

AMERISTAR CASINOS INC

Form 10-K

March 29, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2001**

or

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

Commission file number: **0-22494**

AMERISTAR CASINOS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

88-0304799
(I.R.S. Employer Identification No.)

3773 Howard Hughes Parkway
Suite 490 South
Las Vegas, Nevada 89109
(Address of Principal Executive Offices)

Registrant's Telephone Number: **(702) 567-7000**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value
(Title of Class)

Indicate by check mark 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 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.

As of March 8, 2002, 25,984,665 shares of Common Stock of the registrant were issued and outstanding. The aggregate market value of the voting stock of the registrant held by non-affiliates as of March 8, 2002 was approximately \$273,442,814, based on the Nasdaq-NMS closing price for the registrant's Common Stock on such date.

Portions of the registrant's definitive Proxy Statement for its June 7, 2002 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 Annual Report on Form 10-K to Ameristar refer to Ameristar Casinos, Inc. and all references to the Company, we, our, ours and us refer to Ameristar and its consolidated subsidiaries. This Report contains certain forward-looking statements, including management's plans and objectives for our business, operations and economic performance. These forward-looking statements generally can be identified by the context of the statement or the use of words such as our management or we believe, anticipate, intend, expect, plan, or words of similar meaning. Similarly, statements that describe our future operating performance, financial results, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements. In addition to the other cautionary statements relating to certain forward-looking statements throughout this Report, attention is directed to Item 1. Business Risk Factors below for a discussion of some of the factors, risks and uncertainties that could affect the outcome of future results contemplated by forward-looking statements.

PART I

Item 1. Business

Introduction

We are a leading multi-jurisdictional developer, owner and operator of casinos and related hotel and entertainment facilities in local markets. We own six properties in five markets located in Missouri, Iowa, Mississippi and Nevada catering to customers primarily residing within a 100-mile radius of our properties. Our properties enjoy leading positions in markets with significant barriers to entry, and all of our properties are high-quality assets. We intend to grow our revenues, cash flow and earnings through internal growth initiatives, including the expansion of our existing properties, targeted marketing programs, and the strategic acquisition or development of properties in attractive local gaming markets.

Our gaming revenues are derived, and are expected to continue to be derived, from a broad base of customers, and we do not depend upon high-stakes players. We emphasize slot machine play at our properties, and we invest on an ongoing basis in new slot equipment to promote customer satisfaction and loyalty. All of our properties include table games such as blackjack, craps and roulette. In addition, Ameristar Kansas City, Ameristar St. Charles, Ameristar Vicksburg and Cactus Petes offer poker and the Jackpot properties offer keno and sports book wagering. We generally emphasize competitive minimum and maximum betting limits based on each market. We extend credit to our Mississippi and Nevada gaming customers only in limited circumstances and limited amounts on a short-term basis and in accordance with the credit restrictions imposed by gaming regulatory authorities. The Missouri and Iowa gaming statutes prohibit the issuance of casino credit.

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The following table presents selected statistical and other information concerning our properties as of March 5, 2002.

	<u>Ameristar Kansas City</u>	<u>Ameristar St. Charles</u>	<u>Ameristar Council Bluffs</u>	<u>Ameristar Vicksburg</u>	<u>The Jackpot Properties (1)</u>
Opening Date	1997	1994	1996	1994	1956
Casino Square Footage (approx.)	115,000	45,000	38,500	42,000	28,500
Slot Machines	2,886	1,900	1,510	1,267	1,034
Table Games	111	30	46	41	38
Hotel Rooms	184		444(2)	150	420
Restaurants/Bars	14/11	3/3	4/6	3/5	5/4
Restaurant/Bar					
Seating Capacity	1,759/485	400/40	945/191	494/54	584/120
Guest Parking Spaces	4,500	4,000	3,000	1,700	1,134
Other Amenities	Kids Quest Children s Activity Center(3); 1,370-Seat Entertainment Facility; 18-Screen Movie Theater(3); Gift Shop; Amusement Arcade	Entertainment lounge; Gift Shop	Kids Quest Children s Activity Center(3); Meeting Space; Indoor Swimming Pool & Spa; Exercise Facility; Gift Shop; 3,500-Seat Outdoor Stage; Amusement Arcade	Gift Shop; Swimming Pool; Meeting Space	356-Seat Showroom; Sports Book; Meeting Space; Swimming Pool Gift Shop; General Store; Service Station; Amusement Arcade

(1) Includes the operations of Cactus Petes Resort Casino and The Horseshu Hotel & Casino.

(2) Includes 284 rooms operated by affiliates of Kinseth Hospitality Corporation and located on land owned by us and leased to affiliates of Kinseth.(3) Leased to and operated by a third party.

Ameristar Kansas City. Ameristar Kansas City is a fully-integrated gaming, dining, lodging and entertainment complex in a spacious, land-based atmosphere. Located seven miles from downtown Kansas City, Ameristar Kansas City is specifically designed to attract customers from the greater Kansas City area, as well as strong visitor and overnight markets. The property is located on approximately 183 acres adjacent to the Interstate 435 bridge, which supports an average traffic flow of approximately 88,000 cars per day. Interstate 435 is a six-lane, north-south expressway offering quick and easy access to, and direct visibility of, the Ameristar Kansas City property.

The casino, which opened in 1997, features an historic Missouri riverboat theme and is the newest and largest gaming facility in the Kansas City market. Ameristar Kansas City was named the number one attraction in Kansas City for 2001 by *The Business Journal* serving metropolitan Kansas City. In 2001, Ameristar Kansas City was named the top tourist attraction in Missouri by *Ingram s* magazine. Due to recent favorable

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regulatory changes in Missouri, in August 2001 we consolidated two contiguous but separate casinos into a single casino at minimal cost and made some modifications to the layout of the casino floor with the objectives of increasing revenues, improving operating efficiencies and generating higher

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customer satisfaction. The casino and entertainment complex currently includes a 115,000-square foot casino with approximately 2,886 slot and video poker machines and 111 table games, including a poker room, a 184-room hotel and other related facilities. An additional 25,000 square feet of space on the second level of the gaming floor (formerly utilized for gaming) is now available for meetings and special events. Ameristar Kansas City currently has 4,500 parking spaces, and construction is underway on a 2,650-space parking garage expected to be completed in July 2002. We expect the parking garage to improve our competitive position in the Kansas City market since Ameristar Kansas City is currently the only property in the market without a parking garage.

