

AMERISTAR CASINOS INC  
Form 10-K  
March 16, 2009

**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, 2008**  
**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** **88-0304799**  
State or Other Jurisdiction of (I.R.S. Employer Identification No.)  
Incorporation or Organization

**3773 Howard Hughes Parkway**  
**Suite 490 South**  
**Las Vegas, Nevada 89169**  
(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:

Title of Each Class Name of Each Exchange on Which Registered  
**Common Stock, \$.01 par value** **Nasdaq Global Select Market**  
Securities registered pursuant to Section 12(g) of the Act:

**None**  
(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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008: \$352,650,000  
Number of shares of Common Stock outstanding as of March 10, 2009: 57,360,000

Portions of the registrant's definitive Proxy Statement for its 2009 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 within the meaning of Section 27A of the Securities Act, 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, should 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. Furthermore, we do not undertake any duty to update any earnings guidance or other forward-looking statements that we may publicly issue, and you should not assume that information set forth in any publicly issued forward-looking statements remains accurate.*

## PART I

### **Item 1. Business**

#### **Introduction**

Ameristar is a developer, owner and operator of casino entertainment facilities in local and regional markets. Founded in 1954, Ameristar has been a public company since November 1993. We have eight properties in seven markets.

Our goal is to capitalize on our high-quality facilities and products and dedication to superior guest service to effectively compete in each of our markets and to drive growth that creates value for our stockholders. Currently, we are expanding and upgrading one of our properties, Ameristar Casino Black Hawk, with a hotel and spa. In 2008, we completed a luxury hotel and spa at Ameristar St. Charles, an expansion of Ameristar Casino Hotel Vicksburg and the rebranding of our newest property, Ameristar Casino Hotel East Chicago, located in East Chicago, Indiana, which we acquired in September 2007. In late 2008 and early 2009, voters in Missouri and Colorado approved reforms in those state's gaming laws that we believe position Ameristar for significant growth at our properties in St. Charles and Kansas City, Missouri and Black Hawk, Colorado.

We believe the Ameristar experience differentiates us from our competitors. That experience is built upon our high-quality facilities and products, such as slots, food, lodging, entertainment and the friendly and efficient service our 7,700 team members offer to our guests. Our casinos feature spacious gaming floors and typically have the greatest number of gaming positions in our markets. We focus on providing guests the games they want to play. We design the flow of our casino floors so that the right games are in the right places, with convenient access to other amenities, which we believe creates a more entertaining experience for our guests.

Most of our revenue comes from slot play, but we also offer a wide range of popular table games, including blackjack, craps, roulette and poker in the majority of our markets. We set competitive minimum and

maximum betting limits based on each market. Our gaming revenues are derived from a broad base of guests and, at most properties, we do not depend upon high-stakes players. We extend gaming credit at our properties in Indiana, Mississippi and Nevada, and credit represents a significant amount of table games play at Ameristar Casino Hotel East Chicago.

One of our strategies is to offer a greater variety of dining choices than other casinos in our markets. Our signature dining concepts include steakhouses, elaborate buffets and casual dining restaurants, including sports bars. Whether in our steakhouses or delis, our emphasis is on quality in all aspects of the dining experience – food, service, ambiance and facilities. The private Star Clubs offer our Star Awards members an exclusive place to relax at all Ameristar-branded properties. Our properties also showcase a range of entertainment, including live local, regional and national talent.

The following table presents selected statistical and other information concerning our properties as of March 10, 2009.

	Ameristar Casino Resort  Spa  St. Charles	Ameristar Casino Hotel  Kansas City	Ameristar Casino Hotel Council Bluffs	Ameristar Casino Hotel East Chicago <sup>(1)</sup>	Ameristar Casino Hotel  Vicksburg	Ameristar Casino Black  Hawk <sup>(1)</sup>	The Jackpot  Properties <sup>(2)</sup>
Opening Year	1994	1997	1996	1997	1994	2001	1956
Acquisition Year	2000	2000		2007		2004	
Casino Square Footage (approx.)	130,000	140,000	38,500	56,000	70,000	56,000	29,000
Slot Machines (approx.)	3,000	3,020	1,615	1,840	1,830	1,600	950
Table Games	97 <sup>(3)</sup>	75 <sup>(3)</sup>	30	68 <sup>(3)</sup>	46 <sup>(3)</sup>	26 <sup>(3)</sup>	36 <sup>(3)</sup>
Hotel Rooms	397	184	444 <sup>(4)</sup>	290	149		416
Restaurants/Bars	7/12	11/7 <sup>(5)</sup>	4/4	5/2	4/4	3/3	5/4
Restaurant/Bar Seating Capacity	1,613/166	1,807/389 <sup>(5)</sup>	1,030/61	614/182	850/250	479/112	534/113
Guest Parking Spaces (approx.)	6,280	8,320	3,000	2,245	2,200	1,500	1,100
Other Amenities	HOME, a 17,500-Square-Foot Nightclub; 22,000-Square-Foot Conference and Meeting Center; Indoor/Outdoor Swimming Pool; Full- Service Spa; 300-Seat VIP Players Club; Gift Shop; Amusement Arcade	1,400-Seat Entertainment Facility; 180-Screen Movie Theater <sup>(6)</sup> ; 85-Seat VIP Players Club; Gift Shop; Kids Quest Children s Activity Center <sup>(6)</sup> ; Amusement Arcade <sup>(6)</sup>	Meeting Space; 75-Seat VIP Players Club; Indoor Swimming Pool; Exercise Facility; Gift Shop; Kids Quest Children s Activity Center <sup>(6)</sup> Amusement Arcade	5,370-Square-Foot Banquet Room; 182-Seat VIP Players' Lounge and Club Facilities; Gift Shop; Winners Square Promotion Center	Meeting Space; 50- Seat VIP Players Club; Swimming Pool; Gift Shop; Service Station; Convenience Store; Subway Restaurant Franchise; RV Park	78-Seat VIP Players Club; Starbucks Coffee Bar; Gift Shop	3,940-Seat Outdoor Entertainment Facility; 318-Seat Showroom; Meeting Space; Sports Book <sup>(6)</sup> ; Swimming Pool; Service Station; General Store; Amusement Arcade; Styling Salon; RV Park; Tennis Courts

(1) We acquired Ameristar Casino Black

Hawk on  
December 21,  
2004 and  
Ameristar  
Casino Hotel  
East Chicago on  
September 18,  
2007.

- (2) Includes the operations of Cactus Petes Resort Casino and The Horseshu Hotel & Casino.
- (3) Includes 19 poker tables at Ameristar Casino Resort Spa St. Charles, 15 poker tables at Ameristar Casino Hotel Kansas City, 12 poker tables at Ameristar Casino Hotel East Chicago, nine poker tables at Ameristar Casino Hotel Vicksburg, 14 poker tables at Ameristar Casino Black Hawk and seven poker tables at the Jackpot Properties.
- (4) Includes 284 rooms operated by affiliates of Kinseth Hospitality Corporation and located on land owned by us

and leased to  
affiliates of  
Kinseth.

(5) Includes a  
52-seat food  
court and Arthur  
Bryant's  
Barbeque  
restaurant leased  
to and operated  
by third parties.

(6) Leased to and/or  
operated by a  
third party.



**Ameristar Casino Resort Spa St. Charles.** Ameristar Casino Resort Spa St. Charles serves the greater St. Louis metropolitan market with a large casino and a variety of new amenities that opened in 2008, including our luxury hotel and spa.

Seven dining venues at the property offer a range of choices. The 47 Port Street Grill is known for its steaks and has an adjacent upscale martini bar, the King Cat Club. The Landmark Buffet offers a variety of choices from multiple serving stations. Guests at Amerisports Bar & Grill can view televised sporting events from a 34-foot-long video wall. Pearl's Oyster Bar provides seafood with a Cajun twist. The Falcon Diner offers heartland specialties and is complemented by The Bakery, a pastry and coffee bar.

From January 2008 through May 2008, we opened in phases the 397-unit, all-suite hotel. We believe the hotel's suites are among the area's most upscale accommodations. The property's 7,000-square-foot, full-service spa and indoor/outdoor pool surrounded by landscaped grounds, cabana and fire pits became fully operational in May 2008. The property's 22,000-square-foot, state-of-the-art conference and meeting center can accommodate meetings and banquet events of all sizes.

Ameristar Casino Resort Spa St. Charles provides guests with a range of nightlife options. The 17,500-square-foot HOME nightclub features two distinct rooms: a high-energy club and an inviting lounge. The main nightclub has two long bars, red-leathered recessed banquettes and a large dance floor framed by bottle-service tables. Lixx, a circle bar located on the casino floor, features high-energy music provided by a state-of-the-art audio system. The property's Bottleneck Blues Bar offers local, regional and national entertainment.

