

AZTAR CORP  
Form 10-Q  
August 02, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5440

AZTAR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

86-0636534  
(I.R.S. Employer  
Identification No.)

2390 East Camelback Road, Suite 400, Phoenix, Arizona 85016

(Address of principal executive offices)

(Zip Code)

(602) 381-4100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At July 28, 2005, the registrant had outstanding 35,612,785 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>June 30,</u> <u>2005</u>	<u>December 30,</u> <u>2004</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 57,585	\$ 52,908
Accounts receivable, net	19,711	17,668
Construction accident receivables	3,639	4,247
Refundable income taxes	--	19,457
Inventories	8,850	8,643
Prepaid expenses	11,995	10,300
Insurance deposits	--	6,000
Deferred income taxes	<u>11,331</u>	<u>11,331</u>
Total current assets	113,111	130,554
Investments	25,895	23,602
Property and equipment:		
Buildings, riverboats and equipment, net	1,009,542	1,015,140
Land	216,111	216,111
Construction in progress	21,011	7,869
Leased under capital leases, net	<u>18</u>	<u>26</u>
	1,246,682	1,239,146

Intangible assets	34,066	34,380
Other assets	<u>84,244</u>	<u>83,958</u>
	\$1,503,998	\$1,511,640
	=====	=====

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

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(in thousands, except share data)

	June 30, <u>2005</u>	December 30, <u>2004</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accruals	\$ 80,736	\$ 94,321
Accrued payroll and employee benefits	26,898	29,978
Accrued interest payable	7,921	9,029
Accrued rent	4,163	8,787
Income taxes payable	2,804	--
Current portion of long-term debt	990	1,292
Current portion of other long-term liabilities	<u>1,079</u>	<u>972</u>
 Total current liabilities	 124,591	 144,379
 Long-term debt	 713,133	 731,253
Other long-term liabilities	16,386	23,815
Deferred income taxes	41,723	40,988
Contingencies and commitments		
Series B convertible preferred stock (redemption value \$16,065 and \$17,791)	4,796	4,914
Shareholders' equity:		
Common stock, \$.01 par value (35,612,785 and 34,781,585 shares outstanding)	544	533
Paid-in capital	471,266	451,404
Retained earnings	343,913	319,018
Accumulated other comprehensive loss	(1,703)	(3,259)
Less: Treasury stock	<u>(210,651)</u>	<u>(201,405)</u>
 Total shareholders' equity	 <u>603,369</u>	 <u>566,291</u>
	 \$1,503,998	 \$1,511,640
	=====	=====

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 June 30, 2005 and July 1, 2004  
(in thousands, except per share data)

Second Quarter

Six Months

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	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues				
Casino				
Rooms				
Food and beverage	\$172,833	\$151,097	\$344,655	\$304,338
Other	28,098	23,249	53,226	43,464
	15,107	14,267	30,088	27,779
Costs and expenses	<u>12,271</u>	<u>10,041</u>	<u>23,662</u>	<u>19,131</u>
Casino	228,309	198,654	451,631	394,712
Rooms				
Food and beverage	68,414	63,206	137,519	126,620
Other	12,696	11,044	23,694	20,617
Marketing	14,417	13,934	28,542	26,922
General and administrative	8,174	7,597	16,099	14,942
Utilities	24,103	18,203	49,137	36,495
Repairs and maintenance	22,879	20,397	49,219	41,325
Provision for doubtful accounts	5,947	4,584	12,315	8,805
Property taxes and insurance	6,746	6,460	13,366	12,635
Rent	329	160	707	493
Construction accident related	7,773	7,577	16,293	15,030
Construction accident insurance recoveries	2,085	2,207	4,023	4,248
Depreciation and amortization	860	1,574	1,269	1,615
	(301)	(5,000)	(526)	(8,500)
	<u>16,681</u>	<u>13,212</u>	<u>33,027</u>	<u>26,235</u>
Operating income	<u>190,803</u>	<u>165,155</u>	<u>384,684</u>	<u>327,482</u>
Other income	37,506	33,499	66,947	67,230
Interest income				
Interest expense	2,855	--	4,428	--
Loss on early retirement of debt	294	212	536	379
	(14,206)	(8,735)	(28,068)	(17,409)
Income before income taxes	<u>--</u>	<u>(8,621)</u>	<u>--</u>	<u>(8,621)</u>
Income taxes	26,449	16,355	43,843	41,579
	<u>(10,996)</u>	<u>(7,008)</u>	<u>(18,479)</u>	<u>(28,565)</u>
Net income				
	\$ 15,453	\$ 9,347	\$ 25,364	\$ 13,014
Net income per common share	=====	=====	=====	=====
Net income per common share assuming dilution	\$ .43	\$ .26	\$ .71	\$ .36
Weighted-average common shares applicable to:				
Net income per common share				
Net income per common share assuming dilution	35,141	34,556	34,965	34,439



36,980	36,534	36,929	35,871
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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 June 30, 2005 and July 1, 2004  
 (in thousands)

