

AZTAR CORP  
Form 10-Q  
November 09, 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 September 27, 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.)

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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 October 25, 2001, the registrant had outstanding 36,555,764 shares of its common stock, \$.01 par value.

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AZTAR CORPORATION AND SUBSIDIARIES

FORM 10-Q

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

|  | September 27,<br><u>2001</u> | December 28,<br><u>2000</u> |
|--|------------------------------|-----------------------------|
| Assets   |                              |                             |
| Current assets:  |                              |                             |
| Cash and cash equivalents                                    | \$ 81,650                    | \$ 48,080                   |
| Accounts receivable, net                                     | 21,619                       | 21,769                      |
| Inventories  | 8,082                        | 8,446                       |
| Prepaid expenses   | 10,148                       | 9,987                       |
| Deferred income taxes, net                                   | <u>17,599</u>                | <u>18,938</u>               |
| Total current assets   | 139,098                      | 107,220                     |
| Investments in and advances to unconsolidated<br>partnership | 6,566                        | 7,007                       |
| Other investments  | 23,124                       | 21,523                      |
| Property and equipment:                                      |                              |                             |
| Buildings, riverboats and equipment, net                     | 713,654                      | 727,164                     |
| Land   | 104,957                      | 104,957                     |
| Construction in progress                                     | 27,733                       | 6,090                       |
| Leased under capital leases, net                             | <u>715</u>                   | <u>1,390</u>                |
|  | 847,059                      | 839,601                     |
| Deferred charges and other assets                            | <u>36,288</u>                | <u>36,345</u>               |

\$1,052,135  
=====

\$1,011,696  
=====

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

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|  | September 27,<br><u>2001</u> | December 28,<br><u>2000</u> |
|--|------------------------------|-----------------------------|
| Liabilities and Shareholders' Equity   |                              |                             |
| Current liabilities:   |                              |                             |
| Accounts payable and accruals  | \$ 60,540                    | \$ 53,356                   |
| Accrued payroll and employee benefits  | 26,894                       | 27,377                      |
| Accrued interest payable   | 11,095                       | 5,470                       |
| Income taxes payable   | 4,737                        | 4,764                       |
| Current portion of long-term debt  | 1,353                        | 1,608                       |
| Current portion of other long-term liabilities                                       | <u>1,498</u>                 | <u>1,544</u>                |
| <br>Total current liabilities  | <br>106,117                  | <br>94,119                  |
| <br>Long-term debt   | <br>459,042                  | <br>463,011                 |
| Other long-term liabilities  | 20,031                       | 20,307                      |
| Deferred income taxes  | 16,518                       | 5,153                       |
| Contingencies and commitments  |                              |                             |
| Series B ESOP convertible preferred stock<br>(redemption value \$8,862 and \$11,905) | 6,070                        | 6,400                       |
| Shareholders' equity:  |                              |                             |
| Common stock, \$.01 par value (36,843,131 and<br>38,696,672 shares outstanding)      | 516                          | 515                         |
| Paid-in capital  | 430,268                      | 428,537                     |
| Retained earnings  | 160,834                      | 116,194                     |
| Less: Treasury stock   | <u>(147,261)</u>             | <u>(122,540)</u>            |
| <br>Total shareholders' equity   | <br><u>444,357</u>           | <br><u>422,706</u>          |
|  | <br>\$1,052,135              | <br>\$1,011,696             |
|  | =====                        | =====                       |

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

AZTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
For the periods ended September 27, 2001 and September 28, 2000  
(in thousands, except per share data)

