STATION CASINOS INC
Form 10-K/A
August 11, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 2

(Mark One)

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

for the fiscal year ended December 31, 2007

OR

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

for the transition period from ________________ to ________________.

Commission file number 000-21640

STATION CASINOS, INC.

(Exact name of registrant as specified in its charter)

Nevada	**88-0136443**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1505 South Pavilion Center Drive, Las Vegas, Nevada 89135
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: **(702) 495-3000**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.01 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

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 o No ý

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 the Form 10-K. ý

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates (all persons other than executive officers or directors) of the registrant as of June 29, 2007, the last trading day of the registrant's second quarter, based on the closing price per share of $86.80 as reported on the New York Stock Exchange was $3,833,703,499.

There is no established public trading market for any of the common stock of the registrant as of November 7, 2007.

Documents Incorporated by Reference

None

Explanatory Note

The registrant filed with the Securities and Exchange Commission (the "SEC") (i) an Annual Report on Form 10-K for the year ended December 31, 2007 on March 5, 2008 (the "Initially Filed Form 10-K"), and (ii) an Amendment No. 1 on Form 10-K/A to the Initially Filed Form 10-K on April 28, 2008 ("Amendment No. 1"). The registrant is filing this Amendment No. 2 on Form 10-K/A to amend and restate the following from Part II of the Initially Filed Form 10-K ("Part II"):

Item 6. "Selected Financial Data";

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

Item 7A. "Quantitative and Qualitative Disclosures about Market Risk"; and

Item 8. "Financial Statements and Supplemental Data".

We are amending and restating Part II to recognize the acquisition of an interest rate swap, with an approximate fair value of $42.7 million, associated with $1.36 billion of the Company's CMBS Loans, from Fertitta Colony Partners and eliminate the hedge accounting treatment related to such interest rate swap.

In addition, as required by Rule 12b-5 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), new certifications by our principal executive officer and principal financial officer are being filed or furnished as exhibits to this Amendment No. 2 on Form 10-K/A under Item 15 of Part IV hereof.

PART II

ITEM 6. SELECTED FINANCIAL DATA (Restated)

The selected consolidated financial data presented below for the successor period from November 8, 2007 through December 31, 2007 (the "Successor Period") and the period then ended, the predecessor period from January 1, 2007 through November 7, 2007 (the "Predecessor Period"), and as of and for the fiscal years ended December 31, 2006, 2005, 2004, and 2003 have been derived from our consolidated financial statements which, except for 2004 and 2003, are contained elsewhere in this Annual Report on Form 10-K/A. The selected consolidated financial data set forth below are qualified in their entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, the notes thereto and other financial and statistical information included elsewhere in this Annual Report on Form 10-K/A.

	Successor	Predecessor				
	Period from November 8, 2007 Through December 31, 2007 As Restated(a)	Period from January 1, 2007 Through November 7, 2007	For the Year Ended December 31, 2006(b)	2005	2004(c)	2003(d)
	(in thousands)	(in thousands)				
Operating Results:						
Net revenues	$ 209,711	$ 1,237,284	$1,339,024	$1,108,833	$ 986,742	$ 858,089
Operating costs and expenses, excluding the following items (e):	461,661	937,745	980,813	772,927	721,957	655,844
Development (f)	1,294	7,068	9,036	8,747	10,683	4,306
Preopening (g)	251	1,880	29,461	6,560	848	
Merger transaction costs (h)		156,500	2,526			
Impairment loss (i)		16,631				18,868
Management agreement/lease terminations (j)		3,825	1,053	14,654		
Litigation settlement (k)						38,000
Operating (loss) income	(253,495)	113,635	316,135	305,945	253,254	141,071
Earnings from joint ventures	5,875	34,247	41,854	38,281	26,328	20,604
Operating (loss) income and earnings from joint ventures	(247,620)	147,882	357,989	344,226	279,582	161,675
Loss on early retirement of debt (l)	(20,311)			(1,278)	(93,265)	
Change in fair value of derivative instrument (m)	(30,686)					
Interest expense, net	(66,019)	(220,873)	(178,537)	(86,721)	(81,088)	(93,498)
(Loss) income before income taxes	(364,636)	(72,991)	179,452	256,227	105,229	68,177
Income tax benefit (provision)	26,736	15,335	(69,240)	(94,341)	(38,879)	(23,834)

