

AZTAR CORP  
Form 10-Q  
May 07, 2002

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 April 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  No

At May 2, 2002, the registrant had outstanding 37,269,081 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)

|  | <u>April 4,</u><br><u>2002</u> | <u>January 3,</u><br><u>2002</u> |
|--|--------------------------------|----------------------------------|
| Assets   |                                |                                  |
| Current assets:  |                                |                                  |
| Cash and cash equivalents                                    | \$ 62,761                      | \$ 92,122                        |
| Accounts receivable, net                                     | 19,858                         | 22,158                           |
| Inventories  | 7,946                          | 7,752                            |
| Prepaid expenses   | 9,341                          | 10,464                           |
| Deferred income taxes, net                                   | <u>16,934</u>                  | <u>16,934</u>                    |
| Total current assets   | 116,840                        | 149,430                          |
| Investments in and advances to unconsolidated<br>partnership | --                             | 6,414                            |
| Other investments  | 24,133                         | 23,544                           |
| Property and equipment:                                      |                                |                                  |
| Buildings, riverboats and equipment, net                     | 750,203                        | 716,758                          |
| Land   | 214,935                        | 104,957                          |
| Construction in progress                                     | 27,830                         | 22,661                           |
| Leased under capital leases, net                             | <u>530</u>                     | <u>662</u>                       |
|  | 993,498                        | 845,038                          |

|                   |              |              |
|-------------------|--------------|--------------|
| Intangible assets | 44,244       | 29,172       |
| Other assets      | <u>6,310</u> | <u>7,358</u> |
|                   | \$1,185,025  | \$1,060,956  |
|                   | =====        | =====        |

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

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(in thousands, except share data)

|   | <u>April 4,</u><br><u>2002</u> | <u>January 3,</u><br><u>2002</u> |
|---|--------------------------------|----------------------------------|
| Liabilities and Shareholders' Equity  |                                |                                  |
| Current liabilities:  |                                |                                  |
| Accounts payable and accruals   | \$ 66,087                      | \$ 61,144                        |
| Accrued payroll and employee benefits   | 26,002                         | 30,450                           |
| Accrued interest payable  | 10,413                         | 9,505                            |
| Income taxes payable  | 1,642                          | 2,131                            |
| Current portion of long-term debt   | 5,568                          | 1,428                            |
| Current portion of other long-term liabilities  | <u>618</u>                     | <u>1,498</u>                     |
| <br>Total current liabilities   | <br>110,330                    | <br>106,156                      |
| Long-term debt  | 562,841                        | 458,659                          |
| Other long-term liabilities   | 13,844                         | 20,495                           |
| Deferred income taxes   | 17,534                         | 15,846                           |
| Contingencies and commitments   |                                |                                  |
| Series B ESOP convertible preferred stock<br>(redemption value \$12,543 and \$10,607) | 5,834                          | 5,959                            |
| Shareholders' equity:   |                                |                                  |
| Common stock, \$.01 par value (37,267,303 and<br>36,644,767 shares outstanding)       | 524                            | 517                              |
| Paid-in capital   | 438,749                        | 431,455                          |
| Retained earnings   | 186,909                        | 173,409                          |
| Accumulated other comprehensive loss  | (353)                          | (353)                            |
| Less: Treasury stock  | <u>(151,187)</u>               | <u>(151,187)</u>                 |
| <br>Total shareholders' equity  | <br><u>474,642</u>             | <br><u>453,841</u>               |
|   | <br>\$1,185,025                | <br>\$1,060,956                  |
|   | =====                          | =====                            |

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

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AZTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
For the periods ended April 4, 2002 and March 29, 2001  
(in thousands, except per share data)

