STATION CASINOS INC
Form 10-K/A
May 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 2

(Mark One)

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

for the fiscal year ended December 31, 2006

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.)

2411 West Sahara Avenue, Las Vegas, Nevada 89102
(Address of principal executive offices, Zip Code)

Registrant s telephone number, including area code: **(702) 367-2411**

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 Par Value	**New York Stock Exchange**

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

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

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 x 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated file. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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 30, 2006, based on the closing price per share of $68.08 as reported on the New York Stock Exchange was $3,163,811,105.

As of January 31, 2007, the registrant has 57,260,989 shares of common stock outstanding.

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, 2006 on March 1, 2007 (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 27, 2007 (Amendment No. 1). The registrant is filing this Amendment No. 2 on Form 10-K/A to amend and restate Item 13, Certain Relationships and Related Transactions, and Director Independence , of Part III of Amendment No. 1. We are amending and restating Item 13 to (i) amend and restate the description of the Agreement and Plan of Merger entered into by and among the registrant, Fertitta Colony Partners LLC and FCP Acquisition Sub, dated as of February 23, 2007 (the Merger Agreement), to reflect an amendment to the Merger Agreement and (ii) correct numerical errors in the summary of the approximate value of the consideration to be received as a result of the proposed merger transaction by each of Frank J. Fertitta III, Lorenzo J. Fertitta, Blake L. Sartini and Delise F. Sartini. In addition, as required by Rule 12b-15 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.

No attempt has been made in this Amendment No. 2 on Form 10-K/A to modify or update the other disclosures presented in the Initially Filed Form 10-K and Amendment No. 1. Except as presented in this Amendment No. 2 on Form 10-K/A and except for Exhibits 31.1, 31.2, 32.1 and 32.2, this Amendment No. 2 on Form 10-K/A does not reflect events occurring after the filing of the Initially Filed Form 10-K or Amendment No. 1 or modify or update those disclosures. Accordingly, this Amendment No. 2 on Form 10-K/A should be read in conjunction with the Initially Filed Form 10-K, Amendment No. 1 and our other filings with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Merger Agreement

On February 23, 2007, we entered into an Agreement and Plan of Merger with Fertitta Colony Partners LLC (FCP), a Nevada limited liability company, and FCP Acquisition Sub, a Nevada corporation and a wholly-owned subsidiary of FCP (Merger Sub). The Merger Agreement was amended by the Company, FCP and Merger Sub as of May 4, 2007. Pursuant to the terms of the Merger Agreement, Merger Sub will be merged with and into the Company, and as a result the Company will continue as the surviving corporation (such transaction, the Merger).

Following the consummation of the Merger, FCP will indirectly own approximately 75% of the issued and outstanding shares of non-voting common stock of the Company. Immediately prior to the Merger, FCP will be owned by affiliates of Frank J. Fertitta III, Chairman and Chief Executive Officer of the Company, Lorenzo J. Fertitta, Vice Chairman and President of the Company, and FC Investor, LLC (FC Investor), a Delaware limited liability company and an affiliate of Colony Capital, LLC (Colony).

Following the consummation of the Merger, Fertitta Partners LLC, a Nevada limited liability company (Fertitta Partners), will own approximately 25% of the issued and outstanding shares of non-voting common stock of the Company. Immediately prior to the consummation of the Merger, Fertitta Partners will be owned by affiliates of Frank J. Fertitta III, Lorenzo J. Fertitta, Blake L. Sartini and Delise F. Sartini. FCP VoteCo LLC, a Nevada limited liability company (FCP VoteCo), will, following the consummation of the Merger and the substantially simultaneous issuance and sale of voting common stock of the Company for nominal consideration, own all of the issued and outstanding shares of voting common stock of the Company. It is currently anticipated that there will be 1,000,000 shares of non-voting common stock of the Company for each outstanding share of voting common stock of the Company. Immediately prior to the consummation of the Merger, each of Frank J. Fertitta III, Lorenzo J. Fertitta and Thomas J. Barrack, Jr., the Chairman and Chief Executive Officer of Colony, will own a one-third interest in FCP VoteCo.

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 Holding, Inc., a wholly-owned subsidiary of FCP, Fertitta Partners or any wholly-owned subsidiary of the Company or shares of Company common stock held in treasury by us) will be cancelled and converted into the right to receive $90 in cash, without interest. Following the consummation of the Merger, the Company will be privately owned through FCPHoldCo, Fertitta Partners and FCP VoteCo. Certain members of management may be granted or otherwise acquire membership interests in FCP and Fertitta Partners.