Ameristar Kansas City also provides a wide variety of dining and entertainment options, boasting 15 food outlets ranging from upscale restaurants to express food outlets and 11 bars/lounges. The Grand Pavilion seats more than 1,300 guests, and plays host to a variety of headline entertainers and sporting events. Live entertainment is also offered at the Horseshoe Saloon which seats 165. A state-of-the-art 18-screen movie theater complex, gift shop, video arcade and Kid's Quest activity center are also located at Ameristar Kansas City. Among other awards and distinctions, Ameristar Kansas City was named Best Casino and Best Buffet in *Kansas City Magazine's* 2001 Annual Readers Survey and its restaurants were named Best of Gaming 2001 among U.S. riverboats in three different categories in *Casino Player Magazine*.

Ameristar St. Charles. Ameristar St. Charles is located immediately north of the Interstate 70 bridge in the St. Louis metropolitan area, strategically situated to attract customers from the St. Charles and greater St. Louis area. The property is a master-planned gaming and entertainment facility located on approximately 52 acres and features an historic Missouri riverboat theme. Interstate 70 is a 10-lane, east-west freeway offering quick and easy accessibility to, and direct visibility of, the Ameristar St. Charles site for the 188,000 vehicles, on average, that use the highway per day. The property features an elevated roadway and a 4,000-space, five-story parking structure located above the existing flood plain, providing improved access to the facility and allowing it to operate even when the Missouri River floods.

The casino at Ameristar St. Charles opened in 1994 and currently features approximately 45,000 square feet of gaming space, 1,900 slot machines and 30 table games. We are in the process of constructing a new casino and entertainment complex that will contain approximately 115,000 square feet of gaming space consisting of 3,000 slot machines and 104 table games, including a 12-table poker room. As described below in Expansion Plans, our current plans call for us to invest approximately \$170 million to complete the construction of a new casino and entertainment complex at the property in mid-2002. We believe the new casino and entertainment complex at St. Charles will be the premier gaming facility in the St. Louis area, will be well-positioned to benefit from growth in this dynamic market, and will provide a foundation for Ameristar St. Charles to increase its market share in the St. Louis market.

Ameristar Council Bluffs. Ameristar Council Bluffs is a riverboat casino and related land-based hotel and other facilities located in Council Bluffs, Iowa on the bank of the Missouri River across from Omaha, Nebraska. The property is adjacent to the Nebraska Avenue exit on Interstate 29 immediately north of the junction of Interstate 29 and Interstate 80.

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Ameristar Council Bluffs features 444 hotel rooms, approximately 38,500 square feet of gaming space, 1,510 slot machines, 46 table games and five restaurants. Ameristar Council Bluffs boasts the prestigious Four Diamond designation from the AAA and is the only riverboat property in the nation to carry this designation. Ameristar Council Bluffs has undergone substantial expansion and renovation since it opened in 1996. In late 1999, we added a third level to the riverboat casino, and in early 2000, we constructed a 1,000-space parking garage. In the first quarter of 2001, we completed a renovation and enhancement project at the property that included enhancements to the land-based amenities and the total renovation of the two initial casino floors, including the installation of multimedia, high-definition plasma screens throughout the casino, the addition of new generation slot machines and the installation of the EZ-Pay system, a cashless ticket system designed to improve guest satisfaction.

The Council Bluffs casino is situated on an approximately 52,000-square foot, three-level, richly appointed cruising riverboat measuring 272 feet long by 98 feet wide. By constructing the vessel with high ceilings and making it 98 feet wide, the casino has the spacious feel of a land-based facility. We are required to make a two-hour cruise a minimum of 100 days per year during the excursion season, which is defined as April 1 through October 31. Guests may enter the riverboat from shore via an enclosed ramp from the Main Street Pavilion and from the fully enclosed parking garage.

The land-based facilities include the majestic Ameristar Hotel and Main Street Pavilion, where guests will find four restaurants, including the Waterfront Grill steakhouse, the buffet, the recently renovated sports bar and grill and the Prairie Mill Cafe & Bakery, a 24-hour specialty restaurant. The Council Bluffs property also features a children's activity center, fitness facility, indoor pool and convention facilities, as well as the Star Arena, a 3,500-seat outdoor concert venue. The approximately 50-acre Ameristar Council Bluffs site is also large enough to accommodate future land-based expansion.

Ameristar Vicksburg. Ameristar Vicksburg is located one-quarter mile north of Interstate 20 in Vicksburg, Mississippi and caters to guests from the Vicksburg and Jackson, Mississippi and Monroe, Louisiana markets. Opened in 1994, Ameristar Vicksburg includes a riverboat-themed dockside casino, a 150-room hotel and other land-based facilities. The casino features approximately 42,000 square feet of gaming space, 1,267 slot machines and 41 table games. The property's restaurants provide casual dining and regionally influenced menu selections at affordable prices. In July 2001, we completed a capital improvement project at the property including renovating and expanding the casino; installing new generation slot machines; adding a new VIP players lounge; replacing the showroom with the exciting new Bottleneck Blues Bar, an authentic club featuring live entertainment and gaming; and adding new high-definition plasma screens for special event viewing. In addition, approximately 600 parking spaces were added during 1999, bringing the total number of guest parking spaces to approximately 1,700.

Ameristar Vicksburg is significantly wider than typical riverboat casinos, giving the casino and restaurants the spacious feel of a land-based facility. The hotel at Ameristar Vicksburg has a Three Diamond rating from the AAA. We believe the overall range and quality of the facilities, food service and entertainment at Ameristar Vicksburg are superior to those available at its existing competitors.

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The Jackpot Properties. Our Jackpot properties, Cactus Petes Resort Casino and The Horseshu Hotel & Casino, are both located in Jackpot, Nevada at the Idaho border. The Jackpot properties have been operating since 1956 and serve customers primarily from Idaho, Oregon, Washington, Montana, northern California and southwestern Canadian provinces.

Together, the Jackpot properties feature approximately 28,500 square feet of gaming space, 1,034 slot machines, 38 table games, 420 hotel rooms (including 30 deluxe hot-tub suites), an Olympic-sized pool, a heated spa, lighted tennis courts, a recreational vehicle park and access to a nearby 18-hole golf course. The food and beverage operations at the Jackpot properties include a buffet, a fine dining restaurant, a 24-hour casual dining restaurant, a coffee shop, a snack bar, a showroom that features nationally known entertainment, and cocktail lounges with entertainment. We completed a major expansion project at Cactus Petes in 1991 and a remodeling of the casino at Horseshu in late 1997. Cactus Petes and Horseshu have Four Diamond and Three Diamond ratings, respectively, from the AAA, and Cactus Petes has been named Best Hotel/Resort in rural Nevada for the last two years by *Nevada Magazine*.