First Quarter

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|   | <u>2002</u>    | <u>2001</u>    |
|---|----------------|----------------|
| Revenues                                      |                |                |
| Casino  |                |                |
| Rooms   |                |                |
| Food and beverage                             | \$164,646      | \$166,297      |
| Other   | 18,434         | 18,256         |
|   | 13,955         | 14,467         |
| Costs and expenses                            | <u>8,959</u>   | <u>9,324</u>   |
| Casino  | 205,994        | 208,344        |
| Rooms   |                |                |
| Food and beverage                             | 69,470         | 72,979         |
| Other   | 9,644          | 9,351          |
| Marketing                                     | 13,247         | 14,142         |
| General and administrative                    | 8,108          | 8,150          |
| Utilities                                     | 19,111         | 19,949         |
| Repairs and maintenance                       | 20,410         | 19,344         |
| Provision for doubtful accounts               | 3,491          | 4,478          |
| Property taxes and insurance                  | 6,370          | 6,173          |
| Rent  | 914            | 874            |
| Depreciation and amortization                 | 6,327          | 6,239          |
|   | 4,266          | 4,907          |
|   | <u>12,539</u>  | <u>12,996</u>  |
| Operating income                              | <u>173,897</u> | <u>179,582</u> |
| Interest income                               | 32,097         | 28,762         |
| Interest expense                              |                |                |
| Equity in unconsolidated partnership's loss   | 388            | 388            |
|   | (10,355)       | (10,078)       |
| Income before income taxes                    | <u>(458)</u>   | <u>(1,018)</u> |
| Income taxes                                  | 21,672         | 18,054         |
|   | <u>(7,913)</u> | <u>(6,663)</u> |
| Net income                                    |                |                |
|   | \$ 13,759      | \$ 11,391      |
| Net income per common share                   | =====          | =====          |
| Net income per common share assuming dilution | \$ .37         | \$ .29         |
| Weighted-average common shares applicable to: | \$ .35         | \$ .28         |
| Net income per common share                   |                |                |
| Net income per common share assuming dilution | 36,888         | 38,212         |
|   | 38,922         | 39,592         |



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 April 4, 2002 and March 29, 2001  
 (in thousands)

|   | <u>First Quarter</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: |                      |               |
| Depreciation and amortization   | \$ 13,759            | \$ 11,391     |
| Provision for losses on accounts receivable   |                      |               |
| Loss on reinvestment obligation   | 12,898               | 13,295        |
| Rent expense  | 914                  | 874           |
| Distribution (less than )in excess of equity in income of partnership                       | 278                  | 288           |
| Deferred income taxes   | (171)                | (270)         |
| Change in assets and liabilities:   |                      |               |
| (Increase) decrease in accounts receivable  | (414)                | 141           |
| (Increase) decrease in inventories and prepaid expenses                                     | 1,688                | 2,829         |
| Increase (decrease) in accounts payable, accrued expenses and income taxes payable          | 1,386                | (2,546)       |
| Other items, net  | 929                  | 979           |
|   | 4,131                | (873)         |
| Net cash provided by (used in) operating activities   | <u>41</u>            | <u>96</u>     |
| Cash Flows from Investing Activities  |                      |               |
| Reduction in other investments  | <u>35,439</u>        | <u>26,204</u> |
| Purchases of property and equipment   |                      |               |
| Acquisition of Tropicana Enterprises partnership  | 418                  | 401           |

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|  |                  |                 |
|--|------------------|-----------------|
| interests  | (9,366)          | (10,980)        |
| Additions to other long-term assets                  | (117,500)        | --              |
| Net cash provided by (used in) investing activities  | <u>(1,431)</u>   | <u>(1,353)</u>  |
| Cash Flows from Financing Activities                 | <u>(127,879)</u> | <u>(11,932)</u> |
| Proceeds from issuance of long-term debt             |                  |                 |
| Proceeds from issuance of common stock               |                  |                 |
| Principal payments on long-term debt                 | 94,000           | 59,400          |
| Principal payments on other long-term liabilities    | 4,203            | 240             |
| Repurchase of common stock                           | (34,607)         | (67,918)        |
| Preferred stock dividend                             | (14)             | (13)            |
| Redemption of preferred stock                        | --               | (10,872)        |
|  | (234)            | (256)           |
| Net cash provided by (used in) financing activities  | <u>(269)</u>     | <u>--</u>       |
| Net increase (decrease) in cash and cash equivalents | <u>63,079</u>    | <u>(19,419)</u> |
| Cash and cash equivalents at beginning of period     | (29,361)         | (5,147)         |
| Cash and cash equivalents at end of period           | <u>92,122</u>    | <u>48,080</u>   |
|  | \$ 62,761        | \$ 42,933       |
|  | =====            | =====           |

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

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(in thousands)

|   | <u>First Quarter</u> |             |
|---|----------------------|-------------|
|   | <u>2002</u>          | <u>2001</u> |
| <b>Supplemental Cash Flow Disclosures</b>                   |                      |             |
| 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           | \$ --       |
| Other long-term liabilities reduced for intangible assets   |                      |             |
| Cash flow during the period for the following:              | \$ --                | \$ 50       |
| Interest paid, net of amount capitalized                    |                      |             |
| Income taxes paid   | \$ 9,089             | \$ 4,671    |
|   | 3,616                | 8,130       |