Net (loss) income	$ (337,900)	$ (57,656)	$ 110,212	$ 161,886	$ 66,350	$ 44,343
Balance Sheet Data:						
Total assets	$ 8,988,666		$3,716,696	$2,929,043	$2,045,584	$1,745,972
Long-term debt	5,171,149		3,468,828	1,944,328	1,338,213	1,168,957
Stockholders' equity (deficit)	2,571,062		(186,858)	630,814	488,921	339,939

1

(a) Amounts have been restated as discussed in Note 21 to the consolidated financial statements in this Amendment No. 2 on Form 10K/A.

(b) On April 18, 2006, we opened Red Rock.

(c) On August 2, 2004, we purchased Magic Star and Gold Rush.

(d) On January 27, 2003, we purchased Wildfire. We opened Thunder Valley on June 9, 2003, which we manage on behalf of the UAIC (see Note 8 to the Consolidated Financial Statements in this Annual Report on Form 10-K/A).

(e) Upon consummation of the Merger, equity-based awards in FCP and Fertitta Partners were issued (see Note 14 to the Consolidated Financial Statements in this Annual Report on Form 10-K/A), which vest immediately or over five years, and as such, expense of approximately $287.7 million related to this issuance was recorded during the Successor Period.

(f) During the last half of 2003, we increased our development resources in an effort to identify potential gaming opportunities. Development expenses include costs to identify potential gaming opportunities, the internal costs incurred to bring the Native American projects currently under contract to fruition and other development opportunities, which include payroll, travel and legal expenses. Also included in development expense for 2004 is a $2.0 million non-reimbursable milestone payment related to the Gun Lake project in Michigan. During 2003, $2.0 million of costs related to the Graton Rancheria project were expensed after achieving certain milestones on the project and are also not reimbursable (see Note 12 to the Consolidated Financial Statements in this Annual Report on Form 10-K/A).

(g) Preopening expenses for the Successor Period and the Predecessor Period primarily related to projects under development. Preopening expenses for the years ended December 31, 2006, 2005 and 2004 include costs primarily related to the opening of Red Rock.

(h) During the Predecessor Period, the Company recorded approximately $156.5 million in costs related to the Merger. These costs include approximately $31.6 million of accounting, investment banking, legal and other costs associated with the Merger and $124.9 million of expense related to the accelerated vesting and buyout of employee stock options and restricted stock awards upon consummation of the Merger.

(i) During the Predecessor Period, we recorded an impairment charge of approximately $16.6 million, of which $8.0 million related to the impairment of goodwill at Magic Star and Gold Rush as a result of recent third-party business valuation and $8.6 million related to the write-down of the corporate office building in conjunction with its sale. During the year ended December 31, 2003, we recorded an impairment loss of approximately $18.9 million, of which approximately $17.5 million was related to the impairment of goodwill at Fiesta Rancho as a result of reduced growth assumptions. In addition, approximately $1.4 million of the impairment loss in 2003 was primarily related to the write off of our investment in the development of a new slot product.

(j) During the Predecessor Period, we recorded management agreement/lease termination expense primarily due to the termination of the management agreement related to Cherry nightclub at Red Rock. During the years ended December 31, 2006 and 2005, we recorded management agreement/lease terminations primarily related to land adjacent to the current Wild Wild West property.

(k) On February 9, 2004, we entered into an agreement to settle a lawsuit that centered on allegations of improper conduct by our former Missouri legal counsel for $38 million.

(l) During the Successor Period, in conjunction with the Merger, we terminated our previous revolving credit facility resulting in a loss on early retirement of debt of $20.3 million, which includes the write-off of unamortized loan costs as well as costs to terminate our then existing cash flow hedge interest rate swaps. During the year ended December 31, 2005, we redeemed the remaining $16.9 million of outstanding $8^3/_8$% senior notes due 2008 and $17.4 million of outstanding $9^7/_8$% senior subordinated notes due 2010. During the year ended December 31, 2004, we completed tender offers and consent solicitations for approximately $940.6 million of our senior and senior subordinated notes outstanding.