	<u>Six Months</u>	
	<u>2005</u>	<u>2004</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	\$ 25,364	\$ 13,014
Provision for losses on accounts receivable		
Loss on early retirement of debt	34,140	27,013
Loss on reinvestment obligation	707	493
Rent expense	--	8,621
Deferred income taxes	557	347
Proceeds from insurance	233	229
Change in assets and liabilities:	735	1,595
(Increase) decrease in receivables	(4,217)	--
(Increase) decrease in refundable income taxes		
(Increase) decrease in inventories and prepaid expenses	(1,832)	(2,923)
Increase (decrease) in accounts payable,	19,457	5,587

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accrued expenses and income taxes payable	(1,914)	(1,792)
Other items, net	6,154	16,546
Net cash provided by (used in) operating activities	<u>(5,232)</u>	<u>626</u>
Cash Flows from Investing Activities	<u>74,152</u>	<u>69,356</u>
Reduction in investments		
Return of insurance deposits		
Proceeds from insurance	422	1,851
Purchases of property and equipment	6,000	--
Additions to other long-term assets	4,217	--
	(55,275)	(64,611)
Net cash provided by (used in) investing activities	<u>(6,684)</u>	<u>(16,434)</u>
Cash Flows from Financing Activities	<u>(51,320)</u>	<u>(79,194)</u>
Proceeds from issuance of long-term debt		
Proceeds from issuance of common stock		
Principal payments on long-term debt	228,900	447,200
Premium paid on early retirement of debt	7,797	1,941
Principal payments on other long-term liabilities	(248,452)	(445,220)
Debt issuance costs	--	(6,354)
Repurchase of common stock	(11)	(11)
Preferred stock dividend	--	(5,700)
Redemption of preferred stock	(5,799)	(1,858)
	(194)	(206)
Net cash provided by (used in) financing activities	<u>(396)</u>	<u>(526)</u>
Net increase (decrease) in cash and cash equivalents	<u>(18,155)</u>	<u>(10,734)</u>
Cash and cash equivalents at beginning of period	4,677	(20,572)
Cash and cash equivalents at end of period	<u>52,908</u>	<u>70,586</u>
	\$ 57,585	\$ 50,014
	=====	=====

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

AZTAR CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)(continued)  
For the periods ended June 30, 2005 and July 1, 2004  
 (in thousands)

	<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>
<b>Supplemental Cash Flow Disclosures</b>		
Summary of non-cash investing and financing activities:		
Exchange of common stock in lieu of cash payments in connection with the exercise of stock options		
Contract payable incurred for property and equipment	\$ 3,447	\$ 2,050
Cash flow during the period for the following:	348	--
Interest paid, net of amount capitalized		
Income taxes paid (refunded)	\$ 28,063	\$ 17,558
	(11,846)	8,410

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 June 30, 2005 and July 1, 2004  
(in thousands)

Accumulated  
Other  
Comprehensive  
Loss -  
Minimum  
Pension  
Liability

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	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Adjustment</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, January 1, 2004	\$ 526	\$441,498	\$291,573	\$ (1,526)	\$(197,497)	\$534,574
Net income			13,014			13,014
Minimum pension liability adjustment, net of income tax				--		--
Total comprehensive income						13,014
Stock options exercised	5	3,986			(3,908)	83
Tax benefit from stock options exercised		2,876				2,876
Preferred stock dividend and losses on redemption	—	—	(531)	—	—	(531)
Balance, July 1, 2004	<u>\$ 531</u>	<u>\$448,360</u>	<u>\$304,056</u>	<u>\$ (1,526)</u>	<u>\$(201,405)</u>	<u>\$550,016</u>
	=====	=====	=====	=====	=====	=====
				Accumulated Other Comprehensive Loss - Minimum Pension Liability		
	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Adjustment</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, December 30, 2004	\$ 533	\$451,404	\$319,018	\$ (3,259)	\$(201,405)	\$566,291
Net income			25,364			25,364
Minimum pension liability adjustment, net of income tax				1,556		<u>1,556</u>
Total comprehensive income						26,920
Stock options exercised	11	11,695			(9,246)	2,460
Tax benefit from						

stock options exercised		8,167			8,167	
Preferred stock dividend and losses on redemption	—	—	(469)	—	—	(469)
Balance, June 30, 2005	\$ 544	\$471,266	\$343,913	\$ (1,703)	\$(210,651)	\$603,369
	=====	=====	=====	=====	=====	=====

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, in the opinion of management, necessary to a fair statement of the results for the interim periods presented; 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 2005 was \$16,000 and \$28,000, respectively; it was \$3,428,000 and \$6,314,000 during the second quarter and six months ended 2004. Capitalized costs related to development projects, included in other assets, were \$20,367,000 and \$18,350,000 at June 30, 2005 and December 30, 2004, respectively. For additional information regarding significant accounting policies, long-term debt, lease obligations, stock options, accounting for the impact of the October 30, 2003 construction accident, and other matters applicable to the Company, reference should be made to the Company's Annual Report to Shareholders for the year ended December 30, 2004.