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 April 4, 2002 and March 29, 2001  
 (in thousands, except number of shares)

|   | <u>First Quarter</u> |             |
|---|----------------------|-------------|
|   | <u>2002</u>          | <u>2001</u> |
| Common stock:   |                      |             |
| Beginning balance                                     |                      |             |
| Stock options exercised for 622,536 and 33,334 shares |                      |             |
|   | \$ 517               | \$ 515      |
| Ending balance  | <u>7</u>             | <u>--</u>   |
| Paid-in capital:                                      |                      |             |
| Beginning balance                                     | <u>524</u>           | <u>515</u>  |
| Stock options exercised                               |                      |             |

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|   |                  |                  |
|---|------------------|------------------|
| Tax benefit from stock options exercised                        | 431,455          | 428,537          |
|   | 4,196            | 240              |
| Ending balance  | <u>3,098</u>     | <u>55</u>        |
| Retained earnings:  | <u>438,749</u>   | <u>428,832</u>   |
| Beginning balance   |                  |                  |
| Preferred stock dividend and losses on redemption               |                  |                  |
| Net income  | 173,409          | 116,194          |
|   | (259)            | (128)            |
| Ending balance  | <u>13,759</u>    | <u>11,391</u>    |
| Accumulated other comprehensive loss:                           | <u>186,909</u>   | <u>127,457</u>   |
| Beginning and ending balance                                    |                  |                  |
| Treasury stock:   | <u>(353)</u>     | <u>--</u>        |
| Beginning balance   |                  |                  |
| Repurchase of 972,300 shares of common stock at cost<br>in 2001 | (151,187)        | (122,540)        |
| Ending balance  | <u>--</u>        | <u>(10,872)</u>  |
|   | <u>(151,187)</u> | <u>(133,412)</u> |
|   | \$474,642        | \$423,392        |
|   | =====            | =====            |

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 first quarter ended 2002 was \$501,000 and during the first quarter ended 2001, it was \$211,000. Capitalized costs related to various development projects, included in intangible assets, were \$107,000 and \$5,990,000 at April 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 April 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 was \$666,000 in the first quarter of 2001.

A reconciliation of the Company's reported net income to proforma net income to give effect to SFAS 142 for the periods ended April 4, 2002 and March 29, 2001 is as follows (in thousands, except per share data):

|  | <u>First Quarter</u> |
|--|----------------------|
|  | <u>2002</u>          |
|  | <u>2001</u>          |

|  |               |                |
|--|---------------|----------------|
| Reported net income  | \$ 13,759     | \$ 11,391      |
| Addback: Initial gaming licenses amortization,<br>net of income tax of \$266 | <u>    --</u> | <u>    400</u> |
| Proforma net income  | \$ 13,759     | \$ 11,791      |
|  | =====         | =====          |
| Net income per common share:   |               |                |
| Reported net income  | \$ .37        | \$ .29         |
| Initial gaming licenses amortization   | <u>    --</u> | <u>    .02</u> |
| Proforma net income  | \$ .37        | \$ .31         |
|  | =====         | =====          |
| Net income per common share assuming dilution:                               |               |                |
| Reported net income  | \$ .35        | \$ .28         |
| Initial gaming licenses amortization   | <u>    --</u> | <u>    .01</u> |
| Proforma net income  | \$ .35        | \$ .29         |
|  | =====         | =====          |

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 April 4, 2002.

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

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, which was \$1,361,000 and \$2,212,000 net of intercompany eliminations in the first quarter of 2002 and the first quarter of 2001, respectively; and its equity in unconsolidated partnership's loss, which was \$458,000 and \$1,018,000 in the first quarter of 2002 and the first quarter of 2001, respectively. However, it 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 April 4, 2002 and March 29, 2001 (in thousands):

|                    | <u>First Quarter</u> |                |
|--------------------|----------------------|----------------|
|                    | <u>2002</u>          | <u>2001</u>    |
| Revenues           |                      |                |
| Operating expenses | \$ 2,722             | \$ 4,424       |
| Operating income   | <u>(473)</u>         | <u>(684)</u>   |
| Interest expense   | 2,249                | 3,740          |
| Net income         | <u>(253)</u>         | <u>(1,083)</u> |
|                    | \$ 1,996             | \$ 2,657       |
|                    | =====                | =====          |

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

|   | <u>First Quarter</u> |             |
|---|----------------------|-------------|
|   | <u>2002</u>          | <u>2001</u> |
| Equity in unconsolidated partnership's loss | \$ (458)             | \$ (1,018)  |

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.