(m) During the Successor Period, we recorded a loss of $30.7 million related to the change in fair value of our $1.36 billion notional amount interest rate swap not designated as a hedging instrument for accounting purposes.

2

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Restated)

On November 7, 2007, the Company completed its merger (the "Merger") with FCP Acquisition Sub, a Nevada corporation ("Merger Sub"), pursuant to which Merger Sub merged with and into the Company with the Company continuing as the surviving corporation. The Merger was completed pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of February 23, 2007 and amended as of May 4, 2007, among the Company, Fertitta Colony Partners LLC, a Nevada limited liability company ("FCP"), and Merger Sub, as amended. By going private, the Merger provides the Company with greater operating flexibility, allowing management to concentrate on long-term growth, reduce its focus on the quarter-to-quarter performance often emphasized by the public markets and pursue alternatives.

As a result of the Merger, 24.1% of the issued and outstanding shares of non-voting common stock of the Company are owned by Fertitta Partners LLC, a Nevada limited liability company ("Fertitta Partners"), which is owned by affiliates of Frank J. Fertitta III, Chairman and Chief Executive Officer of Station, affiliates of Lorenzo J. Fertitta, Vice Chairman and President of Station, affiliates of Blake L. Sartini and Delise F. Sartini, and certain officers and other members of management of the Company. The remaining 75.9% of the issued and outstanding shares of non-voting common stock of the Company are owned by FCP Holding, Inc., a Nevada corporation ("FCP HoldCo") and a wholly-owned subsidiary of FCP. FCP is owned by an affiliate of Colony Capital, LLC ("Colony") and affiliates of Frank J. Fertitta III and Lorenzo J. Fertitta. Substantially simultaneously with the consummation of the Merger, shares of voting common stock of Station were issued for nominal consideration to FCP VoteCo LLC, a Nevada limited liability company ("FCP VoteCo"), which is owned equally by Frank J. Fertitta III, Lorenzo J. Fertitta and Thomas J. Barrack, Jr., Chairman and Chief Executive Officer of Colony.

At the effective time of the Merger, each outstanding share of our common stock, including any rights associated therewith (other than shares of our common stock owned by FCP, Merger Sub, FCP HoldCo, Fertitta Partners or any wholly-owned subsidiary of the Company or shares of our common stock held in treasury by us) was cancelled and converted into the right to receive $90 in cash, without interest. Following the consummation of the Merger, the Company is privately owned through FCP HoldCo, Fertitta Partners and FCP VoteCo. Station common stock ceased trading on the New York Stock Exchange at market close on November 7, 2007, and will no longer be listed on any exchange or quotation system. The Company's voting common stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended.

The Merger resulted in a greater than 50% change in control of the Company and was a "business combination" for accounting purposes, requiring that FCP, Fertitta Partners, FCP VoteCo and their respective owners (the "Investors"), pursuant to Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", record the acquired assets and assumed liabilities at their fair market values as of the acquisition date, resulting in a new basis of accounting. As a result of the Securities and Exchange Commission's rules and guidance regarding "push-down" accounting, the Investors' new accounting basis in our assets and liabilities is reflected in our consolidated financial statements to the extent that the Investors paid cash for the non-voting stock of the Company as of the consummation of the Merger. The accompanying consolidated statements of operations, stockholders' equity (deficit) and cash flows for 2007 are presented for two periods: January 1, 2007 through November 7, 2007 (the "Predecessor Period") and November 8, 2007 through December 31, 2007 (the "Successor Period"). The Predecessor Period reflects the historical accounting basis in our assets and liabilities, while the Successor Period reflects the push down of the Investors' new basis to our consolidated financial statements.

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K/A.

