedures could have an adverse effect on our gaming operations.

Cactus Pete's, Inc. (CPI), which owns and operates the Jackpot properties, is required to be licensed by the Nevada Gaming Authorities. The gaming licenses require the periodic payment of fees and taxes and are not transferable. Ameristar is registered by the Nevada Commission as a publicly traded corporation (a Registered Corporation) and has been found suitable to own the stock of CPI, which is a corporate licensee (a Corporate Licensee) under the terms of the Nevada Act. As a Registered Corporation, Ameristar is required periodically to submit detailed financial and operating reports to the Nevada Commission and furnish any other information that the Nevada Commission may require. No



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person may become a stockholder of, or receive any percentage of profits from, a Corporate Licensee without first obtaining licenses and approvals from the Nevada Gaming Authorities. Ameristar and CPI have obtained from the Nevada Gaming Authorities the various registrations, findings of suitability, approvals, permits and licenses currently required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, CPI or Ameristar in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of CPI must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Officers, directors and key employees of Ameristar who are actively and directly involved in gaming activities of CPI may be required to be reviewed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities, and in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with CPI or Ameristar, the companies involved would have to sever all relationships with such person. In addition, the Nevada Commission may require CPI or Ameristar to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

CPI and Ameristar are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Ameristar and CPI must be reported to, or approved by, the Nevada Commission.

If it were determined that the Nevada Act was violated by CPI, the gaming licenses it holds or has applied for could be limited, denied, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, CPI, Ameristar and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate CPI's gaming properties and, under certain circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of the premises) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and denial or revocation of any gaming license would) materially adversely affect our gaming operations.

Any beneficial holder of Ameristar's voting securities, regardless of the number of shares owned, may be required to file an application, be investigated and have his suitability as a beneficial holder of Ameristar's voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policy of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires beneficial ownership of more than 5% of a Registered Corporation's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of a Registered Corporation's voting securities apply to the Nevada Commission for a finding of suitability within 30 days after the Chairman

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of the Nevada Board mails the written notice requiring such filing. Under certain circumstances, an institutional investor, as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of a Registered Corporation's voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of the Registered Corporation, any change in the corporate charter, bylaws, management, policies or operations of the Registered Corporation or any of its gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding the Registered Corporation's voting securities for investment purposes only. An institutional investor that has obtained a waiver may, in certain circumstances, hold up to 19% of a Registered Corporation's voting securities and maintain its waiver for a limited period of time. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include (1) voting on all matters voted on by stockholders; (2) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and (3) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information, including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. Ameristar is subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with Ameristar or CPI, Ameristar (1) pays that person any dividend or interest upon voting securities of Ameristar, (2) allows that person to exercise, directly or indirectly, any voting right conferred through securities held by the person, (3) pays remuneration in any form to that person for services rendered or otherwise, or (4) fails to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of such voting securities by Ameristar for cash at fair market value. Additionally, the Liquor Board of Elko County has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming license within its jurisdiction.

The Nevada Commission may, at its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation if it has reason to believe that such holder's acquisition of such ownership would otherwise be inconsistent with the declared policy of the State of Nevada. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it (1) pays to the unsuitable person any dividend, interest, or any distribution whatsoever; (2) recognizes any voting right by such unsuitable person in connection with such securities; (3) pays the unsuitable person remuneration in any form; or (4) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

Ameristar is required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming

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Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Ameristar is also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require Ameristar stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, to date, the Nevada Commission has not imposed such a requirement on Ameristar.

Ameristar may not make a public offering of its securities without the prior approval of the Nevada Commission if the securities or the proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On March 24, 2005, the Nevada Commission granted us approval to make public offerings for a period of two years, subject to specified conditions (the Shelf Approval). The Shelf Approval also applies to any company we wholly own that is a publicly traded corporation or would become a publicly traded corporation pursuant to a public offering (Affiliate). The Shelf Approval also includes approval for CPI to guarantee any security issued by, and to hypothecate its assets to secure the payment or performance of any obligations evidenced by a security issued by, us or an Affiliate in a public offering. The Shelf Approval also includes approval to place restrictions upon the transfer of, and enter into agreements not to encumber the equity securities of, CPI. The Shelf Approval, however, may be rescinded for good cause, without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board. The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in control of Ameristar through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada Board and Nevada Commission in a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada Corporate Licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to (1) assure the financial stability of Corporate Licensees and their affiliates; (2) preserve the beneficial aspects of conducting business in the corporate form; and (3) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Registered Corporation can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

Ameristar has adopted and maintains a Gaming Compliance Program (Program) that has been approved by the Chairman of the Nevada Board. The Program is designed to assist our efforts to maintain compliance with the gaming laws of the various jurisdictions under which we conduct our gaming operations. Under the Program, a Compliance Committee, assisted by a Compliance Officer, conducts reviews of specified types of proposed business and employment transactions and relationships and other matters related to regulatory requirements, and advises the Board of Directors and management

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accordingly. The Compliance Committee's activities are designed primarily to help assure the suitability of business associations of the Company and its affiliates.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Nevada licensee's respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly or annually and are based upon: (1) a percentage of the gross revenues received; (2) the number of gaming devices operated; or (3) the number of table games operated. A live entertainment tax is also paid by certain casino operations where entertainment is furnished in connection with admission fees, the selling or serving of food and refreshments, or the selling of merchandise.

Any person who is licensed, required to be licensed, registered, required to be registered or is under common control with such persons (collectively, Licensees), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation of the Nevada Board of their participation in such foreign gaming. The revolving fund is subject to increase or decrease at the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enters into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees or employ, contract with or associate with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of unsuitability.

***Other Jurisdictions***

We expect to be subject to rigorous regulatory standards, which may or may not be similar to the foregoing standards, in each jurisdiction in which we may seek to conduct gaming operations in the future. There can be no assurance that statutes or regulations adopted or fees and taxes imposed by other jurisdictions will permit us to operate profitably.

***Federal Regulation of Slot Machines***

We are required to make annual filings with the U.S. Department of Justice in connection with the sale, distribution or operation of slot machines. All requisite filings for the current year have been made.

***Other Regulations***

In January 2006, our Council Bluffs casino vessel became classified as a permanently moored vessel under the authority of the Iowa Department of Natural Resources and ceased to be subject to United States Coast Guard regulations and inspection requirements. As a permanently moored vessel, it will be required to undergo annual inspections by the Iowa Department of Natural Resources and an underwater hull inspection every 10 years, with the next underwater inspection due in 2016.

Our business is subject to various federal, state and local laws and regulations in addition to those discussed above. These laws and regulations include but are not limited to those concerning employees, taxation, zoning and building codes and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations or material differences in interpretations by courts or governmental authorities could adversely affect our business.

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**Web Access to Periodic Reports**

Our Internet website address is [www.ameristar.com](http://www.ameristar.com). We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

**Item 1A. Risk Factors**

*The gaming industry is very competitive and increased competition could have a material adverse effect on our future operations.*

The gaming industry is very competitive and we face dynamic competitive pressures in each of our markets. Several of our competitors are larger and have greater financial and other resources. We may choose or be required to take actions in response to competitors that may increase our marketing costs and other operating expenses.

Our operating properties are located in jurisdictions that restrict gaming to certain areas or are adjacent to states that prohibit or restrict gaming operations. These restrictions and prohibitions provide substantial benefits to our business and our ability to attract and retain customers. The legalization or expanded legalization or authorization of gaming within or near a market area of one of our properties could result in a significant increase in competition and have a material adverse effect on our business, financial condition and results of operations. Economic difficulties faced by state governments, as well as the increased acceptance of gaming as a leisure activity, could lead to intensified political pressure for the expansion of legalized gaming.

From time to time, legislation and ballot measures have been unsuccessfully proposed in Kansas, Nebraska and Colorado for the legalization or expansion of gaming. In Nebraska, several referenda on the statewide ballot that would have legalized two alternative forms of casino gaming were defeated in November 2004, and proponents are currently gathering signatures to attempt to have similar referenda placed on the November 2006 ballot. In Kansas, there is currently a bill pending in the legislature that would legalize commercial casino gaming. These proposals, if they become law, would authorize gaming in or near, among other places, Omaha, Nebraska and Kansas City, Kansas, in close proximity to our existing facilities in Council Bluffs, Iowa and Kansas City, Missouri, respectively. The legalization of gaming in these locations and the additional competition resulting from the subsequent development of competing gaming properties could have a material adverse effect on us.

The Missouri Gaming Commission has prioritized for investigation gaming license applications for new casino facilities in downtown St. Louis and southeastern St. Louis County, approximately 22 miles and 30 miles, respectively, from Ameristar St. Charles. The casino facility in downtown St. Louis is currently under construction and is scheduled to open in late 2007. The southeastern St. Louis County facility, which is being developed by the same operator, is currently scheduled to open in mid-2008. St. Louis city officials and members of the Missouri Gaming Commission have also stated that they would like to see a currently operating casino in downtown St. Louis, which is currently operating in bankruptcy, improved or replaced. The additional two new gaming operations in the St. Louis market, as well as any replacement or upgrade to the existing downtown St. Louis casino, will result in additional competition for Ameristar St. Charles.

In March 2006, our competitor that operates the pari-mutuel racetrack casino in Council Bluffs will rebrand the property as part of a major expansion and renovation. Upon completion of the expansion and renovation project, the property will feature significantly more gaming space, 1,850 slot machines, 34 table games, a poker room and additional non-gaming amenities. Prior to a change in Iowa law in 2004, racetrack casinos were not permitted to offer table games or video poker machines. We expect that the

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future operating results of Ameristar Council Bluffs will be adversely affected by the additional competition.

Our principal competitors in the St. Louis and Black Hawk markets have also recently completed, or will soon complete, significant expansions of their facilities. In Vicksburg, several potential gaming sites still exist, and two companies have recently received preliminary Mississippi Gaming Commission approval for the development of new casinos.

Increased competitive pressures in our Missouri and Iowa markets have required us to incur greater marketing and promotional costs in order to maintain our market share. This has adversely affected our recent operating results, and may continue to do so.

Native American gaming facilities in some instances operate under regulatory and financial requirements that are less stringent than those imposed on state-licensed casinos, which could provide them with a competitive advantage and lead to increased competition in our markets. We believe that recent operating results at our Jackpot properties have been adversely affected by intensified competition from an Idaho Native American facility that is closer to a portion of our market area. The legislatures in Kansas and Nebraska are considering pending legislation that would allow various forms of Native American gaming in close proximity to our properties in Kansas City and Council Bluffs. Additionally, two federally recognized tribes have asserted land claims in Colorado and are attempting to have land in metropolitan Denver placed in trust by the federal government to be used for casino gaming.

The entry into our current markets of additional competitors could have a material adverse effect on our business, financial condition and results of operations, particularly if a competitor were to obtain a license to operate a gaming facility in a superior location. Furthermore, increases in the popularity of, and competition from, Internet and other account wagering and gaming services, which allow customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, could have a material adverse effect on our business, financial condition, operating results and prospects.

***If the jurisdictions in which we operate increase gaming taxes and fees, our results could be adversely affected.***

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and government officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Periods of economic downturn and budget deficits may intensify the efforts of state and local governments to raise revenues through increases in gaming taxes.

In 2004, in response to an Iowa Supreme Court ruling that decreased the gaming taxes payable by casinos at pari-mutuel racetracks, the Iowa legislature approved an increase in the maximum tax rate on gaming revenues of riverboat casinos from 20% to 22%, which became effective July 1, 2004. We also paid in 2005 and will be required to pay in 2006 a special additional assessment of approximately \$3.6 million, which is recoverable as a credit against future gaming taxes beginning in 2010. This tax increase has negatively impacted operating income at Ameristar Council Bluffs and will continue to do so.

Several bills have been introduced in the Missouri legislature in recent years that would increase the gaming tax rate, and similar legislation has been introduced in the current session.

In Colorado, the Colorado Limited Gaming Control Commission has the authority to establish the gaming tax rate on an annual basis, up to a maximum rate of 40% of gross receipts, without further legislative action. The current rate of 20% on gross receipts over \$15.0 million has been in effect since 1996.

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If the jurisdictions in which we operate were to further increase gaming taxes or fees, depending on the magnitude of the increase and any offsetting factors (such as the elimination of the buy-in limit in Missouri), our financial condition and results of operations could be materially adversely affected.

***Our business is subject to restrictions and limitations imposed by gaming regulatory authorities that could adversely affect us.***

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The States of Missouri, Iowa, Mississippi, Colorado and Nevada and the applicable local authorities require various licenses, findings of suitability, registrations, permits and approvals to be held by us and our subsidiaries. The Missouri Gaming Commission, the Iowa Racing and Gaming Commission, the Mississippi Gaming Commission, the Colorado Limited Gaming Control Commission and the Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or not renew a license or approval to own the stock of any of our Missouri, Iowa, Mississippi, Colorado or Nevada subsidiaries, respectively, for any cause deemed reasonable by such licensing authority. Our gaming licenses in Missouri need to be renewed every two years, our gaming licenses in Iowa and Colorado must be renewed or continued every year, and our gaming license in Mississippi must be renewed every three years. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiaries and the persons involved, and we could be forced to forfeit portions of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets could have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our currently operating gaming activities. However, gaming licenses and related approvals are deemed to be privileges under the laws of all the jurisdictions in which we operate. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended. We also cannot assure you that any new licenses, permits and approvals that may be required in the future will be granted to us.

***Financial leverage may impair our financial condition and restrict our operations.***

Our leverage ratio (as defined in our senior credit facilities) improved from 3.29:1 as of December 31, 2004 to 3.07:1 as of December 31, 2005, while our total indebtedness increased from \$766.3 million as of December 31, 2004 to \$780.4 million as of December 31, 2005. As we proceed with our planned capital improvement projects over the next three years, we anticipate that our total debt will increase significantly. The degree to which we are leveraged could have important adverse consequences to our business, including:

Increasing our vulnerability to general adverse economic and industry conditions;

Limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;

Requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions, dividends and general corporate requirements;

Limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

Placing us at a competitive disadvantage to less leveraged competitors.

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The agreement governing our senior credit facilities contains covenants that may restrict our ability to, among other things, borrow money, pay dividends, make capital expenditures and effect a consolidation, merger or disposal of substantially all of our assets. Although the covenants in our senior credit facilities are subject to various exceptions that are intended to allow us to operate without undue restraint in certain anticipated circumstances, we cannot assure you that these covenants will not adversely affect our ability to finance future operations or capital needs or to engage in other activities that may be in our best interest. In addition, our long-term debt requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. A breach of any of these covenants would result in a default under our senior credit facilities. If an event of default under our senior credit facilities occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In addition, our senior credit facilities are secured by first priority security interests on substantially all of our real and personal property, including the capital stock of our subsidiaries. If we are unable to pay all amounts declared due and payable in the event of a default, the lenders could foreclose on these assets.

***We are subject to the risk of rising interest rates.***

All of our borrowings under our senior credit facilities bear interest at variable rates. As of February 28, 2006, we had \$825.0 million outstanding under our senior credit facilities. If short-term interest rates continue to rise, our interest cost will increase, which will adversely affect our net income and available cash.

***Worsening economic conditions or geopolitical circumstances may adversely affect our business.***

Our business may be adversely affected by economic downturns and instability, as we are dependent on discretionary spending by our customers. Any worsening of current economic conditions or significant increases in energy prices could cause fewer people to spend money at our properties and could adversely affect our revenues. Other geopolitical events, such as terrorism or the threat of terrorism, may deter customers from visiting our properties.