Revision in Classification

The Company makes cash promotional offers to certain of its customers, including cash rebates as part of loyalty

programs generally based on an individual's level of gaming play. In the first quarter of 2005, the Company concluded that it was appropriate to classify these costs as a reduction in casino revenue. Previously, these costs were classified primarily as a casino expense. Accordingly, the Company has revised the classification of these costs as a reduction in casino revenue for the second quarter and six months ended June 30, 2005 in its Consolidated Statement of Operations. The Company has also made corresponding adjustments to its Consolidated Statement of Operations for the second quarter and six months ended July 1, 2004 to classify \$7,605,000 and \$13,313,000, respectively of these costs, previously classified as an expense as a reduction in casino revenue. This revision in classification had no effect on operating income or net income in the Consolidated Statements of Operations for any period.

#### Equity Instruments

The fair-value-based method of accounting is used for equity instruments issued to nonemployees for goods or services. The intrinsic-value-based method of accounting is used for stock-based employee compensation plans. The Company has elected to follow Accounting Principles Board Opinion No. 25 entitled "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its stock-based employee compensation arrangements.

Under APB 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Stock options that were granted during the second quarter and six months ended 2005 were 526,500 and 546,500, respectively; there were 525,000 granted during the second quarter and six months ended 2004.

Pro forma information regarding net income and earnings per share is required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 entitled "Accounting for Stock-Based Compensation", and has been determined as if the Company had accounted for its stock option plans under the fair-value-based method of that Statement. The fair value for these options was estimated at the date of grant or modification using a Black-Scholes option pricing model.

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

During the 2002 fiscal year, the Company began including a "retirement eligible" clause in its stock option grants, whereby stock options granted to employees who have reached the age of sixty and who have provided ten years of service, automatically vest on the employee's retirement date. For purposes of the SFAS 123 pro forma disclosures,

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the Company has historically amortized the fair value of the options to expense over the options' vesting period, a methodology referred to as the nominal vesting approach. Under the nominal vesting approach, if a retirement eligible employee elects retirement before the end of the options' vesting period, the Company recognizes an expense on the retirement date for the remaining unamortized compensation cost.

At the beginning of the 2006 fiscal year, the Company will adopt the non-substantive vesting approach for new options granted after December 29, 2005. Under the non-substantive approach, the fair value of the options granted to retirement eligible employees is expensed immediately at the date of grant. For those employees who become retirement eligible during the vesting period, the expense is amortized over the period from the grant date to the date of retirement eligibility. The Company will continue to use the nominal vesting approach after the beginning of the 2006 fiscal year for all options granted prior to the beginning of the 2006 fiscal year. The computations of pro forma net income under SFAS 123 using both the nominal vesting approach and the non-substantive vesting approach are presented below.

The pro forma information for the periods ended June 30, 2005 and July 1, 2004 using the nominal vesting approach is as follows (in thousands, except per share data):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income, as reported				
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method of accounting, net of income tax benefit	\$ 15,453	\$ 9,347	\$ 25,364	\$ 13,014
Pro forma net income	<u>(711)</u>	<u>(896)</u>	<u>(2,334)</u>	<u>(1,708)</u>
Net income per common share:	\$ 14,742	\$ 8,451	\$ 23,030	\$ 11,306
As reported	=====	=====	=====	=====
Pro forma	\$ .43	\$ .26	\$ .71	\$ .36
Net income per common share assuming dilution:	\$ .41	\$ .24	\$ .65	\$ .31
As reported				
Pro forma	\$ .41	\$ .25	\$ .68	\$ .35
	\$ .39	\$ .23	\$ .61	\$ .30



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

The pro forma information for the periods ended June 30, 2005 and July 1, 2004 assuming the Company had previously adopted the non-substantive vesting approach is as follows (in thousands, except per share data):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income, as reported				
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method of accounting, net of income tax benefit	\$ 15,453	\$ 9,347	\$ 25,364	\$ 13,014
Pro forma net income	<u>(1,711)</u>	<u>(2,183)</u>	<u>(2,359)</u>	<u>(2,863)</u>
Net income per common share:	\$ 13,742	\$ 7,164	\$ 23,005	\$ 10,151
As reported	=====	=====	=====	=====
Pro forma	\$ .43	\$ .26	\$ .71	\$ .36
Net income per common share assuming dilution:	\$ .38	\$ .20	\$ .64	\$ .28
As reported				
Pro forma	\$ .41	\$ .25	\$ .68	\$ .35

\$ .37            \$ .19            \$ .61            \$ .27

### Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), "Share-Based Payment." SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and the estimated number of awards that are expected to vest. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. SFAS 123(R) supersedes APB 25, which the Company has elected to follow. As a result of an amendment by the Securities and Exchange Commission in April 2005, SFAS 123(R) is effective for the Company at the beginning of the 2006 fiscal year. SFAS 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 that the Company has followed for disclosure purposes. For periods before the required effective date, the Company may elect to adjust financial statements of prior periods on a basis consistent with the pro forma disclosures required for those periods by SFAS 123. The Company has not decided whether or not to restate prior periods. Based on stock options granted through June 30, 2005, the Company estimates that, net of the related income tax benefits, it will record an additional cost of approximately \$2,500,000 for fiscal year 2006.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." SFAS 143 requires that the fair value of a liability for an obligation associated with the retirement of a tangible long-lived asset be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The offset to the liability is recorded as an adjustment to the asset's carrying amount and subsequently allocated to expense over the asset's useful life. FIN 47 was issued to address the diversity in practice with respect to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and (or) method of

settlement are conditional on a future event. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of the Company's 2005 fiscal year. As a result of FIN 47, the Company has determined that it has asset retirement obligations where the timing is uncertain but

the amount is not material to the Company's consolidated financial position, results of operations or cash flows. The Company will adopt FIN 47 in the fourth quarter of 2005.