Results of Operations (Restated)

The following table highlights the results of our operations (dollars in thousands):

	Successor	Predecessor	2007 Combined (a)		Predecessor		
	Period from November 8, 2007 Through December 31, 2007	Period from January 1, 2007 Through November 7, 2007	Year ended December 31, 2007	Percent change	Year ended December 31, 2006	Percent change	Year ended December 31, 2005
Net revenues total	$ 209,711	$ 1,237,284	$ 1,446,995	8.1%	$ 1,339,024	20.8%	$ 1,108,833
Major Las Vegas Operations (b)	192,489	1,117,190	1,309,679	10.1%	1,189,099	22.8%	968,017
Management fees (c)	9,708	78,077	87,785	(11.8)%	99,485	4.6%	95,144
Other Operations and Corporate (d)	7,514	42,017	49,531	(1.8)%	50,440	10.4%	45,672
Operating (loss) income total	$ (253,495)	$ 113,635	$ (139,860)	(144.2)%	$ 316,135	3.3%	$ 305,945
Major Las Vegas Operations (b)	39,793	264,413	304,206	4.6%	290,924	(4.1)%	303,383
Management fees (c)	9,708	78,077	87,785	(11.8)%	99,485	4.6%	95,144
Other Operations and Corporate (d)	(302,996)	(228,855)	(531,851)	(616.1)%	(74,274)	19.8%	(92,582)
Cash flows provided by (used in):							
Operating activities	$ 18,689	$ 273,473	$ 292,162	(0.4)%	$ 293,373	(22.2)%	$ 376,891
Investing activities	(4,323,965)	(530,418)	(4,854,383)	(480.5)%	(836,261)	5.5%	(885,327)
Financing activities	4,302,933	238,782	4,541,715	690.9%	574,234	9.3%	525,571

(a) The results for the fiscal year ended December 31, 2007, which we refer to as "2007 Combined", were derived by the mathematical addition of the results for the Predecessor Period and the Successor Period. The presentation of financial information for 2007 Combined herein may yield results that are not fully comparable on a period-by-period basis, particularly related to depreciation, amortization, interest expense and tax provision accounts, primarily due to the impact of the Merger on November 7, 2007. 2007 Combined does not comply with Generally Accepted Accounting Principles ("GAAP") or with the Securities and Exchange Commission's ("SEC") rules for pro forma presentation; however, it is presented because we believe that it provides the most meaningful comparison of our results for 2007 to our results for prior periods.

(b) Includes the wholly owned properties of Palace Station, Boulder Station, Texas Station, Sunset Station, Santa Fe Station, Red Rock (since April 18, 2006), Fiesta Rancho and Fiesta Henderson.

(c) Includes management fees from Thunder Valley, Green Valley Ranch, Barley's, The Greens (since December 17, 2005) and Renata's (since October 22, 2007).

(d) Includes the wholly owned properties of Wild Wild West, Wildfire, Magic Star, Gold Rush, Lake Mead Lounge (since October 1, 2006) and corporate and development expense.

Net Revenues

Consolidated net revenues for 2007 Combined increased 8.1% to $1.45 billion as compared to $1.34 billion for the year ended December 31, 2006. Year over year net revenues increased primarily due to revenue increases at our Major Las Vegas Operations, which were offset by decreased management fees.

Combined net revenues from our Major Las Vegas Operations increased 10.1% to $1.31 billion for 2007 Combined as compared to $1.19 billion for the year ended December 31, 2006. The increase is a result of a full year of operations at Red Rock, which opened on April 18, 2006, the completion of the phase II master-planned expansion at Red Rock in December 2006, which included an additional 400 rooms, the completion of the phase III expansion at Red Rock in April 2007, which included a 72-lane bowling center, as well as the completion of expansions at Santa Fe Station in December 2006 and Fiesta Henderson in August 2006, offset by decreases at several of our other Major Las Vegas Operations due to a weakened economy. Combined net revenues from our Major Las Vegas Operations, excluding Red Rock, decreased approximately 1% during 2007 Combined as compared to the year ended December 31, 2006.