Third Quarter

Nine Months

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|   | <u>2001</u>    | <u>2000</u>    | <u>2001</u>     | <u>2000</u>     |
|---|----------------|----------------|-----------------|-----------------|
| Revenues                                      |                |                |                 |                 |
| Casino  |                |                |                 |                 |
| Rooms   |                |                |                 |                 |
| Food and beverage                             | \$175,014      | \$177,389      | \$506,783       | \$523,592       |
| Other   | 19,434         | 19,270         | 58,494          | 55,980          |
|   | 13,769         | 14,672         | 42,654          | 43,922          |
| Costs and expenses                            | <u>9,896</u>   | <u>10,874</u>  | <u>29,382</u>   | <u>31,198</u>   |
| Casino  | 218,113        | 222,205        | 637,313         | 654,692         |
| Rooms   |                |                |                 |                 |
| Food and beverage                             | 72,063         | 77,367         | 214,373         | 226,875         |
| Other   | 10,189         | 10,292         | 29,771          | 29,062          |
| Marketing                                     | 13,596         | 14,558         | 41,762          | 43,043          |
| General and administrative                    | 8,206          | 8,922          | 24,502          | 25,648          |
| Utilities                                     | 21,752         | 22,174         | 61,835          | 69,211          |
| Repairs and maintenance                       | 19,156         | 19,696         | 57,908          | 58,826          |
| Provision for doubtful accounts               | 5,088          | 4,730          | 13,415          | 11,604          |
| Property taxes and insurance                  | 6,103          | 6,094          | 18,170          | 19,198          |
| Rent  | 1,092          | 540            | 2,936           | 3,204           |
| Depreciation and amortization                 | 6,358          | 6,079          | 18,750          | 17,997          |
|   | 4,306          | 4,478          | 13,995          | 12,828          |
|   | <u>12,861</u>  | <u>13,478</u>  | <u>38,788</u>   | <u>40,644</u>   |
| Operating income                              | <u>180,770</u> | <u>188,408</u> | <u>536,205</u>  | <u>558,140</u>  |
| Interest income                               | 37,343         | 33,797         | 101,108         | 96,552          |
| Interest expense                              |                |                |                 |                 |
| Equity in unconsolidated partnership's loss   | 392            | 313            | 1,108           | 995             |
|   | (9,529)        | (10,407)       | (28,691)        | (31,669)        |
| Income before income taxes                    | <u>(845)</u>   | <u>(1,081)</u> | <u>(2,825)</u>  | <u>(3,166)</u>  |
| Income taxes                                  | 27,361         | 22,622         | 70,700          | 62,712          |
|   | <u>(9,536)</u> | <u>(8,070)</u> | <u>(25,472)</u> | <u>(14,783)</u> |
| Net income                                    |                |                |                 |                 |
|   | \$ 17,825      | \$ 14,552      | \$ 45,228       | \$ 47,929       |
| Net income per common share                   | =====          | =====          | =====           | =====           |
| Net income per common share assuming dilution | \$ .47         | \$ .35         | \$ 1.19         | \$ 1.14         |
| Weighted-average common shares applicable to: | \$ .46         | \$ .34         | \$ 1.15         | \$ 1.10         |
| Net income per common share                   |                |                |                 |                 |
| Net income per common share assuming dilution | 37,223         | 40,428         | 37,670          | 41,383          |
|   | 38,879         | 42,397         | 39,178          | 43,078          |



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

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AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
For the periods ended September 27, 2001 and September 28, 2000  
 (in thousands)

|   | <u>Nine 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   | \$ 45,228          | \$ 47,929   |
| Provision for losses on accounts receivable   |                    |             |
| Loss on reinvestment obligation   | 39,723             | 41,539      |
| Rent expense  | 2,936              | 3,204       |
| Distribution in excess of equity in income of partnership                                   | 964                | 1,291       |
| Deferred income taxes   | (753)              | (678)       |
| Change in assets and liabilities:   | 441                | 504         |
| (Increase) decrease in accounts receivable  | 12,704             | (1,719)     |
| (Increase) decrease in refundable income taxes  |                    |             |
| (Increase) decrease in inventories and prepaid expenses                                     | (2,786)            | (1,623)     |
| Increase (decrease) in accounts payable, accrued expenses and income taxes payable          | --                 | 881         |
| Other items, net  | 203                | 86          |
|   | 12,799             | 24,176      |