Note 2: Las Vegas Tropicana Development

The Company's master plan for a potential development of its Las Vegas Tropicana site 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, a detailed design has substantially been completed. However, the Company has postponed a decision about whether and when it will proceed with that development. 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 with a possible write-down and review their useful lives with a possible adjustment to depreciation and amortization expense. These reviews could result in adjustments that 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 \$55,266,000 at June 30, 2005. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was \$6,616,000 at June 30, 2005. It is reasonably possible that the carrying value of some or all of these assets may change in the near term.

Note 3: Long-term Debt

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

	June 30, <u>2005</u>	December 30, <u>2004</u>
9% Senior Subordinated Notes Due 2011	\$175,000	\$175,000
7 7/8% Senior Subordinated Notes Due 2014	300,000	300,000
Revolver; floating rate, 5.4% at June 30, 2005; matures July 22, 2009	115,000	132,800
Term Loan; floating rate, 5.7% at June 30, 2005; matures July 22, 2009	123,750	124,688
Contract payable; 7.2%; matures 2014	348	--
Obligations under capital leases	<u>25</u>	<u>57</u>
	714,123	732,545
Less current portion	<u>(99)</u>	<u>(1,292)</u>
	\$713,133	\$731,253
	=====	=====

The Revolver and Term Loan contain quarterly financial tests, including a minimum fixed charge coverage ratio of 1.35 to 1.00 and maximum ratios of total debt and senior debt to operating cash flow of 4.5 to 1.0 and 2.5 to 1.0, respectively, at

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

June 30, 2005. The actual fixed charge coverage ratio was 2.56 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 3.88 to 1.0 and 1.33 to 1.0, respectively, at June 30, 2005.

Note 4: Other Long-term Liabilities

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

	June 30, <u>2005</u>	December 30, <u>2004</u>
Deferred compensation and retirement plans	\$ 15,031	\$ 22,215
Deferred income	2,152	2,279
Las Vegas Boulevard beautification assessment	<u>282</u>	<u>293</u>
	17,465	24,787
Less current portion	<u>(1,079)</u>	<u>(972)</u>
	\$ 16,386	\$ 23,815
	=====	=====

Note 5: Capital Stock

The Company issued 1,140,167 and 511,000 shares of its common stock in connection with the exercise of stock options during the periods ended June 30, 2005 and July 1, 2004, respectively. The Company accepted 308,967 and 170,052 shares of its common stock from an employee in lieu of cash due to the Company in connection with the exercise of stock options in the periods ended June 30, 2005 and July 1, 2004, respectively.

During the second quarter of 2005, the Company modified the terms of an employee's stock options to provide for accelerated vesting. Options to purchase 13,333 shares of the Company's common stock at an exercise price of \$15.71 that were to vest in May 2006 were accelerated to vest in June 2005. In addition, options to purchase 26,666 shares of the Company's common stock at an exercise price of \$24.39, of which 13,333 options were to vest in May 2006 and 13,333 options were to vest in May 2007, were accelerated to vest in June 2005. In connection with the acceleration of these options' vesting periods, the Company recorded approximately \$462,000 of compensation expense.

Note 6: Benefit Plans

The components of benefit plan expense for the periods ended June 30, 2005 and July 1, 2004 are as follows (in

thousands):

	<u>Defined Benefit Plans</u>		<u>Defined Benefit Plans</u>	
	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service cost	\$ 54	\$ 23	\$ 83	\$ 47
Interest cost	128	242	342	482
Amortization of prior service cost	19	28	37	57
Settlement loss (a)	--	--	2,851	--
Recognized net actuarial loss	<u>101</u>	<u>224</u>	<u>334</u>	<u>448</u>
	\$ 302	\$ 517	\$3,647	\$1,034
	=====	=====	=====	=====

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

	<u>Deferred Compensation Plan</u>		<u>Deferred Compensation Plan</u>	
	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>

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Service cost	\$ 1	\$ 2	\$ 2	\$ 5
Interest cost	88	96	176	192
Cash surrender value increase net of premium expense	<u>(88)</u>	<u>(85)</u>	<u>(176)</u>	<u>(170)</u>
	\$ 1	\$ 13	\$ 2	\$ 27
	=====	=====	=====	=====

- (a) During the first quarter of 2005, the Company made a lump sum cash payment of \$8,239 to a defined benefit plan participant in exchange for the participant's right to receive specified pension benefits. As a result, the Company recognized a settlement loss of \$2,851. The recognition of this settlement loss resulted in a reduction of \$1,556, net of income taxes of \$838 in the accumulated other comprehensive loss relating to the minimum pension liability adjustment in the Consolidated Statement of Shareholders' Equity for the period ended June 30, 2005.

