

AZTAR CORP  
Form 10-Q  
August 08, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 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 1-5440

AZTAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

86-0636534

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

2390 East Camelback Road, Suite 400, Phoenix, Arizona 85016  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (602) 381-4100

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

At July 26, 2001, the registrant had outstanding 37,332,790 shares of its common stock, \$.01 par value.

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AZTAR CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

| PART I.  | FINANCIAL INFORMATION  | PAGE |
|----------|--|------|
|          |  | ---- |
| Item 1.  | Financial Statements   |      |
|          | Consolidated Balance Sheets at June 28, 2001 and<br>December 28, 2000  | 3    |
|          | Consolidated Statements of Operations for the quarters and<br>six months ended June 28, 2001 and June 29, 2000 | 5    |
|          | Consolidated Statements of Cash Flows for the six months<br>ended June 28, 2001 and June 29, 2000              | 6    |
|          | Consolidated Statements of Shareholders' Equity for the six<br>months ended June 28, 2001 and June 29, 2000    | 8    |
|          | Notes to Consolidated Financial Statements   | 9    |
| Item 2.  | Management's Discussion and Analysis of Financial<br>Condition and Results of Operations                       | 13   |
| Item 3.  | Quantitative and Qualitative Disclosures About Market<br>Risk  | 18   |
| PART II. | OTHER INFORMATION  |      |
| Item 4.  | Submission of Matters to a Vote of Security Holders  | 18   |
| Item 6.  | Exhibits and Reports on Form 8-K   | 18   |

AZTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (unaudited)  
(in thousands, except share data)

|  | <u>June 28,</u><br><u>2001</u> | <u>December 28,</u><br><u>2000</u> |
|--|--------------------------------|------------------------------------|
| Assets   |                                |                                    |
| Current assets:  |                                |                                    |
| Cash and cash equivalents                                    | \$ 41,022                      | \$ 48,080                          |
| Accounts receivable, net                                     | 22,222                         | 21,769                             |
| Inventories  | 8,232                          | 8,446                              |
| Prepaid expenses   | 11,631                         | 9,987                              |
| Deferred income taxes, net                                   | <u>18,938</u>                  | <u>18,938</u>                      |
| Total current assets   | 102,045                        | 107,220                            |
| Investments in and advances to unconsolidated<br>partnership | 6,730                          | 7,007                              |
| Other investments  | 22,586                         | 21,523                             |
| Property and equipment:                                      |                                |                                    |
| Buildings, riverboats and equipment, net                     | 718,754                        | 727,164                            |
| Land   | 104,957                        | 104,957                            |
| Construction in progress                                     | 22,763                         | 6,090                              |
| Leased under capital leases, net                             | <u>850</u>                     | <u>1,390</u>                       |
|  | 847,324                        | 839,601                            |
| Deferred charges and other assets                            | <u>32,617</u>                  | <u>36,345</u>                      |
|  | \$1,011,302                    | \$1,011,696                        |

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The accompanying notes are an integral part of these financial statements.

3

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AZTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (unaudited)(continued)  
(in thousands, except share data)

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|  | June 28,<br><u>2001</u> | December 28,<br><u>2000</u> |
|--|-------------------------|-----------------------------|
| Liabilities and Shareholders' Equity   |                         |                             |
| Current liabilities:   |                         |                             |
| Accounts payable and accruals  | \$ 54,251               | \$ 53,356                   |
| Accrued payroll and employee benefits  | 26,851                  | 27,377                      |
| Accrued interest payable   | 4,538                   | 5,470                       |
| Income taxes payable   | 1,391                   | 4,764                       |
| Current portion of long-term debt  | 1,466                   | 1,608                       |
| Current portion of other long-term liabilities                                       | <u>1,432</u>            | <u>1,544</u>                |
| <br>Total current liabilities  | <br>89,929              | <br>94,119                  |
| Long-term debt   | 449,415                 | 463,011                     |
| Other long-term liabilities  | 20,184                  | 20,307                      |
| Deferred income taxes  | 11,849                  | 5,153                       |
| Contingencies and commitments  |                         |                             |
| Series B ESOP convertible preferred stock<br>(redemption value \$9,097 and \$11,905) | 6,231                   | 6,400                       |
| Shareholders' equity:  |                         |                             |
| Common stock, \$.01 par value (37,360,790 and<br>38,696,672 shares outstanding)      | 516                     | 515                         |
| Paid-in capital  | 429,593                 | 428,537                     |
| Retained earnings  | 143,199                 | 116,194                     |
| Less: Treasury stock   | <u>(139,614)</u>        | <u>(122,540)</u>            |
| <br>Total shareholders' equity   | <br><u>433,694</u>      | <br><u>422,706</u>          |
|  | <br>\$1,011,302         | <br>\$1,011,696             |
|  | <u>=====</u>            | <u>=====</u>                |

The accompanying notes are an integral part of these financial statements.

AZTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
For the periods ended June 28, 2001 and June 29, 2000  
(in thousands, except per share data)

Second Quarter

Six Months

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|  | <u>2001</u>    | <u>2000</u>     | <u>2001</u>     | <u>2000</u>     |
|--|----------------|-----------------|-----------------|-----------------|
| Revenues   |                |                 |                 |                 |
| Casino   |                |                 |                 |                 |
| Rooms  |                |                 |                 |                 |
| Food and beverage                                | \$165,472      | \$175,474       | \$331,769       | \$346,203       |
| Other  | 20,804         | 19,832          | 39,060          | 36,710          |
|  | 14,418         | 14,959          | 28,885          | 29,250          |
| Costs and expenses                               | <u>10,162</u>  | <u>10,698</u>   | <u>19,486</u>   | <u>20,324</u>   |
| Casino   | 210,856        | 220,963         | 419,200         | 432,487         |
| Rooms  |                |                 |                 |                 |
| Food and beverage                                | 69,331         | 74,703          | 142,310         | 149,508         |
| Other  | 10,231         | 10,040          | 19,582          | 18,770          |
| Marketing  | 14,024         | 14,790          | 28,166          | 28,485          |
| General and administrative                       | 8,146          | 8,510           | 16,296          | 16,726          |
| Utilities  | 20,134         | 23,978          | 40,083          | 47,037          |
| Repairs and maintenance                          | 19,408         | 19,706          | 38,752          | 39,130          |
| Provision for doubtful accounts                  | 3,849          | 3,546           | 8,327           | 6,874           |
| Property taxes and insurance                     | 5,894          | 6,683           | 12,067          | 13,104          |
| Rent   | 970            | 1,060           | 1,844           | 2,664           |
| Depreciation and amortization                    | 6,153          | 5,922           | 12,392          | 11,918          |
|  | 4,782          | 4,265           | 9,689           | 8,350           |
|  | <u>12,931</u>  | <u>13,446</u>   | <u>25,927</u>   | <u>27,166</u>   |
| Operating income                                 | <u>175,853</u> | <u>186,649</u>  | <u>355,435</u>  | <u>369,732</u>  |
| Interest income                                  | 35,003         | 34,314          | 63,765          | 62,755          |
| Interest expense                                 |                |                 |                 |                 |
| Equity in unconsolidated<br>partnership's loss   | 328<br>(9,084) | 341<br>(10,376) | 716<br>(19,162) | 682<br>(21,262) |
| Income before income taxes                       | <u>(962)</u>   | <u>(1,052)</u>  | <u>(1,980)</u>  | <u>(2,085)</u>  |
| Income taxes                                     | 25,285         | 23,227          | 43,339          | 40,090          |
|  | <u>(9,273)</u> | <u>(874)</u>    | <u>(15,936)</u> | <u>(6,713)</u>  |
| Net income                                       |                |                 |                 |                 |
|  | \$ 16,012      | \$ 22,353       | \$ 27,403       | \$ 33,377       |
| Net income per common share                      | =====          | =====           | =====           | =====           |
| Net income per common share assuming<br>dilution | \$ .42         | \$ .53          | \$ .71          | \$ .79          |
| Weighted-average common shares<br>applicable to: | \$ .40         | \$ .51          | \$ .69          | \$ .76          |
| Net income per common share                      |                |                 |                 |                 |
| Net income per common share<br>assuming dilution | 37,566         | 41,356          | 37,889          | 41,861          |
|  | 39,114         | 43,083          | 39,353          | 43,418          |



The accompanying notes are an integral part of these financial statements.

5

AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
For the periods ended June 28, 2001 and June 29, 2000  
 (in thousands)

|   | <u>Six Months</u> |             |
|---|-------------------|-------------|
|   | <u>2001</u>       | <u>2000</u> |
| Cash Flows from Operating Activities  |                   |             |
| Net income  |                   |             |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                   |             |
| Depreciation and amortization   | \$ 27,403         | \$ 33,377   |
| Provision for losses on accounts receivable   |                   |             |
| Loss on reinvestment obligation   | 26,529            | 27,758      |
| Rent expense  | 1,844             | 2,664       |
| Distribution in excess of equity in income of partnership                                   | 606               | 1,006       |
| Deferred income taxes   | (520)             | (469)       |
| Change in assets and liabilities:   | 277               | 345         |
| (Increase) decrease in accounts receivable  | 6,696             | (1,751)     |
| (Increase) decrease in refundable income taxes  |                   |             |
| (Increase) decrease in inventories and prepaid expenses                                     | (2,297)           | (1,236)     |
| Increase (decrease) in accounts payable, accrued expenses and income taxes payable          | --                | 881         |
| Other items, net  | (1,430)           | (569)       |
|   | (3,727)           | 10,530      |

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|  |                 |                 |
|--|-----------------|-----------------|
| Net cash provided by (used in) operating activities  | <u>200</u>      | <u>213</u>      |
| Cash Flows from Investing Activities                 | <u>55,581</u>   | <u>72,749</u>   |
| Reduction in other investments                       |                 |                 |
| Purchases of property and equipment                  | 835             | 1,404           |
| Additions to other long-term assets                  | (30,138)        | (10,736)        |
| Net cash provided by (used in) investing activities  | <u>(2,762)</u>  | <u>(3,554)</u>  |
| Cash Flows from Financing Activities                 | <u>(32,065)</u> | <u>(12,886)</u> |
| Proceeds from issuance of long-term debt             |                 |                 |
| Proceeds from issuance of common stock               |                 |                 |
| Principal payments on long-term debt                 | 119,200         | 116,000         |
| Principal payments on other long-term liabilities    | 839             | 1,894           |
| Repurchase of common stock                           | (132,968)       | (163,347)       |
| Preferred stock dividend                             | (13)            | (888)           |
| Redemption of preferred stock                        | (17,061)        | (27,868)        |
|  | (256)           | (277)           |
| Net cash provided by (used in) financing activities  | <u>(315)</u>    | <u>(441)</u>    |
| Net increase (decrease) in cash and cash equivalents | <u>(30,574)</u> | <u>(74,927)</u> |
| Cash and cash equivalents at beginning of period     | (7,058)         | (15,064)        |
| Cash and cash equivalents at end of period           | <u>48,080</u>   | <u>54,180</u>   |
|  | \$ 41,022       | \$ 39,116       |
|  | =====           | =====           |

The accompanying notes are an integral part of these financial statements.

AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)(continued)  
For the periods ended June 28, 2001 and June 29, 2000  
 (in thousands)

|  | <u>Six Months</u> |             |
|--|-------------------|-------------|
|  | <u>2001</u>       | <u>2000</u> |
| <b>Supplemental Cash Flow Disclosures</b>  |                   |             |
| Summary of non-cash investing and financing activities:  |                   |             |
| Exchange of common stock in lieu of cash payments in connection with the exercise of stock options |                   |             |
| Other long-term liabilities reduced for deferred charges and other assets                          | \$ 13             | \$ 737      |
| Cash flow during the period for the following:   |                   |             |
| Interest paid, net of amount capitalized   | 50                | --          |
| Income taxes paid  | \$ 19,492         | \$ 20,372   |
|  | 12,408            | 5,466       |

The accompanying notes are an integral part of these financial statements.

7

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AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)  
For the periods ended June 28, 2001 and June 29, 2000  
 (in thousands, except number of shares)

|  | <u>Six Months</u> |             |
|--|-------------------|-------------|
|  | <u>2001</u>       | <u>2000</u> |
| Common stock:  |                   |             |
| Beginning balance                                      |                   |             |
| Stock options exercised for 112,999 and 393,856 shares | \$ 515            | \$ 506      |
| Ending balance   | <u>1</u>          | <u>4</u>    |

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|  |                  |                 |
|--|------------------|-----------------|
| Paid-in capital:   | <u>516</u>       | <u>510</u>      |
| Beginning balance  |                  |                 |
| Stock options exercised  |                  |                 |
| Tax benefit from stock options exercised   | 428,537          | 420,786         |
|  | 851              | 3,136           |
| Ending balance   | <u>205</u>       | <u>416</u>      |
| Retained earnings:   | <u>429,593</u>   | <u>424,338</u>  |
| Beginning balance  |                  |                 |
| Preferred stock dividend and losses on redemption  |                  |                 |
| Net income   | 116,194          | 63,963          |
|  | (398)            | (402)           |
| Ending balance   | <u>27,403</u>    | <u>33,377</u>   |
| Treasury stock:  | <u>143,199</u>   | <u>96,938</u>   |
| Beginning balance  |                  |                 |
| Repurchase of 1,447,800 and 2,494,300 shares of common stock at cost                                       | (122,540)        | (57,345)        |
| Repurchase of 1,081 and 95,543 shares of common stock, at cost, in connection with stock options exercised | (17,061)         | (27,659)        |
| Ending balance   | <u>(13)</u>      | <u>(946)</u>    |
|  | <u>(139,614)</u> | <u>(85,950)</u> |
|  | \$433,694        | \$435,836       |
|  | =====            | =====           |

The accompanying notes are an integral part of these financial statements.

AZTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1: General

The consolidated financial statements reflect all adjustments, such adjustments being normal recurring accruals, which are necessary, in the opinion of management, for the fair presentation of the results of the interim periods; interim results, however, may not be indicative of the results for the full year.

The notes to the interim consolidated financial statements are presented to enhance the understanding of the financial statements and do not necessarily represent complete disclosures required by generally accepted accounting principles. Other revenue consists of revenue from many various sources such as entertainment, retail outlets including gift shops, telephone, commissions and surcharges, hotel services and admissions to our riverboats. These revenues are recognized as earned which generally coincides with payment in cash or by credit card. The interest that was capitalized during the second quarter and six months ended 2001 was \$267,000 and \$478,000, respectively. There was no interest capitalized during the second quarter or six months ended 2000. Capitalized costs related to various development projects, included in deferred charges and other assets, were \$5,812,000 and \$7,358,000 at June 28, 2001 and December 28, 2000, respectively. For additional information regarding significant accounting policies, Las Vegas Tropicana redevelopment, long-term debt, lease obligations, and other matters applicable to the Company, reference should be made to the Company's Annual Report to Shareholders for the year ended December 28, 2000.

Note 2: Investments in and Advances to Unconsolidated Partnership

Following are summarized operating results for the Company's unconsolidated partnership, accounted for using the equity method for the periods ended June 28, 2001 and June 29, 2000 (in thousands):

|                    | <u>Second Quarter</u> |              | <u>Six Months</u> |                |
|--------------------|-----------------------|--------------|-------------------|----------------|
|                    | <u>2001</u>           | <u>2000</u>  | <u>2001</u>       | <u>2000</u>    |
| Revenues           |                       |              |                   |                |
| Operating expenses | \$ 4,320              | \$ 4,433     | \$ 8,744          | \$ 8,809       |
| Operating income   | <u>(691)</u>          | <u>(691)</u> | <u>(1,375)</u>    | <u>(1,375)</u> |

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|                  |                 |                 |                 |                 |
|------------------|-----------------|-----------------|-----------------|-----------------|
| Interest expense | 3,629           | 3,742           | 7,369           | 7,434           |
| Net income       | <u>(964)</u>    | <u>(1,148)</u>  | <u>(2,047)</u>  | <u>(2,246)</u>  |
|                  | <u>\$ 2,665</u> | <u>\$ 2,594</u> | <u>\$ 5,322</u> | <u>\$ 5,188</u> |

The Company's share of the above operating results, after intercompany eliminations, is as follows (in thousands):

|   | <u>Second Quarter</u> |             | <u>Six Months</u> |             |
|---|-----------------------|-------------|-------------------|-------------|
|   | <u>2001</u>           | <u>2000</u> | <u>2001</u>       | <u>2000</u> |
| Equity in unconsolidated partnership's loss | \$ (962)              | \$ (1,052)  | \$ (1,980)        | \$ (2,085)  |

AZTAR CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

Note 3: Long-term Debt

Long-term debt consists of the following (in thousands):