Our Board of Directors (with Frank J. Fertitta III and Lorenzo J. Fertitta taking no part in the vote), acting upon the unanimous recommendation of a special committee composed entirely of disinterested directors (the Special Committee), has approved the Merger Agreement and has recommended that our stockholders vote in favor of the Merger Agreement.

Pursuant to rollover commitments entered into on February 23, 2007, Frank J. Fertitta III, Lorenzo J. Fertitta, Blake L. Sartini and Delise F. Sartini (collectively, the Rollover Stockholders) agreed to contribute a portion of their shares of our common stock to FCP. FCP subsequently assigned such rollover commitments to Fertitta Partners as of May 4, 2007. In addition, subject to specified exceptions, the Rollover Stockholders have agreed to vote their shares of our common stock in favor of the Merger pursuant to a voting agreement entered into on February 23, 2007, by and among the Rollover Stockholders, the Company and FCP. Mr. Sartini is the brother-in-law to Frank J. Fertitta III and Lorenzo J. Fertitta, and in September 2001, he resigned his position as Executive Vice President and Chief Operating Officer of the Company concurrent with his purchase of Golden Gaming, Inc. Delise F. Sartini is the sister of Frank J. Fertitta III and Lorenzo J. Fertitta and is married to Blake L. Sartini.

The Merger Agreement provides that, upon termination under specified circumstances related to a competing acquisition proposal, the Company would be required to pay a termination fee of $160 million to FCP, except in the case of a termination resulting from a superior proposal received within 30 business days following the execution of the Merger Agreement, in which case the termination fee payable to FCP will be $106 million. If the Company s stockholders do not approve the Merger under certain

circumstances, the Company must reimburse FCP for reasonable out-of-pocket fees and expenses (including reasonable legal fees and expenses) incurred by FCP, Merger Sub and their respective affiliates in connection with the transactions contemplated by the Merger Agreement. The Company s reimbursement of FCP s expenses would reduce the amount of any required termination fee that becomes payable by the Company. The Merger Agreement further provides that upon termination under specified circumstances related to a breach of any representation, warranty, covenant or agreement on the part of FCP or Merger Sub or failure to obtain gaming approvals, FCP would be required to pay to the Company a reverse termination fee of $160 million or a regulatory termination fee of $106 million, respectively. Pursuant to a limited guarantee, dated as of February 23, 2007, affiliates of the Sponsor guaranteed the payment of the reverse termination fee, the regulatory termination fee and amounts arising from indemnification and expense reimbursement obligations of FCP or Merger Sub under the Merger Agreement, up to $175 million in the aggregate.

FCP has obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement, the proceeds of which will be used by FCP to pay the aggregate merger consideration and related fees and expenses of the transactions contemplated by the Merger Agreement. In connection with the debt financing commitments, the Company and certain of its subsidiaries (the Operating Subs) entered into a purchase and sale agreement with a newly created wholly-owned subsidiary of the Company (NewCo), pursuant to which the Operating Subs interests in certain real property will be sold to NewCo and leased back to the Company and the Operating Subs (the Sale and Leaseback Transaction). The Sale and Leaseback Transaction was approved by the Special Committee, which obtained a fairness opinion in connection therewith. The closing of the Sale and Leaseback Transaction is contingent upon the consummation of the Merger. Consummation of the Merger is not subject to a financing condition but is subject to various other conditions to closing, including approval of the Merger by our stockholders and regulatory approvals. The Merger is expected to be completed in the second half of 2007.

The total value of the Merger transaction is estimated to be approximately $5.7 billion, consisting of approximately $4.5 billion to pay the Company s stockholders and holders of options or restricted shares amounts due to them under the Merger Agreement assuming a purchase price of $90.00 per share (net of the exercise price for options and net of the value of the equity rollover shares of Company common stock contributed to Fertitta Partners by the Rollover Stockholders), approximately $1.1 billion to repay certain existing indebtedness, and approximately $100 million to pay fees and expenses in connection with the Merger. The approximate value of the Merger transaction to each of the Rollover Stockholders is as follows:

- Frank J. Fertitta III will (A) contribute 3,979,884 shares of Company common stock to Fertitta Partners in exchange for Class A Units of Fertitta Partners valued at $358,189,560 based on the Merger consideration of $90.00 per share and (B) receive cash consideration of approximately $148,654,355 in respect of his 1,074,636 shares of Company common stock (including restricted stock) that will be converted into the right to receive cash payments upon consummation of the Merger and his outstanding options to purchase 663,900 shares of Company common stock that will vest, be cancelled and converted into the right to receive cash payments upon consummation of the Merger;