Note 7: Accounting for the Impact of the October 30, 2003 Construction Accident

An accident occurred on the site of the construction of the parking-garage component of the expansion of the Atlantic City Tropicana on October 30, 2003. The accident resulted in a loss of life and serious injuries, as well as extensive damage to the facilities under construction.

Construction on the expansion project was substantially completed by December 30, 2004. The expansion includes 502 additional hotel rooms, 20,000 square feet of meeting space, 2,400 parking spaces, and "The Quarter at Tropicana", a 200,000-square-foot dining, entertainment and retail center.

During the second quarter and six months ended 2005, the Company incurred \$860,000 and \$1,269,000, respectively, of construction accident related costs and expenses that may not be reimbursed by insurance. These costs and expenses primarily consist of professional fees incurred as a result of the accident.

During the second quarter and six months ended 2005, the Company recorded \$301,000 and \$526,000, respectively, of insurance recoveries due to the delay of the opening of the expansion, which represents a portion of the anticipated profit that the Company would have recognized had the expansion opened as originally projected as well as some reimbursement for costs incurred as a result of the delay. These insurance recoveries were classified as construction accident insurance recoveries in the Consolidated Statement of Operations. Insurance claims for business interruption that occurred from the date of the accident through March 31, 2005 have been filed with the Company's insurers in the amount of approximately \$38,500,000, of which \$3,500,000 has been received by the Company. The Company also anticipates filing claims for business interruption for the second quarter of 2005. In addition, the Company has filed insurance claims for lost profits and additional costs as a result of the delay in the opening of the expansion. The total of these claims is approximately \$65,400,000, of which approximately \$8,900,000 has been received by the Company and \$301,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at June 30, 2005. Profit recovery from insurance is recorded when the amount of recovery, which may be different from the amount claimed, is agreed to by the insurers. The Company has also filed insurance claims of approximately \$9,000,000 for other costs it has incurred that are related to the construction accident, of which \$1,500,000 has been received by the Company. These other costs are primarily supplemental marketing costs and approximately \$1,600,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at June 30, 2005.

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

In order to ensure that the construction proceed expeditiously and in order to settle certain disputes, the Company and the general contractor entered into a settlement agreement on October 6, 2004 that delineates how the Company and its contractor will share the cost of and the insurance proceeds received for the dismantlement, debris removal, and rebuild. During the second quarter and six months ended 2005, the Company recorded \$2,855,000 and \$4,428,000, respectively, of insurance recoveries associated with the rebuild, net of direct costs to obtain the recoveries. These net recoveries were classified as other income in the Consolidated Statement of Operations. A rebuild insurance recovery amount of \$713,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at June 30, 2005. A receivable of \$1,625,000 was recorded during 2004 for dismantlement and debris removal activities, of which \$1,025,000 was also included in the Consolidated Balance Sheet as part of the construction accident receivables at June 30, 2005. In addition, at June 30, 2005, the Company's share of claims outstanding for dismantlement, debris removal and rebuild was approximately \$39,000,000.

Note 8: Loss on Early Retirement of Debt

On June 2, 2004, the Company redeemed \$192,320,000 of 8 7/8% Senior Subordinated Notes due 2007. The Company expensed the redemption premium of \$6,354,000 and the unamortized debt issuance costs of \$2,267,000 for a total of \$8,621,000.

Note 9: Income Taxes

The Company received proposed assessments from the Indiana Department of Revenue ("IDR") in connection with the examination of the Company's Indiana income tax returns for the years 1996 through 2002. The assessments were 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 for the 1996 and 1997 tax years and oral arguments were heard in April 2001. The Company filed a formal protest for the years 1998 through 2002. In April 2004, the Indiana Tax Court ruled against the Company. The Company asked the Indiana Supreme Court to review the ruling. The Company's request was denied. As a result, the Company estimated that it was obligated to pay approximately \$17,300,000 to cover assessments of taxes and interest from 1996 through the end of the first quarter of 2004. These assessments were paid by the Company by December 30, 2004. This amount was deductible for federal income tax purposes, resulting in a net effect of approximately \$11,300,000, which was recorded as an increase to income tax expense in the first quarter of 2004. The ongoing effect of this issue is also included in income taxes after the first quarter of 2004.

In June 2005, the Internal Revenue Service completed its examination of the Company's income tax return for the year 2003. The only issue in dispute involved the deductibility of a portion of payments on certain liabilities related to the restructuring of Ramada Inc. (the "Restructuring"). Management believes that adequate provision for income taxes

and interest has been made in the financial statements.