***We have limited opportunities to grow our business.***

The casino gaming industry has limited growth opportunities. Most jurisdictions in which casino gaming is currently permitted place numerical and/or geographical limitations on the issuance of new gaming licenses. Although a number of jurisdictions in the United States and foreign countries are considering legalizing or expanding casino gaming, in some cases new gaming operations may be restricted to specific locations, such as pari-mutuel racetracks. Moreover, it is not clear whether the tax, land use planning and regulatory structures that may be applicable to any new gaming opportunity would make the development and operation of a casino financially acceptable. We expect that there will be intense competition for any attractive new opportunities that do arise, and many of the companies competing for such opportunities will have greater resources than we do. Therefore, we cannot assure you that we will be able to successfully expand our business.

***Craig H. Neilsen owns a majority of our common stock and controls our affairs.***

Mr. Neilsen is our Chairman of the Board, President and Chief Executive Officer, and he owns approximately 55% of our outstanding Common Stock. Accordingly, Mr. Neilsen has the ability to control our operations and affairs, including the election of the entire Board of Directors and, except as otherwise provided by law, other matters submitted to a vote of the stockholders, including a merger, consolidation or sale of assets. As a result, actions which may be supported by a majority of the other stockholders, including the issuance of additional shares of Common Stock to finance acquisitions or



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other growth opportunities, could be blocked by Mr. Neilsen. In addition, Mr. Neilsen's substantial ownership affects the liquidity in the market for our Common Stock.

***A change in control could result in the acceleration of our debt obligations.***

Certain changes in control could result in the acceleration of our senior credit facilities. This acceleration could be triggered in the event Mr. Neilsen sells a significant portion of his stock or upon his death if his estate, private foundation, heirs or devisees sell a substantial number of shares of our Common Stock, which they might have to do in order to pay estate tax liabilities or satisfy legal requirements applicable to shareholdings by private foundations. We cannot assure you that we would be able to repay any indebtedness that is accelerated as a result of a change in control, and this would likely materially adversely affect our financial condition.

***Our business may be materially impacted by an act of terrorism or by additional security requirements that may be imposed on us.***

The U.S. Department of Homeland Security has stated that places where large numbers of people congregate, including hotels, are subject to a heightened risk of terrorism. An act of terrorism affecting one of our properties, whether or not covered by insurance, or otherwise affecting the travel and tourism industry in the United States, may have a material adverse effect on our business. Additionally, our business may become subject to increased security measures designed to prevent terrorist acts.

***Many factors, some of which are beyond our control, could adversely affect our ability to successfully complete our construction and development projects as planned.***

*General Construction Risks – Delays and Cost Overruns.* Construction and expansion projects for our properties entail significant risks. These risks include: (1) shortages of materials (including slot machines or other gaming equipment); (2) shortages of skilled labor or work stoppages; (3) unforeseen construction scheduling, engineering, environmental or geological problems; (4) weather interference, floods, hurricanes, fires or other casualty losses; (5) unanticipated cost increases; (6) delays or increased costs in obtaining required governmental permits and approvals; and (7) construction period disruption to existing operations.

Our anticipated costs and construction periods for construction projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects, consultants and contractors. The cost of any construction project undertaken by us may vary significantly from initial expectations, and we may have a limited amount of capital resources to fund cost overruns on any project. The major hurricanes experienced in the Gulf Coast region in 2005 and the resulting reconstruction efforts have exacerbated shortages of certain construction materials and labor and resulted in increased construction costs. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate cash flows from operations or other financing is available. The completion date of any of our construction projects could also differ significantly from initial expectations for construction-related or other reasons. We cannot assure you that any project will be completed on time, if at all, or within established budgets. Significant delays or cost overruns on our construction projects could have a material adverse effect on our business, financial condition and results of operations.

We employ fast-track design and construction methods in some of our construction and development projects. This involves the design of future stages of construction while earlier stages of construction are underway. Although we believe that the use of fast-track design and construction methods can reduce the overall construction time, these methods may not always result in such reductions, often involve additional construction costs than otherwise would be incurred and may

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increase the risk of disputes with contractors, all of which could have a material adverse effect on our business, financial condition and results of operations.

*Our Planned Expansion Project at Ameristar Vicksburg Presents Unique Engineering and Construction Challenges.* We intend shortly to commence an expansion of the casino vessel at Ameristar Vicksburg and to connect the vessel to the new parking garage under construction at the site. In order to do so, we will be required to pour a concrete foundation and rest the vessel on fixed supports (similar in design to a dry-dock) while the vessel remains in the existing cofferdam basin. We plan to do this without suspending operations at the casino. This project presents significant engineering and construction challenges and we believe that our combination of methods may never before have been tried under comparable conditions. We have not been able to procure on practicable terms contractual protections and insurance coverage sufficient to protect us against all possible losses arising out of the project. If the casino vessel were to sustain significant damage or be required to cease operations for an extended period, our business may be materially adversely affected.

*Construction Dependent upon Available Financing and Cash Flows from Operations.* The availability of funds under our senior credit facilities at any time will be dependent upon, among other factors, the amount of our consolidated earnings before interest, taxes, depreciation and amortization expense ( EBITDA ) during the preceding four full fiscal quarters. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are beyond our control. Accordingly, we cannot assure you that our future consolidated EBITDA and the resulting availability of operating cash flows or borrowing capacity will be sufficient to allow us to undertake or complete current or future construction projects.

As a result of operating risks, including those described in this section, and other risks associated with a new venture, we cannot assure you that, once completed, any development project will increase our operating profits or operating cash flows.

***If any of our key personnel leaves us, our business may be significantly affected.***

We depend on the continued performance of Craig H. Neilsen, our Chairman, President and Chief Executive Officer, and the rest of our management team. If we lose the services of Mr. Neilsen, any of our other key executives or our senior property management personnel and cannot replace such persons in a timely manner, it could have a material adverse effect on our business.

***The market for qualified property and corporate management personnel is subject to intense competition.***

We have experienced and expect to continue to experience strong competition in hiring and retaining qualified property and corporate management personnel, including competition from numerous Native American gaming facilities that are not subject to the same taxation regimes as we are and therefore may be willing and able to pay higher rates of compensation. Recruiting and retaining qualified management personnel is particularly difficult at Ameristar Vicksburg, Mountain High and the Jackpot properties due to local market conditions. If we are unable to successfully recruit and retain qualified management personnel at our properties or at our corporate level, our results of operations could be materially adversely affected.

***Adverse weather conditions in the areas in which we operate could have an adverse effect on our results of operations and financial condition.***

Adverse weather conditions, particularly flooding, heavy snowfall and other extreme conditions, as well as natural disasters, can deter our customers from traveling or make it difficult for them to visit our properties. If any of our properties were to experience prolonged adverse weather conditions, or if

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multiple properties were to simultaneously experience adverse weather conditions, our results of operations and financial condition would be adversely affected.

***Any loss from service of our riverboat and barge facilities for any reason could materially adversely affect us.***

Our riverboat and barge facilities could be lost from service due to casualty, mechanical failure, extended or extraordinary maintenance, floods or other severe weather conditions.

The Ameristar Vicksburg site has experienced ongoing geologic instability that requires periodic maintenance and improvements. Although we have reinforced the cofferdam basin in which the vessel currently floats and where we are planning to dry-dock the vessel on a concrete foundation, further reinforcements may be necessary. We are also monitoring the site to evaluate what further steps, if any, may be necessary to stabilize the site to permit operations to continue. A site failure would require Ameristar Vicksburg to limit or cease operations.

The loss of a riverboat or barge facility from service for any period of time likely would adversely affect our operating results and borrowing capacity under our long-term debt facilities in an amount that we are unable to reasonably estimate. It could also result in the occurrence of an event of a default under our credit agreement.

***We could face severe penalties and material remediation costs if we fail to comply with applicable environmental regulations.***

As is the case with any owner or operator of real property, we are subject to a variety of federal, state and local governmental regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Failure to comply with environmental laws could result in the imposition of severe penalties or restrictions on operations by government agencies or courts, which could adversely affect our operations. We do not have environmental liability insurance to cover most such events, and the environmental liability insurance coverage we maintain to cover certain events includes significant limitations and exclusions. In addition, if we discover any significant environmental contamination affecting any of our properties, we could face material remediation costs or additional development costs for future expansion activities.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

***Ameristar St. Charles.*** Ameristar St. Charles is located on approximately 58 acres that we own along the west bank of the Missouri River immediately north of Interstate 70. Access to the property may be obtained via the Fifth Street exit on Interstate 70. Ameristar St. Charles owns various other real property in the region, including undeveloped land held for possible future wetlands remediation.