Our Business Strategies

Our growth strategy is to pursue the expansion and development of our existing properties and to selectively acquire or develop new properties in attractive, local gaming markets. In implementing our strategy, we emphasize a total entertainment experience through high-quality gaming, dining, lodging and other non-gaming amenities to complement and enhance our gaming operations. We seek to promote customer retention through various targeted marketing and value-added loyalty programs and by delivering superior customer service.

Our marketing strategy is to develop a loyal customer base by promoting the quality of our gaming, leisure and entertainment amenities that emphasize high standards of service and customer satisfaction. We use players clubs at each property to identify and retain preferred players and develop promotions and special events to encourage increased gaming activity by these customers. Our marketing programs also include a number of promotions designed primarily to increase the frequency of customer visits within local markets, as well as tour and travel promotional packages in certain markets. We use direct mail promotions and a variety of advertising media to market our properties, including print, television, radio, outdoor and internet advertising.

Expansion Plans

We seek to expand our operations through a variety of means, including entering new North American markets created by the legalization of casino gaming, developing new casinos or buying existing casinos in established North American casino gaming markets and expanding through continued growth at our existing properties. In the event that deteriorating economic conditions cause state or local governments to legalize gambling in other jurisdictions, we believe we are well-positioned to enter into new markets created by such an expansion given our operating history and experience with obtaining new gaming licenses. Although our preference is to own and operate each of our gaming properties, we also consider expansion opportunities involving management contracts or joint ventures.

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We continually evaluate the operating performance of each of our existing properties and the feasibility of enhancing their performance through capital expenditure programs. In doing so, we assess the anticipated relative costs and benefits of the projects under consideration, the availability of cash flow and debt financing to fund capital expenditures, and competitive and other relevant factors.

We believe that our long-term success in our current markets and expanding into new markets will depend, in part, on our ability to distinguish our operations from those of our competitors. Our strategy of including quality non-gaming amenities in our facilities, such as lodging, dining and entertainment, is intended to provide these competitive distinctions. The scope of non-gaming amenities to be offered at existing properties and future expansion projects will be determined in part by competitive factors within a particular market and the nature of our participation in a particular project. In addition, we believe the selection of attractive expansion markets and quality locations within those markets will continue to be important to our growth strategy. In selecting expansion opportunities, we seek a strong demographic market with a favorable competitive environment and a site in the market with an attractive, prominent location and ease of access that will support the size and scope of our development plans.

New Casino and Entertainment Facility at Ameristar St. Charles

We believe there is an opportunity to significantly expand the scope of our gaming operations at our St. Charles property. The former owner of the property invested approximately \$169 million in the construction of a new casino and entertainment complex before suspending construction in 1997. We made substantial changes to the design of the uncompleted portions of the project and recommenced construction on the new casino and entertainment facility in May 2001. Our plans for the project include: a 115,000 square-foot casino with approximately 3,000 slot machines and 104 table games, including a 12-table poker room, and a VIP players lounge; an historical streetscape reminiscent of St. Charles past extending from the entryway at the porte cochere through the pavilion; an approximately 450-seat, state-of-the-art buffet with multiple serving stations; a 262-seat sports bar and grill, with a 40-foot video wall and several other large screens; a 154-seat steakhouse featuring exhibition cooking with a 46-seat lounge and a 20-seat private dining room; a 211-seat casual dining restaurant; a 106-seat oyster bar; a 306-seat Bottleneck Blues Bar, an intricately themed blues club environment with live entertainment and dining; a video game arcade; and a gift shop. We expect the costs for the completion of construction of the project as currently contemplated (including purchases of furniture, fixtures and equipment) to be approximately \$170 million. Upon its opening, we believe the new casino and entertainment facility at Ameristar St. Charles will be the premier gaming facility in the St. Louis area, will be well-positioned to take advantage of growth in this dynamic market and will provide a foundation for Ameristar St. Charles to increase its market share in the St. Louis market.

This project includes a single casino on two adjoining gaming vessels, which lie in a man-made protective basin in the Missouri River. We intend to complete the interior of both vessels, with the mezzanine level of the second vessel being used to host special VIP-related events and remaining available to further expand the casino floor by up to 25,000 square feet based on market conditions simply by adding gaming equipment. The expanded entertainment center will allow the property to accommodate the dining and entertainment needs of the

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customers drawn to the larger casino. In addition to the amenities expected to open initially in mid-2002, approximately 150,000 square feet of space in the entertainment center will remain available for future expansion, requiring only interior finishes to complete.

Parking Garage at Ameristar Kansas City

In connection with the June 2001 approval of the Missouri Gaming Commission to consolidate the two casinos at Ameristar Kansas City into a single casino, we committed to construct a parking garage at the property. We began construction of a 2,650-space parking garage in October 2001. The structure will feature five parking levels with an enclosed climate-controlled walkway connecting it to the casino and entertainment facility. We expect the parking garage to be completed in July 2002 at a construction cost of approximately \$23 million.

Markets and Competition

Kansas City

Market. The Kansas City gaming market is the twelfth largest in the United States with gaming revenues for the twelve months ended December 31, 2001 of approximately \$582.0 million. The Kansas City market consists of four casinos located in the Kansas City metropolitan area, including Ameristar Kansas City. A fifth casino is located approximately 50 miles north in St. Joseph, Missouri (the Kansas City gaming market data included herein does not give effect to this casino). The Kansas City market has over 1.4 million adults residing within a 50-mile radius and over 1.7 million adults within a 100-mile radius. This market is insulated from other gaming markets, with no significant competing markets within 100 miles.

Competition. Ameristar Kansas City competes primarily with three other gaming operations located in and around Kansas City, Missouri. Gaming has been approved by local voters in jurisdictions near Kansas City, including St. Joseph, Missouri, which currently has one riverboat gaming operation. Since the opening of Ameristar Kansas City in 1997, Sam's Town, the closest casino to Ameristar Kansas City, closed, and Boyd Gaming, the owner of Sam's Town, sold most of Sam's Town's assets to Harrah's Entertainment Inc. Sam's Town has remained closed since its acquisition by Harrah's, which recently sold the property with a covenant restricting its use to non-gaming purposes.

In June 2001, Harrah's North Kansas City, located approximately five miles from Ameristar Kansas City and currently the closest operating casino to Ameristar Kansas City, completed its previously announced facilities enhancements and consolidation of its gaming space onto one expanded vessel. In addition, Argosy Casino has announced its intention to replace its existing riverboat with a single-level 58,000 square foot barge-based facility, increasing the number of gaming positions by 50%, and renovate and enhance its other amenities.

In 2000, the Flamingo Casino was purchased by Isle of Capri and the property was substantially renovated in the second quarter of 2001 to re-theme it into an Isle of Capri casino. We believe that during the construction period, the Isle facility patrons were displaced by the construction and many frequented Harrah's North Kansas City, the next closest casino. With

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the completion of construction, Isle's property has regained its market share from Harrah's without a material impact on our market share.