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

Note 10: Earnings Per Share

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

The computations of net income per common share and net income per common share, assuming dilution, for the periods ended June 30, 2005 and July 1, 2004, are as follows (in thousands, except per share data):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income				
Less: preferred stock dividend and losses on redemption	\$ 15,453	\$ 9,347	\$ 25,364	\$ 13,014



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Income available to common shareholders	<u>(249)</u>	<u>(267)</u>	<u>(469)</u>	<u>(531)</u>
Plus: income impact of assumed conversion of dilutive preferred stock	15,204	9,080	24,895	12,483
Income available to common shareholders plus dilutive potential common shares	<u>96</u>	<u>101</u>	<u>192</u>	<u>--</u>
Weighted-average common shares applicable to net income per common share	\$ 15,300 =====	\$ 9,181 =====	\$ 25,087 =====	\$ 12,483 =====
Effect of dilutive securities:	35,141	34,556	34,965	34,439
Stock option incremental shares				
Assumed conversion of preferred stock	1,332	1,443	1,457	1,432
Dilutive potential common shares	<u>507</u>	<u>535</u>	<u>507</u>	<u>--</u>
Weighted-average common shares applicable to net income per common share assuming dilution	<u>1,839</u>	<u>1,978</u>	<u>1,964</u>	<u>1,432</u>
Net income per common share	36,980 =====	36,534 =====	36,929 =====	35,871 =====
Net income per common share assuming dilution	\$ .43 =====	\$ .26 =====	\$ .71 =====	\$ .36 =====
	\$ .41 =====	\$ .25 =====	\$ .68 =====	\$ .35 =====

Stock options that were excluded from the earnings per share computations because their effect would have been antidilutive were 20,000 at June 30, 2005. No stock options were excluded at July 1, 2004.

At July 1, 2004, the assumed conversion of preferred stock to 535,000 equivalent common shares was excluded from the six months ended 2004 earnings per share computations because their effect would have been antidilutive.

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

Note 11: Segment Information

The Company reviews results of operations based on distinct geographic gaming market segments. The Company's chief operating decision maker uses only EBITDA in assessing segment performance and deciding how to allocate resources. The Company's segment information is as follows for the periods ended June 30, 2005 and July 1, 2004 (in thousands):

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	\$122,705	\$ 96,356	\$234,444	\$188,203
Casino Aztar Evansville	41,793	42,131	84,039	82,660
Casino Aztar Caruthersville	23,420	22,834	49,903	47,067
Total consolidated	33,481	32,067	68,928	65,345
	<u>6,910</u>	<u>5,266</u>	<u>14,317</u>	<u>11,437</u>
EBITDA (a)	\$228,309	\$198,654	\$451,631	\$394,712
Tropicana Atlantic City	=====	=====	=====	=====
Tropicana Las Vegas				
Ramada Express Laughlin	\$ 30,926	\$ 24,367	\$ 51,984	\$ 47,815
Casino Aztar Evansville	10,695	10,125	21,672	19,359
Casino Aztar Caruthersville	6,022	5,971	14,807	13,225
Property EBITDA	10,274	9,564	21,279	19,758
Corporate	<u>1,466</u>	<u>901</u>	<u>3,353</u>	<u>2,232</u>
Depreciation and amortization	59,383	50,928	113,095	102,389
Operating income	(5,196)	(4,217)	(13,121)	(8,924)
Other income	<u>(16,681)</u>	<u>(13,212)</u>	<u>(33,027)</u>	<u>(26,235)</u>
Interest income	37,506	33,499	66,947	67,230
Interest expense	2,855	--	4,428	--
Loss on early retirement of debt	294	212	536	379
Income taxes	(14,206)	(8,735)	(28,068)	(17,409)
Net income	--	(8,621)	--	(8,621)
	<u>(10,996)</u>	<u>(7,008)</u>	<u>(18,479)</u>	<u>(28,565)</u>
	\$ 15,453	\$ 9,347	\$ 25,364	\$ 13,014
	=====	=====	=====	=====

(a)

EBITDA is net income before income taxes, loss on early retirement of debt, interest expense, interest income, other income, and depreciation and amortization. EBITDA should not be construed as a substitute for either operating income or net income as they are determined in accordance with generally accepted accounting principles (GAAP). The Company uses EBITDA as a measure to compare operating results among its properties and between accounting periods. The Company manages cash and finances its operations at the corporate level. The Company manages the allocation of capital among properties at the corporate level. The Company also files a consolidated income tax return. The Company accordingly believes EBITDA is useful as a measure of operating results at the property level because it reflects the results of operating decisions at that level separated from the effects of tax and financing decisions that are managed at the corporate level. The Company also uses EBITDA as the primary operating performance measure in its bonus programs for executive officers. The Company also believes that EBITDA is a commonly used measure of operating performance in the gaming industry and is an important basis for the valuation of gaming companies. The Company's calculation of EBITDA may not be comparable to similarly titled measures reported by other companies and, therefore, any such differences must be considered when comparing performance among different companies. While the Company believes EBITDA provides a useful perspective for some purposes, EBITDA has material limitations as an analytical tool. For example, among other things, although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect the requirements for such replacements. Other income, interest expense, net of interest income, loss on early retirement of

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

debt, and income taxes are also not reflected in EBITDA. Therefore, the Company does not consider EBITDA in isolation, and it should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of EBITDA with operating income and net income as determined in accordance with GAAP is reflected in the above summary.