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|   | June 28,<br><u>2001</u> | December 28,<br><u>2000</u> |
|---|-------------------------|-----------------------------|
| 8 7/8% Senior Subordinated Notes Due 2007   | \$235,000               | \$235,000                   |
| Revolving credit facility ("Revolver");<br>floating rate, 5.96% at June 28,<br>2001         | 165,000                 | 178,000                     |
| Term loan ("Term Loan"); floating rate,<br>6.85% at June 28, 2001; matures<br>June 30, 2005 | 49,125                  | 49,375                      |
| Other notes payable; 14.6%; maturities<br>to 2002   | 452                     | 422                         |
| Obligations under capital leases  | <u>1,304</u>            | <u>1,822</u>                |
|   | 450,881                 | 464,619                     |
| Less current portion  | <u>(1,466)</u>          | <u>(1,608)</u>              |
|   | \$449,415               | \$463,011                   |
|   | =====                   | =====                       |

The Revolver was amended effective June 29, 2001 to, among other things, extend the maturity to June 30, 2005. As a result of the amendment, effective June 29, 2001, the weighted average interest rate of the Revolver was 6.21%.

Note 4: Other Long-term Liabilities

Other long-term liabilities consist of the following (in thousands):

|   | June 28,<br><u>2001</u> | December 28,<br><u>2000</u> |
|---|-------------------------|-----------------------------|
| Deferred compensation and retirement plans                                      | \$ 13,080               | \$ 12,732                   |
| Accrued rent expense  | 8,148                   | 8,668                       |
| Obligation to City of Evansville and other<br>civic and community organizations | --                      | 50                          |
| Las Vegas Boulevard beautification<br>assessment                                | <u>388</u>              | <u>401</u>                  |
|   | 21,616                  | 21,851                      |
| Less current portion  | <u>(1,432)</u>          | <u>(1,544)</u>              |
|   | \$ 20,184               | \$ 20,307                   |
|   | =====                   | =====                       |

Note 5: Income Taxes

The Company is responsible, with certain exceptions, for the taxes of Ramada Inc. ("Ramada") through December 20, 1989. In connection with Internal Revenue Service ("IRS") examinations of the income tax returns for the years 1989 through 1996, an issue was resolved, which was the last remaining issue for the years 1989 through 1991, that resulted in an income tax benefit of approximately \$7,500,000 in the 2000 second quarter. The issue related to the deductibility of the cost of meals served to certain employees on the Company's premises. The IRS maintained that the Tax Reform Act of 1986 reduced this deduction. We recorded provisions in prior years based on the IRS position; however, we believed that these employee meals were fully deductible. The United States Tax Court decided in favor of the IRS in a case involving Boyd Gaming Corporation



("Boyd Gaming Case"). In 1999, the Boyd Gaming Case was overturned in the United States Court of Appeals. This issue, as it pertained to us, was resolved with the IRS during the 2000 second quarter.

AZTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

The Internal Revenue Service is currently examining the income tax returns for the years 1992 through 1999. The New Jersey Division of Taxation is examining the New Jersey income tax returns for the years 1995 through 1998. Management believes that adequate provision for income taxes and interest has been made in the financial statements.

The Company has received proposed assessments from the Indiana Department of Revenue ("IDR") in connection with the examination of the Company's Indiana income tax returns for the years 1996 and 1997. Those assessments are based on IDR's position that the Company's gaming taxes that are based on gaming revenue are not deductible for Indiana income tax purposes. The Company believes that it has meritorious legal defense to those assessments and has not recorded an accrual for payment. The amount involved, including the Company's estimate of interest, net of a federal income tax benefit assuming continuation through June 28, 2001, was approximately \$7,100,000 at June 28, 2001.

Note 6: Earnings Per Share

Net income per common share excludes dilution and is computed by dividing income applicable to common shareholders by the weighted-average number of common shares outstanding. Net income per common share, assuming dilution, is computed based on the weighted-average number of common shares outstanding after consideration of the dilutive effect of stock options and the assumed conversion of the preferred stock at the stated rate.

The computations of net income per common share and net income per common share, assuming dilution, for the periods ended June 28, 2001 and June 29, 2000, are as follows (in thousands, except per share data):

|            | <u>Second Quarter</u> |             | <u>Six Months</u> |             |
|------------|-----------------------|-------------|-------------------|-------------|
|            | <u>2001</u>           | <u>2000</u> | <u>2001</u>       | <u>2000</u> |
| Net income |                       |             |                   |             |

|  |                            |                            |                            |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Less: preferred stock dividends and losses on redemption                                   | \$ 16,012                  | \$ 22,353                  | \$ 27,403                  | \$ 33,377                  |
| Net income applicable to computations  | <u>(270)</u>               | <u>(241)</u>               | <u>(398)</u>               | <u>(402)</u>               |
| Weighted-average common shares applicable to net income per common share                   | \$ 15,742<br>=====         | \$ 22,112<br>=====         | \$ 27,005<br>=====         | \$ 32,975<br>=====         |
| Effect of dilutive securities:   |                            |                            |                            |                            |
| Stock option incremental shares  | 37,566                     | 41,356                     | 37,889                     | 41,861                     |
| Assumed conversion of preferred stock  | 881                        | 999                        | 792                        | 824                        |
| Weighted-average common shares applicable to net income per common share assuming dilution | <u>667</u><br><u>1,548</u> | <u>728</u><br><u>1,727</u> | <u>672</u><br><u>1,464</u> | <u>733</u><br><u>1,557</u> |
| Net income per common share  | 39,114<br>=====            | 43,083<br>=====            | 39,353<br>=====            | 43,418<br>=====            |
| Net income per common share assuming dilution  | \$ .42<br>=====            | \$ .53<br>=====            | \$ .71<br>=====            | \$ .79<br>=====            |
|  | \$ .40<br>=====            | \$ .51<br>=====            | \$ .69<br>=====            | \$ .76<br>=====            |

AZTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

Note 7: Contingencies and Commitments

The Company agreed to indemnify Ramada against all monetary judgments in lawsuits pending against Ramada and its subsidiaries as of the conclusion of the restructuring of Ramada (the "Restructuring") on December 20, 1989, as well as all related attorneys' fees and expenses not paid at that time, except for any judgments, fees or expenses accrued on the hotel business balance sheet and except for any unaccrued and unreserved aggregate amount up to \$5,000,000 of judgments, fees or expenses related exclusively to the hotel business. Aztar is entitled to the benefit of any crossclaims or counterclaims related to such lawsuits and of any insurance proceeds received. In addition, the Company agreed to indemnify Ramada for various lease guarantees made by Ramada relating to the restaurant business. In connection with these matters, the Company's accrued liability was \$3,833,000 at both June 28, 2001 and December 28, 2000.

The Company is a party to various other claims, legal actions and complaints arising in the ordinary course of business or asserted by way of defense or counterclaim in actions filed by the Company. Management believes that its defenses are substantial in each of these matters and that the Company's legal posture can be successfully defended without material adverse effect on its consolidated financial position, results of operations or cash flows.

The Tropicana Las Vegas lease agreement contains a provision that requires the Company to maintain an additional security deposit with the lessor of \$21,391,000 in cash or a letter of credit if the Tropicana Las Vegas operation fails to meet certain financial tests. The Company has a 50% partnership interest in the lessor.

The Company has severance agreements with certain of its senior executives. Severance benefits range from a lump-sum cash payment equal to three times the sum of the executive's annual base salary and the average of the executive's annual bonuses awarded in the preceding three years plus payment of the value in the executive's outstanding stock options and vesting and distribution of any restricted stock to a lump-sum cash payment equal to the executive's annual base salary. In certain agreements, the termination must be as a result of a change in control of the Company. Based upon salary levels and stock options at June 28, 2001, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$25,000,000 at June 28, 2001.

#### Note 8: Subsequent Events

On June 29, 2001, we amended our Revolver to extend the maturity to June 30, 2005 from June 30, 2003. In addition, the amendment revised the reduction rate so that the maximum amount available under the Revolver decreases by \$12 million on March 31, 2004, and quarterly thereafter. The amount available under this facility at June 28, 2001 was \$264 million of which we have borrowed \$165 million. At June 28, 2001, the weighted average interest rate under the Revolver was 5.96%. As a result of the amendment to the Revolver, effective on June 29, 2001, the weighted average interest rate was 6.21%.

On June 29, 2001, the maturity date of a \$52 million term loan among Tropicana Enterprises and a group of banks was extended to June 30, 2005 from June 30, 2003. We have a noncontrolling partnership interest of 50% in Tropicana Enterprises, a Nevada general partnership that owns the real property and certain personal property that we lease in the operation of the Tropicana Las Vegas.

On July 27, 2001, we issued \$175 million principal amount of 9% Senior Subordinated Notes due August 15, 2011 ("Notes"). Interest is payable on February 15 and August 15, beginning on February 15, 2002. The net proceeds from the issuance of the Notes, after payment of the fees and expenses of the issuance, were approximately \$171.2 million. The balance of the net proceeds of the Notes were used to repay the outstanding borrowings under the Revolver and for general corporate purposes.

## AZTAR CORPORATION AND SUBSIDIARIES

### Item 2. Management's Discussion and Analysis

#### Financial Condition

On June 29, 2001, we amended our Revolver to extend the maturity to June 30, 2005 from June 30, 2003. In addition, the amendment revised the reduction rate so that the maximum amount available under the Revolver decreases by \$12 million on March 31, 2004, and quarterly thereafter. The amount available under this facility at June 28, 2001 was \$264 million of which we have borrowed \$165 million. At June 28, 2001, the weighted average interest rate under the Revolver was 5.96%. As a result of the amendment to the Revolver, effective on June 29, 2001, the weighted average interest rate was 6.21%.

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During the first half of 2001, we repurchased 1,447,800 shares of common stock at prices ranging from \$9.00 per share to \$14.95 per share and at an average price of \$11.74 per share, under a program authorized by our Board of Directors. Purchases under our stock repurchase program are made from time to time in the open market or privately negotiated transactions, depending upon market prices and other business factors.

We are working on a plan to expand our Atlantic City Tropicana. We expect to commence construction by the end of 2001, with opening contemplated for the second half of 2003. We are targeting a project cost for the expansion of \$225 million against which we hope to realize third party contributions, public sector subsidies, tax rebates and other credits, the present value of which could reduce the cost by up to \$50 million.

#### Results of Operations

##### Six Months Ended June 28, 2001 Compared to Six Months Ended June 29, 2000

Our consolidated revenues in the first half of 2001 were \$419.2 million, a 3% decrease over \$432.5 million in the first half of 2000. The decrease in revenues was primarily related to a \$14.4 million or 4% decrease in casino revenue with a substantial portion of the decrease coming from Tropicana Atlantic City. Consolidated rooms revenue was \$2.4

million or 6% higher in the 2001 versus 2000 six-month period reflecting increases at all hotel properties except for Casino Aztar Evansville which had a slight decrease. Consolidated other revenue consists of entertainment, retail and other revenue and was \$19.5 million in the first half of 2001 compared with \$20.3 million in the first half of 2000. The related direct costs were \$16.3 million in the 2001 six-month period versus \$16.7 million in the 2000 six-month period. Consolidated operating income was \$63.8 million in the first half of 2001, a 2% improvement over \$62.8 million in the first half of 2000. Consistent with the decrease in consolidated casino revenue, consolidated casino costs were \$7.2 million or 5% lower in the 2001 versus 2000 six-month period, largely due to a decrease in casino costs at Tropicana Atlantic City. Consolidated marketing costs were \$7.0 million or 15% lower in the 2001 versus 2000 six-month period primarily due to reduced spending in promotional programs, advertising and contract entertainment at Tropicana Atlantic City. Consolidated utilities expense was \$1.5 million or 21% higher in the first half of 2001 compared to the first half

#### AZTAR CORPORATION AND SUBSIDIARIES

of 2000 primarily due to rising energy prices affecting all properties. The provision for doubtful accounts was \$0.8 million lower in the 2001 versus 2000 six-month period. Contributing to the decrease was a more favorable aging of net accounts receivable at the Las Vegas Tropicana. Our net delinquent accounts receivable exposure at the Las Vegas Tropicana has been minimal since the end of the first quarter 2000. When we provide for doubtful accounts receivable, we look at the amount of credit issued, the balance of our net receivable, an aging of that net receivable and consideration of any additional risk factors such as international versus domestic. The analysis we perform in evaluating our net receivable balance consists of separating receivables into those that are routine and small in balance where we provide an allowance based on aging and those that are larger in balance or nonroutine in nature where we provide an allowance that subjectively considers their characteristics in addition to aging, such as credit and payment history of the customer, financial condition of the customer, collection strategies that can be used, collateral that can be obtained and whether it is international or domestic. Consolidated rent expense was \$1.3 million or 16% higher in the 2001 versus 2000 six-month period primarily due to increased rent to the City of Evansville relating to our riverboat landing lease. A scheduled change in the formula used in calculating the rent came into effect in December 2000.

Consolidated interest expense was \$2.1 million or 10% lower in the 2001 versus 2000 six-month period primarily as a result of lower levels of debt outstanding combined with lower interest rates. In addition, capitalized interest relating to the Tropicana Atlantic City expansion for the first half of 2001 reduced consolidated interest expense by \$0.5 million. There was no capitalized interest for the first half of 2000.

The Company is responsible, with certain exceptions, for the taxes of Ramada through December 20, 1989. In connection with IRS examinations of the income tax returns for the years 1989 through 1996, an issue was resolved, which was the last remaining issue for the years 1989 through 1991, that resulted in an income tax benefit of approximately \$7,500,000 in the 2000 second quarter. The issue related to the deductibility of the cost of meals served

to certain employees on the Company's premises. The IRS maintained that the Tax Reform Act of 1986 reduced this deduction. We recorded provisions in prior years based on the IRS position; however, we believed that these employee meals were fully deductible. The United States Tax Court decided in favor of the IRS in a case involving Boyd Gaming Corporation ("Boyd Gaming Case"). In 1999, the Boyd Gaming Case was overturned in the United States Court of Appeals. This issue, as it pertained to us, was resolved with the IRS during the 2000 second quarter.

TROPICANA ATLANTIC CITY Total revenues at Tropicana Atlantic City were \$222.9 million in the first half of 2001, down 4% from \$232.0 million in the first half of 2000. Decreased spending in promotional giveaways as well as harsh winter weather during our 2001 first quarter, particularly a major storm over the New Year's Eve weekend which fell in our fiscal first quarter contributed to the decline in Tropicana Atlantic City's revenues for the first half of 2001. Casino revenue was 5% lower in the 2001 versus 2000 six-month period, primarily reflecting a 10% decrease in games revenue combined with a 2% decrease in slot revenue. The decline in games revenue was a result of decreases in the hold percentage and the volume of play. The table games hold percentage was 15.2% in the 2001 first half compared with 16.4% in the 2000 first half. Rooms revenue was \$1.3 million or 14% higher in the 2001 versus 2000 six-month period, as a result of an increase in the average daily rate and an increase in rooms occupied on a noncomplimentary basis.

Tropicana Atlantic City had operating income of \$41.9 million in the first half of 2001, a 2% improvement over \$41.1 million in the first half of 2000. Consistent with the decrease in casino revenue, casino costs were 5% lower in the 2001 versus 2000 six-month period. Contributing to the decline in casino costs was a 15% reduction in coin offers to slot players in the 2001 versus 2000 six-month period. Marketing costs were 14% lower in the 2001 versus 2000 six-month period primarily due to reduced spending in promotional programs, advertising and contract entertainment. Operating income is after rent and depreciation and amortization expenses. Rent

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## AZTAR CORPORATION AND SUBSIDIARIES

expense was \$1.3 million in the 2001 six-month period compared to \$1.1 million in the 2000 six-month period. Depreciation and amortization was \$13.2 million in the six months ended 2001 compared to \$13.1 million in the six months ended 2000.

TROPICANA LAS VEGAS At Tropicana Las Vegas, total revenues were \$80.7 million in the first half of 2001, a 2% increase from \$78.9 million in the first half of 2000. Casino revenue was 2% higher in the 2001 versus 2000 six-month period, primarily due to a 2% increase in games revenue combined with a 2% increase in slot revenue. Games revenue increased as a result of a higher hold percentage. The table games hold percentage was 17.1% in the 2001 first half compared with 15.0% in the 2000 first half.

Tropicana Las Vegas had operating income of \$6.8 million in the first half of 2001, a 39% improvement over \$4.9 million in the first half of 2000. Utilities expense was 59% higher in the 2001 versus 2000 six-month period primarily

due to rising energy prices. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$4.8 million in the 2001 six-month period compared to \$5.1 million in the 2000 six-month period. Depreciation and amortization was \$4.0 million in the first half of 2001 compared to \$4.8 million in the first half of 2000.