The property's amenities are accessible through two parking garages offering about 6,300 spaces. Valet service is also available at the main entrance to the facility under the porte cochere.

The property is located immediately north of the Interstate 70 bridge over the Missouri River, strategically situated to attract patrons from the St. Charles and greater St. Louis areas, as well as tourists from outside the region. The property is in close proximity to the St. Charles convention facility. Interstate 70 is a 10-lane, east-west freeway offering easy access to, and direct visibility of, the Ameristar Casino Resort Spa St. Charles site. The roadway leading to the property was upgraded and widened in 2007 and 2008 and was renamed Ameristar Boulevard.

**Ameristar Casino Hotel Kansas City.** Ameristar Casino Hotel Kansas City, ranks among the largest state-licensed casino floors in the United States.

Guests can select from 11 restaurants and seven bars/lounges. The Great Plains Cattle Co. steakhouse has a Kansas City-inspired atmosphere. The Falcon Diner mirrors our diner at Ameristar Casino Resort Spa St. Charles and features a walk-up bakery. At the Horizons Buffet, guests can select offerings from eight culinary stations. The Amerisports Brew Pub features state-of-the-art video and audio technology on more than 40 screens. The Brew Pub is also home to an exhibition brewery for Ameristar's award-winning private label beers. In addition, we lease space to national brands, including Burger King and Sbarro Pizza, in an open-seating food court.

The property also features a wide scope of entertainment options. The 1,400-seat Star Pavilion showcases headline entertainers and professional boxing. The Depot #9 Stage and Saloon showcases local and regional bands.

The property's other amenities include an exclusive VIP players' club lounge, an 18-screen movie theater complex, gift shop, video game arcade and Kids Quest activity center. All are easily accessible via ample surface parking and a 2,650-space parking garage.

Our 184-room hotel offers a mix of suites and standard rooms that feature plasma screen televisions and custom finishes.

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

**Ameristar Casino Hotel Council Bluffs.** Opened in 1996, Ameristar Casino Hotel Council Bluffs serves the Omaha and southwestern Iowa markets.

The property's hotel and Main Street Pavilion comprise its landside facilities. Ameristar Casino Hotel Council Bluffs' 160 rooms include luxury suites and king whirlpool rooms. Ameristar Council Bluffs has earned the American Automobile Association Four Diamond designation for 11 consecutive years. On land, guests also find the exclusive Star Club players' lounge; the upscale Waterfront Grill steakhouse; the Heritage Buffet and the Prairie Mill Cafe & Bakery.

The Amerisports Bar and cabaret offers dining and live entertainment and more than 40 television screens. Other amenities include a Kids Quest activity center, fitness facility, indoor pool, gift shop, ice cream and sweet shop, and meeting space.

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 Casino Hotel East Chicago.** Ameristar Casino Hotel East Chicago serves metropolitan Chicago, the United States' third-largest commercial gaming market.

East Chicago's dining choices include five restaurants and two bars. Waterfront Grill is patterned after Chicago's signature steakhouses. The Amerisports Bar, which serves appetizers, burgers and snacks, allows guests to enjoy their favorite sporting events on 20 plasma-screen TVs located throughout the venue. The Heritage Buffet features cuisines from around the world. Double Down Diner is a 50s-style diner with classic favorites.

Ameristar Casino Hotel East Chicago also includes a 290-room hotel, 5,370 square feet of banquet space and a 31-seat VIP players' club lounge. These amenities and the casino are accessible through a parking garage with about 2,000 spaces and a 245-space surface parking area.

We purchased the property, formerly known as Resorts East Chicago, in September 2007. In connection with its June 2008 rebranding, we completed a number of enhancements to the facility, including improved food and beverage offerings, a remodeled casino floor featuring a new design and layout, state-of-the-art technology that brings Ameristar's Star Awards players' program to guests and an enhanced mix of games.

Ameristar Casino Hotel East Chicago is approximately 25 miles from downtown Chicago, Illinois, and is conveniently located near two major Interstates, 90 and 80/94, and the Chicago Skyway and Indiana Toll Road highway systems. Ameristar Casino Hotel East Chicago primarily attracts guests from within Chicagoland, Northeast Illinois and Northwest Indiana.

**Ameristar Casino Hotel Vicksburg.** Ameristar Casino Hotel Vicksburg has been the market leader for 14 consecutive years, a distinction attributable to its superior location and premier product and dining and entertainment options.

The property completed a major expansion in 2008, which included a casino expansion that added the market's only live poker room, two new restaurants, a VIP lounge and a new 1,000-space parking garage with direct access to the casino. The property's 149-room hotel was also renovated in 2008.

The three-level dockside casino is significantly wider than most other casinos in the market, providing a spacious, land-based feel. The casino features 70,000 square feet of gaming space, with 1,830 slot machines and 46 table games.

Entertainment venues at the property include the Bottleneck Blues Bar, a Delta-style blues club with live entertainment and gaming; and the Casino Cabaret. Restaurants include Bourbon s, offering fine dining overlooking the Mississippi River; Pearl s Oyster Bar; Delilux, for quick snacks and meals; and the Heritage Buffet, with seven specialty food stations and private meeting facilities.

Ameristar Casino Hotel 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 Casino Hotel Vicksburg caters primarily to guests from the Vicksburg and Jackson, Mississippi and Monroe, Louisiana areas, along with tourists visiting the area.

**Ameristar Casino Black Hawk.** Ameristar Casino Black Hawk is one of the largest casinos in Colorado.

After acquiring the former Mountain High Casino in Black Hawk, Colorado in December 2004, we rebranded the property in April 2006. The rebranding followed a reconfiguration and expansion of the gaming area, renovation and rebranding of the property s restaurants and expansion of the property s parking garage, nearly doubling its capacity to approximately 1,500 spaces.

Amenities at the property include a VIP lounge; the Timberline Grill, a steak-and-seafood restaurant; the seven-station Centennial Buffet; Waypost Deli, serving stone-fired pizzas, hot and cold sandwiches and burgers; a Merk & Tyler Gift Shop; and a Starbucks Coffee Bar. Bar 8042, a circular lounge at the heart of the casino surrounded by 70-foot-tall pass-through fireplaces and large-screen projection TVs, showcases local and regional live entertainment.

The construction of a luxury hotel at Ameristar Casino Black Hawk is progressing toward an anticipated completion in the early fall of 2009. The 33-story hotel tower will include 536 suites and oversized rooms. The tower will include a meeting and ballroom center and will also have Black Hawk s only full-service spa, an enclosed rooftop swimming pool and indoor/outdoor whirlpool spas. Once this facility is completed, Ameristar Casino Black Hawk will offer destination resort amenities and services that we believe are unequalled in the Denver gaming market.

Ameristar Casino Black Hawk 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 located in Jackpot, Nevada, just south of the Idaho border. The Jackpot properties have been operating since 1956.

The properties resort amenities include 416 hotel rooms, with 26 hot-tub suites; an Olympic-sized pool and heated spa; a styling salon; lighted tennis courts; a recreational vehicle park; and access to a nearby 18-hole golf course. In addition, a general store and service station serve guests and regional travelers. Dining selections include an extensive buffet; the Plateau Room, featuring steaks and seafood; a 24-hour casual dining restaurant; a casual Mexican grill; and a Pizza Hut. Cactus Petes Gala Showroom showcases nationally known entertainment. A remodeling of the hotel at Cactus Petes was completed in May 2008.

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

**Markets**

The following table presents a summary of the market characteristics and market performance of our Ameristar-branded properties as of December 31, 2008.

	<b>Ameristar Casino Resort  Spa St. Charles</b>	<b>Ameristar Casino Hotel Kansas City</b>	<b>Ameristar Casino Hotel Council Bluffs</b>	<b>Ameristar Casino Hotel East Chicago <sup>(1)</sup></b>	<b>Ameristar Casino Hotel Vicksburg</b>	<b>Ameristar Casino Black Hawk <sup>(2)</sup></b>
Adult population within 50 miles	2.0 million	1.6 million	750,000	5.9 million	400,000	2.1 million
Adult population within 100 miles	2.9 million	2.1 million	1.3 million	8.9 million	1.1 million	3.0 million
No. of market participants	6	4	3	3	5	18
2008 annual market gaming revenue \$ in millions	\$ 1,031.1	\$ 718.2	\$ 468.5	\$ 1,027.7	\$ 274.6	\$ 508.7
2008 market growth rate	3.2%	-0.4%	-0.5%	1.3%	-1.2%	-12.5%
2008 market share	28.6%	34.7%	37.5%	30.1%	47.4%	17.1%
2007 market share	30.0%	35.1%	37.6%	31.2%	46.0%	16.6%
2008 market share rank	#2	#1	#2	#2	#1	Not reported

(1) In the Northwest Indiana market, there are a total of three operators (located in East Chicago, Hammond and Gary, Indiana) that generated \$1.0 billion in annual gaming revenues. In the broader Chicagoland market, there are five additional state-licensed casinos

operating in the states of Illinois and Indiana and one Native American casino in Michigan. The eight state-licensed casinos generated a total of \$2.3 billion in annual gaming revenues.