Note 12: 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. There is no limit to the term or the maximum potential future payment under this indemnification. In addition, the Company agreed to indemnify Ramada

for certain lease guarantees made by Ramada. The lease terms potentially extend through 2015 and Ramada guaranteed all obligations under these leases. The Company has recourse against a subsequent purchaser of the operations covered by these leases. The estimated maximum potential amount of future payments the Company could be required to make under these indemnifications is \$7,000,000 at June 30, 2005. The Company would be required to perform under this guarantee 1) if monetary judgments and related expenses in lawsuits pending against Ramada and its subsidiaries as of the conclusion of the Restructuring exceeded the above described amount, or 2) if lessees with lease guarantees failed to perform under their leases, the lessee and lessor could not reach a negotiated settlement and the lessor was able to successfully proceed against Ramada, who in turn was able to successfully proceed against the Company. In connection with these matters, the Company established a liability at the time of the Restructuring and the Company's remaining accrued liability was \$3,833,000 at both June 30, 2005 and December 30, 2004.

The Casino Reinvestment Development Authority ("CRDA") has issued bonds that are being serviced by its parking fee revenue. A series of these bonds is collateralized by a portion, \$572,000 at June 30, 2005, of the Company's CRDA deposits. The portion that serves as collateral is a varying percentage of a portion of CRDA deposits that satisfy the Company's investment obligation based upon its New Jersey casino revenue. In the event that the CRDA's parking fees are insufficient to service its bonds, these deposits can be used for that purpose. To the extent the Company's CRDA deposits are used to service these bonds, the Company would receive credit against future investment obligations. The Company's CRDA deposits serve as collateral for a one-year period, after which they become available to the Company. This arrangement continues through 2013. The Company received a fee for this arrangement that is being amortized on a straight-line basis through 2013. The Company's estimate of the maximum potential deposits that could be used to service CRDA bonds is \$16,000,000 at June 30, 2005.

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 one half of the executive's annual base salary. In certain agreements, the termination must be as a result of a change in

control of the Company. Based upon salary levels and stock options at June 30, 2005, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$47,000,000 at June 30,

2005.

## Item 2. Management's Discussion and Analysis

### Financial Condition

During the first half of 2005, the outstanding balance on our revolving credit facility decreased to \$115 million from \$132.8 million at December 30, 2004, leaving \$429.4 million available for future borrowing, after consideration of outstanding letters of credit, subject to quarterly financial tests as described below. The maximum amount available under the revolving credit facility will decrease by \$125 million by June 30, 2006 if we do not commence redevelopment of the Las Vegas Tropicana property or enter into an alternative project approved by lenders holding a majority of the commitments; if, however, this termination has not occurred, then under certain circumstances (and no later than December 31, 2006), the senior secured credit facility provides that an amount equal to the lesser of \$125 million or the revolving loans outstanding on December 31, 2006, shall convert to a term loan, which shall have the same maturity and will amortize at the same percentage rates as the original term loan facility. At June 30, 2005, the outstanding balance of our term loan facility was \$123.8 million.

The Revolver and Term Loan contain quarterly financial tests, including a minimum fixed charge coverage ratio of 1.35 to 1.00 and maximum ratios of total debt and senior debt to operating cash flow of 4.5 to 1.0 and 2.5 to 1.0, respectively, at June 30, 2005. The actual fixed charge coverage ratio was 2.56 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 3.88 to 1.00 and 1.33 to 1.0, respectively at June 30, 2005.

During the first six months of 2005, we received \$7.8 million in cash in connection with stock option exercises. We accepted 119,649 shares of our common stock in the second quarter of 2005 in lieu of cash due to the company in connection with the exercise of stock options. We also accepted an additional 189,318 shares in satisfaction of \$5.8 million of tax obligations paid by the company during the 2005 second quarter, which were associated with the exercise of stock options. Such shares of common stock are stated at cost and held as treasury shares to be used for general corporate purposes.

Our purchases of property and equipment, other than those pertaining to the Tropicana Atlantic City expansion project discussed below, were primarily of a routine nature.

During the 2005 first quarter, we made a lump sum cash payment of \$8.2 million to a defined benefit plan participant in exchange for the participant's right to receive specified pension benefits. In connection with the distribution, we recognized a settlement loss of \$2.9 million in the 2005 first quarter, which is a component of general and administrative expense in the Consolidated Statement of Operations.

On April 22, 2002, we commenced construction on an expansion of our Tropicana Atlantic City. The expansion includes 502 additional hotel rooms, 20,000 square feet of meeting space, 2,400 parking spaces, and "The Quarter at Tropicana," the project's centerpiece, a 200,000-square-foot dining, entertainment and retail center. On October 30, 2003, an accident occurred on the site of the parking-garage component of the expansion of the Atlantic City Tropicana that brought construction to a halt. The accident resulted in the loss of life and serious injuries, as well as extensive damage to the facilities under construction. The expansion opened in late November 2004 on a limited basis and was substantially completed by December 30, 2004. Some tenants in the Quarter opened in early 2005. During the first half of 2005, our purchases of property and equipment on an accrual basis were \$13.3 million for this project and on a cash basis they were \$29.5 million. No interest was capitalized during the first half of 2005 for this project.