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

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 \$64,514,000 at April 4, 2002. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was \$8,597,000 at April 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):

|  | <u>April 4,</u><br><u>2002</u> | <u>January 3,</u><br><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, 3.7% at April 4, 2002;<br>matures June 30, 2005                   | 60,000                         | --                               |
| Term loan ("Term Loan"); floating rate, 4.7%<br>at April 4, 2002; matures June 30, 2005    | 48,625                         | 48,750                           |
| Tropicana Enterprises loan; floating rate, 3.8%<br>at April 4, 2002; matures June 30, 2005 | 48,579                         | --                               |
| Other notes payable; 14.6%; matures<br>October 2002  | 233                            | 225                              |
| Obligations under capital leases   | <u>972</u>                     | <u>1,112</u>                     |
|  | 568,409                        | 460,087                          |
| Less current portion   | <u>(5,568)</u>                 | <u>(1,428)</u>                   |
|  | \$562,841                      | \$458,659                        |
|  | =====                          | =====                            |

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.

Note 7: Other Long-term Liabilities

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

|  | <u>April 4,</u><br><u>2002</u> | <u>January 3,</u><br><u>2002</u> |
|--|--------------------------------|----------------------------------|
| Deferred compensation and retirement plans       | \$ 14,101                      | \$ 13,919                        |
| Accrued rent expense                             | --                             | 7,699                            |
| Las Vegas Boulevard beautification<br>assessment | <u>361</u>                     | <u>375</u>                       |
|  | 14,462                         | 21,993                           |
| Less current portion                             | <u>(618)</u>                   | <u>(1,498)</u>                   |
|  | <u>\$ 13,844</u>               | <u>\$ 20,495</u>                 |
|  | =====                          | =====                            |

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 complimentary services 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

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

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 April 4, 2002, was approximately \$8,300,000 at April 4, 2002.

#### 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 April 4, 2002 and March 29, 2001, are as follows (in thousands, except per share data):

|  | <u>First Quarter</u> |                    |
|--|----------------------|--------------------|
|  | <u>2002</u>          | <u>2001</u>        |
| Net income   |                      |                    |
| Less: preferred stock dividends<br>and losses on redemption                                      | \$ 13,759            | \$ 11,391          |
| Income available to common shareholders  | <u>(259)</u>         | <u>(128)</u>       |
| Plus: income impact of assumed conversion of<br>dilutive preferred stock                         | 13,500               | 11,263             |
| Income available to common shareholders<br>plus dilutive potential common shares                 | <u>116</u>           | <u>--</u>          |
| Weighted-average common shares applicable<br>to net income per common share                      | \$ 13,616<br>=====   | \$ 11,263<br>===== |
| Effect of dilutive securities:   | 36,888               | 38,212             |
| Stock option incremental shares  |                      |                    |
| Assumed conversion of preferred stock  |                      |                    |
| Dilutive potential common shares   | 1,417                | 703                |
|  | <u>617</u>           | <u>677</u>         |
| Weighted-average common shares<br>applicable to net income per<br>common share assuming dilution | <u>2,034</u>         | <u>1,380</u>       |
| Net income per common share  | 38,922<br>=====      | 39,592<br>=====    |

|   |        |        |
|---|--------|--------|
| Net income per common share assuming dilution | \$ .37 | \$ .29 |
|   | =====  | =====  |
|   | \$ .35 | \$ .28 |
|   | =====  | =====  |

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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 April 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 April 4, 2002, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$52,000,000 at April 4, 2002.

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, which was \$1.4 million and \$2.2 million net of intercompany eliminations in the first quarter of 2002 and the first quarter of 2001, respectively; and our equity in unconsolidated partnership's loss, which was \$0.4 million and \$1.0 million in the first quarter of 2002 and the first quarter of 2001, respectively. However, it 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 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

## AZTAR CORPORATION AND SUBSIDIARIES

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 April 4, 2002, was approximately \$8.3 million at April 4, 2002.

On April 17, 2002, we announced that on April 22, 2002 we would commence 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.

Results of Operations

Quarter Ended April 4, 2002 Compared to Quarter Ended March 29, 2001

Our consolidated revenues were \$206.0 million in the 2002 first quarter, down slightly from \$208.3 million in the 2001 first quarter. Our 2002 fiscal first quarter did not have the benefit of a New Year's weekend, while the year-earlier quarter did.