Consolidated net revenues for the year ended December 31, 2006 increased 20.8% to $1.34 billion as compared to $1.11 billion for the year ended December 31, 2005. Year over year net revenues increased primarily due to the opening of Red Rock on April 18, 2006. Combined net revenue from our Major Las Vegas Operations increased 22.8% to $1.19 billion for the year ended December 31, 2006 as compared to $968.0 million for the year ended December 31, 2005, as a result of opening Red Rock as noted above. Combined net revenue from our Major Las Vegas Operations, excluding Red Rock, remained virtually unchanged for the year ended December 31, 2006 as compared to the year ended December 31, 2005.

Operating Income/Operating Margin

Consolidated operating income decreased significantly in 2007 Combined as compared to the year ended December 31, 2006. The decrease is primarily a result of $156.5 million in merger transaction costs incurred during 2007 Combined related to the Merger described above, as compared to $2.5 million during the year ended December 31, 2006. 2007 Combined was also impacted by $288.1 million of share-based compensation expense related to equity-based awards granted upon the consummation of the Merger and a $16.6 million impairment loss. In addition, operating income for the year ended December 31, 2006 was impacted by $29.5 million of preopening expenses as compared to $2.1 million during 2007 Combined. Excluding these items, operating income for 2007 Combined decreased approximately 7.1% while operating margin decreased 3.6 percentage points, as compared to the year ended December 31, 2006. These decreases are primarily related to increased operating and depreciation expenses at Red Rock, Fiesta Henderson and Santa Fe Station related to the recent expansions, the addition of amortization expense related to definite-lived intangible assets recorded in conjunction with the Merger and a decrease in gaming revenues at several of our other Major Las Vegas Operations due to a weakened economy, offset by improving operating margins at Red Rock.

Consolidated operating income increased 3.3% in the year ended December 31, 2006 as compared to the year ended December 31, 2005 while the operating margin decreased to 23.6% from 27.6% for the same periods. The increase in the consolidated operating income is a result of increased consolidated net revenues as noted above offset by operating expenses for Red Rock as well as preopening expenses of $29.5 million in the year ended December 31, 2006 as compared to $6.6 million in the year ended December 31, 2005. The decrease in operating margin was the result of lower operating margins at Red Rock.

Share-Based Compensation

Effective January 1, 2006, we adopted SFAS 123R, "Share-Based Payment", utilizing the modified prospective application. Under the modified prospective application, SFAS 123R applies to new awards and awards that were outstanding on December 31, 2005 that are subsequently modified, repurchased or cancelled. Under the modified prospective application, compensation cost recognized in the year ended December 31, 2006 and subsequent periods includes compensation cost of all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Accordingly, prior period amounts are not restated to reflect the impact of adopting SFAS 123R under the modified prospective application.

The recognition of compensation expense related to the issuance of restricted stock did not change with the adoption of SFAS 123R, except for the addition of the estimate of forfeitures, and such compensation expense continued to be expensed in the consolidated statements of operations. During the year ended December 31, 2006, income before income tax and net income were reduced by approximately $2.2 million and $1.4 million, respectively, as a result of adopting SFAS 123R.

The following table highlights our various sources of revenues and expenses as compared to prior years (dollars in thousands):

	Successor	Predecessor	2007 Combined (a)	Predecessor			
	Period from November 8, 2007 Through December 31, 2007	Period from January 1, 2007 Through November 7, 2007	Year ended December 31, 2007	Percent change	Year ended December 31, 2006	Percent change	Year ended December 31, 2005
Casino revenues	$ 151,867	$ 879,097	$ 1,030,964	6.4%	$ 969,147	17.3%	$ 825,995
Casino expenses	60,946	331,009	391,955	12.4%	348,659	21.7%	286,503
Margin			*62.0%*		*64.0%*		*65.3%*
Food and beverage revenues	$ 37,885	$ 210,698	$ 248,583	17.5%	$ 211,579	44.2%	$ 146,774
Food and beverage expenses	27,236	149,998	177,234	16.4%	152,300	47.9%	102,970
Margin			*28.7%*		*28.0%*		*29.8%*
Room revenues	$ 14,926	$ 97,514	$ 112,440				