- (2) The Colorado Limited Gaming Control Commission reports the Black Hawk and Central City, Colorado markets separately. The Black Hawk information in this table excludes six casinos in Central City, adjacent to Black Hawk, which generated \$67.1 million in total gaming revenues in 2008.

We own two casinos that are not branded Ameristar, Cactus Petes and The Horseshu in Jackpot, Nevada. Jackpot 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' guests comes primarily from the northwestern United States and southwestern Canada. As of December 31, 2008, our Jackpot properties had 61% of the slot machines and 71% of the table game positions in the Jackpot market.

#### **Competition**

##### ***St. Charles***

Ameristar St. Charles competes with five other gaming operations located in the metropolitan St. Louis area. Two of these competitors are located in the State of Illinois.

On November 4, 2008, Missouri voters approved Proposition A, which eliminated the \$500 buy-in limit and the requirement for all guests to use a casino-issued identification and tracking card to enter a casino. Proposition A also

increased taxes on gross gaming receipts one percentage point to 21% and placed a moratorium on the issuance of new gaming licenses (except for one facility in South St. Louis County that was under construction at the time of passage of Proposition A). Proposition A became effective immediately, and we implemented its operational enhancements on November 7, 2008 following receipt of regulatory approval. The Illinois casinos also do not have buy-in limits or identification card requirements, and they allow credit

play. However, Illinois casinos were included in an indoor smoking ban that became effective January 1, 2008, are limited in the number of gaming positions allowed and are subject to a higher rate of gaming taxes than Missouri casinos.

At Ameristar St. Charles, we substantially completed construction of the 397-room, all-suite hotel with an indoor/outdoor pool and a 7,000-square-foot, full-service spa at the end of the second quarter of 2008. We believe our new hotel has helped counteract the negative impact of the increased competition described below, but the weak economy has constrained the short-term growth we expected from it.

In December 2007, a competitor opened an approximately \$500 million casino entertainment complex at Laclede Landing in downtown St. Louis, approximately 22 miles from Ameristar St. Charles. The complex features a mix of restaurants, conference space and a 75,000 square-foot casino. The facility also includes 500 hotel rooms that opened in February 2008. The same gaming company owns the other casino in downtown St. Louis. Long-term plans for this casino have not yet been announced.

The downtown St. Louis gaming operator is also currently in the process of completing site work for a casino 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 early to mid-2010.

We currently do not anticipate any new competition in the Illinois portion of the St. Louis market. However, increased competition for our St. Charles property would result if Illinois law is changed in the future to allow the operation of slot machines at the existing pari-mutuel racetrack near East St. Louis.

#### ***Kansas City***

Ameristar Kansas City competes with three other gaming operations located in and around Kansas City, Missouri. The Kansas City market is currently insulated from other casino gaming markets, with no competing markets within 50 miles.

In 2007, the Kansas legislature enacted a law that authorizes up to four state-owned and operated freestanding casinos and three racetrack slot machine parlors developed and managed by third parties. One casino and one racetrack location are authorized in the greater Kansas City market. The successful bidder for the racetrack license recently surrendered its racing license due to concerns about the tax rate that would apply to its gaming operations, which was substantially higher than the tax rate in Missouri or applicable to Kansas freestanding casinos. The future status of the racetrack license is uncertain. In 2008, several companies submitted applications to develop and manage the freestanding casino, and in September 2008 the Kansas Lottery Commission selected a proposal by a consortium of developers to develop a large land-based casino and entertainment facility at the Kansas Speedway, approximately 24 miles from Ameristar Kansas City. The consortium subsequently withdrew this proposal due to issues regarding financial and project viability, and the Kansas Lottery Commission has announced that it will be accepting new applications for the greater Kansas City casino until April 1, 2009. It is unclear how many qualified bidders will emerge. At this time, the previously successful applicant has announced plans to submit a bid for a significantly scaled-down project. If either or both of the new greater Kansas City facilities open, we will face significant additional competition at Ameristar Kansas City that could have a material adverse effect on the results of operations of that property.

In January 2008, a Native American casino with 400 bingo-based Class II slot machines opened in Kansas City, Kansas. The casino is located approximately 12 miles from Ameristar Kansas City. However, we believe this casino has not materially adversely impacted the financial performance of 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 land-based casino with a pari-mutuel racetrack.

The Council Bluffs market is currently insulated from other casino gaming markets, with the nearest competing gaming jurisdiction located approximately 90 miles away. In 2006, a referendum on the statewide ballot that would have legalized video keno machines in Nebraska was defeated, and another measure that would have legalized casino gaming in that state was ruled invalid by the Nebraska Supreme Court. 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.

In December 2007, the National Indian Gaming Commission (the NIGC ) approved the request of the Ponca Tribe of Nebraska to have a five-acre parcel owned by the Tribe in Carter Lake, Iowa, located five miles from Ameristar Council Bluffs, approved for the operation of gaming. The Nebraska Attorney General filed an action in federal court challenging the NIGC's decision, which was joined by the Iowa Attorney General and the City of Council Bluffs. In December 2008, a federal district court ruled that the Tribe cannot build a casino at Carter Lake. We believe it is likely the Tribe will appeal. If the Tribe is successful in its appeal and is ultimately allowed to conduct gaming at this location, the additional competition would adversely affect our Council Bluffs business.

#### ***East Chicago***

Ameristar East Chicago currently competes with eight other gaming operations in what is called the Chicagoland gaming market, which includes casinos in Illinois and Michigan, as well as in Northwest Indiana. These competitors are located within 60 miles of East Chicago.

Illinois casinos are subject to higher gaming taxes than Indiana casinos and also to gaming position limitations and a smoking ban. Located 25 miles from downtown Chicago, Illinois, Ameristar East Chicago currently draws approximately 70% of its guest base from Illinois, with the remaining 30% coming from Northwest Indiana and surrounding areas. The core competitive market of Northwest Indiana is comprised of three casino operators, including Ameristar, located in East Chicago, Hammond and Gary, Indiana. The northwest Indiana operators are located within five miles of each other on Lake Michigan.

In July 2008, the operator in Hammond, Indiana completed its \$485 million new vessel project, which significantly expanded the size of its casino and other operations. Additionally, an operator in Michigan City, Indiana, located approximately 40 miles from East Chicago, opened a \$135 million hotel complex in January 2009. Ameristar purchased the Resorts East Chicago property in September 2007 and rebranded it as an Ameristar property in June 2008. During 2008, Ameristar spent approximately \$14 million on capital improvements, property refurbishments and other rebranding costs.

In December 2008, the Illinois Gaming Board awarded the remaining dormant gaming license for a proposed casino entertainment complex in Des Plaines, Illinois, which is approximately 40 miles northwest of East Chicago, Indiana. Pending legislative and background approvals, permitting and construction timelines, we believe the earliest casino operations would commence is in 2011. Future legislation regarding the possible expansion of gaming in Illinois may be considered by Illinois lawmakers. If enacted, this legislation could lead to a significant level of additional competition in the Chicagoland market.

#### ***Vicksburg***

Ameristar Vicksburg currently competes with four other gaming operations located in Vicksburg, Mississippi. Vicksburg is located approximately 45 miles west of Mississippi's largest city, Jackson.

In May 2008, Ameristar completed a casino expansion that added 25,500 square feet of gaming space and a new 1,000-space parking garage. The Vicksburg expansion also included a new VIP lounge that opened in July and two additional restaurants, which opened in September.

In October 2008, a new competitor opened a \$100 million casino-hotel in Vicksburg. The new facility has a 25,000 square-foot casino and 80 hotel rooms, and is located two miles from Ameristar Vicksburg. The additional competition has impacted the financial performance of our property and the other facilities operating in the market.



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 2005, the Mississippi Gaming Commission granted preliminary approval for the sixth casino license in the Vicksburg market. One developer has proposed building a \$200 million casino facility that would include a 250-room hotel, parking garage and other non-gaming amenities. As originally announced, construction of this project was to begin in early 2006. The announced commencement date was subsequently changed to late 2007, but development has not yet begun, and no new date has been announced.