St. Charles

Market. The St. Louis gaming market is the ninth largest in the United States with gaming revenues for the twelve months ended December 31, 2001 of \$766.3 million, an increase of 12.1% over \$683.5 million for the twelve months ended December 31, 2000. The St. Louis market, which overlaps two jurisdictions, Missouri and Illinois, consists of five casinos, including Ameristar St. Charles. There are approximately 1.8 million adults living within 50 miles and 3.7 million adults living within 100 miles of St. Louis, making it the third largest gaming market in the United States in terms of local population, and the St. Louis market is insulated from other gaming markets.

Competition. Ameristar St. Charles competes primarily with four other gaming operations located in metropolitan St. Louis. Two of these competitors are located in Illinois, which unlike Missouri does not impose the \$500 per person loss limit that is imposed by Missouri, does not require a mandatory identification card to enter a casino and allows credit play. Our principal competition is a facility located in Maryland Heights, Missouri that opened in April 1997 and is located five miles from Ameristar St. Charles. Ameristar St. Charles experienced a decline in revenues following the opening of the Maryland Heights, Missouri facility. Prior to Harrah's acquisition of Players International, Inc. on May 22, 2000, Harrah's and Players operated separate but adjacent facilities at Maryland Heights. Following Harrah's acquisition of Players, Harrah's consolidated both facilities into one operation. In addition, Harrah's has recently announced its intention to add an additional hotel and parking garage at Maryland Heights. Gaming has also been approved by local voters in other cities and counties along the Mississippi and Missouri Rivers near St. Louis. In addition, the Missouri Gaming Commission is currently considering whether to accept applications for an additional gaming license in the St. Louis area. If an additional gaming license is granted, Ameristar St. Charles would face additional competition.

Council Bluffs

Market. Council Bluffs forms part of the greater Omaha, Nebraska/Council Bluffs, Iowa metropolitan area, which has a population of approximately 717,000. Approximately 1.0 million people live within a 50-mile radius, and approximately 1.7 million people live within a 100-mile radius of Council Bluffs. Based on available data, Council Bluffs is currently the largest gaming market in Iowa. Gaming revenues in the Council Bluffs gaming market for the twelve months ended December 31, 2001 were \$358.5 million.

Competition. Three gaming licenses have been issued for the Council Bluffs gaming market to Iowa West Racing Association. We operate our casino at Ameristar Council Bluffs pursuant to an operating agreement with Iowa West Racing Association. The other casinos operating under these licenses are Harrah's Council Bluffs, a riverboat casino, and Bluffs Run Casino, a dog track and slots-only, land-based casino, both of which compete with Ameristar Council Bluffs. In July 2001, Harrah's Entertainment, Inc. acquired both of these properties through its acquisition of Harveys Casino Resorts. Although Ameristar Council Bluffs has increased its market share since Harrah's acquisition of these properties, we cannot predict the long-term

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effects the Harrah s acquisition will have on our operations or our ability to compete in the Council Bluffs market.

Vicksburg

Market. The primary market for Ameristar Vicksburg is residents of the Jackson and Vicksburg, Mississippi and Monroe, Louisiana areas; tourists coming to Vicksburg primarily to visit the Vicksburg National Military Park; and other traffic traveling on Interstate 20, a major east-west thoroughfare that connects Atlanta and Dallas. Vicksburg, with a population of approximately 30,000, is located 45 miles west of Jackson, the capital of Mississippi. The Jackson and Vicksburg metropolitan areas have a total population of approximately 490,000 persons. Approximately 1.5 million people live within a 100-mile radius of Vicksburg. The Vicksburg National Military Park, located within three miles of Ameristar Vicksburg, draws over 1.0 million registered visitors a year. Interstate 20 (which connects Atlanta and Dallas) passes directly through Vicksburg. According to the Mississippi Department of Transportation, approximately 8.0 million vehicles drove across the Interstate 20 bridge at Vicksburg during 1999. Gaming revenues in the Vicksburg gaming market for the twelve month reporting period ended December 2001 were approximately \$232.7 million.

Competition. Ameristar Vicksburg is subject to competition from three local competitors and from casinos in Shreveport and Bossier City, Louisiana. Ameristar Vicksburg is also subject to competition from a casino in Philadelphia, Mississippi owned by a Native American tribe, which is constructing an additional gaming and hotel facility near its existing property. Several potential gaming sites still exist in Warren County and Vicksburg and from time to time potential competitors propose the development of additional casinos in or near Vicksburg. This includes proposals raised from time to time to develop Native American casinos in Louisiana and Mississippi, some of which could be competitive with the Vicksburg market if completed.

Jackpot

Market. We believe that approximately 50% of the customer base of the Jackpot properties consists of residents of Idaho who generally frequent the properties on an overnight or turnaround basis. The balance of the Jackpot properties customers come primarily from Oregon, Washington, Montana, northern California and the southwestern Canadian provinces. Although many of the customers from beyond southern Idaho are tourists traveling to other destinations, a significant portion of these customers come to Jackpot as a final destination.

Competition. We have developed a dominant share of the market capacity in Jackpot. The Jackpot properties compete with four other hotels and motels (three of which also have casinos). According to the Nevada Gaming Control Board and other sources, as of December 31, 2001, the Jackpot properties accounted for approximately 55% of the lodging rooms, 62% of the slot machines and 71% of the table games in Jackpot. We believe Cactus Petes offers a more attractive environment and a broader and higher quality range of gaming and leisure activities than those of its competitors. We are not aware of any expansion plans by existing or potential competitors in Jackpot, however, casinos with video lottery terminals (VLT) similar to slot machines are operated on Native American land in Idaho, including one near Pocatello with approximately 200 VLT machines that has been operated by the

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Shoshone-Bannock Tribes (the S-B Tribes). The S-B Tribes recently entered into a compact with the State of Idaho allowing gaming on the S-B Tribes lands to the extent permitted under Idaho law as to be determined by a federal court pursuant to currently pending proceedings. The State of Idaho is contending in this litigation that VLT terminals are not permitted under Idaho law. A recent proposal to amend Idaho law and compacts between the State of Idaho and three tribes with reservations in Northern Idaho (the Northern Tribes) would permit these tribes to operate VLT terminals but place limits on the expansion of gaming by these tribes. The S-B Tribes are not covered by this proposal, but the outcome of the litigation under the compact with the S-B Tribes could be affected if Idaho law is amended as has been proposed. The Idaho legislature did not approve bills to amend Idaho law or ratify the amended compacts with the Northern Tribes during the 2001 or 2002 legislative sessions, but similar legislation may be introduced in the future. The Northern Tribes intend to seek to place a referendum on the November 2002 ballot that would amend Idaho law and sanction amended compacts that also could adversely affect the outcome of the pending litigation between the State and the S-B Tribes. In addition, casino gaming on Native American lands in both western Washington and northeast Oregon has been in operation for several years, and casinos also operate in Alberta, Canada.