***Ameristar Kansas City.*** Ameristar Kansas City is located on approximately 183 acres of property that we own. The site is east of and adjacent to Interstate 435 along the north bank of the Missouri River. The site, which is approximately seven miles east of downtown Kansas City, Missouri, may be accessed via the Missouri Highway 210 exit on Interstate 435.

***Ameristar Council Bluffs.*** Ameristar Council Bluffs is located on an approximately 69-acre site along the bank of the Missouri River and adjacent to the Nebraska Avenue exit on Interstate 29 immediately north of the junction of Interstates 29 and 80. We own approximately 46 acres of this site and have rights

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to use the remaining portion of the site that is owned by the State of Iowa for a term expiring in 2045. We lease approximately one acre of the Ameristar Council Bluffs site to affiliates of Kinseth Hospitality Corporation for the operation of a 188-room limited service Holiday Inn Suites Hotel and a 96-room Hampton Inn Hotel.

*Ameristar Vicksburg.* Ameristar Vicksburg is located on two parcels, totaling approximately 50 acres, that we own in Vicksburg, Mississippi on either side of Washington Street near Interstate 20. We own or lease various other properties in the vicinity that are not part of our facility, including a service station and convenience store adjacent to our hotel that we operate.

*Mountain High Casino.* Mountain High Casino is located on a site of approximately 5.7 acres that we own on the north side of Colorado Highway 119 in Black Hawk, Colorado. We own approximately 100 acres of largely hillside land across Richman Street from the casino site, a portion of which is currently used for overflow parking.

*The Jackpot Properties.* We own approximately 116 acres in or around Jackpot, Nevada, including the 35-acre site of Cactus Petes and the 25-acre site of The Horseshu. The Cactus Petes and Horseshu sites are across from each other on U.S. Highway 93. We also own 288 housing units in Jackpot that support the primary operations of the Jackpot properties.

*Other.* We lease office and warehouse space in various locations outside of our operating properties, including our corporate offices in Las Vegas, Nevada. We own or lease other real property in various locations in the United States that is used in connection with our business.

Substantially all of our real property collateralizes our obligations under our senior credit facilities.

**Item 3. Legal Proceedings**

From time to time, we are a party to litigation, most of which arises in the ordinary course of business. We are not currently a party to any litigation that management believes would be likely to have a material impact on our financial position, results of operations or cash flows.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Ameristar's Common Stock is traded on the Nasdaq National Market under the symbol ASCA. The price per share of common stock presented below represents the highest and lowest closing prices for the Company's Common Stock on the Nasdaq National Market during each quarter.

		High	Low
	2005		
First Quarter		\$28.99	\$20.47
Second Quarter		29.13	23.83
Third Quarter		30.31	20.04
Fourth Quarter		24.97	18.12
	2004		
First Quarter		\$17.27	\$12.02
Second Quarter		18.91	15.52
Third Quarter		17.05	11.94
Fourth Quarter		21.80	14.45

On June 20, 2005, the Company effected a 2-for-1 stock split. All share and per share information in this Report has been retroactively adjusted to reflect the stock split.

As of March 1, 2006, there were approximately 143 holders of record of Ameristar's Common Stock.

In 2004, we paid four quarterly cash dividends of \$0.0625 per share on our Common Stock, for an annual total of \$0.25 per share. In 2005, we increased the quarterly cash dividend to \$0.078125 per share, for an annual total of \$0.3125 per share. On February 15, 2006, our Board of Directors increased the quarterly cash dividend to \$0.09375 per share, commencing with the dividend paid in the first quarter of 2006.

Our senior credit facilities obligate us to comply with certain covenants that place limitations on the payment of dividends. We are limited to paying no more than \$40.0 million annually for dividends under the agreement governing the senior credit facilities. For the years ended December 31, 2005 and 2004, we paid dividends totaling \$17.4 million and \$13.6 million, respectively. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 5—Long-term debt of Notes to Consolidated Financial Statements.

**Table of Contents****Item 6. Selected Financial Data**

The following data have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, certain of which are included in this Report.

**AMERISTAR CASINOS, INC.  
CONSOLIDATED SELECTED FINANCIAL DATA**

Statement of operations data (1):	For the years ended December 31,				
	2005	2004	2003	2002	2001
	(Amounts in Thousands, Except Per Share Data)				
<b>REVENUES:</b>					
Casino	\$ 974,178	\$ 856,901	\$ 760,376	\$ 678,642	\$ 568,259
Food and beverage	125,918	114,010	103,176	80,783	66,994
Rooms	25,355	26,082	25,136	22,824	22,802
Other	26,041	23,166	21,557	19,387	18,074
	1,151,492	1,020,159	910,245	801,636	676,129
Less: Promotional allowances	190,134	165,461	128,278	103,673	73,304
Net revenues	961,358	854,698	781,967	697,963	602,825
<b>OPERATING EXPENSES:</b>					
Casino	431,101	379,909	349,845	297,476	252,906
Food and beverage	66,299	63,758	59,747	53,963	46,169
Rooms	6,454	6,565	6,343	6,826	7,921
Other	16,503	13,687	12,522	13,962	11,813
Selling, general and administrative	186,050	157,907	149,292	150,228	129,060
Depreciation and amortization	85,366	73,236	63,599	48,711	40,101
Impairment loss on assets held for sale	869	174	687	5,213	
Preopening costs				6,401	
Total operating expenses	792,642	695,236	642,035	582,780	487,970
<b>INCOME FROM OPERATIONS</b>	<b>168,716</b>	<b>159,462</b>	<b>139,932</b>	<b>115,183</b>	<b>114,855</b>
<b>OTHER INCOME (EXPENSE):</b>					
Interest income	830	245	330	174	522
Interest expense, net	(60,913)	(57,003)	(64,261)	(51,206)	(64,931)
Loss on early retirement of debt	(2,074)	(923)	(701)		
Net (loss) gain on disposition of assets	(1,576)	(717)	289	(341)	(777)
Other	(79)	(187)	(1)	69	1
Income before income tax provision and cumulative effect of change in accounting principle	104,904	100,877	75,588	63,879	49,670
Income tax provision	38,619	38,898	27,968	23,345	16,381
	66,285	61,979	47,620	40,534	33,289

Income before cumulative effect of  
change in accounting principle

Cumulative effect of change in  
accounting principle adoption of SFAS  
No. 133, net of income tax benefit of \$73

(135)

NET INCOME	\$ 66,285	\$ 61,979	\$ 47,620	\$ 40,534	\$ 33,154
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**AMERISTAR CASINOS, INC.**  
**CONSOLIDATED SELECTED FINANCIAL DATA**  
*(continued)*

<b>STATEMENT OF OPERATIONS DATA (CONTINUED):</b>	For the years ended December 31,				
	2005	2004	2003	2002	2001
	(Amounts in Thousands, Except Per Share Data)				
<b>EARNINGS PER SHARE:</b>					
Income before cumulative effect of change in accounting principle					
Basic	\$ 1.19	\$ 1.15	\$ 0.90	\$ 0.78	\$ 0.80
Diluted	\$ 1.16	\$ 1.11	\$ 0.88	\$ 0.75	\$ 0.76
Cumulative effect of change in accounting principle					
Basic	\$	\$	\$	\$	\$ (0.01)
Diluted	\$	\$	\$	\$	\$
Net income					
Basic	\$ 1.19	\$ 1.15	\$ 0.90	\$ 0.78	\$ 0.79
Diluted	\$ 1.16	\$ 1.11	\$ 0.88	\$ 0.75	\$ 0.76
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>					
Basic	55,664	54,114	52,846	52,214	41,812
Diluted	57,127	55,653	54,240	53,984	43,816
December 31, (Amounts in Thousands)					
<b>BALANCE SHEET AND OTHER DATA:</b>	2005	2004	2003	2002	2001
Cash and cash equivalents	\$ 106,145	\$ 86,523	\$ 78,220	\$ 90,573	\$ 41,098
Total assets	1,383,986	1,315,469	1,155,250	1,173,492	892,592
Total long-term debt, net of current maturities	776,029	761,799	713,044	760,665	624,255
Stockholders' equity (2)	383,710	321,300	255,843	202,196	157,336
Capital expenditures	177,789	89,633	69,219	255,530	114,114

(1) We sold the Reserve Hotel Casino on January 29, 2001. We opened the new Ameristar St.