In addition, proposals have been made from time to time to develop other 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, as well as casinos located along the Mississippi Gulf Coast.

#### ***Black Hawk***

Ameristar Black Hawk competes with 23 other gaming operations located in the Black Hawk and Central City gaming markets in Colorado. Ameristar has the largest single gaming floor and parking garage of any casino in the Black Hawk and Central City markets. Of the other casinos in the market, only five are considered large competitors, with over 750 slot machines. Ameristar's primary competitor is one of the first major casinos encountered when entering Black Hawk from Denver via Route 119. This competitor's primary casino is connected via a skywalk to an adjacent casino the operator also owns, thereby offering increased availability of hotel rooms, parking capacity and gaming positions to guests.

In January 2008, a statewide smoking ban in Colorado was extended to include casino floors.

In November 2008, Colorado voters approved Amendment 50, which gave local gaming jurisdictions the option of increasing bet limits, expanding permitted table games and increasing the hours of operation. On January 13, 2009, voters in the City of Black Hawk approved the local referendum to increase bet limits from \$5 to \$100, add craps and roulette and expand operating hours from 18 hours daily to up to 24 hours daily. These changes are scheduled to become effective July 2, 2009.

During 2008, Ameristar made substantial progress and remains on schedule to complete its hotel. The 536-room hotel tower is scheduled to open in the early fall of 2009 at a cost of approximately \$235 million and will double the room capacity in the Black Hawk market. There were no other substantial capital investments by the large competitors during 2008.

The Black Hawk and Central City gaming markets are 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. In addition, there was an unsuccessful attempt to place a proposal on the November 2008 ballot authorizing racetrack casino operations in the Denver area. At this time it is unclear whether a similar proposal will be included on future ballots. Both Native American and racetrack gaming have been defeated in past ballot initiatives.

Should additional gaming developments occur in the Denver metropolitan area, the Black Hawk and Central City markets would face increased competition.

#### ***Jackpot***

The Jackpot properties compete with three other hotels and motels (all of which also have casinos) in Jackpot and a Native American casino near Pocatello, Idaho. The Native American casino operates video lottery terminals, which are similar to slot machines.

In May 2008, Cactus Petes completed a \$16 million refurbishment of its hotel rooms. There were no major capital improvements or expansions by competitors in the Jackpot market in 2008. We are not aware of any other current expansion plans by existing or potential competitors in Jackpot.

***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 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, 2009, we employed approximately 7,700 full- and part-time employees. Approximately 235 employees at our East Chicago property are employed pursuant to collective bargaining agreements. 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 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 type of excursion gambling boats allowed each licensee. Pursuant to the November 4, 2008 passage of the Schools First Initiative (Proposition A), the total number of excursion gambling boat licenses may not exceed 13. 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 October 2010. 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 or applied for 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

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 guest per two-hour cruise that licensees must pay to the Missouri Gaming Commission, certain minimum payout requirements, a 21% tax on adjusted gross receipts, prohibitions against providing credit to gaming guests (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 that 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.

Prior to November 4, 2008, the Missouri Act provided for a buy-in limit of \$500 per person per two-hour cruise. The buy-in limit was eliminated upon the passage of Proposition A on November 4, 2008. 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.

Under rules adopted pursuant to the Missouri Act, a holder of any direct or indirect legal or beneficial publicly traded interest in excess of five percent in a gaming licensee, applicant or key person is required, unless exempted, to be licensed as a key person by the Missouri Gaming Commission. A holder, for passive investment purposes, of such a direct or indirect interest that is not more than 10% may be exempted from such licensure by the executive director of the Missouri Gaming Commission, and a holder of up to 20% may be exempted by the Missouri Gaming Commission, if such holder applies in advance of acquiring such interest or within 10 days thereafter and certifies certain information under oath, including that it (i) is acquiring the interest for passive investment purposes; (ii) does not and will not have any involvement in the management activities of the entity; (iii) does not have any intention of controlling the entity regardless of additional stock that may be acquired; (iv) will within 10 days notify the Missouri Gaming Commission of any sale or purchase of more than 1% of the entity's outstanding stock; and (v) will, in the event that it subsequently develops an intention of controlling or participating in the management of such entity, notify the Missouri Gaming Commission and refrain from participating in management or exercising control until approved for licensure by the Missouri Gaming Commission.

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 Missouri Gaming 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. 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 B licensees can obtain a liquor license from the Missouri Gaming Commission. Class B licenses are licenses granted by the Missouri Gaming 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 Amerisports 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 of which the term exceeds three years or the total value in a calendar year exceeds \$100,000 are agreements that qualify for submission to and approval by the Iowa Gaming Commission (Qualifying Agreements). Qualifying 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-guest basis. Additionally, ACCBI pays 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 million of annual adjusted gross receipts).

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 must be renewed every two years. The Iowa Gaming Commission has broad discretion to deny or revoke any occupational license.

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.

### ***Indiana***

Ameristar conducts its Indiana gaming operations through its indirect wholly owned subsidiary, Ameristar Casino East Chicago, LLC, which owns and operates Ameristar East Chicago in East Chicago, Indiana. The ownership and operation of casino facilities in Indiana are subject to extensive state and local regulation, including primarily the licensing and regulatory control of the Indiana Gaming Commission (the Commission ). The Commission is given extensive powers and duties for administering, regulating and enforcing riverboat gaming in Indiana.

Pursuant to the Indiana Riverboat Gaming Act, as amended (the Indiana Act ), the Commission is authorized to award up to 11 gaming licenses to operate riverboat casinos in the State of Indiana, including five to counties contiguous to Lake Michigan in northern Indiana, five to counties contiguous to the Ohio River in southern Indiana and one to a county contiguous to Patoka Lake in southern Indiana, which was subsequently relocated to French Lick, Indiana. Referenda required by the Indiana Act to authorize the five licenses to be issued for counties contiguous to Lake Michigan have been conducted and gaming has been authorized for the cities of Hammond, East Chicago, and Gary in Lake County, Indiana, and for Michigan City in LaPorte County, Indiana, to the east of Lake County. In April 2007, the Indiana General Assembly enacted legislation that authorized the two horse tracks located in Anderson and Shelbyville, Indiana to install 2,000 slot machines at each facility. The Commission granted each track a five-year gambling game license authorizing the use of such slot machines. The slot operations at the tracks opened in the second quarter of 2008.

The Indiana Act strictly regulates the facilities, persons, associations and practices related to gaming operations pursuant to the police powers of Indiana, including comprehensive law enforcement provisions. The Indiana Act vests the Commission with the power and duties of administering, regulating and enforcing the system of riverboat gaming in Indiana. The Commission's jurisdiction extends to every person, association, corporation, partnership and trust involved in riverboat gaming operations in Indiana.

The Indiana Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Commission. To obtain an owner's license, the Indiana Act requires extensive disclosure of records and



other information concerning an applicant. Applicants for licensure must submit a comprehensive application and personal disclosure forms and undergo an exhaustive background investigation prior to the issuance of a license. The applicant must also disclose the identity of every person holding an ownership interest in the applicant. Any person holding an interest of 5% or more in the applicant must undergo a background investigation and be licensed. The Commission has the authority to request specific information on or license anyone holding an ownership interest.

Each license entitles the licensee to own and operate one riverboat and gaming equipment as part of a gaming operation. The Indiana Act allows a person to hold up to 100% of up to two individual licenses.

Each initial owner's license runs for a period of five years. Thereafter, the license is subject to renewal on an annual basis upon a determination by the Commission that the licensee continues to be eligible for an owner's license pursuant to the Indiana Act and the rules and regulations adopted thereunder. Ameristar Casino East Chicago, LLC submitted an application for the required annual license renewal for 2008 and such license renewal was approved.

The Indiana Act requires that a licensed owner undergo a complete investigation every three years. If for any reason the license is terminated, the assets of the riverboat gaming operation cannot be disposed of without the approval of the Commission. Furthermore, the Indiana Act requires that officers, directors and employees of a gaming operation be licensed.

A holder of a gaming license is required to post a bond with the Commission in an amount that the Commission determines will adequately reflect the amount that a local community will expend for infrastructure and other facilities associated with a riverboat operation. A licensee must hold insurance of the type and amount deemed necessary by the Commission.

The Commission has also promulgated a rule mandating that licensees maintain a cash reserve to protect patrons against defaults in gaming debts. The cash reserve is to be equal to a licensee's average payout for a three-day period based on the riverboat's performance during the prior calendar quarter. The cash reserve can consist of cash on hand, cash maintained in Indiana bank accounts and cash equivalents not otherwise committed or obligated.