Employees

As of March 15, 2002, we employed approximately 6,400 employees. None of our current employees is employed pursuant to collective bargaining or other union arrangements. We believe our employee relations are good.

Risk Factors

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

The gaming industry is very competitive and we face competitive pressures in a variety of areas. Our operating properties are located in jurisdictions that restrict gaming to certain areas and/or are adjacent to states that prohibit or restrict gaming operations. These restrictions and prohibitions provide substantial benefits to our business and our ability to attract and retain customers. The legalization or expanded legalization or authorization of gaming within or near a market area of one of our properties could have a material adverse effect on our business, financial condition and results of operations. Economic difficulties faced by state governments could lead to intensified political pressures for the legalization of gaming.

From time to time, legislation and ballot measures have been unsuccessfully proposed in Kansas and Nebraska for the legalization of gaming, and the legislatures of these states are currently considering proposals to legalize gaming that may be adopted. Even if the current proposals are unsuccessful, we expect similar proposals will be made in the future and may be adopted. In such a case, our properties in Kansas City and Council Bluffs could face additional competition from adjacent states. In addition, the Missouri Gaming Commission is currently considering whether to accept applications for an additional gaming license in the St. Louis area. If an additional gaming license is granted, Ameristar St. Charles would face additional competition. Also, litigation is currently pending before the Mississippi Supreme Court

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relating to the site of a proposed new casino close to Jackson, Mississippi, which is the principal market for our Vicksburg property.

In addition, the entry into our current markets of additional competitors could have a material adverse effect on our business, financial condition and results of operations, particularly if a competitor were to obtain a license to operate a gaming facility in a superior location. Native American gaming facilities in some instances operate under regulatory requirements that are less stringent than those imposed on state-licensed casinos, which could provide them with a competitive advantage and lead to increased competition in our markets. Furthermore, increases in the popularity of, and competition from, Internet and other account wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, could have a material adverse effect on our business, financial condition, operating results and prospects.

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

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

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

We employ fast-track design and construction methods in some of our construction and development projects. This involves the design of future stages of construction while earlier stages of construction are underway. Although we believe that the use of fast-track design and construction methods can reduce the overall construction time, these methods may not always result in such reductions, may involve additional construction costs than otherwise would be incurred and may increase the risk of disputes with contractors, all of which could have a material adverse effect on our business, financial condition and results of operations.

Construction Dependent upon Available Financing and Cash Flows from Operations. The availability of funds under our senior credit facilities at any time will be dependent upon, among other factors, the amount of our consolidated EBITDA (as defined in the credit

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agreement) during the preceding four full fiscal quarters. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are beyond our control. Accordingly, we cannot assure you that our future consolidated EBITDA and the resulting availability of operating cash flow or borrowing capacity will be sufficient to allow us to undertake or complete current or future construction projects.

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

The costs of our development and construction of the new casino and entertainment facility at Ameristar St. Charles may exceed our current estimates.

Construction is underway on our new casino and entertainment facility at Ameristar St. Charles. Our estimated cost of completing the St. Charles project is based on construction contracts we have signed, contract bids and estimates prepared by us. Due to typical construction uncertainties associated with any project, we cannot be sure that our construction costs will not be higher than the estimated cost of completion. We also cannot be sure that we will not exceed the budgeted costs of the project or that the project will commence operations within the contemplated time frame, if at all.

Our ability to complete the construction of the new casino and entertainment complex at Ameristar St. Charles as currently contemplated depends on our receipt of a waiver from our lenders.

Our senior credit facilities currently limit the amount that we can spend on the project to \$110 million plus otherwise allowable capital expenditures, but we expect the cost of the project to exceed this amount. While we are not currently in violation of any of the provisions of our senior credit facilities, we will need to obtain a waiver of this limit from our lenders. We expect to request a waiver from the lenders under our senior credit facilities during the second quarter of 2002, but we cannot be sure that our lenders will grant our request. If we do not receive the waiver, our completion of the project will be significantly delayed.

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

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Mr. Neilsen is our President, Chief Executive Officer and Chairman of our board of directors and owns approximately 60% of our outstanding common stock. Accordingly, Mr. Neilsen has the ability to control our operations and affairs, including the election of the board of directors and, except as otherwise provided by law, other matters submitted to a vote of the stockholders, including a merger, consolidation or sale of the stock of the company. In addition, Mr. Neilsen's substantial ownership affects the liquidity in the market for our common stock.

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

Certain changes in control could result in the acceleration of our senior credit facilities and our senior subordinated notes. This acceleration could be triggered in the event Mr. Neilsen sells a significant portion of his stock or upon his death if his estate, heirs and devisees must sell a substantial number of shares of our common stock to obtain funds to pay inheritance tax liabilities. We cannot assure you that we would be able to repay any indebtedness that is accelerated as a result of a change in control, and this would likely materially adversely affect our financial condition.

Leverage may impair our financial condition and restrict our operations and we may incur significant additional debt.

We have high leverage and, in addition to our operating expenses, we have substantial fixed debt service obligations. The degree to which we are leveraged could have important adverse consequences to our business, including:

Increasing our vulnerability to general adverse economic and industry conditions;

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

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

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

Placing us at a competitive disadvantage to less leveraged competitors.

The terms of our senior credit facilities and the indenture governing our senior subordinated notes contain covenants that may restrict our ability to, among other things, borrow money, pay dividends and effect a consolidation, merger or disposal of substantially all of our assets. Although the covenants in our senior credit facilities and the indenture are subject to various exceptions that are intended to allow us to operate without undue restraint in certain anticipated circumstances, we cannot assure you that these covenants will not adversely affect our ability to finance future operations or capital needs or to engage in other activities that may be in our best interest. In addition, our long-term debt requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. A breach of any of these

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covenants would result in a default under our senior credit facilities and the indenture. If an event of default under our senior credit facilities occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In addition, our senior credit facilities are secured by first priority security interests on substantially all of our real and personal property, including the capital stock of our subsidiaries. If we are unable to pay all amounts declared due and payable in the event of a default, the lenders could foreclose on these assets.

If our key personnel leaves us, our business will be significantly adversely affected.