**RAMADA EXPRESS** At Ramada Express, total revenues were \$50.6 million in the 2001 six-month period, down 4% from \$52.9 million in the 2000 six-month period. Utilities expense was 45% higher in the 2001 versus 2000 six-month period primarily due to rising energy prices. Operating income was \$11.2 million in the first half of 2001 compared to \$11.4 million in the first half of 2000. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.2 million in the six months ended 2001 compared to \$0.3 million in the six months ended 2000. Depreciation and amortization was \$2.8 million in the 2001 six-month period compared to \$2.6 million in the 2000 six-month period.

**CASINO AZTAR EVANSVILLE** Total revenues at Casino Aztar Evansville were \$52.3 million in the first half of 2001, down 6% from \$55.8 million in the first half of 2000. Operating income was \$9.9 million in the 2001 six-month period compared to \$11.3 million in the 2000 six-month period. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$3.2 million in the first half of 2001 compared to \$1.6 million in the first half of 2000. Rent expense increased in the 2001 versus 2000 six-month period primarily due to increased rent to the City of Evansville relating to our riverboat landing lease. A scheduled change in the formula used in calculating the rent came into effect in December 2000. Depreciation and amortization was \$4.5 million in the 2001 six-month period compared to \$5.1 million in the 2000 six-month period.

**CASINO AZTAR CARUTHERSVILLE** Total revenues at Casino Aztar Caruthersville were \$12.7 million in the first half of 2001 compared to \$12.9 million in the first half of 2000. Casino Aztar Caruthersville had operating income of \$0.8 million in the first half of 2001, an improvement over \$0.3 million in the first half of 2000. Operating income is after depreciation and amortization of \$1.4 million in the 2001 six-month period compared to \$1.6 million in the 2000 six-month period.

#### Quarter Ended June 28, 2001 Compared to Quarter Ended June 29, 2000

Our consolidated revenues in the 2001 second quarter were \$210.9 million, a 5% decrease over \$221.0 million in the 2000 second quarter. Casino revenue was \$10.0 million or 6% lower in the 2001 versus 2000 second quarter, reflecting decreases at all the properties. Consolidated operating income was \$35.0 million in the second quarter of 2001, a 2% improvement over \$34.3 million in the second quarter of 2000. Consolidated casino costs decreased by \$5.4 million or 7% in the 2001 versus 2000 second quarter as a result of the decrease in consolidated casino revenue. Consolidated marketing costs were \$3.8 million or 16% lower in the 2001 versus 2000 second quarter primarily due to reduced spending in promotional programs, advertising and contract entertainment at the Tropicana Atlantic City. Consolidated rent expense was \$0.5 million or 12% higher in the 2001 versus 2000 second quarter

AZTAR CORPORATION AND SUBSIDIARIES

primarily due to increased rent to the City of Evansville relating to our riverboat landing lease. A scheduled change in the formula used in calculating the rent came into effect in December 2000.

Consolidated interest expense was \$1.3 million or 12% lower in the 2001 versus 2000 second quarter primarily as a result of lower levels of debt outstanding combined with lower interest rates. In addition, capitalized interest on the Tropicana Atlantic City expansion for the 2001 second quarter reduced consolidated interest expense by \$0.3 million. There was no capitalized interest for the 2000 second quarter.

The Company is responsible, with certain exceptions, for the taxes of Ramada through December 20, 1989. In connection with IRS examinations of the income tax returns for the years 1989 through 1996, an issue was resolved, which was the last remaining issue for the years 1989 through 1991, that resulted in an income tax benefit of approximately \$7,500,000 in the 2000 second quarter. The issue related to the deductibility of the cost of meals served to certain employees on the Company's premises. The IRS maintained that the Tax Reform Act of 1986 reduced this deduction. We recorded provisions in prior years based on the IRS position; however, we believed that these employee meals were fully deductible. The United States Tax Court decided in favor of the IRS in a case involving Boyd Gaming Corporation ("Boyd Gaming Case"). In 1999, the Boyd Gaming Case was overturned in the United States Court of Appeals. This issue, as it pertained to us, was resolved with the IRS during the 2000 second quarter.

**TROPICANA ATLANTIC CITY** Total revenues at Tropicana Atlantic City were \$116.3 million in the 2001 second quarter, down 4% from \$121.0 million in the 2000 second quarter. Decreased spending in promotional giveaways contributed to the decline in the Tropicana Atlantic City revenues during the second quarter of 2001. Casino revenue was 5% lower in the 2001 versus 2000 second quarter, primarily reflecting a 7% decrease in games revenue combined with a 3% decrease in slot revenue. Games revenue decreased as a result of a lower hold percentage. The table games hold percentage was 15.8% in the 2001 second quarter compared with 17.2% in the 2000 second quarter.

Tropicana Atlantic City had operating income of \$25.8 million in the 2001 second quarter, a 10% improvement over \$23.5 million in the 2000 second quarter. Consistent with the decrease in casino revenue, casino costs were 6% lower in the 2001 versus 2000 second quarter. Contributing to the decrease in casino costs was a 19% reduction in coin offers to slot players in the 2001 versus 2000 second quarter. Marketing costs were 15% lower in the 2001 versus 2000 second quarter primarily due to reduced spending in promotional programs, advertising and contract entertainment. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.6 million in the 2001 second quarter compared to \$0.7 million in the 2000 second quarter. Depreciation and amortization was \$6.6 million in the second quarter of 2001 compared to \$6.5 million in the second quarter of 2000.

**TROPICANA LAS VEGAS** At Tropicana Las Vegas, total revenues were \$39.7 million in the 2001 second quarter, down 3% from \$40.9 million in the last year's second quarter. Utilities expense was 63% higher in the 2001 versus 2000 second quarter, primarily due to rising energy prices. Operating income was \$3.6 million in the second quarter of 2001 compared to \$3.8 million in the second quarter of 2000. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$2.4 million in the 2001 second quarter compared to \$2.6 million in the 2000 second quarter. Depreciation and amortization was \$2.0 million in the second quarter of 2001 compared to \$2.3 million in the second quarter of 2000.