Charles facility on August 6, 2002. We acquired Mountain High Casino on December 21, 2004.

- (2) Dividends of \$17.4 million and \$13.6 million were paid in 2005 and 2004, respectively. The annual dividend per share was \$0.3125 in 2005 and \$0.25 in 2004. No dividends were paid in 2001 through 2003.

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**AMERISTAR CASINOS, INC.**  
**CONSOLIDATED SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

	For the fiscal quarters ended				Total
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	
	(Amounts in Thousands, Except Per Share Data)				
Net revenues (1)	\$240,109	\$238,868	\$ 238,591	\$ 243,791	\$961,358
Income from operations (1)	46,283	42,230	40,479	39,723	168,716
Income before income tax provision (1)	30,454	26,614	25,406	22,429	104,904
Net income (1)	19,230	16,654	16,100	14,300	66,285
Basic earnings per share (2)	\$ 0.35	\$ 0.30	\$ 0.29	\$ 0.26	\$ 1.19
Diluted earnings per share (2)	\$ 0.34	\$ 0.29	\$ 0.28	\$ 0.25	\$ 1.16

	For the fiscal quarters ended				Total
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	
	(Amounts in Thousands, Except Per Share Data)				
Net revenues (1)	\$214,363	\$210,005	\$ 215,651	\$ 214,680	\$854,698
Income from operations	42,134	39,102	40,310	37,916	159,462
Income before income tax provision	26,506	25,028	26,421	22,922	100,877
Net income	15,901	15,019	16,601	14,458	61,979
Basic earnings per share (2)	\$ 0.30	\$ 0.28	\$ 0.31	\$ 0.27	\$ 1.15
Diluted earnings per share (2)	\$ 0.29	\$ 0.27	\$ 0.30	\$ 0.26	\$ 1.11

(1) The sum of the amounts for the four quarters does not equal the total for the year due to rounding.

(2) Because earnings per share amounts are calculated using the weighted average number of common and dilutive common

equivalent  
shares  
outstanding  
during each  
quarter, the sum  
of the per-share  
amounts for the  
four quarters  
may not equal  
the total  
earnings per  
share amounts  
for the year.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following information should be read in conjunction with our Consolidated Financial Statements and the Notes thereto included in this Report. The information in this section and in this Report generally includes forward-looking statements. See Item 1A. Risk Factors.*

**Overview**

We develop, own and operate casinos and related hotel, food and beverage, entertainment and other facilities, with seven properties in operation in Missouri, Iowa, Mississippi, Colorado and Nevada. Our portfolio of casinos consists of: Ameristar St. Charles (serving greater St. Louis, Missouri); Ameristar Kansas City (serving the Kansas City, Missouri metropolitan area); Ameristar Council Bluffs (serving Omaha, Nebraska and southwestern Iowa); Ameristar Vicksburg (serving Jackson, Mississippi and Monroe, Louisiana); Cactus Petes and the Horseshu in Jackpot, Nevada (serving Idaho and the Pacific Northwest); and Mountain High in Black Hawk, Colorado (serving the Denver metropolitan area). We acquired Mountain High on December 21, 2004.

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

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

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

*Mountain High Casino acquisition and expansion.* As part of our strategy to grow the Company, we acquired Mountain High in Black Hawk, Colorado on December 21, 2004. Mountain High contributed \$51.3 million to net revenues and \$0.3 million to operating income during 2005. Mountain High's 2005 financial results were adversely impacted by significant construction disruption as we continue to progress toward the completion of our planned capital improvement projects at the property and a temporary highway closure during the third quarter. The expansion of the parking garage, which nearly doubled the capacity to 1,550 parking spaces, was completed in November 2005 and the remodeling of the casino and non-gaming venues on the first floor was substantially completed in December 2005. In March 2006, we completed the second floor of the casino, which includes an additional 700 slot machines. We intend to rebrand Mountain High under the Ameristar name on April 1, 2006. The construction of a 534-room AAA Four Diamond-quality hotel is planned to begin in the second quarter of 2006 and is expected to be completed in mid-year 2008. We believe the quality and scope of the property will enable us to become the market share leader in the greater Denver market after these improvements are completed. We expect the total cost of our planned capital improvements at Mountain High to be approximately \$260 million, which will bring our total investment in the

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property to approximately \$380 million. Capital expenditures relating to the Mountain High remodeling and expansion projects totaled \$57.2 million in 2005.

*Promotional spending and marketing.* For the year ended December 31, 2005, promotional allowances at our Ameristar-branded properties increased \$14.6 million (9.4%) over the prior year while net revenues at these properties increased only 6.8%. The increase in our rate of promotional spending was partially attributable to our ongoing efforts to strengthen the Ameristar brand through targeted marketing, as evidenced by a 7.8% increase in rated play at our Ameristar-branded properties for year ended December 31, 2005 compared to the same period in 2004. In addition to improving rated play, our promotional spending also increased as a result of our efforts to maintain market share leadership in the increasingly competitive Missouri and Iowa markets. The St. Louis market has developed into a more competitive environment, in response to which we were required to increase marketing and promotional spending at Ameristar St. Charles to maintain our competitive position in the market. The increasingly competitive market and our efforts to attract rated players contributed to a 2.0 percentage point decrease in operating income margin at our St. Charles property year-over-year. Our Kansas City property was also impacted by increased competition in 2005 that partially contributed to a \$4.3 million rise in promotional allowances and a relatively flat operating income margin year-over-year. During 2005, our Council Bluffs property benefited from significant construction disruption and a reduced number of available slot machines at the competing racetrack casino, which is being significantly expanded and rebranded. We believe that competition will intensify in this market as the improvements at the racetrack casino are completed, which is expected to occur throughout the first quarter of 2006. Accordingly, we anticipate promotional spending will increase in our effort to maintain our market share.

*Post-hurricane improvement at Ameristar Vicksburg.* In 2005, Ameristar Vicksburg increased operating income by \$11.2 million, or 40.7%, over the prior year. The improved financial performance of this property is mostly attributable to the substantial increase in business volume following the closure of the Gulf Coast casinos as a result of Hurricane Katrina. This increase in the property's business volume has diminished in the first quarter of 2006 following the reopening of three Mississippi Gulf Coast casinos in December 2005, and we expect it to diminish further as more Gulf Coast casinos reopen later in 2006. However, we anticipate 2006 revenues to be significantly higher than 2005 until the fourth quarter of 2006.

*Rising health benefit costs.* For the year ended December 31, 2005, our health benefit costs at properties we have owned for consecutive years and our corporate office increased \$6.2 million, or 28.9%, over the prior year. The rise in health benefit costs in excess of normal inflationary trends is primarily attributable to a significant increase in the number and size of large claims experienced in 2005.

*External development costs.* Development activities contributed to our increased corporate expense as we continue to pursue growth through development and acquisition opportunities. Development-related costs totaled \$6.6 million in 2005 compared to \$4.3 million in 2004. For the years ended December 31, 2005 and 2004, we incurred costs relating to our pursuit of a casino license in Pennsylvania totaling approximately \$3.0 million and \$0.3 million, respectively. However, following an in-depth analysis of the Philadelphia market, operational projections and construction cost estimates, we determined that execution of our core business strategy of developing first-class gaming and entertainment properties could not generate a sufficient return on our investment to justify proceeding with a casino license application for Philadelphia. Accordingly, we suspended our development efforts in Pennsylvania in November 2005.

*Renovations and enhancements at Ameristar St. Charles.* At Ameristar St. Charles, we have commenced the construction of a 400-room, all-suite hotel, an indoor/outdoor swimming pool, a

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7,000 square-foot full-service spa, 20,000 square feet of new meeting and conference facilities and an additional 2,000-space parking garage. The total cost of these projects is expected to be approximately \$240.0 million, with the completion dates projected to be the second quarter of 2006 for the conference facilities, the fourth quarter of 2006 for the initial 1,400 spaces of the parking garage and the fourth quarter of 2007 for the hotel and the remainder of the garage. We believe these planned improvements will allow us to further enhance our competitive position in the St. Louis market, which should position us to extend our market share leadership. We expect minimal construction disruption to existing operations as these capital improvement projects are being completed.

*Expansion project at Ameristar Vicksburg.* At Ameristar Vicksburg, we have commenced the first phase of our master expansion plan with the construction of a new 1,083-space parking garage, which is expected to be completed in the second quarter of 2007. In June 2006, we intend to commence an expansion of the casino vessel that will directly connect to the new parking garage. The expanded casino will allow for the addition of up to 800 slot machines. The expansion project will also include the addition of two new restaurants, a new Star Club for our VIP guests, a poker room, a retail shop and other amenities. This project is slated for a mid-year 2007 completion. The expected cost of our planned capital improvements at Ameristar Vicksburg is approximately \$90 million. These improvements will help alleviate long-standing capacity constraints in parking and gaming positions, and we believe will allow us to increase our market dominance in Vicksburg.

*Debt management.* On November 10, 2005, we obtained a new \$1.2 billion senior secured credit facility that includes a \$400.0 million seven-year term loan facility and a five-year revolving loan facility with capacity for borrowing up to \$800.0 million. The proceeds from the new term loan were primarily used to repay all \$362.2 million principal amount of loans outstanding under the replaced senior secured credit facilities. The new credit facility features lower interest rate add-ons compared to our previous senior secured credit facilities and, together with operating cash flows, will provide the funding for our planned capital improvement projects. In February 2006, we utilized funds borrowed under the revolving loan facility to redeem our 10.75% Senior Subordinated Notes due 2009, which we expect will result in a further significant reduction in our borrowing costs. Net interest expense for 2005 increased \$3.9 million, or 6.9%, over the prior year as a result of rises in our average interest rate and long-term debt level. We improved our total debt leverage ratio (as defined in our credit agreement) from 3.29:1 at December 31, 2004 to 3.07:1 at December 31, 2005.

**Table of Contents****Results of Operations****Selected Financial Measures by Property**

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

	Years ended December 31,		
	2005	2004	2003
	(Dollars in Thousands)		
<b>Consolidated Cash Flow Information:</b>			
Net cash provided by operating activities	\$ 197,459	\$ 176,504	\$ 151,162
Net cash used in investing activities	\$ (175,849)	\$ (208,658)	\$ (83,379)
Net cash (used in) provided by financing activities	\$ (1,988)	\$ 40,457	\$ (80,136)
<b>Net Revenues:</b>			
Ameristar St. Charles	\$ 286,028	\$ 278,887	\$ 256,594
Ameristar Kansas City	247,586	234,432	214,819
Ameristar Council Bluffs	186,367	171,755	156,673
Ameristar Vicksburg	126,089	107,440	95,048
Jackpot Properties	63,939	60,160	58,833
Mountain High (1)	51,349	2,024	
Consolidated net revenues	\$ 961,358	\$ 854,698	\$ 781,967
<b>Operating Income (Loss):</b>			
Ameristar St. Charles	\$ 63,268	\$ 67,125	\$ 61,257
Ameristar Kansas City	48,226	44,803	40,351
Ameristar Council Bluffs	56,452	50,656	45,552
Ameristar Vicksburg	38,812	27,592	21,215
Jackpot Properties	10,851	8,962	8,022
Mountain High (1)	304	851	
Corporate and other	(49,197)	(40,527)	(36,465)
Consolidated operating income	\$ 168,716	\$ 159,462	\$ 139,932
<b>Operating Income Margins:</b>			
Ameristar St. Charles	22.1%	24.1%	23.9%
Ameristar Kansas City	19.5%	19.1%	18.8%
Ameristar Council Bluffs	30.3%	29.5%	29.1%
Ameristar Vicksburg	30.8%	25.7%	22.3%
Jackpot Properties	17.0%	14.9%	13.6%
Mountain High (1)	0.6%	42.0%	
Consolidated operating income margin	17.5%	18.7%	17.9%

(1) We acquired Mountain High on December 21, 2004.

Accordingly,  
Mountain High's  
operating results  
are included  
only since the  
acquisition date  
for 2004 and for  
the full year  
2005.



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The following table presents detail of our net revenues:

	Years ended December 31,		
	2005	2004	2003
	(Amounts in Thousands)		
<b>Casino Revenues:</b>			
Slots	\$ 860,948	\$ 747,247	\$ 655,592
Table games	113,230	109,654	104,784
Casino revenues	974,178	856,901	760,376
<b>Non-Casino Revenues:</b>			
Food and beverage	125,918	114,010	103,176
Rooms	25,355	26,082	25,136
Other	26,041	23,166	21,557
Non-casino revenues	177,314	163,258	149,869
	1,151,492	1,020,159	910,245
<b>Less: Promotional Allowances</b>	(190,134)	(165,461)	(128,278)
<b>Total Net Revenues</b>	<b>\$ 961,358</b>	<b>\$ 854,698</b>	<b>\$ 781,967</b>

***Year Ended December 31, 2005 Versus Year Ended December 31, 2004******Net Revenues***

Consolidated net revenues for the year ended December 31, 2005 increased 12.5% over the prior year. All our Ameristar-branded properties improved their net revenues in 2005. For the year ended December 31, 2005, three of our properties improved their market share over the prior year: Ameristar Council Bluffs with a 2.2 percentage point increase to 43.1%; Ameristar Kansas City with a 1.6 percentage point increase to 36.7%; and Ameristar Vicksburg with a 1.3 percentage point increase to 46.7%. Ameristar St. Charles maintained its market share leadership position for 2005 with 31.9% of the market, despite a 0.1 percentage point decrease from the prior year.

Casino revenues for the year ended December 31, 2005 increased \$117.3 million, or 13.7%, from 2004, including increases in slot and poker revenues of 15.2% and 17.2%, respectively. The increased gaming revenues are mostly attributable to the continued improvement in our slot product and the other factors described above. We further believe casino revenues increased in part as a result of our continued successful implementation of our targeted marketing programs, which is evidenced by the 7.8% increase in rated play at our Ameristar-branded properties when compared to 2004. In 2005, we believe our slot product and targeted marketing efforts were the principal reasons we achieved market share leadership for the third consecutive year in all markets where we operated, with the exception of Mountain High, which is currently undergoing a major renovation and expansion.

Net revenues at Ameristar St. Charles for 2005 increased \$7.1 million, or 2.6%, over the prior year. Casino revenues increased \$12.6 million year-over-year, led by an improvement in slot revenues of \$13.3 million, or 5.1%. Promotional allowances, which are reported as a reduction of revenues, increased \$8.4 million, or 14.9%, in 2005 compared to 2004, in substantial part due to increased competition and our targeted marketing efforts mentioned above.

Net revenues at Ameristar Kansas City improved by \$13.2 million, or 5.6%, year-over-year. Casino revenues increased by \$17.7 million over the year ended December 31, 2004, due primarily to our continued slot product enhancements. Promotional allowances increased \$4.3 million, or 8.8%, in 2005 as a result of the continued expansion of our patron base and increased competition in the market.

At Ameristar Council Bluffs, our net revenues in 2005 increased \$14.6 million, or 8.5%, driven by an increase in casino revenues of \$15.9 million, or 9.3%. Slot revenues improved by \$14.5 million (9.8%) when compared to the prior year due to the continued improvements in slot product and the significant

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construction disruption and a reduced number of available slot machines at the competing racetrack casino. Promotional allowances increased \$1.3 million, or 4.6%, over 2004.