We depend on the continued performance of Craig H. Neilsen, our President, Chief Executive Officer and Chairman, and his management team. Thomas M. Steinbauer, Ameristar's Senior Vice President of Finance, has announced his intention to leave us sometime after mid-2002, and we are currently seeking a replacement for Mr. Steinbauer. In addition, we are currently seeking to fill the open General Manager position at Ameristar Council Bluffs. If we lose the services of Mr. Neilsen, any of our other executive officers or our senior property management personnel, and cannot replace such persons in a timely manner, it could have a material adverse effect on our business.

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

We have experienced and expect to continue to experience strong competition in hiring and retaining qualified property and corporate management personnel. Recruiting and retaining qualified management personnel is particularly difficult at Ameristar Vicksburg and the Jackpot properties due to local market conditions. If we are unable to successfully recruit and retain qualified management personnel at our properties and at our corporate level, our results of operations could be materially adversely affected.

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

Adverse weather conditions, particularly flooding, heavy snowfall and other extreme weather conditions, can deter our customers from traveling or make it difficult for them to frequent our properties. If any of our properties were to experience prolonged adverse weather conditions, or if our Midwestern properties were to simultaneously experience adverse weather conditions, our results of operations and financial condition could be materially adversely affected.

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

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The States of Missouri, Iowa, Mississippi and Nevada and the applicable local authorities require various licenses, findings of suitability, registrations, permits and approvals to be held by us and our subsidiaries. The Missouri Gaming Commission, the Iowa Racing and Gaming Commission, the Mississippi Gaming Commission and the Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or not renew a license

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or approval to own the stock of any of our Missouri, Iowa, Mississippi or Nevada subsidiaries, respectively, for any cause deemed reasonable by such licensing authority. Our licenses in Missouri will need to be renewed in December 2002 and every two years thereafter. Our gaming license in Iowa must be renewed or continued every year, and our gaming license in Mississippi must be renewed every three years. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiaries and the persons involved, and we could be forced to forfeit portions of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets would have a material adverse effect on our business, financial condition and results of operations. We are also subject to substantial gaming taxes and fees imposed by various governmental authorities, which are subject to increase.

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

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

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. If the jurisdictions in which we operate were to increase gaming taxes and fees, our results from operations could be adversely affected. Various legislative proposals have been introduced in the Missouri legislature during 2002 that would substantially increase gaming taxes in Missouri. Although some of these bills include provisions that would remove the \$500 loss limit and mandatory boarding card requirements that could lead to increased revenues, an increase in taxes could materially adversely affect our results of operations in Missouri.

Worsening economic conditions may adversely affect our business.

Our business may be adversely affected by economic downturns and instability as we are dependent on discretionary spending by our customers. Any worsening of current economic conditions could cause fewer people to spend money at our properties and could adversely affect our revenues.

Failure of local reauthorization of gaming activities in Iowa could have a material adverse effect on us.

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 has a population of approximately 88,000 and includes the City of Council Bluffs, approved by referendum the gambling games conducted at Ameristar Council Bluffs, a

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reauthorization referendum must be submitted to the county electorate in the general election to be held in November 2002 and each eight years thereafter. Each such referendum requires the vote of a majority of the persons voting. If any such reauthorization referendum is defeated, Iowa law provides that any previously issued gaming license will remain valid and subject to periodic renewal for a total of nine years from the original issue unless otherwise terminated by the Iowa Racing and Gaming Commission. The original issue date for our Iowa gaming license was January 27, 1995. We cannot assure you that gaming operations of the type we conduct at Ameristar Council Bluffs will continue to be authorized in Pottawattamie County. Any failure of Pottawattamie County to reauthorize gaming operations of the type we conduct at Ameristar Council Bluffs would have a material adverse effect on our business, financial condition and results of operations.

The National Gambling Impact Study Commission's recommendations may adversely affect the gaming industry and our operations.

The National Gambling Impact Study Commission (the National Commission) was established by the U.S. Congress to conduct a comprehensive study of the social and economic impact of gaming in the United States. On April 28, 1999, the National Commission voted to recommend that the expansion of gaming be curtailed. In June 1999, the National Commission issued a final report of its findings and conclusions, together with recommendations for legislative and administrative actions. Highlights of some of those recommendations include: (1) legal gaming should be restricted to those at least 21 years of age; (2) betting on college and amateur sports should be banned; (3) the introduction of casino-style gaming at pari-mutuel racing facilities for the primary purpose of saving pari-mutuel facilities that otherwise may not be financially viable for the purpose of competing with other forms of gaming should be prohibited; (4) Internet gaming should be banned in the United States; (5) the types of gaming activities allowed by Native American tribes within a given state should be consistent with the gaming activities allowed to other persons in that state; and (6) state, local and tribal governments should recognize that casino gaming provides economic development, particularly for economically depressed areas and casino gaming as opposed to stand-alone slot machines (e.g., in convenience stores), Internet gaming and lotteries do not provide the same economic development. Any regulation of the gaming industry which may result from the National Commission's report may have an adverse effect on the gaming industry and on our financial condition and results of operations.

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

Our riverboat and dockside facilities in Missouri, Iowa and Mississippi could be lost from service due to casualty, mechanical failure, extended or extraordinary maintenance, floods or other severe weather conditions. Cruises of the Council Bluffs casino are subject to risks generally incident to the movement of vessels on inland waterways, including risks of casualty due to river turbulence and severe weather conditions. In addition, U.S. Coast Guard regulations set limits on the operation of vessels and require that vessels be operated by a minimum complement of licensed personnel.

The U.S. Coast Guard also requires all United States flagged passenger vessels operating exclusively in fresh water to conduct a thorough dry-dock inspection of underwater machinery,

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valves and hull every five years. Less stringent inspection requirements apply to permanently moored dockside vessels like those at Ameristar Kansas City, Ameristar St. Charles and Ameristar Vicksburg. The Ameristar Council Bluffs riverboat was due for its dry-dock inspection in November 2000, but we have been accepted into a U.S. Coast Guard program that has extended the dry-dock requirement to May 2003 by undergoing a thorough underwater inspection. Upon the formal adoption of regulations relating to this program by the U.S. Coast Guard, we may be able to extend the dry-dock requirement further, to November 2005. If we are unable to continue to extend the dry-dock requirement by performing thorough underwater hull inspections, the Council Bluffs casino would be out of service for a substantial period of time for its dry-dock inspection. This could have a material adverse effect on Ameristar Council Bluffs and on our business, financial condition and results of operations. We cannot assure you that we will actually obtain any further extension of the dry-dock requirement or that similar extensions will be obtained in the future.