**RAMADA EXPRESS** At Ramada Express, total revenues were \$23.9 million in the 2001 second quarter, down 5% from \$25.2 million in the 2000 second quarter. Utilities expense was 33% higher in the 2001 versus 2000 second quarter primarily due to rising energy prices. Operating income was \$4.5 million in the 2001 second quarter



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## AZTAR CORPORATION AND SUBSIDIARIES

compared to \$4.6 million in the 2000 second quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.1 million in both periods. Depreciation and amortization was \$1.4 million in the 2001 second quarter compared to \$1.3 million in the last year's second quarter.

**CASINO AZTAR EVANSVILLE** Total revenues at Casino Aztar Evansville were \$25.0 million in the 2001 second quarter, down 9% from \$27.6 million in the 2000 second quarter. Operating income was \$4.2 million in the 2001 second quarter, a 21% decrease from \$5.3 million in the 2000 second quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.6 million in the 2001 second quarter compared to \$0.8 million in the 2000 second quarter. Rent expense increased in the 2001 versus 2000 second quarter primarily due to increased rent to the City of Evansville relating to our riverboat landing lease. A scheduled change in the formula used in calculating the rent came into effect in December 2000. Depreciation and amortization was \$2.2 million in the 2001 second quarter compared to \$2.6 million in the 2000 second quarter.

**CASINO AZTAR CARUTHERSVILLE** Total revenues at Casino Aztar Caruthersville were \$6.0 million in the 2001 second quarter, a 5% decrease from \$6.3 million in the 2000 second quarter. Casino Aztar Caruthersville had operating income of \$0.3 million in the second quarter of 2001, an improvement over \$0.1 million in the second quarter of 2000. Operating income is after depreciation and amortization of \$0.7 million in both periods.

### Private Securities Litigation Reform Act

Certain information included in Aztar's Form 10-K for the year ended December 28, 2000, this Form 10-Q and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us including those made in Aztar's 2000 annual report) contains statements that are forward-looking. These include forward-looking statements relating to the following activities, among others: operation and expansion of existing properties, including future performance; redevelopment of the Las Vegas Tropicana and financing and/or concluding an arrangement with a partner for such redevelopment; other business development activities; uses of free cash flow; stock repurchases; debt repayments; and use of derivatives. These forward-looking statements generally can be identified by phrases such as we "believe," "expect," "anticipate," "foresee," "forecast," "estimate," "target," or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals are also forward-looking statements. Such forward-looking information involves important risks and uncertainties that could significantly affect results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements made by us or on our behalf. These risks and uncertainties include, but are not limited to, the following factors as well as other factors described from time to time in Aztar's reports filed with the SEC: construction and development factors, including zoning issues, environmental restrictions, soil conditions, weather and other hazards, site access matters and building permit issues; factors affecting leverage and debt service, including

sensitivity to fluctuation in interest rates; access to available and feasible financing; regulatory and licensing matters; third-party consents, approvals and representations, and relations with partners, owners, suppliers and other third parties; reliance on key personnel; business and economic conditions; the cyclical nature of the hotel business and the gaming business; the effects of weather; market prices of our common stock; litigation, judicial actions and political uncertainties, including gaming legislation and taxation; and the effects of competition, including locations of competitors and operating and marketing competition. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

AZTAR CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of information that affects information incorporated by reference in Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2000, see "Note 8: Subsequent Events" of the Notes to Consolidated Financial Statements included in this Form 10-Q under Item 1.

PART II - OTHER INFORMATION

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

At the Company's annual meeting of shareholders held on May 10, 2001, two items were voted on as follows:

1. The persons whose names are set forth below were elected as directors to serve until the 2004 annual meeting or until their retirement date or until their successors are elected and qualified. The relevant voting information is as follows:

|                 | Votes Cast |          |
|-----------------|------------|----------|
| Nominee         | For        | Withheld |
| Gordon M. Burns |            |          |
| Robert S. Rosow | 35,504,178 | 134,309  |

35,479,666 147,271

2. The 2000 Nonemployee Directors Stock Option Plan was adopted. The relevant voting information is as follows:

|                  | <u>Votes Cast</u> |
|------------------|-------------------|
| For              |                   |
| Against          |                   |
| Abstain          | 32,611,477        |
| Broker Non-Votes | 2,527,953         |
|                  | 499,057           |
|                  | 2,291,319         |

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

None.

##### (b) Reports on Form 8-K

On July 11, 2001, the Company filed a report on Form 8-K under Item 5. Other Events to file, as Exhibit 10.1, Amendment No. 6, dated June 29, 2001 to Amended and Restated Reducing Revolving Loan Agreement, dated as of May 28, 1998, among Aztar Corporation and the lenders party thereto and Bank of America, N.A., as administrative agent.

On July 17, 2001, the Company filed a report on Form 8-K under Item 5. Other Events to file, as Exhibit 99.1, a press release issued by the Registrant on July 10, 2001, announcing the Company's financial results for its second fiscal quarter ended June 28, 2001.

On August 3, 2001, the Company filed a report on Form 8-K under Item 5. Other Events to file, as Exhibit 99.1, a press release issued by the Registrant on July 30, 2001, announcing the completion of its private placement of \$175 million of 9% Senior Subordinated Notes due 2011.

AZTAR CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements 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.

AZTAR CORPORATION

(Registrant)

Date August 8, 2001

By ROBERT M. HADDOCK  
Robert M. Haddock  
Executive Vice President and  
Chief Financial Officer