The Indiana Act does not limit the maximum bet or per patron loss. Each licensee sets minimum and maximum wagers on its own games. Wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager, and wagers may only be taken from persons present on a licensed riverboat.

The Commission places special emphasis on the participation of minority business enterprises ( MBEs ) and women business enterprises ( WBEs ) in the riverboat industry. Each licensee is required to submit annually to the Commission a report that includes the total dollar value of contracts awarded for goods and services and the percentage awarded to MBEs and WBEs, respectively. The Commission has previously required licensees to establish goals of expending 10% of the total dollars spent on the majority of goods and services with MBEs and 5% with WBEs. In 2007, the Commission conducted a disparity study entitled "A Disparity Study for the Commission, May 2007" (the "Disparity Study") to determine whether there existed a gap between the capacity of MBEs and WBEs and the utilization thereof by riverboat casinos in Indiana. The Disparity Study concluded that, with the exception of WBE purchases in the construction area, there was no disparity. As a result, the Commission issued Resolution 2007-58 to mandate that, effective as of January 1, 2008, annual goals for expenditures to WBEs for the purchase of construction goods and services shall be set at 10.9%. For expenditures in all other areas, the Commission has taken the position that the capacity percentages set forth in the Disparity Study for MBEs and WBEs, respectively, are goals and targets for which best faith efforts of each licensee are expected. Failure to meet these goals will be scrutinized heavily by the Commission and the Indiana Act authorizes the Commission to suspend, limit or revoke an owner's gaming license or impose a fine for failure to comply with these guidelines; however, if a determination is made that a licensee has failed to demonstrate compliance with these guidelines, the licensee has 90 days from the date of the determination to comply.

A licensee may not lease, hypothecate, borrow money against or lend money against an owner's riverboat gaming license. An ownership interest in an owner's riverboat gaming license may only be transferred in accordance with the regulations promulgated under the Indiana Act.

Indiana state law stipulates a graduated wagering tax with a starting tax rate of 15% and a top rate of 40% for adjusted gross receipts in excess of \$600,000,000. In addition to the wagering tax, an admissions tax of \$3 per admission is assessed. The Indiana Act provides for the suspension or revocation of a license if the wagering and admissions taxes are not timely submitted.

A licensee may enter into debt transactions that total \$1,000,000 or more only with the prior approval of the Commission. Such approval is subject to compliance with requisite procedures and a showing that each person with whom the licensee enters into a debt transaction would be suitable for licensure under the Indiana Act. Unless waived, approval of debt transactions requires consideration by the Commission at two business meetings. The Commission, by resolution, has authorized its Executive Director, subject to subsequent ratification by the Commission, to approve debt transactions after a review of the transaction documents and consultation with the Commission Chair and the Commission's financial consultant(s).

(6) Mr. Woodall became the Company's Executive Vice President and Chief Financial Officer upon his appointment by the Board of Directors in August 2006 and was paid a cash bonus of \$150,000 upon commencement of employment.

(7) Mr. LeBlanc served as our Principal Financial Officer following Mr. Looney's departure on May 2, 2006 until Mr. Woodall joined us on August 21, 2006.

## Grants of Plan-Based Awards

The table below sets forth certain information with respect to awards granted to the Named Officers pursuant to the Company's 2006 Long Term Stock Incentive Plan.

Name	Grant Date	Approval Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(\$)(1)			All Other Stock Awards: Number of Shares or Units (#)	All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(2)
			Threshold	Target	Maximum					
Richard A. Bachmann(3)(4)			0	440,000	N/A					
	March 23, 2006	March 23, 2006					111,930	22.98	22.98	1,086,840
	March 23, 2006	May 4, 2006				16,648			26.80	446,166
	August 3, 2006	August 3, 2006					62,659	18.00	18.00	488,114
	August 3, 2006	August 3, 2006				9,102			18.00	163,836
Phillip A. Gobe(3)(4)(5)			0	204,750	N/A					
	March 16, 2006	March 16, 2006					49,878	22.31	22.31	470,350
	March 23, 2006	March 23, 2006					24,939	22.98	22.98	242,158
	March 23, 2006	May 4, 2006				11,128			26.80	298,230
	August 3, 2006	August 3, 2006					8,036	18.00	18.00	62,600
	August 3, 2006	August 3, 2006				1,167			18.00	21,006
John H. Peper (3)(4)(5)			0	129,800	N/A					
	March 16, 2006	March 16, 2006					20,181	22.31	22.31	190,307
	March 23, 2006	March 23, 2006					10,090	22.98	22.98	97,974
	March 23, 2006	May 4, 2006				4,502			26.80	120,654
	August 3, 2006	August 3, 2006					10,523	18.00	18.00	81,974
	August 3, 2006	August 3, 2006				1,529			18.00	27,522
Timothy R. Woodall (7)			0	57,292	N/A					
	August 21, 2006	July 10, 2006				30,000			18.22	546,600
	August 21, 2006	July 10, 2006					100,000	18.22	18.22	788,000
T. Rodney Dykes (3)(5)			0	106,000	N/A					
	March 16, 2006	March 16, 2006					15,892	22.31	22.31	149,862
	March 23, 2006	March 23, 2006					7,946	22.98	22.98	77,156
	March 23, 2006	May 4, 2006				3,545			26.80	95,006
Joseph H. LeBlanc (6)	March 16, 2006	March 16, 2006	0	64,000	N/A	4,050			22.31	90,356
David R. Looney (3)(5)			0	0	N/A					
	March 16, 2006	March 16, 2006					29,071	22.31	22.31	274,140
	March 23, 2006	March 23, 2006					14,536	22.98	22.98	141,145

- (1) Amounts actually paid are reflected in the column titled "Non-Equity Incentive Plan Compensation" found on the "Summary Compensation Table."
- (2) Amounts reflect the grant date fair value of the respective awards computed in accordance with Statement 123R. Please refer to footnotes 2(j) and 14 in our consolidated financial statements filed on Form 10-K for the year ended December 31, 2006 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.
- (3) On March 23, 2006, Messrs. Bachmann, Gobe, Peper, Dykes and Looney were granted stock options with a ten-year term and are exercisable as follows: one-third became exercisable on March 23, 2007, one-third become exercisable beginning on March 23, 2008 and the remainder are exercisable beginning on March 23, 2009. Also, on March 23, 2006, Messrs. Bachmann, Gobe, Peper, Dykes and Looney were granted restricted share units which were subject to stockholder approval of the 2006 Long Term Stock Incentive Plan. Such approval was received at the May 4, 2006 stockholder meeting. Mr. Looney resigned prior to receipt of these shares. For the shares awarded, one-third vested on March 23, 2007, one-third vest on March 23, 2008 and the remainder vest on March 23, 2009.
- (4) On August 3, 2006, Messrs. Bachmann, Gobe and Peper were granted stock options with a ten-year term and are exercisable as follows: one-third become exercisable beginning on August 3, 2007, one-third become exercisable beginning on August 3, 2008 and the remainder are exercisable beginning on August 3, 2009. Also, on August 3, 2006, Messrs. Bachmann, Gobe and Peper were granted restricted share units which vest as follows: one-third vest on August 21, 2007, one-third vest on August 21, 2008 and the remainder vest on August 21, 2009.
- (5) On March 16, 2006, Messrs. Gobe, Peper, Dykes and Looney were granted stock options with a ten-year term and are exercisable as follows: one-third became exercisable on March 16, 2007, one-third become exercisable beginning on March 16, 2008 and the remainder are exercisable beginning on March 16, 2009.
- (6) On March 16, 2006, Mr. LeBlanc was granted restricted share units. These shares vest as follows: one-third vested on March 16, 2007, one-third vest on March 16, 2008 and the remainder vest on March 16, 2009.
- (7) Mr. Woodall commenced employment with us on August 21, 2006 and at that time, was granted stock options with a ten-year term that become exercisable as follows: one-third vest on August 3, 2007, one-third vest on August 3, 2008 and the remainder vest on August 3, 2009. Also, on August 21, 2006, Mr. Woodall was granted restricted share units which vest on August 21, 2009.

**Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table**

**Employment Agreements**

Under our offer letter agreement with Mr. Gobe dated October 19, 2004, he is entitled to an annual salary of at least \$300,000. In addition, Mr. Gobe received 40,000 restricted share units which vest on the third anniversary of the date of the grant, and ten year options to purchase 50,000 shares of Common Stock, which vest ratably over three years, at an exercise price equal to the market price of the Common Stock on the date of grant. Mr. Gobe's bonus target is 65% of base salary.