The Ameristar Vicksburg site has experienced some instability that requires periodic maintenance and improvements. Although in 1999 we reinforced the cofferdam basin in which the vessel floats, further reinforcements may be necessary. We are also monitoring the site to evaluate what further steps, if any, may be necessary to stabilize the site to permit operations to continue. A site failure would require Ameristar Vicksburg to limit or cease operations.

The loss of a riverboat or dockside facility from service for any period of time likely would adversely affect our operating results and borrowing capacity under our long-term debt facilities. It could also result in the occurrence of an event of a default under one or more of our credit facilities or contracts.

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

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

Government Regulations

The ownership and operation of casino gaming facilities are subject to extensive state and local regulations. 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, or the failure to reauthorize gaming in certain jurisdictions, 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.

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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 both permanently moored (dockside) riverboat casinos and powered (excursion) riverboat casinos and determine the number, location and type of excursion gambling boat allowed each licensee. Due to safety concerns, all gaming vessels on the Missouri River are permitted to be moored in moats set back from the river. Gaming licenses are initially issued for two one-year periods and must be renewed every two years thereafter. 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 Ameristar Casino Kansas City, Inc. and Ameristar Casino St. Charles, Inc. 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 grant of a security interest.

Under the Missouri Act, all members of our Board of Directors, certain members of our management and certain of our employees associated with our gaming business are required to obtain and maintain occupational licenses. Currently, all such persons required to obtain occupational licenses have obtained them, except for Joseph E. Monaly and W. Bruce Turner, each a director of Ameristar. Mr. Monaly has applied for but not yet received a license, and Mr. Turner is completing his license application. 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

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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 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 one million dollars 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 two dollars per gaming customer per two-hour cruise that licensees must pay to the Missouri Gaming Commission, certain minimum payout requirements, a 20% tax on adjusted gross receipts, prohibitions against providing credit to gaming customers (except for the use of credit cards and cashing 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 financial reports to the Missouri Gaming Commission and pay the associated auditing fees. Other areas of operation which are subject to regulation under Missouri rules are the size, denomination and handling of chips and tokens, the surveillance methods and computer monitoring of electronic games, accounting and audit methods and procedures, and approval of an extensive internal control system. The Missouri rules also require that all of an operator's purchases of chips, tokens, dice, playing cards and electronic gaming devices must be acquired from suppliers licensed by the Missouri Gaming Commission, or another person or entity approved by the Missouri Gaming Commission.

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

Missouri gaming regulations have been modified in recent years to benefit gaming operations. In September 1999 the Missouri Gaming Commission began allowing open and continuous boarding on the riverboats in the St. Louis market and in November 1999 the

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Missouri Gaming Commission began allowing open and continuous boarding on area riverboats in the Kansas City market. This change eliminated the prior mandated two-hour simulated cruise times, which had limited boarding at any gaming vessel to only 45 minutes at the beginning of each two-hour period. The Missouri Act now authorizes the exchange of currency into electronic credits so that patrons are no longer forced to manually feed tokens into gaming machines at the start of play. This allows faster, more convenient play, especially in multi-coin games which have proven popular in other gaming jurisdictions.

The Missouri Act requires each licensee to post a bond or other surety to guarantee that the licensee complies with its statutory obligations. In addition, the Missouri Act 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 the later of a time period determined by the Missouri Gaming Commission or August 28, 2003. The failure to complete an approved expansion project within the prescribed time period may, pursuant to the Missouri Act, constitute sufficient grounds for not renewing the gaming license for the gaming facility.

To promote safety, the Missouri Gaming Commission has required that gaming entertainment barges obtain annual certification from the American Bureau of Shipping. On January 8, 1999, the American Bureau of Shipping decertified the gaming barges and other ancillary barges now operated by Ameristar St. Charles, as a result of low water levels on the Missouri River and the build up of silt and debris under these barges. At that time, the Missouri Gaming Commission expressed concern regarding the effect of the low water level on the barges. However, the Missouri Gaming Commission allowed the former owner to keep the St. Charles property open because of steps taken to remedy the problem. The American Bureau of Shipping subsequently recertified the St. Charles facility in November 1999. While the former owner previously took steps to reduce the possibility that this will happen again, including additional dredging of materials from under the barges, we cannot assure you that this condition will not recur and, if so, require the closure of a property for a significant amount of time.

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

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

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promotions and a ban on fees accepted for advertising products. Only Class A licensees can obtain a liquor license from the Missouri Gaming Commission. Class A licenses are licenses granted by the commission to allow the holder to conduct gambling games on an excursion gambling boat and to operate an excursion gambling boat.

Iowa. Ameristar's Council Bluffs operations are conducted by Ameristar Casino Council Bluffs, Inc. (ACCBI) and are subject to Chapter 99F of the Iowa Code and the regulations promulgated thereunder. Ameristar'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 a self-propelled excursion boat. Gambling game means any game of chance authorized by the Iowa Gaming Commission. The excursion season is from April 1st through October 31st of each calendar year. The vessel must operate at least one excursion each day for 100 days during the excursion season to operate during the off season. Each excursion must consist of a minimum of two hours. The Council Bluffs casino satisfied the requirements of Iowa law for the conduct of off-season operations for the years of 1997 through 2001.

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 the Iowa West Racing Association, a not-for-profit corporation organized for the purpose of facilitating riverboat gaming in Council Bluffs, Iowa (the Association). The Association entered into an agreement with ACCBI authorizing ACCBI to operate riverboat gaming operations in Council Bluffs under the Association's gaming license (the Operator's Contract). The Iowa Gaming Commission approved this contract. The term of the Operator's Contract runs until December 31, 2002, with two five-year renewal options. If either party desires not to renew the Operator's Contract, it must provide written notice to the other party not later than six months prior to the expiration of the term (the Renewal Deadline). ACCBI has notified the Association and the Iowa Gaming Commission of its intention to seek an amendment of the terms of the Operator's Contract prior to the Renewal Deadline. If ACCBI is unable to reach mutually acceptable terms for an amended Operator's Contract with the Association prior to the Renewal Deadline, ACCBI may elect not to renew the Operator's Contract and instead seek an agreement with another suitable qualified sponsoring organization. Since the current license awarded to the Association by the Iowa Gaming Commission for the Ameristar Council Bluffs Casino extends through March 31, 2003, the ability of ACCBI to operate its casino after December 31, 2002 is currently uncertain if ACCBI and the Association cannot reach mutual agreement on an amendment by that time.

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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, approved by referendum the gambling games conducted by ACCBI, a reauthorization referendum must be submitted to the electorate in the general election to be held in 2002 and each eight years thereafter. Each such referendum requires the vote of a majority of the persons voting thereon. If any such reauthorization referendum is defeated, Iowa law provides that any previously issued gaming license will remain valid and subject to periodic renewal for a total of nine years from the date of original issuance, subject to earlier revocation as discussed below. The original issuance date of the gaming license for Ameristar Council Bluffs was January 27, 1995.