At Ameristar Vicksburg, our net revenues increased \$18.6 million, or 17.4%, year-over-year, in a market that grew 10.5% in 2005. Slot revenues improved \$13.1 million (13.7%) when compared to the year ended December 31, 2004. Our promotional allowances increased by \$0.7 million, or 3.1%, over the prior year. The property's improved financial performance and the growth in the Vicksburg market are mostly attributable to the third quarter closure of the Gulf Coast casinos following Hurricane Katrina.

Our Jackpot properties' 2005 net revenues improved by \$3.8 million over the previous year. The 6.3% increase in net revenues is mostly attributable to effective slot marketing that resulted in a \$3.5 million improvement in slot revenues year-over-year.

Our Mountain High property contributed \$49.3 million to the increase in consolidated annual net revenues in 2005. For the year ended December 31, 2005, casino revenues were \$54.1 million, which represents a \$52.1 million increase over the 11-day period we owned the property in 2004. Slot revenues totaled \$48.2 million in 2005. Mountain High contributed \$10.3 million to the increase in consolidated promotional allowances during 2005.

*Operating Income*

In 2005, consolidated operating income increased \$9.3 million, or 5.8%, over 2004, while consolidated operating income margin decreased by 1.1 percentage points from the prior year. The growth in operating income was substantially attributable to Ameristar Vicksburg's strong financial performance following the closure of the Gulf Coast casinos by Hurricane Katrina. The Vicksburg property's financial results were somewhat offset by greater than expected construction disruption at Mountain High, higher corporate costs and increased competitive pressures experienced by our Missouri and Iowa properties, which negatively impacted consolidated operating income and the related margin.

Ameristar St. Charles experienced a decline in operating income of \$3.9 million, or 5.7%, in 2005, compared to the previous year. The operating income margin also decreased in 2005 by 1.9 percentage points. Operating income and the related margin were negatively impacted by a more competitive market environment that resulted in an increase of \$9.5 million in marketing and promotional costs. Additionally, the property reported increases in employee compensation and related benefits of \$3.5 million and depreciation expense of \$2.3 million in 2005.

Ameristar Kansas City increased income from operations in 2005 by \$3.4 million, or 7.6%, over the year ended December 31, 2004. In 2005, operating income margin improved slightly (0.4 percentage point) over the previous year. We believe that the improvements at our Kansas City property were mostly attributable to the effective implementation of our core operating strategies, particularly revenue enhancement through the deployment of new slot product and cost-containment initiatives related to our food and beverage operations.

For the year ended December 31, 2005, Ameristar Council Bluffs reported an increase in operating income of \$5.8 million, 11.4% higher than in 2004. Operating income margin also improved by 0.8 percentage point in 2005 as a result of management's effective implementation of cost-containment initiatives during a period of revenue growth. We continued to benefit from significant construction disruption and a reduced number of available slot machines at the competing racetrack casino. We believe that competition will intensify in this market as the improvements at the racetrack casino are completed, which is expected to occur in March 2006.

Ameristar Vicksburg's operating income increased \$11.2 million, or 40.7%, in 2005. The operating margin improved 5.1 percentage points year-over-year. The improvements in the 2005 operating income

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and margin were mostly due to revenue growth from the increased business volume mentioned above and effective containment of marketing and promotional costs. We expect this increase in the property's business volume to diminish as the Gulf Coast casinos reopen, as we have experienced to date in the first quarter of 2006.

Operating income at our Jackpot properties improved by \$1.9 million, or 21.1%, in 2005 and operating income margin increased 2.1 percentage points compared to 2004. The operating results were favorably impacted by gaming revenue growth and a reduction in entertainment and marketing costs.

Mountain High's operating income and the related margin for 2005 were negatively affected by significant construction disruption relating to the casino expansion project and the temporary closure of a principal highway between Black Hawk and Denver in the third quarter.

Corporate expense for the year ended December 31, 2005 increased \$8.7 million, or 22.1%, over 2004. This increase resulted primarily from \$4.1 million of additional employee compensation and benefit costs and increased development activities. Development-related costs totaled \$6.6 million for the year ended December 31, 2005, a \$2.3 million increase over the prior year.

*Interest Expense*

Consolidated interest expense, net of amounts capitalized, was \$60.9 million in 2005 compared to \$57.0 million in 2004. Total interest cost in 2005 was \$66.0 million, an increase of \$7.3 million over 2004. The increase is due primarily to a rise in our average LIBOR-based interest rate on our senior credit facilities year-over-year and, to a lesser extent, an increase in our long-term debt level resulting from the \$115.0 million borrowed in December 2004 to acquire Mountain High. The increases in the average interest rate and long-term debt level were partially offset by a \$1.0 million decrease in interest expense resulting from the termination of our interest rate swap agreement on March 31, 2004 and an increase in capitalized interest from \$1.7 million in 2004 to \$5.0 million in 2005. Capitalized interest in 2005 primarily related to the capital improvement projects at Mountain High and the hotel room renovations at our Council Bluffs and Kansas City properties.

*Income Tax Expense*

Our effective income tax rate was 36.8% in 2005 and 38.6% in 2004. The federal income tax statutory rate was 35.0% in both years. The differences from the statutory rate are due to state income taxes and the effect of certain expenses we incurred that are not deductible for federal income tax purposes.

*Net Income*

Net income increased to \$66.3 million for the year ended December 31, 2005 compared to \$62.0 million in 2004 and diluted earnings per share increased to \$1.16 in 2005 from \$1.11 in 2004. Our net income and diluted earnings per share in 2005 increased primarily as a result of revenue growth for the reasons mentioned above, as partially offset by increases in depreciation expense, corporate costs and losses on early retirement of debt. Diluted earnings per share were negatively impacted by a 2.6% increase in the number of weighted average diluted shares outstanding in 2005 versus 2004.

**Table of Contents*****Year Ended December 31, 2004 Versus Year Ended December 31, 2003******Net Revenues***

Consolidated net revenues for the year ended December 31, 2004 increased 9.3% over the prior year. All our properties improved their net revenues and market share in 2004 when compared to 2003. Led by a \$91.7 million (14.0%) increase in slot revenues, consolidated casino revenues for 2004 increased \$96.5 million, or 12.7%, from the prior year. We believe that the growth in slot revenues was driven by our continued implementation of coinless slot technology at our Ameristar-branded properties, which were 100% coinless as of December 31, 2004. In addition, we believe our continued leadership in the introduction of new-generation, lower-denomination slot machines at our Ameristar-branded properties has contributed to the improvement in slot revenues, due to the popularity of this segment of the slot market. We further believe casino revenues increased in part as a result of our continued successful implementation of our targeted marketing programs, which is evidenced by the 20.7% increase in rated play at our Ameristar-branded properties when compared to 2003. In 2004, we believe our slot product and targeted marketing efforts were the principal reasons we achieved market share leadership for the second consecutive year in all markets where we operated for a full year.

Net revenues at Ameristar St. Charles for 2004 increased \$22.3 million, or 8.7%, over the prior year. During 2004, we continued to experience revenue growth in St. Charles as a result of the expanded facility completed in August 2002, the implementation of our targeted marketing programs and the 9.3% growth year-over-year of the overall St. Louis market. In 2004, we increased our market share to 32.0% from 31.3% in 2003. Casino revenues increased \$31.9 million year-over-year, led by improvements in slot revenues of \$31.7 million, or 13.7%. Promotional allowances increased \$13.8 million, or 32.6%, in 2004 compared to 2003, in substantial part due to increased competition and our targeted marketing efforts mentioned above.

Net revenues at Ameristar Kansas City improved by \$19.6 million, or 9.1%, year-over-year. Casino revenues increased by \$26.9 million due to our slot product enhancements and the benefit of a full year of operations since the introduction of the All New Ameristar Kansas City in September 2003. Additionally, the 2003 operating results were negatively impacted by construction disruption from the renovation and enhancement projects during the first three quarters of the prior year. We earned the highest market share in Kansas City, with a 35.1% share of the market in 2004 compared to 34.4% in 2003. Our results also benefited from the 10.2% growth over the prior year of the overall Kansas City market. Promotional allowances increased \$10.5 million, or 27.4%, in 2004 as a result of the continued expansion of our patron base and increased competition in the market.