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|  |                 |                  |
|--|-----------------|------------------|
| Net cash provided by (used in) operating activities  | <u>273</u>      | <u>460</u>       |
| Cash Flows from Investing Activities                 | <u>111,732</u>  | <u>116,050</u>   |
| Reduction in other investments                       |                 |                  |
| Purchases of property and equipment                  | 1,380           | 1,956            |
| Additions to other long-term assets                  | (41,805)        | (17,620)         |
| Net cash provided by (used in) investing activities  | <u>(4,303)</u>  | <u>(6,778)</u>   |
| Cash Flows from Financing Activities                 | <u>(44,728)</u> | <u>(22,442)</u>  |
| Proceeds from issuance of long-term debt             |                 |                  |
| Proceeds from issuance of common stock               |                 |                  |
| Principal payments on long-term debt                 | 305,100         | 182,800          |
| Principal payments on other long-term liabilities    | 1,350           | 4,120            |
| Debt issuance costs                                  | (309,369)       | (238,791)        |
| Repurchase of common stock                           | (26)            | (1,215)          |
| Preferred stock dividend                             | (4,732)         | --               |
| Redemption of preferred stock                        | (24,708)        | (46,866)         |
|  | (499)           | (541)            |
| Net cash provided by (used in) financing activities  | <u>(550)</u>    | <u>(623)</u>     |
| Net increase (decrease) in cash and cash equivalents | <u>(33,434)</u> | <u>(101,116)</u> |
| Cash and cash equivalents at beginning of period     |                 |                  |
|  | 33,570          | (7,508)          |
| Cash and cash equivalents at end of period           | <u>48,080</u>   | <u>54,180</u>    |
|  | \$ 81,650       | \$ 46,672        |
|  | =====           | =====            |

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 September 27, 2001 and September 28, 2000  
 (in thousands)

|  | <u>Nine 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  | \$ 22,130          | \$ 25,425   |
|  | 12,426             | 10,691      |

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

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AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)  
For the periods ended September 27, 2001 and September 28, 2000  
 (in thousands, except number of shares)

|  | <u>Nine Months</u> |             |
|--|--------------------|-------------|
|  | <u>2001</u>        | <u>2000</u> |
| Common stock:  |                    |             |
| Beginning balance                                      |                    |             |
| Stock options exercised for 178,334 and 723,523 shares | \$ 515             | \$ 506      |
| Ending balance   | <u>1</u>           | <u>8</u>    |

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|  |                  |                  |
|--|------------------|------------------|
| Paid-in capital:   | <u>516</u>       | <u>514</u>       |
| Beginning balance  |                  |                  |
| Stock options exercised  | 428,537          | 420,786          |
| Tax benefit from stock options exercised   | 1,362            | 5,357            |
| Ending balance   | <u>369</u>       | <u>1,371</u>     |
| Retained earnings:   | <u>430,268</u>   | <u>427,514</u>   |
| Beginning balance  |                  |                  |
| Preferred stock dividend and losses on redemption  |                  |                  |
| Net income   | 116,194          | 63,963           |
|  | (588)            | (602)            |
| Ending balance   | <u>45,228</u>    | <u>47,929</u>    |
| Treasury stock:  | <u>160,834</u>   | <u>111,290</u>   |
| Beginning balance  |                  |                  |
| Repurchase of 2,031,000 and 3,753,800 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 | (24,708)         | (46,657)         |
| Ending balance   | <u>(13)</u>      | <u>(946)</u>     |
|  | <u>(147,261)</u> | <u>(104,948)</u> |
|  | \$444,357        | \$434,370        |
|  | =====            | =====            |

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 third quarter and nine months ended 2001 was \$357,000 and \$835,000, respectively. There was no interest capitalized during the third quarter or nine months ended 2000. Capitalized costs related to various development projects, included in deferred charges and other assets, were \$5,691,000 and \$7,358,000 at September 27, 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 September 27, 2001 and September 28, 2000 (in thousands):

|                    | <u>Third Quarter</u> |              | <u>Nine Months</u> |                |
|--------------------|----------------------|--------------|--------------------|----------------|
|                    | <u>2001</u>          | <u>2000</u>  | <u>2001</u>        | <u>2000</u>    |
| Revenues           |                      |              |                    |                |
| Operating expenses | \$ 4,111             | \$ 4,514     | \$ 12,855          | \$ 13,323      |
| Operating income   | <u>(684)</u>         | <u>(684)</u> | <u>(2,059)</u>     | <u>(2,059)</u> |

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|                  |                 |                 |                 |                 |
|------------------|-----------------|-----------------|-----------------|-----------------|
| Interest expense | 3,427           | 3,830           | 10,796          | 11,264          |
| Net income       | <u>(737)</u>    | <u>(1,199)</u>  | <u>(2,784)</u>  | <u>(3,445)</u>  |
|                  | <u>\$ 2,690</u> | <u>\$ 2,631</u> | <u>\$ 8,012</u> | <u>\$ 7,819</u> |

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

|   | <u>Third Quarter</u> |             | <u>Nine Months</u> |             |
|---|----------------------|-------------|--------------------|-------------|
|   | <u>2001</u>          | <u>2000</u> | <u>2001</u>        | <u>2000</u> |
| Equity in unconsolidated partnership's loss | \$ (845)             | \$ (1,081)  | \$ (2,825)         | \$ (3,166)  |

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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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|   | September 27,<br><u>2001</u> | December 28,<br><u>2000</u> |
|---|------------------------------|-----------------------------|
| 8 7/8% Senior Subordinated Notes Due 2007   | \$235,000                    | \$235,000                   |
| 9% Senior Subordinated Notes Due 2011   | 175,000                      | --                          |
| Revolving credit facility ("Revolver");<br>floating rate; matures June 30, 2005                 | --                           | 178,000                     |
| Term loan ("Term Loan"); floating rate,<br>6.2% at September 27, 2001; matures<br>June 30, 2005 | 49,000                       | 49,375                      |
| Other notes payable; 14.6%; maturities<br>to 2002   | 217                          | 422                         |
| Obligations under capital leases  | <u>1,178</u>                 | <u>1,822</u>                |
|   | 460,395                      | 464,619                     |
| Less current portion  | <u>(1,353)</u>               | <u>(1,608)</u>              |
|   | \$ 459,042                   | \$463,011                   |
|   | =====                        | =====                       |

On June 29, 2001, the Company amended its Revolver to, among other things, 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 September 27, 2001 was \$264 million.

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

At any time prior to August 15, 2006, the 9% Notes are redeemable at the option of the Company, in whole or in part, at a price of 100% of the principal amount plus a redemption premium plus accrued and unpaid interest. The redemption premium will be equal to the greater of (1) 1% of the principal amount or (2) the excess of (A) the sum of the present values of (i) 104.5% of the principal amount and (ii) all required interest payments through August 15, 2006, excluding accrued but unpaid interest, computed in each case using a discount rate equal to the treasury rate at the time of redemption plus 50 basis points over (B) the principal amount. On or after August 15, 2006, the 9% Notes are redeemable at the option of the Company, in whole or in part, at prices from 104.5% of the principal amount plus interest declining to 100% of the principal amount plus interest beginning August 15, 2009.

The 9% Notes, ranked pari passu with the 8 7/8% Notes, are general unsecured obligations of the Company and are subordinated in right of payment to all present and future senior indebtedness (as defined) of the Company. Upon change of control of the Company, the holders of the 9% Notes would have the right to require repurchase of the notes at 101% of the principal amount plus accrued and unpaid interest. Certain covenants in the 9% Notes limit the ability of the Company to incur indebtedness or engage in mergers, consolidations or sales of assets.



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

Note 4: Other Long-term Liabilities

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

|   | September 27,<br><u>2001</u> | December 28,<br><u>2000</u> |
|---|------------------------------|-----------------------------|
| Deferred compensation and retirement plans                                      | \$ 13,239                    | \$ 12,732                   |
| Accrued rent expense  | 7,915                        | 8,668                       |
| Obligation to City of Evansville and other<br>civic and community organizations | --                           | 50                          |
| Las Vegas Boulevard beautification<br>assessment                                | <u>375</u>                   | <u>401</u>                  |
|   | 21,529                       | 21,851                      |
| Less current portion  | <u>(1,498)</u>               | <u>(1,544)</u>              |
|   | <u>\$ 20,031</u>             | <u>\$ 20,307</u>            |
|   | =====                        | =====                       |

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.

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 Indiana Department of Revenue ("IDR") is currently examining the income tax returns for the years 1998 through 2000. The Company has received proposed assessments from the 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 the 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 September 27, 2001, was approximately \$7,400,000 at September 27, 2001.

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

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 September 27, 2001 and September 28, 2000, are as follows (in thousands, except per share data):

Third Quarter

Nine Months

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|  | <u>2001</u>        | <u>2000</u>        | <u>2001</u>        | <u>2000</u>        |
|--|--------------------|--------------------|--------------------|--------------------|
| Net income   |                    |                    |                    |                    |
| Less: preferred stock dividends and losses on redemption                                   | \$ 17,825          | \$ 14,552          | \$ 45,228          | \$ 47,929          |
| Income available to common shareholders  | <u>(191)</u>       | <u>(200)</u>       | <u>(588)</u>       | <u>(602)</u>       |
| Plus: income impact of assumed conversion of dilutive preferred stock                      | 17,634             | 14,352             | 44,640             | 47,327             |
| Income available to common shareholders plus dilutive potential common shares              | <u>121</u>         | <u>--</u>          | <u>364</u>         | <u>--</u>          |
| Weighted-average common shares applicable to net income per common share                   | \$ 17,755<br>===== | \$ 14,352<br>===== | \$ 45,004<br>===== | \$ 47,327<br>===== |
| Effect of dilutive securities:   |                    |                    |                    |                    |
| Stock option incremental shares  | 37,223             | 40,428             | 37,670             | 41,383             |
| Assumed conversion of preferred stock  | 1,014              | 1,266              | 866                | 972                |
| Dilutive potential common shares   | <u>642</u>         | <u>703</u>         | <u>642</u>         | <u>723</u>         |
| Weighted-average common shares applicable to net income per common share assuming dilution | <u>1,656</u>       | <u>1,969</u>       | <u>1,508</u>       | <u>1,695</u>       |
| Net income per common share  | 38,879<br>=====    | 42,397<br>=====    | 39,178<br>=====    | 43,078<br>=====    |
| Net income per common share assuming dilution  | \$ .47<br>=====    | \$ .35<br>=====    | \$ 1.19<br>=====   | \$ 1.14<br>=====   |
|  | \$ .46<br>=====    | \$ .34<br>=====    | \$ 1.15<br>=====   | \$ 1.10<br>=====   |

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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 September 27, 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 \$21,996,000 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 September 27, 2001, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$24,000,000 at September 27, 2001.

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 September 27, 2001 was \$264 million.

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. At September 27, 2001, the balance of this term loan was \$51 million. 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.

#### AZTAR CORPORATION AND SUBSIDIARIES

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

During the 2001 nine-month period, we repurchased 2,031,000 shares of common stock at prices ranging from \$9.00 per share to \$16.10 per share and at an average price of \$12.13 per share. Subsequent to the end of the third quarter, we also repurchased 303,700 shares, which was the balance remaining to be repurchased under a program authorized by our Board of Directors. From the beginning of the share repurchase program in May 1999 through its completion, we repurchased 11.0 million shares at prices ranging from \$6.69 per share to \$16.10 per share and at an average price of \$11.64 per share. Purchases under our stock repurchase program were made from time to time in the open market or privately negotiated transactions, depending on market prices and other business factors.

We are working on a plan to expand our Atlantic City Tropicana. We expect to commence construction in May 2002, with opening contemplated for March 2004. 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

Nine Months Ended September 27, 2001 Compared to Nine Months Ended September 27, 2000

Our consolidated revenues in the 2001 nine-month period were \$637.3 million, a 3% decrease over \$654.7 million in the 2000 nine-month period. The decrease in revenues was primarily related to a \$16.8 million or 3% decrease in casino revenue, with a substantial portion of the decrease coming from Tropicana Atlantic City and Casino Aztar Evansville. Consolidated rooms revenue was \$2.5 million or 4% higher in the 2001 versus 2000 nine-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 \$29.4 million in the 2001 nine-month period compared with \$31.2 million in the 2000 nine-month period. The related direct costs were \$24.5 million in the 2001 nine-month period versus \$25.6 million in the 2000 nine-month period. Consolidated operating income was \$101.1 million in the 2001 nine-month period, a 5% improvement over \$96.6 million in the 2000 nine-month period. Consistent with the decrease in consolidated casino revenue, consolidated casino costs were \$12.5 million or 6% lower in the 2001 versus 2000 nine-month period, largely due to a decrease in casino costs at Tropicana Atlantic City and Casino Aztar Evansville. Consolidated marketing costs were \$7.4 million or 11% lower in the 2001 versus 2000 nine-month period primarily due to reduced spending on promotional programs, advertising and contract entertainment at Tropicana Atlantic City, combined with decreased spending on promotional programs and advertising at Casino Aztar Evansville. Consolidated utilities expense was \$1.8 million or 16% higher in the 2001 nine-month period compared to the 2000 nine-month period primarily due to rising energy prices affecting all properties. Consolidated rent expense was \$1.2 million or 9% higher in the 2001 versus 2000 nine-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 9% or \$3.0 million lower in the 2001 versus 2000 nine-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 2001 nine-month period reduced consolidated interest expense by \$0.8 million. There was no capitalized interest for the 2000 nine-month period.

AZTAR CORPORATION AND SUBSIDIARIES

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 \$7.5 million 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. 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.

The Indiana Department of Revenue is currently examining the income tax returns for the years 1998 through 2000. The Company has received proposed assessments from the 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 the 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 September 27, 2001, was approximately \$7,400,000 at September 27, 2001.

**TROPICANA ATLANTIC CITY** Total revenues at Tropicana Atlantic City were \$348.8 million in the 2001 nine-month period, down 3% from \$358.6 million in the 2000 nine-month period. Decreased spending on 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 nine months ended 2001. Casino revenue was 3% lower in the 2001 versus 2000 nine-month period, primarily reflecting a 3% decrease in games revenue combined with a 3% decrease in slots revenue. The decline in games revenue was a result of a decrease in the volume of play. Rooms revenue was \$1.3 million or 8% higher in the 2001 versus 2000 nine-month period, primarily as a result of an increase in the average daily rates and an increase in the rooms occupied on a noncomplimentary basis.

Tropicana Atlantic City had operating income of \$73.2 million in the 2001 nine-month period, a 7% improvement over \$68.3 million in the 2000 nine-month period. Consistent with the decrease in casino revenue, casino costs were 7% lower in the 2001 versus 2000 nine-month period. Contributing to the decline in casino costs was a 22% reduction in coin offers to slot players in the 2001 versus 2000 nine-month period. Marketing costs were 9% lower in the 2001 versus 2000 nine-month period primarily due to reduced spending on promotional programs, advertising and contract entertainment. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.9 million in the 2001 nine-month period compared to \$1.8 million in the 2000 nine-month period. Depreciation and amortization was \$19.7 million in the nine months ended 2001 compared to \$19.5 million in the nine months ended 2000.

**TROPICANA LAS VEGAS** At Tropicana Las Vegas, total revenues were \$118.5 million in the 2001 nine-month period, a slight increase from \$117.3 million in the 2000 nine-month period. Tropicana Las Vegas had operating income of \$8.3 million in the 2001 nine-month period, a 20% improvement over \$6.9 million in the 2000 nine-month period. Utilities expense was 43% higher in the 2001 versus 2000 nine-month period primarily due to rising energy prices. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$7.1 million in the 2001 nine-month period compared to \$7.6 million in the 2000 nine-month period. Depreciation and amortization was \$5.8 million in the 2001 nine-month period compared to \$7.2 million in the 2000 nine-month period.

AZTAR CORPORATION AND SUBSIDIARIES

**RAMADA EXPRESS** At Ramada Express, total revenues were \$72.2 million in the 2001 nine-month period, down 4% from \$75.3 million in the 2000 nine-month period. Utilities expense was 36% higher in the 2001 versus 2000 nine-month period primarily due to rising energy prices. Operating income was \$13.4 million in the 2001 nine-month period compared to \$13.6 million in the 2000 nine-month period. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.3 million in the nine months ended 2001 compared to \$0.5 million in the nine months ended 2000. Depreciation and amortization was \$4.3 million in the 2001 nine-month period compared to \$4.0 million in the 2000 nine-month period.

**CASINO AZTAR EVANSVILLE** Total revenues at Casino Aztar Evansville were \$78.8 million in the 2001 nine-month period, down 7% from \$84.5 million in the 2000 nine-month period. Casino revenue was 6% lower in the 2001 versus 2000 nine-month period, primarily reflecting a 12% decrease in games revenue combined with a 5% decrease in slot revenue. The decrease in games revenue was a result of a decrease in the volume of play. Consistent with the decrease in casino revenue, casino costs were 8% lower in the 2001 versus 2000 nine-month period. Casino costs were lower due to a lower wagering tax that is based on revenue and reduced costs of complimentaries. Marketing costs were 21% lower in the 2001 versus 2000 nine-month period due to decreased spending on promotional programs and advertising. Operating income was \$14.8 million in the 2001 nine-month period, an 11% decrease from \$16.7 million in the 2000 nine-month period. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$4.4 million in the 2001 nine-month period compared to \$2.6 million in the 2000 nine-month period. Rent expense increased in the 2001 versus 2000 nine-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 \$6.8 million in the 2001 nine-month period compared to \$7.6 million in the 2000 nine-month period.

**CASINO AZTAR CARUTHERSVILLE** Total revenues at Casino Aztar Caruthersville were \$19.0 million in both periods. Casino Aztar Caruthersville had operating income of \$1.1 million in the 2001 nine-month period, an improvement over \$0.3 million in the 2000 nine-month period. Operating income is after depreciation and amortization of \$2.2 million in the nine months ended 2001 compared to \$2.3 million in the nine months ended 2000.

Quarter Ended September 27, 2001 Compared to Quarter Ended September 28, 2000

Our consolidated revenues in the 2001 third quarter were \$218.1 million, a 2% decrease over \$222.2 million in the 2000 third quarter. The decrease in revenues was primarily related to a decrease in casino revenue, with a substantial portion of the decrease coming from Casino Aztar Evansville. Consolidated operating income was \$37.3 million in the third quarter of 2001, a 10% improvement over \$33.8 million in the third quarter of 2000. Consolidated casino costs decreased by \$5.3 million or 7% in the 2001 versus 2000 third quarter. Contributing to the decrease in casino costs was a reduction in coin offers to slot players at Tropicana Atlantic City. In addition, casino costs were lower at Casino Aztar Evansville consistent with the decrease in casino revenue.

**TROPICANA ATLANTIC CITY** Total revenues at Tropicana Atlantic City were \$125.9 million in the 2001 third quarter, down slightly from \$126.6 million in the 2000 third quarter. Casino revenue was \$112.4 million for both periods. In the 2001 versus 2000 third quarter, slot revenue decreased by 4% while games revenue increased by 11%. Games revenue increased as a result of a higher hold percentage. The table games hold percentage was 17.6% in the 2001 third quarter compared with 14.7% in the 2000 third quarter.



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## AZTAR CORPORATION AND SUBSIDIARIES

Tropicana Atlantic City had operating income of \$31.3 million in the 2001 third quarter, a 15% improvement over \$27.2 million in the 2000 third quarter. Casino costs were 10% lower in the 2001 versus 2000 third quarter. Contributing to the decrease in casino costs was a 33% reduction in coin offers to slot players in the 2001 versus 2000 third quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.6 million in the 2001 third quarter compared to \$0.7 million in the 2000 third quarter. Depreciation and amortization was \$6.6 million in the third quarter of 2001 compared to \$6.4 million in the third quarter of last year.

TROPICANA LAS VEGAS At Tropicana Las Vegas, total revenues were \$37.8 million in the 2001 third quarter, down slightly from \$38.3 million in the 2000 third quarter. Utilities expense was 22% higher in the 2001 versus 2000 third quarter, primarily due to rising energy prices. Operating income was \$1.4 million in the third quarter of 2001 compared to \$2.1 million in the third quarter of 2000. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$2.3 million in the 2001 third quarter compared to \$2.5 million in the 2000 third quarter. Depreciation and amortization was \$1.9 million in the third quarter of 2001 compared to \$2.4 million in the third quarter of 2000.

RAMADA EXPRESS At Ramada Express, total revenues were \$21.7 million in the 2001 third quarter, down 3% from \$22.4 million in the 2000 third quarter. Utilities expense was 24% higher in the 2001 versus 2000 third quarter primarily due to rising energy prices. Operating income was \$2.3 million in both periods. 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 both periods.

CASINO AZTAR EVANSVILLE Total revenues at Casino Aztar Evansville were \$26.5 million in the 2001 third quarter, down 8% from \$28.8 million in the 2000 third quarter. Casino revenue was 7% lower in the 2001 versus 2000 third quarter, primarily reflecting a 12% decrease in games revenue combined with a 6% decrease in slot revenue. The decrease in games revenue was primarily a result of a decrease in the volume of play. Operating income was \$4.9 million in the 2001 third quarter, an 8% decrease from \$5.3 million in the 2000 third quarter. Consistent with the decrease in casino revenue, casino costs were 7% lower in the 2001 versus 2000 third quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.2 million in the 2001 third quarter compared to \$1.1 million in the 2000 third quarter. Rent expense increased in the 2001 versus 2000 third 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. Casino revenue is a component used in the calculation of rent expense. During the 2001 third quarter, as a result of lower than anticipated casino revenue since December 2000, we revised our estimate of rent expense and recorded a \$0.3 million reduction in rent. Depreciation and amortization was \$2.3 million in the 2001 third quarter compared to \$2.6 million in last year's third

quarter.

CASINO AZTAR CARUTHERSVILLE Total revenues at Casino Aztar Caruthersville were \$6.2 million in the 2001 third quarter, a 2% increase from \$6.1 million in the 2000 third quarter. Casino Aztar Caruthersville had operating income of \$0.3 million in the third quarter of 2001 compared to an operating income that was at break-even for the third quarter of 2000. Operating income is after depreciation and amortization of \$0.7 million in both periods.

## AZTAR CORPORATION AND SUBSIDIARIES

### Impact of Recent Events

The September terrorist attacks as well as the ensuing economic conditions have resulted in an increased level of uncertainty with regard to our near term operating results. Since the end of our third quarter through the end of our fiscal month of October, these developments have had a modest impact on our consolidated operating and financial results. We are unable to predict any future effects.

### Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." SFAS 141 is effective as follows: (a) use of the pooling-of-interests method is prohibited for business combinations initiated after June 30, 2001; and (b) the provisions of SFAS 141 also apply to all business combinations accounted for by the purchase method that are completed after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001 that were accounted for by the purchase method. SFAS 142 is effective for fiscal years beginning after December 15, 2001 and applies to all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized.

In August 2001, the Financial Accounting Standards Board issued Statement No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." The objectives of SFAS 143 are to establish accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement

cost. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

In October 2001, the Financial Accounting Standards Board issued statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively.

The Company is currently evaluating the provisions of SFAS 141, SFAS 142, SFAS 143 and SFAS 144 and has not yet determined the effects of these changes on the Company's financial position or results of operations.

#### 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

#### AZTAR CORPORATION AND SUBSIDIARIES

the SEC: those factors relating to terrorist activities, 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.

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 3: Long-term Debt" of the Notes to Consolidated Financial Statements included in this Form 10-Q under Item 1.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

- (a) In connection with Case No. CV-S-94-1126-DAE(RJJ)-BASE FILE (the "Poulos/Ahearn Case"), Case No. CV-S-95-00923-DWH(RJJ) (the "Schreier Case") and Case No. CV-S-95-936-LDG(RLH) (the "Cruise Ship Case"), (collectively, the "Consolidated Cases"), as reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 28, 2000, the defendants have filed a supplement to their memorandum in opposition to class certification and the plaintiffs have filed their reply. The hearing on the motion for class certification has been scheduled for November 15, 2001.

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.

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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 November 8, 2001

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