Under our offer letter agreement with Mr. Woodall dated July 11, 2006, he is entitled to an annual salary of at least \$250,000. In addition, Mr. Woodall received an employment payment of \$150,000, ten year options to purchase 100,000 shares of Common Stock, which vest ratably over three years at an exercise price equal to the closing price of the Company's Common Stock on the date of grant and 30,000 restricted share units which vest on the third anniversary of the date of his start of employment. Mr. Woodall's bonus target is 55% of base pay.

The Company does not have employment agreements with any of the other Named Officers.

**2006 Long Term Incentive Plan**

EPL's 2006 Long Term Stock Incentive Plan (the "LTIP") authorizes the Compensation Committee of the Board of Directors to make the following types of awards to employees of the Company: stock options, share appreciation rights, performance shares, performance units, restricted shares, restricted share units, dividend equivalents and other share-based awards. The Compensation Committee is currently making awards under the LTIP in the form of stock options and restricted share units.

### Outstanding Equity Awards at 2006 Fiscal Year End

The table below sets forth information concerning the value of outstanding equity awards held by the Named Officers as of December 31, 2006.

Name	Option Awards				Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(1)	
	Number of Securities Underlying Unexercised Options (#)	Exercisable	Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)
Richard A. Bachmann	100,000	None	None	10.80	April 30, 2011			
	53,334	None	None	10.07	May 6, 2013			
	176,667	23,333	None	13.58	May 13, 2014			
	20,667	41,333	None	25.07	March 24, 2015			
	None	111,930	None	22.98	March 23, 2016			
	None	62,659	None	18.00	August 3, 2016			
						16,648	406,544	
						9,102	222,271	
								40,000
								976,800
								14,700
								358,974
Phillip A. Gobe	33,333	16,667	None	18.97	December 6, 2014			
	15,167	30,333	None	27.34	March 17, 2015			
	None	100,000	None	26.59	July 22, 2015			
	None	49,878	None	22.31	March 16, 2016			
	None	24,939	None	22.98	March 23, 2016			
	None	8,036	None	18.00	August 3, 2016			
						40,000	976,800	
						11,128	271,746	
						1,167	28,498	
								10,800
								263,736
John H. Peper	75,000	None	None	7.98	January 17, 2012			
	23,333	None	None	10.07	May 6, 2013			
	24,500	9,000	None	13.58	May 13, 2014			
	4,467	8,933	None	27.34	March 17, 2015			
	None	100,000	None	26.59	July 22, 2015			
	None	20,181	None	22.31	March 16, 2016			
	None	10,090	None	22.98	March 23, 2016			
	None	10,523	None	18.00	August 3, 2016			
						4,502	109,939	
						1,529	37,338	
								6,000
								146,520
								3,175
								77,534
Timothy R. Woodall	None	100,000	None	18.22	August 21, 2016			
						30,000	732,600	
T. Rodney Dykes	10,000	None	None	12.65	July 26, 2011			
	10,000	None	None	7.98	January 17, 2012			
	13,333	None	None	10.07	May 6, 2013			
	17,333	8,667	None	13.58	May 13, 2014			
	3,334	6,666	None	27.34	March 17, 2015			
	None	50,000	None	26.59	July 22, 2015			
	None	15,892	None	22.31	March 16, 2016			
None	7,946	None	22.98	March 23, 2016				
						3,545	86,569	
								5,750
								140,415

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						2,373	57,937
Joseph H. LeBlanc	4,700	None	15.00	November 1, 2010			
	6,000	None	10.80	April 30, 2011			
	10,000	None	7.98	January 17, 2012			
	7,000	None	10.07	May 6, 2013			
					1,800	43,956	
					2,200	53,724	
					10,000	244,200	
					4,050	98,901	

David R. Looney

- (1) Based on the closing price of the Company's common stock of \$24.42 on December 29, 2006.
- (2) Represents unvested performance shares based upon the threshold level of performance.

**Fiscal 2006 Option Exercises and Stock Vested**

The table below sets forth information concerning the vesting of other equity awards by Named Officers during Fiscal 2006. The Named Officers did not exercise any stock options during Fiscal 2006.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Richard A. Bachmann			17,777	396,605
Phillip A. Gobe				
John H. Peper			15,000	408,750
			7,778	173,527
Timothy R. Woodall				
T. Rodney Dykes			4,445	99,168
Joseph H. LeBlanc			1,100	24,497
			1,800	43,020
			2,333	52,049
David Looney				

**Fiscal 2006 Pension Benefits**

The Company does not have a defined benefit pension plan.

**Fiscal 2006 Nonqualified Deferred Compensation**

The table below reflects activity for the Named Officers in the Energy Partners, Ltd. Key Employee Retention Plan during Fiscal 2006.

Name	Registrant Contributions in Last Fiscal Year (\$)(1)	Aggregate Balance at Last Fiscal Year-End (\$)
Richard A. Bachmann		
Phillip A. Gobe		
John H. Peper		
Timothy R. Woodall		
T. Rodney Dykes		
Joseph H. LeBlanc	17,418	28,614
David R. Looney		

(1) This amount is reported as Other Compensation in the Summary Compensation Table.

The Company's Key Employee Retention Plan is a non-qualified deferred compensation plan maintained by the Company to promote the retention of a select group of employees. Mr. LeBlanc is the only Named Officer who is a participant in the plan. The plan provides for credits to be made by the Company to a bookkeeping account for each participant in such amount or amounts as the Company determines. No interest or other earnings are credited to the accounts. If a participant remains in employment with the Company for a required period of employment following his or her designation as a participant, he or she will begin receiving his or her account balance under the plan in 10 equal annual installments. The required period of employment is 10 years if the

person were age 45 or older when designated as a participant, 11 years if the person were older than age 43 but less than age 45 when so designated, and 12 years if the person were less than age 43 when so designated. Mr. LeBlanc was designated as a participant in 2003 and his required period of employment is 12 years. In the event of the death of the participant before the completion of the required employment period, the participant's beneficiary would receive a death benefit equal to the participant's designated death benefit account balance (which amount may be changed from time to time by the Company and is \$658,900 in the case of Mr. LeBlanc as of December 31, 2006), which death benefit is payable in 10 equal annual installments. In the event of disability of the participant before completion of the required employment period, the participant's account balance would become payable in a lump sum to the participant. If the participant's employment terminates for any reason other than death or disability before completion of the required employment period, the participant would forfeit all of his or her benefits under the plan. In the event of a change of control (defined as described in the section headed "Change of Control Arrangements" below), the participant would be entitled to a lump sum payment equal to the participant's change of control account balance under the Plan (\$28,614 in the case of Mr. LeBlanc as of December 31, 2006), except that if payment of benefits under the plan had already commenced, the benefit shall be limited to the remaining account balance. Generally, the specified dollar amount is adjusted each year to correspond to the account balance at the applicable time, so that the specified dollar amount for Mr. LeBlanc as of December 31, 2006 is equal to his account balance under the plan as of December 31, 2006.

### **Change of Control Arrangements**

The Company has no contracts, agreements, plans or arrangements that provide severance benefits to the Named Officers if they terminate employment prior to a change in control. The Named Officers do have the same rights as other employees to receive benefits they have earned under the Company's broad-based benefit programs, such as their vested account balances under the Company's 401(k) plan and earned but unused vacation.

Certain of our executive officers, Messrs. Bachmann, Gobe, Peper and Woodall, have entered into a Change of Control Severance Agreement (*Severance Agreement*) with the Company. Messrs. Bachmann, Gobe and Peper entered into their respective agreements in March 2005 and Mr. Woodall entered into his Severance Agreement concurrently with his joining the Company in August 2006. Each Severance Agreement expires on March 28, 2008. In addition, the Company has a Change of Control Severance Plan (the *Severance Plan*) and, together with the Severance Agreements, the *Severance Program*) for certain key employees, including Messrs. Dykes and LeBlanc. The Severance Plan may be amended or terminated by the Board of Directors in its sole discretion prior to the occurrence of a change of control of the Company.

The Severance Program provides that, upon the occurrence of a change of control, all equity awards granted to participants will become fully vested, all stock options will become fully exercisable and all restrictions on restricted shares and restricted share units will lapse. With respect to performance shares or other awards contingent on satisfaction of performance measures, the performance cycle will end as of the date of the change of control, and the participant will vest in the number of shares that would have been earned if the performance cycle had ended as of the end of the period covered by the most recently issued year-end financial statement plus such additional number of shares as the Compensation Committee of the Board of Directors shall determine in respect of any period of the performance cycle not covered by such year-end statement. In addition, participants in the Severance Program are entitled to receive certain benefits in the event of certain terminations of employment for good reason (including terminations by the participant following certain changes in duties, benefits, etc. that are treated as involuntary terminations) occurring within two years after a change of control. An eligible participant would be entitled to receive between one and three times the sum of (i) the participant's annual rate of base salary for the year of termination and (ii) the participant's average annual bonus from the Company for the three calendar years preceding the calendar year in which such termination of employment occurs (or, if the participant was employed for less than three years, the greater of the average annual bonus for all of the calendar years such individual was employed and the target bonus for the calendar year of termination).