- Lorenzo J. Fertitta will (A) contribute 4,038,153 shares of Company common stock to Fertitta Partners immediately prior to the consummation of the Merger in exchange for Class A Units of Fertitta Partners valued at $363,433,770 based on the Merger consideration of $90.00 per share and (B) receive cash consideration of approximately $145,077,950 in respect of his 1,035,965 shares of Company common stock (including restricted stock) that will be converted into the right to receive cash payments upon consummation of the Merger and his outstanding options to purchase 661,400 shares of Company common stock that will vest, be cancelled and converted into the right to receive cash payments upon consummation of the Merger; and

- Blake and Delise Sartini will (A) contribute 1,653,984 shares of Company common stock to Fertitta Partners immediately prior to the consummation of the Merger in exchange for Class A Units of Fertitta Partners valued at $148,858,560 based on the Merger consideration of $90.00 per share and (B) receive cash consideration of approximately $201,062,970 in respect of their 2,234,033 shares of Company common stock that will be converted into the

right to receive cash payments upon consummation of the Merger.

Boulder Station Lease

The Company entered into a ground lease for 27 acres of land on which Boulder Station is located. The Company leases this land from KB Enterprises, a company owned by Frank J. Fertitta, Jr. and Victoria K. Fertitta (the Related Lessor), the parents of Frank J. Fertitta III, Chairman of the Board and Chief Executive Officer of the Company and Lorenzo J. Fertitta, Vice Chairman of the Board and President of the Company. The lease has a maximum term of 65 years, ending in June 2058. The lease provides for monthly payments of $183,333 through June 2008. In July 2008, and every ten years thereafter, the rent will be adjusted by a cost of living factor. In July 2013, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return for comparably situated property or (ii) 8% per year. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals with the next option in June 2008, to purchase the land at fair market value. The Company s leasehold interest in the property is subject to a lien to secure borrowings under the Revolving Facility. The Company believes that the terms of the ground lease are as fair to the Company as could be obtained from an independent third party.

Texas Station Lease

The Company entered into a ground lease for 47 acres of land on which Texas Station is located. The Company leases this land from Texas Gambling Hall & Hotel, Inc., a company owned by the Related Lessor. The lease has a maximum term of 65 years, ending in July 2060. The lease provides for monthly rental payments of $337,417 through June 2010. In July 2010, and every ten years thereafter, the rent will be adjusted to the product of the fair market value of the land and the greater of (i) the then prevailing annual rate of return being realized for owners of comparable land in Clark County or (ii) 8% per year. In July 2015, and every ten years thereafter, the rent will be adjusted by a cost of living factor. In no event will the rent for any period be less than the immediately preceding period. Pursuant to the ground lease, the Company has an option, exercisable at five-year intervals with the next option in May 2010, to purchase the land at fair market value. The Company s leasehold interest in the property is subject to a lien to secure borrowings under the Revolving Facility. The Company believes that the terms of the ground lease are as fair to the Company as could be obtained from an independent third party.

Zuffa, LLC

We have purchased tickets to events held by Zuffa, LLC (Zuffa) which is the parent company of the Ultimate Fighting Championship (UFC) and is owned by Frank J. Fertitta III and Lorenzo J. Fertitta. For the year ended December 31, 2006, ticket purchases totaled $198,191. In July 2006, the Company entered into an agreement with Zuffa for Red Rock Casino Resort Spa to serve as the host hotel and venue for a UFC event held on August 17, 2006. The Company expended approximately $89,000 in goods and services in connection with the event. However, the Company believes that the value received from hosting the event exceeded the costs expended by the Company in connection with such event.

PROCEDURES FOR REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PERSONS

Our Board of Directors has approved the related party transaction policy and procedures which gives our Audit Committee the power to approve or disapprove potential related party transactions of our directors and executive officers, and their immediate family members. The Audit Committee is charged with reviewing all relevant facts and circumstances of a related party transaction, including if the transaction is on terms comparable to those that could be obtained in arm s length dealings with an unrelated third party and the extent of the person s interest in the transaction.

DIRECTOR INDEPENDENCE

The Board of Directors has determined that each of Messrs. Lebermann, Nave, Isgur and Lewis are independent directors (as independence is defined in Section 303A.02 of the NYSE Listing Standards). As part of its analysis, the Board of Directors determined that none of Messrs. Lebermann, Nave, Isgur or Lewis has a direct or indirect material relationship with the Company.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(3) Exhibits

The following exhibits are being filed herewith:

Exhibit 31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STATION CASINOS, INC.

Dated: May 4, 2007

By: /s/ Thomas M. Friel
Thomas M. Friel
Executive Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer)