

AZTAR CORP
Form 10-Q
August 09, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2002

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 X No

At August 1, 2002, the registrant had outstanding 37,309,579 shares of its common stock, \$.01 par value.

AZTAR CORPORATION AND SUBSIDIARIES

FORM 10-Q

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

	<u>July 4,</u> <u>2002</u>	<u>January 3,</u> <u>2002</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,193	\$ 92,122
Accounts receivable, net	22,192	22,158
Inventories	8,139	7,752
Prepaid expenses	10,571	10,464
Deferred income taxes, net	<u>18,192</u>	<u>16,934</u>
Total current assets	116,287	149,430
Investments in and advances to unconsolidated partnership	--	6,414
Other investments	16,110	23,544
Property and equipment:		
Buildings, riverboats and equipment, net	746,147	716,758
Land	214,935	104,957
Construction in progress	38,537	22,661
Leased under capital leases, net	<u>380</u>	<u>662</u>
	999,999	845,038
Intangible assets	44,265	29,172
Other assets	<u>6,318</u>	<u>7,358</u>

\$1,182,979
=====

\$1,060,956
=====

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

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	July 4, <u>2002</u>	January 3, <u>2002</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accruals	\$ 59,178	\$ 61,144
Accrued payroll and employee benefits	29,364	30,450
Accrued interest payable	9,118	9,505
Income taxes payable	6,174	2,131
Current portion of long-term debt	5,366	1,428
Current portion of other long-term liabilities	<u>618</u>	<u>1,498</u>
Total current liabilities	109,818	106,156
Long-term debt	541,564	458,659
Other long-term liabilities	14,107	20,495
Deferred income taxes	20,347	15,846
Contingencies and commitments		
Series B ESOP convertible preferred stock (redemption value \$14,892 and \$10,607)	5,750	5,959
Shareholders' equity:		
Common stock, \$.01 par value (37,309,579 and 36,644,767 shares outstanding)	524	517
Paid-in capital	439,275	431,455
Retained earnings	203,139	173,409
Accumulated other comprehensive loss	(353)	(353)
Less: Treasury stock	<u>(151,192)</u>	<u>(151,187)</u>
Total shareholders' equity	<u>491,393</u>	<u>453,841</u>
	\$1,182,979	\$1,060,956
	=====	=====

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
For the periods ended July 4, 2002 and June 28, 2001
(in thousands, except per share data)

Second Quarter

Six Months

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	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues				
Casino				
Rooms				
Food and beverage	\$164,994	\$165,472	\$329,640	\$331,769
Other	20,597	20,804	39,031	39,060
	14,646	14,418	28,601	28,885
Costs and expenses	<u>10,864</u>	<u>10,162</u>	<u>19,823</u>	<u>19,486</u>
Casino	211,101	210,856	417,095	419,200
Rooms				
Food and beverage	68,820	69,331	138,290	142,310
Other	10,108	10,231	19,752	19,582
Marketing	13,774	14,024	27,021	28,166
General and administrative	8,041	8,146	16,149	16,296
Utilities	20,500	20,134	39,611	40,083
Repairs and maintenance	17,700	19,408	38,110	38,752
Provision for doubtful accounts	4,265	3,849	7,756	8,327
Property taxes and insurance	6,387	5,894	12,757	12,067
Rent	454	970	1,368	1,844
Depreciation and amortization	6,242	6,153	12,569	12,392
	2,534	4,782	6,800	9,689
	<u>12,668</u>	<u>12,931</u>	<u>25,207</u>	<u>25,927</u>
Operating income	<u>171,493</u>	<u>175,853</u>	<u>345,390</u>	<u>355,435</u>
Interest income	39,608	35,003	71,705	63,765
Interest expense				
Equity in unconsolidated partnership's loss	253	328	641	716
	(10,735)	(9,084)	(21,090)	(19,162)
Income before income taxes	<u>--</u>	<u>(962)</u>	<u>(458)</u>	<u>(1,980)</u>
Income taxes	29,126	25,285	50,798	43,339
	<u>(12,648)</u>	<u>(9,273)</u>	<u>(20,561)</u>	<u>(15,936)</u>
Net income				
	\$ 16,478	\$ 16,012	\$ 30,237	\$ 27,403
Net income per common share	=====	=====	=====	=====
Net income per common share assuming dilution	\$.44	\$.42	\$.80	\$.71
Weighted-average common shares applicable to:	\$.42	\$.40	\$.77	\$.69
Net income per common share				
Net income per common share assuming dilution	37,291	37,566	37,089	37,889
	39,208	39,114	39,060	39,353

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 July 4, 2002 and June 28, 2001
(in thousands)

	<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>
Cash Flows from Operating Activities		
Net income		
Adjustments to reconcile net income to net cash		
provided by (used in) operating activities:	\$ 30,237	\$ 27,403
Depreciation and amortization		
Provision for losses on accounts receivable		
(Gain) loss on reinvestment obligation	25,971	26,529
Rent expense	1,368	1,844
Distribution (less than)in excess of equity in	(2,681)	606
income of partnership	(171)	(520)
Deferred income taxes		
Change in assets and liabilities:	(414)	277
(Increase) decrease in accounts receivable	3,243	6,696
(Increase) decrease in inventories and		
prepaid expenses	(1,402)	(2,297)
Increase (decrease) in accounts payable,		
accrued expenses and income taxes payable	(494)	(1,430)
Other items, net		
	3,932	(3,727)
Net cash provided by (used in) operating activities	<u>1,331</u>	<u>200</u>

Cash Flows from Investing Activities	<u>60,920</u>	<u>55,581</u>
Reduction in other investments		
Purchases of property and equipment		
Acquisition of Tropicana Enterprises partnership interests	12,655 (29,483)	835 (30,138)
Additions to other long-term assets	(117,500)	--
Net cash provided by (used in) investing activities	<u>(3,192)</u>	<u>(2,762)</u>
Cash Flows from Financing Activities	<u>(137,520)</u>	<u>(32,065)</u>
Proceeds from issuance of long-term debt		
Proceeds from issuance of common stock		
Principal payments on long-term debt	99,000	119,200
Principal payments on other long-term liabilities	4,499	839
Repurchase of common stock	(61,094)	(132,968)
Preferred stock dividend	(13)	(13)
Redemption of preferred stock	-- (234)	(17,061) (256)
Net cash provided by (used in) financing activities	<u>(487)</u>	<u>(315)</u>
Net increase (decrease) in cash and cash equivalents	<u>41,671</u>	<u>(30,574)</u>
Cash and cash equivalents at beginning of period	(34,929)	(7,058)
Cash and cash equivalents at end of period	<u>92,122</u>	<u>48,080</u>
	\$ 57,193 =====	\$ 41,022 =====

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 July 4, 2002 and June 28, 2001
(in thousands)

	<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>
Supplemental Cash Flow Disclosures		
Acquisition of Tropicana Enterprises partnership interests:		
Investments in and advances to unconsolidated partnership		
Buildings, net		
Land	\$ 6,828	\$ --
Intangible assets	(41,411)	--
Other assets	(109,979)	--
Current portion of long-term debt	(15,331)	--
Current portion of other long-term liabilities	1,000	--
Long-term debt	4,148	--
Other long-term liabilities	(847)	--
	44,773	--
Net cash used in acquisition	<u>(6,681)</u>	<u>--</u>
Summary of non-cash investing and financing activities:	\$(117,500)	\$ --
Exchange of common stock in lieu of cash payments in connection with the exercise of stock options		
Other long-term liabilities reduced for intangible assets		
	\$ 5	\$ 13
Cash flow during the period for the following:	--	50
Interest paid, net of amount capitalized		
Income taxes paid	\$ 20,755	\$ 19,492
	9,952	12,408

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 July 4, 2002 and June 28, 2001
(in thousands, except number of shares)

	<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>
Common stock:		
Beginning balance		
Stock options exercised for 665,034 and 112,999 shares	\$ 517	\$ 515

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Ending balance	<u>7</u>	<u>1</u>
Paid-in capital:	<u>524</u>	<u>516</u>
Beginning balance		
Stock options exercised		
Tax benefit from stock options exercised	431,455	428,537
	4,497	851
Ending balance	<u>3,323</u>	<u>205</u>
Retained earnings:	<u>439,275</u>	<u>429,593</u>
Beginning balance		
Preferred stock dividend and losses on redemption		
Net income	173,409	116,194
	(507)	(398)
Ending balance	<u>30,237</u>	<u>27,403</u>
Accumulated other comprehensive loss:	<u>203,139</u>	<u>143,199</u>
Beginning and ending balance		
Treasury stock:	<u>(353)</u>	<u>--</u>
Beginning balance		
Repurchase of 1,447,800 shares of common stock at cost in 2001	(151,187)	(122,540)
Repurchase of 222 and 1,081 shares of common stock, at cost, in connection with stock options exercised	--	(17,061)
Ending balance	<u>(5)</u>	<u>(13)</u>
	<u>(151,192)</u>	<u>(139,614)</u>
	\$ 491,393	\$ 433,694
	=====	=====

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. The interest that was capitalized during the second quarter and six months ended 2002 was \$576,000 and \$1,077,000, respectively; it was \$267,000 and \$478,000 during the second quarter and six months ended 2001. Capitalized costs related to various development projects, included in intangible assets, were \$310,000 and \$5,990,000 at July 4, 2002 and January 3, 2002, respectively. For additional information regarding significant accounting policies, 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 January 3, 2002.

Certain reclassifications have been made in the January 3, 2002 Consolidated Balance Sheet in order to be comparable with the July 4, 2002 presentation.

Note 2: Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets." 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. Effective January 4, 2002, the Company ceased amortization of the cost of its initial gaming licenses because it was determined, under the criteria established in SFAS 142, that these assets have an indefinite life. Amortization expense related to the cost of the Company's initial gaming licenses during the second quarter and six months ended 2001 was \$660,000 and \$1,326,000, respectively.

A reconciliation of the Company's reported net income to proforma net income to give effect to SFAS 142 for the periods ended July 4, 2002 and June 28, 2001 is as follows (in thousands, except per share data):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Reported net income				
Addback: Initial gaming licenses amortization, net of income tax of \$264 and \$530 in 2001	\$ 16,478	\$ 16,012	\$ 30,237	\$ 27,403
Proforma net income	<u>--</u>	<u>396</u>	<u>--</u>	<u>796</u>
	\$ 16,478	\$ 16,408	\$ 30,237	\$ 28,199
Net income per common share:	=====	=====	=====	=====
Reported net income				
Initial gaming licenses amortization	\$.44	\$.42	\$.80	\$.71
Proforma net income	<u>--</u>	<u>.01</u>	<u>--</u>	<u>.02</u>
Net income per common share assuming dilution:	\$.44	\$.43	\$.80	\$.73
	=====	=====	=====	=====
Reported net income				
Initial gaming licenses amortization	\$.42	\$.40	\$.77	\$.69
Proforma net income	<u>--</u>	<u>.01</u>	<u>--</u>	<u>.02</u>
	\$.42	\$.41	\$.77	\$.71
	=====	=====	=====	=====

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

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. Based upon a preliminary review, the Company has no asset retirement obligation at July 4, 2002.

Note 3: Acquisition

On February 28, 2002, the Company purchased the 50% partnership interest in Tropicana Enterprises that it did not own. After credits, the Company paid \$117,500,000. The source of funds for this purchase was cash on hand of \$47,500,000 and \$70,000,000 in borrowings under its revolving credit facility ("Revolver"). In addition, the Company assumed \$48,921,000 of partnership debt that the Company was servicing through its rent payments. This purchase eliminates, after February 28, 2002, the Company's real estate rent expense at the Las Vegas Tropicana and its equity in unconsolidated partnership's loss. The Company's real estate rent expense at the Las Vegas Tropicana during the six months ended 2002 was \$1,361,000 net of intercompany eliminations; it was \$2,160,000 and \$4,372,000 net of intercompany eliminations during the second quarter and six months ended 2001. The Company's equity in unconsolidated partnership's loss during the six months ended 2002 was \$458,000; it was \$962,000 and \$1,980,000 during the second quarter and six months ended 2001. The purchase, however, increases depreciation and interest expenses and decreases interest income after February 28, 2002. As part of the acquisition, the Company acquired the 50% interest in the Tropicana trademark, an intangible asset with an indefinite life, that it did not already own as part of its interest in the partnership, at an allocated cost of \$22,172,000 based upon a preliminary appraisal report.

Note 4: Investments in and Advances to Unconsolidated Partnership

Following are summarized operating results prior to the acquisition for the Company's unconsolidated partnership, accounted for using the equity method for the periods ended July 4, 2002 and June 28, 2001 (in thousands):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues				
Operating expenses				
	\$ --	\$ 4,320	\$ 2,722	\$ 8,744
Operating income	<u>--</u>	<u>(691)</u>	<u>(473)</u>	<u>(1,375)</u>
Interest expense	--	3,629	2,249	7,369
Net income	<u>--</u>	<u>(964)</u>	<u>(253)</u>	<u>(2,047)</u>
	\$ --	\$ 2,665	\$ 1,996	\$ 5,322
	=====	=====	=====	=====

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>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Equity in unconsolidated partnership's loss				

\$ --	\$ (962)	\$ (458)	\$ (1,980)
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AZTAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

Note 5: Las Vegas Tropicana Development

The Company is conducting feasibility studies to master-plan a potential development of the Las Vegas Tropicana site. The master plan envisions the creation of two separate but essentially equal and inter-connected sites. The north site would be developed by the Company. The south site would be held for future Company development, joint venture development, or sale for development by another party.

For development of a potential project on the north site, the Company plans to complete a detailed design development effort with construction documents and estimated construction costs by the summer of 2003, at which time the Company will decide whether or not to proceed. The amount and timing of any future expenditure, and the extent of any impact on existing operations, will depend on the nature and timing of the development we ultimately undertake, if any. If we decide to abandon any facilities in the development process, we would have to conduct a review for impairment and review their useful lives with a possible adjustment to depreciation and amortization expense. These reviews could have a material adverse effect on our consolidated results of operations.

The net book value of the property and equipment used in the operation of the Las Vegas Tropicana, excluding land at a cost of \$109,979,000, was \$64,118,000 at July 4, 2002. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was \$7,792,000 at July 4, 2002. It is reasonably possible that the carrying value of some or all of these assets may change in the near term.

Note 6: Long-term Debt

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

July 4, <u>2002</u>	January 3, <u>2002</u>
------------------------	---------------------------

8 7/8% Senior Subordinated Notes Due 2007	\$235,000	\$235,000
9% Senior Subordinated Notes Due 2011	175,000	175,000
Revolver; floating rate, 3.8% at July 4, 2002; matures June 30, 2005	40,000	--
Term loan ("Term Loan"); floating rate, 4.7% at July 4, 2002; matures June 30, 2005	48,500	48,750
Tropicana Enterprises loan; floating rate, 3.8% at July 4, 2002; matures June 30, 2005	47,554	--
Other notes payable; 14.6%; matures October 2002	241	225
Obligations under capital leases	<u>635</u>	<u>1,112</u>
	546,930	460,087
Less current portion	<u>(5,366)</u>	<u>(1,428)</u>
	<u>\$541,564</u>	<u>\$458,659</u>
	=====	=====

The Tropicana Enterprises loan calls for monthly principal payments of \$342,000 to \$419,000, with a final payment of approximately \$34,000,000 due at maturity. The Tropicana Enterprises loan is collateralized by the Las Vegas Tropicana property. Interest is computed based upon, at the borrower's option, a one-, two-, three- or six-month Eurodollar rate plus a margin ranging from 1.25% to 2.25%, or the prime rate plus a margin ranging from zero to 1.00%. The applicable margin is dependent upon the Company's outstanding indebtedness and operating cash flow.

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

Note 7: Other Long-term Liabilities

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

July 4, <u>2002</u>	January 3, <u>2002</u>
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Deferred compensation and retirement plans	\$ 14,363	\$ 13,919
Accrued rent expense	--	7,699
Las Vegas Boulevard beautification assessment	<u>362</u>	<u>375</u>
	14,725	21,993
Less current portion	<u>(618)</u>	<u>(1,498)</u>
	\$ 14,107	\$ 20,495
	=====	=====

Note 8: Income Taxes

The Internal Revenue Service ("IRS") has completed its examination of the Company's income tax returns for the years 1992 and 1993 and has settled for all but two issues. The two issues involve the deductibility of certain complimentaries provided to customers and the deductibility of a portion of payments on certain liabilities related to the restructuring of Ramada Inc. (the "Restructuring"). The Company has filed a petition in the United States Tax Court for these two issues for 1992 and 1993. The IRS is examining the Company's income tax returns for 1994 through 1999 and has settled for all but the same two issues. 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 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 filed a petition in Indiana Tax Court and oral arguments were heard in April 2001. The Company believes that it has meritorious legal defense to those assessments and has not recorded an accrual for payment. It is reasonably possible that the Company's estimate may change in the near term. The amount involved, including the Company's estimate of interest, net of a federal income tax benefit assuming continuation through July 4, 2002, was approximately \$8,700,000 at July 4, 2002.

On July 2, 2002, the State of New Jersey enacted the Business Tax Reform Act, which is retroactive to the beginning of 2002. As a result, the Company's second-quarter income tax provision includes an additional \$1,800,000 to provide for the effect of this new tax legislation on the Company's July 4, 2002 year-to-date results.

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

Note 9: 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 July 4, 2002 and June 28, 2001, are as follows (in thousands, except per share data):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net income				
Less: preferred stock dividends and losses on redemption	\$ 16,478	\$ 16,012	\$ 30,237	\$ 27,403
Income available to common shareholders	<u>(248)</u>	<u>(270)</u>	<u>(507)</u>	<u>(398)</u>
Plus: income impact of assumed conversion of dilutive preferred stock	16,230	15,742	29,730	27,005
Income available to common shareholders plus dilutive potential common shares	<u>114</u>	<u>--</u>	<u>230</u>	<u>--</u>
Weighted-average common shares applicable to net income per common share	\$ 16,344 =====	\$ 15,742 =====	\$ 29,960 =====	\$ 27,005 =====

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Effect of dilutive securities:	37,291	37,566	37,089	37,889
Stock option incremental shares				
Assumed conversion of preferred stock	1,309	881	1,363	792
Dilutive potential common shares	<u>608</u>	<u>667</u>	<u>608</u>	<u>672</u>
Weighted-average common shares applicable to net income per common share assuming dilution	<u>1,917</u>	<u>1,548</u>	<u>1,971</u>	<u>1,464</u>
	39,208	39,114	39,060	39,353
Net income per common share	=====	=====	=====	=====
Net income per common share assuming dilution	\$.44	\$.42	\$.80	\$.71
	=====	=====	=====	=====
	\$.42	\$.40	\$.77	\$.69
	=====	=====	=====	=====

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

Note 10: Contingencies and Commitments

The Company agreed to indemnify Ramada Inc. ("Ramada") against all monetary judgments in lawsuits pending against Ramada and its subsidiaries as of the conclusion of 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 certain lease guarantees made by Ramada. In connection with these matters, the Company's accrued liability was \$3,833,000 at both July 4, 2002 and January 3, 2002.

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 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 July 4, 2002, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$43,000,000 at July 4, 2002.

At July 4, 2002, the Company had commitments of approximately \$175,000,000 for the Atlantic City Tropicana expansion project.

Item 2. Management's Discussion and Analysis

Financial Condition

On February 28, 2002, we purchased the 50% partnership interest in Tropicana Enterprises that we did not own. After credits, we paid \$117.5 million. The source of funds for this purchase was cash on hand of \$47.5 million and borrowings of \$70.0 million under our Revolver. In addition, we assumed \$48.9 million of partnership debt that we were servicing through our rent payments. This purchase eliminates, after February 28, 2002, our real estate rent expense at the Las Vegas Tropicana and our equity in unconsolidated partnership's loss. Our real estate rent expense at the Las Vegas Tropicana during the six months ended 2002 was \$1.4 million net of intercompany eliminations; it was \$2.2 million and \$4.4 million net of intercompany eliminations during the second quarter and six months ended 2001. Our equity in unconsolidated partnership's loss during the six months ended 2002 was \$0.5 million; it was \$1.0 million and \$2.0 million during the second quarter and six months ended 2001. The purchase, however, increases depreciation and interest expenses and decreases interest income after February 28, 2002. We anticipate that the net result will be accretive to net income and earnings per share. This purchase simplifies our ownership structure of the Las Vegas Tropicana and our financial statements.

We are conducting feasibility studies to master-plan a potential development of the site. The master plan envisions the creation of two separate but essentially equal and inter-connected 17-acre development sites. The north site would be developed by us. The south site would be held for our future development, joint venture development, or sale for development by another party. For development of a

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potential project on the north site, we plan to complete a detailed design development effort with construction documents and estimated construction costs by the summer of 2003, at which time we will decide whether or not to proceed. The amount and timing of any future expenditure, and the extent of any impact on existing operations, will depend on the nature and timing of the development we ultimately undertake, if any. If we decide to abandon any facilities in the development process, we would have to conduct a review for impairment and review their useful lives with a possible adjustment to depreciation and amortization expense. These reviews could have a material adverse effect on our results of operations.

The Indiana Department of Revenue is examining our income tax returns for the years 1998 through 2000. We have received proposed assessments from the IDR in connection with the examination of our Indiana income tax returns for the years 1996 and 1997. Those assessments are based on IDR's position that our gaming taxes that are based on gaming revenue are not deductible for Indiana income tax purposes. We filed a petition in Indiana Tax Court and oral arguments were heard in April 2001. We believe that we have meritorious legal defense to those assessments and have not recorded an accrual for payment. It is reasonably possible that our estimate may change in the near term. The amount involved, including our estimate of interest, net of a federal income tax benefit assuming continuation through July 4, 2002, was approximately \$8.7 million at July 4, 2002.

On July 1, 2002, our gaming taxes in Indiana at Casino Aztar Evansville increased from 20% to 22.5% of casino revenue and on August 1, 2002, we began dockside gaming, which increases accessibility to our casino riverboat by eliminating cruising schedules. With dockside gaming, our gaming taxes will be based on a graduated scale from 15% to 35% of casino revenue and our admissions tax will be \$3 per person versus \$3 per person per cruise.

On April 22, 2002, we commenced construction of the previously disclosed major expansion of our Atlantic City Tropicana. The cost of the expansion, excluding tenant improvements, is targeted to be \$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. During the six months of 2002, our purchases of property and equipment, including capitalized interest of \$1.1 million, were \$10.9 million for this project.

At July 4, 2002, we had commitments of approximately \$175,000,000 for the Atlantic City Tropicana expansion project.

Results of Operations

Six Months Ended July 4, 2002 Compared to Six Months Ended June 28, 2001

Our consolidated revenues in the first half of 2002 were \$417.1 million, down slightly from \$419.2 million in the first half of 2001. Our 2002 fiscal first half did not have the benefit of a New Year's weekend, while the year-earlier first half did.

Consolidated operating income for the first half of 2002 was \$71.7 million, a 12% improvement over \$63.8 million for the first half of 2001. Consolidated rent expense was \$2.9 million or 30% lower in the 2002 versus 2001 six-month period. As a result of our acquisition of the partnership interest in Tropicana Enterprises, we have eliminated, after February 28, 2002, our real estate rent expense at the Las Vegas Tropicana, which was \$1.4 million prior to the acquisition in the first half of 2002 and \$4.4 million in the first half of 2001, net of intercompany eliminations. In addition, the acquisition eliminates, after February 28, 2002, our equity in unconsolidated partnership's loss.

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Consolidated interest expense was \$1.9 million or 10% higher in the 2002 versus 2001 six-month period. The increase in interest expense was primarily a result of higher levels of debt outstanding offset by an increase in capitalized interest relating to the Atlantic City Tropicana expansion. Capitalized interest was \$0.6 million higher in the 2002 versus 2001 six-month period.

On July 2, 2002, the State of New Jersey enacted the Business Tax Reform Act, which is retroactive to the beginning of 2002. As a result, our second-quarter income tax provision includes an additional \$1.8 million to provide for the effect of this new tax legislation on our July 4, 2002 year-to-date results.

TROPICANA ATLANTIC CITY Total revenues at Tropicana Atlantic City were \$224.8 million in the first half of 2002, up slightly from \$222.9 million in the first half of 2001. Tropicana Atlantic City had operating income of \$46.3 million in the first half of 2002, an 11% improvement over \$41.9 million in the first half of 2001. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.2 million in the six months ended 2002 compared with \$1.3 million in the six months ended 2001. Depreciation and amortization was \$14.2 million in the 2002 six-month period compared with \$13.2 million in the 2001 six-month period.

TROPICANA LAS VEGAS At Tropicana Las Vegas, total revenues were \$75.3 million in the first half of 2002, a 7% decrease from \$80.7 million in the first half of 2001. Casino revenue was 8% lower in the 2002 versus 2001 six-month period, primarily due to a 9% decrease in slot revenue combined with a 3% decrease in games revenue. The decline in games revenue was a result of a decrease in the volume of play. Rooms revenue was 8% lower in the 2002 versus 2001 six-month period as a result of a decrease in the average daily rate combined with lower occupancy.

Tropicana Las Vegas had operating income of \$9.0 million in the first half of 2002, a 32% increase from \$6.8 million in the first half of 2001. Consistent with the decreases in casino revenue and rooms revenue, casino costs were 12% lower and rooms costs were 1% lower in the 2002 versus 2001 six-month period. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.7 million in the 2002 six-month period compared with \$4.8 million in the 2001 six-month period. As a result of our acquisition of the partnership interest in Tropicana Enterprises, we have eliminated, after February 28, 2002, our real estate rent expense at the Las Vegas Tropicana, which was \$1.4 million prior to the acquisition in the first half of 2002 and \$4.4 million in the first half of 2001, net of intercompany eliminations. Depreciation and amortization was \$3.5 million in the 2002 six-month period compared with \$4.0 million in the 2001 six-month period.

RAMADA EXPRESS At Ramada Express, total revenues were \$49.0 million in the first half of 2002, down 3% from \$50.6 million in the first half of 2001. Casino revenue was 4% lower in the 2002 versus 2001 six-month period primarily due to a 4% decrease in slot revenue. Operating income was \$10.5 million in the first half of 2002, a 6% decrease from \$11.2 million in the first half of 2001. Consistent with the decrease in casino revenue, casino costs were 3% lower in the 2002 versus 2001 six-month period. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.2 million in both periods. Depreciation and amortization was \$3.0 million in the six months ended 2002 compared with \$2.8 million in the six months ended 2001.

CASINO AZTAR EVANSVILLE Total revenues at Casino Aztar Evansville were \$55.3 million in the first half of 2002, up 6% from \$52.3 million in the first half of 2001. Casino revenue was 6% higher in the 2002 versus 2001 six-month period primarily due to a 10% increase in slot revenue. Admissions to our casino riverboat increased 16% in the first half of 2002 compared with the first half of 2001. Operating income was \$11.6 million in the first half of 2002, a 17% improvement over \$9.9 million in the first half of 2001. Casino costs were 7% higher in the 2002 versus 2001 six-month period primarily due to the increase in casino revenue. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$3.5 million in the six months ended 2002 compared with \$3.2 million in

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the six months ended 2001. Depreciation and amortization was \$3.1 million in the first half of 2002 compared with \$4.5 million in the first half of 2001. Amortization decreased primarily as a result of ceasing amortization of the cost of our initial gaming license beginning January 4, 2002 because it was determined, under the criteria established in SFAS 142 that is effective in 2002, that this asset has an indefinite life.

CASINO AZTAR CARUTHERSVILLE Total revenues at Casino Aztar Caruthersville were \$12.7 million in both periods. Casino Aztar Caruthersville had operating income of \$1.0 million in the first half of 2002, an improvement over \$0.8 million in the first half of 2001. Operating income is after depreciation and amortization of \$1.4 million in both periods.

Quarter Ended July 4, 2002 Compared to Quarter Ended June 28, 2001

Our consolidated revenues in the 2002 second quarter were \$211.1 million, up slightly from \$210.9 million in the 2001 second quarter. Consolidated operating income was \$39.6 million in the second quarter of 2002, a 13% improvement over \$35.0 million in the second quarter of 2001. Consolidated general and administrative costs were 9% lower in the 2002 versus 2001 second quarter primarily due to a \$2.0 million net gain recorded at Tropicana Atlantic City as a result of the commencement of our expansion project. A gain resulting from the return of our CRDA deposits was partially offset by a loss on asset disposals caused by the expansion project. Consolidated rent expense was \$2.3 million or 48% lower in the 2002 versus 2001 second quarter. As a result of our acquisition of the

partnership interest in Tropicana Enterprises, we have eliminated, after February 28, 2002, our real estate rent expense at the Las Vegas Tropicana, which was \$2.2 million in the second quarter of 2001, net of intercompany eliminations. In addition, the acquisition eliminates, after February 28, 2002, our equity in unconsolidated partnership's loss.

Consolidated interest expense was \$1.7 million or 18% higher in the 2002 versus 2001 second quarter. The increase in interest expense was primarily a result of higher levels of debt outstanding offset by an increase in capitalized interest relating to the Atlantic City Tropicana expansion. Capitalized interest was \$0.3 million higher in the 2002 versus 2001 second quarter.

On July 2, 2002, the State of New Jersey enacted the Business Tax Reform Act, which is retroactive to the beginning of 2002. As a result, our second-quarter income tax provision includes an additional \$1.8 million to provide for the effect of this new tax legislation on our July 4, 2002 year-to-date results.

TROPICANA ATLANTIC CITY Total revenues at Tropicana Atlantic City were \$114.5 million in the 2002 second quarter, down slightly from \$116.3 million in the 2001 second quarter. Casino revenue was 4% lower in the 2002 versus 2001 second quarter, primarily reflecting a 7% decrease in games revenue combined with a 2% decrease in slot revenue. The decline in games revenue was primarily a result of a decrease in the volume of play while the decline in slot revenue was a result of a decrease in the hold percentage to 7.7% from 7.9%.

Tropicana Atlantic City had operating income of \$25.7 million in the 2002 second quarter compared with \$25.8 million in the 2001 second quarter. Casino costs were 2% lower in the 2002 versus 2001 second quarter. General and administrative costs were 24% lower in the 2002 versus 2001 second quarter primarily due to the \$2.0 million net gain discussed above. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.5 million in the 2002 second quarter compared with \$0.6 million in the 2001 second quarter. Depreciation and amortization was \$7.1 million in the second quarter of 2002 compared with \$6.6 million in the second quarter of 2001.

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TROPICANA LAS VEGAS At Tropicana Las Vegas, total revenues were \$39.2 million in the 2002 second quarter, down slightly from \$39.7 million in the 2001 second quarter. Operating income was \$6.5 million in the second quarter of 2002 compared with \$3.6 million in the second quarter of 2001. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.2 million in the 2002 second quarter compared with \$2.4 million in the 2001 second quarter. As a result of our acquisition of the partnership interest in Tropicana Enterprises, we have eliminated, after February 28, 2002, our real estate rent expense at the Las Vegas Tropicana, which was \$2.2 million in the second quarter of 2001, net of intercompany eliminations. Depreciation and amortization was \$1.8 million in

the second quarter of 2002 compared with \$2.0 million in last year's second quarter.

RAMADA EXPRESS At Ramada Express, total revenues were \$23.9 million in both periods. Operating income was \$4.6 million in the 2002 second quarter compared with \$4.5 million in the 2001 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 \$1.5 million in the 2002 second quarter compared with \$1.4 million in the 2001 second quarter.

CASINO AZTAR EVANSVILLE Total revenues at Casino Aztar Evansville were \$27.4 million in the 2002 second quarter, up 10% from \$25.0 million in the 2001 second quarter. Casino revenue was 10% higher in the 2002 versus 2001 second quarter primarily due to a 15% increase in slot revenue. Admissions to our casino riverboat increased 19% in the 2002 second quarter compared with the 2001 second quarter. Operating income was \$5.4 million in the 2002 second quarter, a 29% increase from \$4.2 million in the 2001 second quarter. Casino costs were 11% higher in the 2002 versus 2001 second quarter primarily due to the increase in casino revenue. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.6 million in both periods. Depreciation and amortization was \$1.6 million in the second quarter of 2002 compared with \$2.2 million in the second quarter of last year. Amortization decreased primarily as a result of ceasing amortization of the cost of our initial gaming license beginning January 4, 2002 because it was determined, under the criteria established in SFAS 142 that is effective in 2002, that this asset has an indefinite life.

CASINO AZTAR CARUTHERSVILLE Total revenues at Casino Aztar Caruthersville were \$6.1 million in the 2002 second quarter, a slight increase from \$6.0 million in the 2001 second quarter. Casino Aztar Caruthersville had operating income of \$0.5 million in the second quarter of 2002, an improvement over \$0.3 million in the second quarter of 2001. Operating income is after depreciation and amortization of \$0.7 million in both periods.

Impact of Post-Sept 11 Events

The September 11 terrorist acts and their effect on air travel as well as the ensuing economic conditions have resulted in an increased level of uncertainty with regard to our near-term operating results. Based on a review of our results since then, it appears that the Las Vegas Tropicana was our only property that was affected by the lingering effects. We are unable to predict any future effects.

Insurance

Effective June 30, 2002, we renewed our property insurance. As a result of conditions in the insurance markets, our property insurance costs increased substantially. We anticipate additional increases in our other major insurance coverages (primarily general liability and Directors and Officers) when they are renewed on November 1, 2002.

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Recent Accounting Pronouncements

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. Based upon a preliminary review, the Company has no asset retirement obligation at July 4, 2002.

Private Securities Litigation Reform Act

Certain information included in Aztar's Form 10-K for the year ended January 3, 2002, 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 2001 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; development of the Las Vegas Tropicana and financing and/or concluding an arrangement with a partner for such development; 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: 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 January 3, 2002 see "Note 6: Long-term Debt" of the Notes to Consolidated Financial Statements included in this Form 10-Q under Item 1.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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 January 3, 2002, a status conference was held on March 27, 2002, as reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended April 4, 2002. At the status conference, Judge Ezra advised the parties of the following:

- He was recusing himself from the case and sending it to the Chief Judge for reassignment.
- He would not decide the motion for class certification, but would provide his research, etc. to the newly assigned judge.
- He would lift the stay of merits discovery as to the named plaintiffs and the particular claims made by them.

On April 9, 2002, the actions were re-assigned to Judge Roger Hunt. The new case number is CV-S-94-1126-RLH(RJJ). By order entered June 26, 2002, the District Court denied the plaintiffs' motion for class certification. On July 11, 2002, the plaintiffs filed a motion with the Court of Appeals for the Ninth Circuit seeking permission to appeal the order denying class certification. On July 22, 2002, the defendants filed their brief in opposition to plaintiffs' motion.

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

At the Company's annual meeting of shareholders held on May 9, 2002, one item was voted on as follows:

- 1.

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The persons whose names are set forth below were elected as directors to serve until the 2005 annual meeting or until their retirement date or until their successors are elected and qualified. The relevant voting information is as follows:

<u>Nominee</u>	<u>Votes Cast</u>	
	<u>For</u>	<u>Withheld</u>
John B. Bohle		
Paul E. Rubeli	32,688,018	806,380
	26,558,327	6,936,071

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

On July 11, 2002, the Company filed a report on Form 8-K under Item 5. Other Events to report the resignation of a Director of Aztar Corporation on July 10, 2002, who resigned in order to become president of a company that is a competitor of Aztar Corporation.

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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, 2002

By ROBERT M. HADDOCK

Robert M. Haddock
President and Chief Financial Officer