Messrs. Bachmann, Gobe, Peper and Woodall are entitled to receive three times, and Messrs. Dykes and LeBlanc are entitled to receive two times, the sum described in the preceding sentence. Payments are to be paid in a lump sum in cash within 30 days following termination.

In addition, participants who become entitled to severance benefits will continue to receive medical, dental and life insurance benefits in existence at the time of the change of control for a specified period of time (18 months for our executive officers), provided that the participant continues to pay the same portion of the required premium for such coverage as was required prior to termination. In the case of a participant who becomes entitled to severance benefits, if the participant has not, by the time of his or her termination of employment, received a bonus for the calendar year before the calendar year of termination of employment, the participant will receive a bonus for that year in an amount equal to his or her target bonus opportunity for that year. If any payments are subject to the excise tax on excess parachute payments under Section 280G of the Internal Revenue Code of 1986, payments to the participant will be reduced until no amount payable to the participant would constitute an excise parachute payment, provided that no such reduction will be made if the net after-tax payment to which the participant would otherwise be entitled without such reduction would be greater than the net after-tax payment, in each case, after taking into account Federal, state, local or other income and excise taxes, to the participant resulting from the receipt of such payments with such reduction.

For purposes of the Severance Program, the Key Employee Retention Plan and awards under the 2006 Long Term Stock Incentive Plan and the Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors, a change of control generally includes any of the following events: (i) an acquisition by any person of 25% or more of the securities entitled to vote in the election of directors, (ii) the current directors, or their approved successors, no longer constitute a majority of the Board of Directors, (iii) a merger or similar transaction is consummated which results in the holders of our Common Stock owning 50% or less of the surviving or transferee entity's securities entitled to vote generally in the election of directors or (iv) approval of a plan of liquidation or disposition of all or substantially all of our assets.

#### Potential Payments Upon Termination or Change in Control

The following table shows the amounts that would be payable to our Named Officers pursuant to the Severance Program, assuming there was a change of control as of December 31, 2006 and a termination of employment occurred on December 31, 2006 qualifying the Named Officer for the benefits under the Severance Program:

Name	Lump Sum Severance Payment (\$)	Continuation of Medical, Dental and Life Insurance Benefits \$(1)	Accelerated Vesting of Stock Options \$(2)	Accelerated Vesting of Restricted Shares and Restricted Share Units \$(3)	Accelerated Vesting of Performance Shares \$(4)	Total (\$)
Richard A. Bachmann	3,335,000	21,078	816,380	628,815	1,789,937	6,591,210
Philip A. Gobe	1,559,250	16,705	283,581	1,277,044	353,406	3,489,986
John H. Peper	1,212,970	16,136	222,229	147,277	300,232	1,898,844
Timothy R. Woodall	1,162,500	16,237	620,000	732,600		2,531,337
T. Rodney Dykes	664,400	15,963	138,925	86,569	265,791	1,171,648
Joseph H. LeBlanc	447,581	15,589		440,781		903,951

- (1) The value shown for the continuation of medical and dental benefits is the aggregate amount of the COBRA cost (determined as of December 29, 2006) to provide the benefits minus the Named Officer's required contribution (determined as of December 29, 2006). The value shown for the continuation of life insurance benefits is the aggregate amounts of the life insurance premiums to provide the benefits at the rate in effect as of December 31, 2006.

- (2) The value of the accelerated vesting of the stock options is based on the positive difference, if any, between the closing price of the Company's Common Stock of \$24.42 on December 29, 2006, as reported by the New York Stock Exchange, and the exercise price of such options.
- (3) The value of the Company's common stock utilized for purposes of this table was the closing price on December 29, 2006. The closing price of the Company's common stock on December 29, 2006, as reported by the New York Stock Exchange, was \$24.42.
- (4) The value of the accelerated vesting of performance shares was computed by determining the vesting as if the performance cycle had ended on December 31, 2005 and valuing the shares that would have vested utilizing the closing price of the Company's common stock on December 29, 2006. The closing price of the Company's common stock on December 29, 2006, as reported by the New York Stock Exchange, was \$24.42.

The above table does not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment such as 401(k) plan vested benefits and earned but unused vacation. The above table also does not include Mr. LeBlanc's account balance under the Company's Key Executive Retention Plan which would become vested and payable upon a change of control. The terms of the Key Employee Retention Plan are described following the Fiscal 2006 Nonqualified Deferred Compensation Table, and Mr. LeBlanc's account balance as of December 31, 2006 is set forth in that table.

As stated above, under the Severance Program, in the event of a change of control, all stock options will become fully exercisable, all restrictions on restricted shares and restricted share units will lapse, and performance shares will vest as if the performance cycle had ended as of the end of the period covered by the most recently issued year-end financial statement, plus such additional number of shares as the Compensation Committee of the Board of Directors shall determine in respect of any period of the performance cycle not covered by such year-end statement. All of the outstanding stock options, restricted shares, restricted share units and performance shares contain the respective provisions to that effect. Termination of employment in a qualifying termination is not a condition for such benefits. Thus, if a change of control were to occur, the Named Officers would receive the benefit of the accelerated vesting of stock options, restricted shares, restricted share units and performance shares as shown in the above table even if the Named Officer's employment does not terminate. Pursuant to the terms of outstanding stock options, in the event of a change of control, such options would remain exercisable until the expiration of their 10-year term. Under the terms of outstanding restricted shares, restricted share units and performance shares, in the absence of a change of control, such awards would be forfeited in the event of a termination of employment for any reason. Under the terms of outstanding stock options, in the absence of a change of control, the following rules would apply upon a termination of employment: (i) in the case of a termination for any reason other than death, disability or retirement (defined to mean a voluntary termination on or after age 55 with at least 5 years of service), unvested options would be forfeited and vested options would remain exercisable for 30 days following termination of employment (but not beyond their expiration date), and (ii) in the case of a termination by reason of death, disability or retirement, options would continue to vest through December 31<sup>st</sup> of the year of termination of employment, unvested options would be forfeited as of such December 31<sup>st</sup>, and vested options would remain exercisable for 3 years following termination of employment (but not beyond their expiration date).

**Report of the Audit Committee**

The Audit Committee acts under a written charter adopted and approved by the Board of Directors.

It is not the responsibility of the Audit Committee to plan or conduct audits, to determine that the Company's financial statements are in all material respects complete and accurate in accordance with generally accepted accounting principles, or to certify the Company's financial statements. This is the responsibility of management and the independent registered public accountants. It is also not the responsibility of the Audit Committee to guarantee the opinion of the independent registered public accountants or assure compliance with laws and regulations and the Company's Code of Business Conduct and Ethics.

Based on the Audit Committee's review of the audited financial statements as of and for the fiscal year ended December 31, 2006 and its discussions with management regarding such audited financial statements and management's assessment of the effectiveness of the Company's system of internal control over financial reporting, its receipt of written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1, its discussions with the independent registered public accountants regarding such auditor's independence, the matters required to be discussed by the Statement on Auditing Standards 61, its discussions with the independent registered public accountants regarding its opinion on the effectiveness of the Company's system of internal control over financial reporting and on management's assessment of the Company's system of internal control over financial reporting, and other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to the Board of Directors that the audited financial statements as of and for the fiscal year ended December 31, 2006 be included in the Company's Annual Report on Form 10-K for such fiscal year.

Audit Committee

Jerry D. Carlisle, Chairman

John C. Bumgarner, Member

Harold D. Carter, Member

John G. Phillips, Member

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***Fees Billed to the Company by KPMG LLP During Fiscal Years Ended December 31, 2006 and 2005***

*Audit Fees.* Audit fees (including expenses) billed (or billable) to the Company by KPMG LLP with respect to fiscal 2006 and fiscal 2005 were \$635,000 and \$460,000, respectively. 2006 audit fees include (i) integrated audit services \$505,000; and (ii) registration statements \$130,000. 2005 audit fees include (i) integrated audit services \$450,000; and (ii) registration statements \$10,000.

*Audit-Related Fees.* Audit-related fees (including expenses) billed (or billable) to the Company by KPMG LLP with respect to fiscal 2006 and fiscal 2005 were \$0 and \$15,500, respectively. Such fees in 2005 were in connection with the Company's benefit plan audit.