Consolidated operating income for the first quarter of 2002 was \$32.1 million, an 11% improvement over \$28.8 million for the first quarter of 2001. Favorable weather conditions resulting in less usage of gas and lower gas prices in the first quarter of 2002 contributed to a 22% decrease in consolidated utilities expense from the 2001 first quarter. Consolidated rent expense was \$0.6 million or 12% lower in the 2002 versus 2001 first 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 \$1.4 million prior to the acquisition in the first quarter of 2002 and \$2.2 million in the first quarter of 2001, net of intercompany eliminations. In addition, the acquisition eliminates after February 28, 2002, our equity in unconsolidated partnership's loss.

TROPICANA ATLANTIC CITY Total revenues at Tropicana Atlantic City were \$110.3 million in the first quarter of 2002, up 3% from \$106.6 million in the first quarter of 2001. Casino revenue was 3% higher in the 2002 versus 2001 first quarter, primarily reflecting a 2% increase in games revenue combined with a 4% increase in slots revenue. Rooms revenue was \$1.1 million or 25% higher in the 2002 versus 2001 first quarter primarily as a result of an increase in occupied rooms on a non-complimentary basis as well as an increase in the average daily rate.

Tropicana Atlantic City had operating income of \$20.5 million in the 2002 first quarter, a 27% increase from \$16.1 million in the 2001 first quarter. Casino costs were 2% lower in the 2002 versus 2001 first quarter due to reductions in the cost of complimentary and payroll costs. Consistent with the increase in rooms revenue, rooms costs were 17% higher in the 2002 versus 2001 first quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.7 million in both periods. Depreciation and amortization was \$7.1 million in the 2002 first quarter compared with \$6.6 million in last year's first quarter.

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TROPICANA LAS VEGAS At Tropicana Las Vegas, total revenues were \$36.1 million in the 2002 first quarter, a 12% decrease from \$41.0 million in the 2001 first quarter. Casino revenue was 18% lower in the 2002 versus 2001 first quarter, due to a 20% decrease in slot revenue combined with a 13% 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 first quarter primarily as a result of a decrease in the average daily rate combined with lower occupancy.

Tropicana Las Vegas had operating income of \$2.5 million in the 2002 first quarter, a 22% decrease from \$3.2 million

in the 2001 first quarter. Casino costs were 19% lower in the 2002 versus 2001 first quarter, primarily due to the decrease in casino revenue. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.5 million in the 2002 first quarter compared with \$2.4 million in the 2001 first 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 \$1.4 million prior to the acquisition in the first quarter of 2002 and \$2.2 million in the first quarter of 2001, net of intercompany eliminations. Depreciation and amortization was \$1.7 million in the first quarter of 2002 compared with \$2.0 million in the first quarter of 2001.

**RAMADA EXPRESS** At Ramada Express, total revenues were \$25.1 million in the first quarter of 2002, down 6% from \$26.7 million in the 2001 first quarter. Casino revenue was 8% lower in the 2002 versus 2001 first quarter primarily due to a decrease in slot revenue. Consistent with the decrease in casino revenue, casino costs were 7% lower in the 2002 versus 2001 first quarter. Operating income was \$5.9 million in the 2002 first quarter compared with \$6.6 million in the 2001 first quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$0.1 million in both periods and depreciation and amortization was \$1.5 million in both periods.

**CASINO AZTAR EVANSVILLE** Total revenues at Casino Aztar Evansville were \$27.9 million in the first quarter of 2002, up 2% from \$27.3 million in the first quarter of 2001. Operating income was \$6.2 million in the 2002 first quarter, a 9% increase from \$5.7 million in the 2001 first quarter. Operating income is after rent and depreciation and amortization expenses. Rent expense was \$1.9 million in the first quarter of 2002 compared with \$1.6 million in the first quarter of 2001. Depreciation and amortization was \$1.5 million in the 2002 first quarter compared with \$2.2 million in the 2001 first quarter.

**CASINO AZTAR CARUTHERSVILLE** Total revenues at Casino Aztar Caruthersville were \$6.6 million in the first quarter of 2002 compared with \$6.7 million in the first quarter of 2001. Casino Aztar Caruthersville had operating income of \$0.6 million in both periods. 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.

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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 April 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; access to available and feasible insurance; 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

- (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 January 3, 2002, a status conference was held on March 27, 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). The motion for class certification remains undecided. The plaintiffs have undertaken no discovery.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits

None.

(b) Reports on Form 8-K

On March 13, 2002, the Company filed a report on Form 8-K under Item 2. Acquisition or Disposition of Assets to report that, on February 28, 2002, the Company purchased the 50% partnership interest in Tropicana Enterprises that it did not own.

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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 May 7, 2002

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