Substantially all of ACCBI's material transactions are subject to review and approval by the Iowa Gaming Commission. All contracts or business arrangements, verbal or written, with any related party or in which the term exceeds three years or the total value of the contract exceeds \$50,000 must be submitted in advance to the Iowa Gaming Commission for approval. 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 five percent (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 request ACCBI to provide a list of persons holding beneficial ownership interests in ACCBI of less than five percent (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 five percent (5%) of the first \$1.0 million of annual adjusted gross receipts, ten percent (10%) on the next \$2.0 million of annual adjusted gross receipts and twenty percent (20%) on annual adjusted gross receipts over \$3.0 million. In addition, the state charges other fees on a per customer basis. Additionally, ACCBI pays to the City of Council Bluffs a fee equal to \$0.50 per passenger.

Under the Operator's Contract, ACCBI also pays the Association an admissions fee of \$1.50 per passenger. ACCBI has interpreted the Operator's Contract to mean that a person

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may leave and re-enter Council Bluffs Casino (for example, to visit the restaurants at Ameristar Council Bluffs) without ACCBI being obligated to pay an additional admissions fee to the Association. ACCBI received a letter from the Association in August 1996 in which the Association asserted that an additional fee is due each time a person enters the Council Bluffs Casino, including re-entries. The Association has advised us that the board of directors of the Association discussed a proposal to settle this dispute at an October 1997 meeting but declined to take any action either to approve the proposed settlement or to pursue the previously threatened claim. Accordingly, the Association has advised ACCBI that it does not currently intend to pursue this claim, but the Association has not formally waived or released the claim.

All persons participating in any capacity at a gaming facility, with the exception of certified law enforcement officers while they are working for the facility as uniformed officers, are required to obtain occupational licenses from the Iowa Gaming Commission. All such licenses require annual renewal. The Iowa Gaming Commission had 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 the liquor ordinances adopted by local authorities. A local authority may adopt ordinances governing establishments which are located within their jurisdiction. Local ordinances may be more restrictive than the state law, but they may not conflict with the state law. The ABD and the local authorities have full power to suspend or revoke any license for the serving of alcoholic beverages.

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

The Mississippi Gaming Control Act (the Mississippi Act), which legalized dockside casino gaming in Mississippi, is similar to the Nevada Gaming Control Act discussed below. The Mississippi Commission has adopted regulations which are also similar in many respects to the Nevada gaming regulations.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Commission are based upon declarations of public policy that are concerned with, among other things, (1) the prevention of unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (2) the establishment and maintenance of responsible accounting practices and procedures; (3) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and safeguarding of assets and revenues, providing for reliable record keeping and requiring the filing of periodic reports with the Mississippi Commission; (4) the prevention of cheating and fraudulent practices; (5) providing a source of state and local revenues through taxation and licensing fees; and (6) ensuring that gaming licensees, to the

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extent practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Commission. We believe that our compliance with the licensing procedures and regulatory requirements of the Mississippi Commission will not affect the marketability of our securities. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our Mississippi gaming operations.

The Mississippi Act provides for legalized dockside gaming in each of the fourteen counties that border the Gulf Coast or the Mississippi River, but only if the voters in the county have not voted to prohibit gaming in that county. In recent years, certain anti-gaming groups proposed for adoption through the initiative and referendum process certain amendments to the Mississippi Constitution which would prohibit gaming in the state. The proposals were declared illegal by the Mississippi courts on constitutional and procedural grounds. The latest ruling was appealed to the Mississippi Supreme Court, which affirmed the decision of the lower court. If another such proposal were to be offered and if a sufficient number of signatures were to be gathered to place a legal initiative on the ballot, it is possible for the voters of Mississippi to consider such a proposal in November 2003. While we are unable to predict whether such an initiative will appear on a ballot or the likelihood of such an initiative being approved by the voters, if such an initiative were passed and gaming were prohibited in Mississippi it would have a significant adverse effect on us and our Mississippi gaming operations.

As of March 1, 2002, dockside gaming was permissible in nine of the fourteen eligible counties in the state and gaming operations had commenced in seven counties. Under Mississippi law, gaming vessels must be located on the Mississippi River or on navigable waters in eligible counties along the Mississippi River or in the waters lying south of the counties along the Mississippi Gulf Coast. In December 1996, the Mississippi Commission rejected an application for the development of a casino on a site on the Big Black River in Warren County near Interstate 20 between Jackson and Vicksburg, which decision was appealed by an adjoining landowner and the license applicant. In December 1997, a Mississippi circuit court issued an order reversing the decision of the Mississippi Commission and remanded the application to the Mississippi Commission for further proceedings. The decision of the court was appealed by the Mississippi Commission to the Mississippi Supreme Court. Oral argument was heard by the Supreme Court on March 6, 2000, but the court has not yet rendered its decision. The Mississippi Commission has also adopted a regulation that prohibits gaming on the Big Black River; however, the Mississippi Commission has taken the position that the Mississippi Commission may be prohibited from applying the regulation to the existing applicant that appealed the initial siting decision.

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

We and any subsidiary of ours that operates a casino in Mississippi (a Mississippi Gaming Subsidiary) are subject to the licensing and regulatory control of the Mississippi Commission. As the sole stockholder of Ameristar Casino Vicksburg, Inc. (ACVI), we are registered under the Mississippi Act as a publicly traded corporation (a Registered Corporation). As a Registered Corporation, we are required periodically to submit detailed financial and operating

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reports to the Mississippi Commission and furnish any other information which the Mississippi Commission may require. If we are unable to continue to satisfy the registration requirements of the Mississippi Act, we and any Mississippi Gaming Subsidiary cannot own or operate gaming facilities in Mississippi. No person may become a stockholder of or receive any percentage of profits from a Mississippi Gaming Subsidiary of a Registered Corporation without first obtaining licenses and approvals from the Mississippi Commission. We have obtained such approvals in connection with the licensing of our Mississippi Gaming Subsidiary.

A Mississippi Gaming Subsidiary must maintain a gaming license from the Mississippi Commission to operate a casino in Mississippi. Such licenses are issued by the Mississippi Commission subject to certain conditions, including continued compliance with all applicable state laws and regulations. There are no limitations on the number of gaming licenses that may be issued in Mississippi. Gaming licenses require the payment of periodic fees and taxes, are not transferable, are issued for a three-year period (and may be continued for two additional three-year periods) and must be renewed periodically thereafter. ACVI was granted a renewal of its gaming license by the Mississippi Commission on December 18, 1999.