*Tax Fees.* There were no tax fees (including expenses) billed by KPMG LLP with respect to fiscal 2006 or fiscal 2005.

*All Other Fees.* There were no other fees (including expenses) billed by KPMG LLP with respect to fiscal 2006 and fiscal 2005.

The Audit Committee believes that the foregoing expenditures are compatible with maintaining the independence of the Company's public accountants. The Audit Committee pre-approved all such audit and non-audit services by our independent registered public accountants during 2006.

The Audit Committee has adopted procedures for pre-approving all audit and permissible non-audit services provided by the independent registered public accountants. The Audit Committee will annually review and pre-approve the audit, review and attest services to be provided during the next audit cycle by the independent registered public accountants and may annually review and pre-approve permitted non-audit services to be provided during the next audit cycle by the independent registered public accountants. To the extent practicable, the Audit Committee will also review and approve a budget for such services. Services proposed to be provided by the independent registered public accountants that have not been pre-approved during the annual review and the fees for such proposed services must be pre-approved by the Audit Committee or its designated subcommittee. Additionally, fees for previously approved services that are expected to exceed the previously approved budget must also be pre-approved by the Audit Committee or its designated subcommittee. All requests or applications for the independent registered public accountants to provide services to the Company shall be submitted to the Audit Committee or its designated subcommittee by the Chief Financial Officer or Controller and must address whether, in his or her view, the request or application is consistent with applicable laws, rules and regulations relating to auditor independence.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who own more than ten percent (10%) of the Company's Common Stock to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission. To the Company's knowledge, with respect to the year ended December 31, 2006, all applicable filings were timely made.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Any proposed related party transactions are submitted to the Board of Directors for approval. In 2006, the Company did not engage in any transaction with a related person in which the amount involved exceeded \$120,000, other than the item discussed below.

Mr. Hiltz is a senior managing director of Evercore Group L.L.C., an affiliate of one of EPL's financial advisors. Evercore provided financial advisory services to the Company in connection with the merger agreement

with Stone Energy Corporation that was subsequently terminated, the offer to purchase all of the Company's stock made by Woodside Petroleum, Ltd. and the Company's exploration of strategic alternatives. Evercore received fees of \$1.6 million in 2006 in connection with financial advisory services related to the Stone merger agreement and the offer from Woodside. In addition, inclusive of \$2.3 million accrued during 2006, the Company committed to pay an additional \$7.0 million due to Evercore upon the earlier of the consummation of a transaction resulting from the Company's exploration of strategic alternatives or September 5, 2007.

#### OTHER MATTERS

Management of the Company is not aware of other matters to be presented for action at the 2007 Annual Meeting. However, if other matters are presented, it is the intention of the persons named in the accompanying proxy card to vote in accordance with their judgment on such matters.

#### STOCKHOLDER PROPOSALS FOR THE 2008 ANNUAL MEETING

Stockholder proposals intended to be included in the Proxy Statement relating to the Company's 2008 Annual Meeting pursuant to Rule 14a-8 ( *Rule 14a-8* ) under the Exchange Act must be received by the Corporate Secretary of the Company no later than January 9, 2008 and must otherwise comply with Rule 14a-8.

Any stockholder proposals received outside of the Rule 14a-8 procedure for consideration at the Company's 2008 Annual Meeting must be delivered to the Corporate Secretary of the Company no later than April 3, 2008, but no earlier than March 4, 2008. If such timely notice of a stockholder proposal is not given, the proposal may not be brought before the 2008 Annual Meeting. If timely notice is given but is not accompanied by a written statement to the extent required by applicable securities laws, the Company may exercise discretionary voting authority over proxies with respect to such proposal, if presented at the 2008 Annual Meeting.

Stockholder proposals for nominees for directors must comply with the procedures set forth in Section 2.10 of the Company's By-laws. In order to recommend a nominee for a director position, a stockholder must be a stockholder of record at the time of giving notice and must be entitled to vote at the meeting at which such nominee will be considered. Stockholder recommendations must be made pursuant to written notice delivered to the Secretary at the principal executive offices of the Company (i) in the case of a nomination for election at an annual meeting, not later than 60 days nor earlier than 90 days prior to the first anniversary of the preceding year's annual meeting; and (ii) in the case of a special meeting at which directors are to be elected, not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the meeting and of the nominees proposed by the Board of Directors to be elected at the special meeting. In the event that the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year's annual meeting, the stockholder notice described above will be deemed timely if it is received not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

The stockholder notice must set forth the following:

As to each person the stockholder proposes to nominate for election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation and employment of the person, (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person and (iv) all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of directors pursuant to Regulation 14A under the Exchange Act and Rule 14a-11 thereunder, including such person's written consent to being named as a nominee and to serving as a director if elected, and

As to the nominating stockholder and the beneficial owner, if any, of such stock, (i) such stockholder's and beneficial owner's, name and address as they appear on the Company's books, (ii) the class and number of shares of the Company's capital stock which are owned beneficially or of record by such stockholder and such beneficial owner, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to nominate the person named in its notice, (v) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends to (a) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company's outstanding capital stock required to elect the nominee and/or (b) otherwise solicit proxies from stockholders in support of such nomination and (vi) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder.

In addition to complying with the foregoing procedures, any stockholder nominating a director must comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder. Recommendations must also include a written statement from the candidate expressing a willingness to serve.

**Please sign, date, and return your proxy promptly to avoid unnecessary expense. All stockholders are urged, regardless of the number of shares owned, to participate in the 2007 Annual Meeting by returning their proxy in the enclosed business reply envelope.**

By Order of the Board of Directors

RICHARD A. BACHMANN

*Chairman of the Board and*

*Chief Executive Officer*

New Orleans, Louisiana

May 8, 2007

### Energy Partners, Ltd. Director Independence Standards

The Board of Directors of Energy Partners, Ltd (the Company ) has adopted the following standards to assist it in making determinations of independence in accordance with the NYSE Corporate Governance rules.

A director will be deemed to be independent unless, within the preceding three years (which period shall be one year until November 4, 2004):

#### Employment Relationships

- such director was employed by the Company or any of the Company's subsidiaries, other than as interim Chairman or Chief Executive Officer;
- any immediate family member of such director was an executive officer of the Company or any of the Company's subsidiaries;
- such director was affiliated with or employed by a present or former internal or external auditor of the Company or any of its subsidiaries; or
- an immediate family member of such director was affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Company or any of its subsidiaries.

#### Compensation Relationships

- such director received more than \$100,000 in any such year in direct compensation from the Company or any of its subsidiaries other than: (i) director and committee fees; (ii) pension or other forms of deferred compensation for prior service; *provided, however*, that such compensation is not contingent in any way on continued service; and (iii) compensation received for former service as an interim Chairman or Chief Executive Officer; or
- an immediate family member of such director received more than \$100,000 in any such year in direct compensation from the Company or any of its subsidiaries as a director or executive employee other than: (i) director and committee fees and (ii) pension or other forms of deferred compensation for prior service; *provided, however*, that such compensation is not contingent in any way on continued service.

#### Commercial Relationships

- such director was, and is currently, an executive officer or employee of another company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services in an amount which, in any single fiscal year, exceeded the greater of \$1 million or 2% of such other company's consolidated gross revenues; or
- an immediate family member of such director was, and is currently, an executive officer of another company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services in an amount which, in any single fiscal year, exceeded the greater of \$1 million or 2% of such other company's consolidated gross revenues.

#### Charitable Relationships



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- such director was an executive officer of a charitable organization that received contributions from the Company or any of its subsidiaries in an amount which, in any single fiscal year, exceeded the greater

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of \$1 million or 2% of such charitable organization's consolidated gross revenues; *provided* that the Board shall have discretion to waive the provisions of this clause.

Interlocking Directorates

- such director was employed as an executive officer of another company where any of the Company's or its subsidiaries' present executives at the time served on that company's compensation committee; or
  
- an immediate family member of such director was employed as an executive officer of another company where any of the Company's or its subsidiaries' present executives at the time served on that company's compensation committee;

Other Relationships

For relationships not specifically mentioned above, the determination of whether a director has a material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), and therefore would not be independent, will be made by the Board of Directors after taking into account all relevant facts and circumstances. For purposes of these standards, a director who is solely a director and/or a non-controlling shareholder of another company that has a relationship with the Company will not be considered to have a material relationship that would impair such director's independence.

For purposes of the standards set forth above, "immediate family members" means any of such director's spouse, parents, children, siblings, in-laws (other than those who are no longer family members as a result of legal separation or divorce, or those who have died or become incapacitated) or persons (other than a domestic employee) who share such director's home. These standards shall be interpreted in a manner consistent with the New York Stock Exchange Corporate Governance rules.