At Ameristar Council Bluffs, our net revenues and market share continued to improve over the previous year. Net revenues in 2004 increased \$15.1 million, or 9.6%, driven by an increase in casino revenues of \$19.0 million, or 12.6%. Slot revenues improved by \$18.0 million (13.8%) when compared to the prior year due to the improvements in slot product and the related technology mentioned above. Our market share increased from 39.2% in 2003 to 40.9% in 2004. In 2004, the total Council Bluffs market grew by 7.7%. Promotional allowances increased \$6.4 million, or 30.6%, over 2003 in our effort to maintain our competitive advantage in the expanding market.

At Ameristar Vicksburg, our net revenues increased \$12.4 million, or 13.0%, year-over-year, in a market that grew 2.5% in 2004. Slot revenues improved \$12.8 million (15.5%) when compared to the year ended December 31, 2003. Our promotional allowances increased \$5.1 million, or 29.1%, in the current year due to the factors previously indicated. We improved our market share to 45.4% in 2004, which represents an increase of 4.7 percentage points over 2003.

Our Jackpot properties 2004 net revenues improved by \$1.3 million over the previous year. The 2.3% increase in net revenues is partially attributable to relatively milder weather conditions in 2004.

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In 2004, consolidated operating income increased \$19.5 million, or 14.0%, from 2003, and consolidated operating income margin improved 0.8 percentage point over 2003. The growth in operating income and operating income margin at our properties was principally the result of continued effective management of controllable costs and the operational leverage achieved from the increase in revenues noted above.

Ameristar St. Charles increased income from operations in 2004 by \$5.9 million, or 9.6%, while the change in the operating income margin was nominal. The margin was impacted by a more competitive market environment that resulted in increased marketing and promotional costs. Additionally, the property experienced increases in employee compensation and related benefits of \$3.7 million and depreciation expense of \$1.0 million during 2004. The increase in depreciation expense was partially offset by savings on equipment rentals of \$0.7 million.

Operating income at Ameristar Kansas City improved \$4.5 million from 2003, representing an increase of 11.0%. In 2004, operating income margin improved slightly (0.3 percentage point) over the previous year. The improvements in operating income and the related margin are partially attributable to the \$1.3 million of costs incurred in 2003 in connection with the All New Ameristar Kansas City enhancement and renovation projects. Depreciation expense increased by \$4.8 million over 2003 as a result of the newly constructed assets being in service for a full year and significant purchases of coinless slot technology. The operating results for the year ended December 31, 2003 reflected a non-recurring benefit of \$1.1 million for sales and use tax refunds.

For the year ended December 31, 2004, Ameristar Council Bluffs reported an increase in operating income of \$5.1 million, 11.2% higher than in 2003. Operating income margin also improved by 0.4 percentage point in 2004 as a result of management's effective implementation of cost-containment initiatives during a period of revenue growth. The improvements in operating income and operating income margin occurred despite a 2.0% increase in the Iowa tax rate on gaming revenues of riverboat casinos, which became effective July 1, 2004. The improvement in the operating income margin was partially offset by higher depreciation expense of \$1.4 million, due to an increase in our depreciable asset base resulting primarily from purchases of coinless slot technology during 2003.

Ameristar Vicksburg's operating income increased \$6.4 million, or 30.1%, in 2004. The operating margin improved 3.4 percentage points year-over-year. The improvements in the 2004 operating income and margin were partially due to a combined savings of \$0.9 million in equipment rental expense and legal fees as compared to 2003. Additionally, the property was negatively impacted by \$0.7 million of additional impairment losses on assets held for sale during 2003.

Operating income at our Jackpot properties improved by \$0.9 million, or 11.7%, in 2004 and operating income margin increased 1.3 percentage points compared to 2003. The operating results were favorably impacted by cost-containment initiatives that were successfully implemented relating to employee compensation and entertainment fees.

Corporate expense increased \$4.1 million, or 11.1%, in 2004 as a result of the continued growth of the Company and increased development activities.

*Interest Expense*

Consolidated interest expense, net of amounts capitalized, was \$57.0 million in 2004 compared \$64.3 million in 2003. Total interest cost in 2004 was \$58.7 million, a decrease of \$7.2 million from \$65.9 million in 2003. The decrease reflects: (1) a lower weighted average debt balance due to mandatory and accelerated principal reductions in 2004; (2) a lower average interest rate on our senior credit facilities

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year-over-year due to a further decline in the LIBOR rate; (3) a reduction in interest cost as a result of the termination of our interest rate swap agreement on March 31, 2004; and (4) a decrease in interest cost as a result of the expiration of our interest rate collar in June 2003. Capitalized interest increased slightly, from \$1.6 million in 2003 to \$1.7 million in 2004. Capitalized interest in 2004 primarily related to renovation and construction projects at our Council Bluffs and Vicksburg properties. In 2003, capitalized interest related primarily to the significant enhancements and renovations at Ameristar Kansas City.

*Income Tax Expense*

Our effective income tax rate was 38.6% in 2004 and 37.0% in 2003. The federal income tax statutory rate was 35.0% in both years. The differences from the statutory rate are due to state income taxes and the effect of certain expenses we incurred that are not deductible for federal income tax purposes.

*Net Income*

Net income increased to \$62.0 million for the year ended December 31, 2004 compared to \$47.6 million in 2003 and diluted earnings per share increased to \$1.11 in 2004 from \$0.88 in 2003. Our net income and diluted earnings per share in 2004 increased primarily as a result of revenue growth and a decline in interest expense year-over-year, as partially offset by increases in depreciation expense and the effective income tax rate. Diluted earnings per share were negatively impacted by a 2.6% increase in the number of weighted average diluted shares outstanding in 2004 versus 2003.

**Liquidity and Capital Resources***Cash flows from operating activities*

Our business is primarily conducted on a cash basis. Accordingly, operating cash flows tend to follow trends in our operating income. Cash flows provided by operating activities were \$197.5 million, \$176.5 million, and \$151.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. The increase in operating cash flows from 2004 to 2005 was chiefly the result of the improvement in consolidated operating income during 2005, a \$16.4 million increase in deferred taxes and positive changes in several of our working capital assets and liabilities. Cash flows from operations increased from 2003 to 2004 principally as a result of the improvements in operating income at all our properties during 2004 and an increase in deferred income taxes of \$28.7 million. The increase was partially offset by an income tax refund of \$10.7 million received during 2003.

*Cash flows from investing activities*

Cash flows used in investing activities were \$175.8 million, \$208.7 million and \$83.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. We incurred \$177.8 million, \$89.6 million and \$69.2 million in capital expenditures (including capitalized interest) in 2005, 2004 and 2003, respectively. See Liquidity for further discussion of capital expenditures. During 2004, we paid \$114.2 million, net of \$3.6 million of acquired cash, issued \$2.5 million of Common Stock and assumed \$2.3 million of long-term debt in connection with the acquisition of Mountain High.

*Cash flows from financing activities*

Cash flows used in financing activities were \$2.0 million and \$80.1 million for the years ended December 31, 2005 and 2003, respectively. Cash flows provided by financing activities were \$40.5 million for the year ended December 31, 2004. Financing cash flows were significantly impacted by the following transactions in 2005, 2004 and 2003:

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On November 10, 2005, we borrowed \$400.0 million as a term loan under our new credit facility, of which \$362.2 million was used to repay the principal amount of loans outstanding under our prior senior credit facilities, with the balance being held to provide funding for future capital needs. Additionally, we incurred \$5.1 million in debt issuance costs relating to the new credit facility.

Prior to the retirement of the replaced senior credit facilities, we borrowed \$10.0 million under the revolving credit facility. Additionally, we made principal payments in 2005 totaling \$28.8 million, including \$26.0 million in prepayments, on our senior credit facilities.

For the year ended December 31, 2005, we made principal payment