## AZTAR CORPORATION AND SUBSIDIARIES

Insurance claims for business interruption that occurred from the date of the accident through March 31, 2005 have been filed with our insurers in the amount of \$38.5 million of which \$3.5 million has been received by us. We also anticipate filing claims for business interruption for the second quarter of 2005. In addition, we have filed insurance claims for lost profits and additional costs as a result of the delay in the opening of the expansion. The total of these claims is \$65.4 million, of which \$8.9 million has been received and \$0.3 million was included in construction accident receivables at June 30, 2005. Profit recovery from insurance is recorded when the amount of the recovery, which may be different than the amount claimed, is agreed to by the insurers. We have also filed insurance claims of \$9.0 million for other costs we have incurred that are related to the construction accident, of which \$1.5 million has been received. These other costs are primarily supplemental marketing costs and \$1.6 million was included in construction accident receivables at June 30, 2005. In order to ensure that the construction proceed expeditiously and in order to settle certain disputes, we and the general contractor entered into a settlement agreement on October 6, 2004 that delineates how we and the contractor will share the cost of and the insurance proceeds received for the dismantlement, debris removal and rebuild. During the first half of 2005, we recorded \$4.9 million of insurance recovery associated with the rebuild of which \$0.7 million was included in construction accident receivables at June 30, 2005. The recovery was recognized as other income and was offset by \$0.5 million of direct costs to obtain the recovery. In addition, at June 30, 2005, our share of claims outstanding for dismantlement, debris removal and rebuild was approximately \$39 million.

Our master plan for a potential development of our Las Vegas Tropicana site envisions the creation of two separate but essentially equal and inter-connected 17-acre 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, a detailed design has substantially been completed. The design calls for 2,725 hotel rooms and suites, 200,000 square feet of dining, entertainment and retail facilities, a 120,000-square-foot casino, a 3,800-car parking garage, and a four-acre rooftop pool recreation deck overlooking the Strip. During the first half of 2005, we capitalized \$1.1 million for design development costs included in other assets. We have postponed a decision about whether and when we will proceed with this development. 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 with a possible write-down and review their useful lives with a possible adjustment to depreciation and amortization expense. These reviews could result in adjustments that 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 \$110 million, was \$55.3 million at June 30, 2005. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was \$6.6 million at June 30, 2005.

In December 2002, we amended our riverboat landing lease with the City of Evansville. We agreed to change a portion of our contingent rent into a fixed stated amount and to make it available to the City at their request. The City agreed to provide us with \$1 of credit against our rent for each \$2.50 of development capital expenditures that we make with certain limitations. In July 2005, we exercised the first of three five-year renewal options to extend the

lease term through November 30, 2010. We also modified the lease to add four additional five-year renewal options that give us the ability to continue the lease through November 30, 2040. In consideration for doing so, we agreed to make a \$15 million prepayment of the rent payable during the first renewal period to the City in December 2005. Under the terms of the lease renewal, the City will provide us with \$1 of credit against our rent for each \$2.50 of development capital expenditures up to \$25 million that we make. Phase one of our plans for future development in Evansville include a 100-room boutique hotel and a multi-venue entertainment complex adjacent to a riverfront park. Our capital expenditures for phase one of the project are expected to be approximately \$30 million.

#### AZTAR CORPORATION AND SUBSIDIARIES

We have severance agreements with certain of our 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 one half of the executive's annual base salary. In certain agreements, the termination must be as a result of a change in control of Aztar. Based upon salary levels and stock options at June 30, 2005, the aggregate commitment under the severance agreements should all these executives be terminated was approximately \$47 million at June 30, 2005.

## AZTAR CORPORATION AND SUBSIDIARIES

### Results of Operations

The following table sets forth, in millions, our segment information for revenues and EBITDA. Our chief operating decision maker uses only EBITDA in assessing segment performance and



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deciding how to allocate resources.

	<u>Second Quarter</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	\$ 122.7	\$ 96.4	\$ 234.5	\$ 188.2
Casino Aztar Evansville	41.8	42.1	84.0	82.7
Casino Aztar Caruthersville	23.4	22.8	49.9	47.1
Total consolidated	33.5	32.1	68.9	65.3
	<u>6.9</u>	<u>5.3</u>	<u>14.3</u>	<u>11.4</u>
EBITDA (a)	\$ 228.3	\$ 198.7	\$ 451.6	\$ 394.7
Tropicana Atlantic City	=====	=====	=====	=====
Tropicana Las Vegas				
Ramada Express Laughlin	\$ 30.9	\$ 24.3	\$ 52.0	\$ 47.8
Casino Aztar Evansville	10.7	10.1	21.7	19.4
Casino Aztar Caruthersville	6.0	6.0	14.8	13.2
Property EBITDA	10.3	9.6	21.3	19.7
Corporate	<u>1.5</u>	<u>0.9</u>	<u>3.3</u>	<u>2.2</u>
Depreciation and amortization	59.4	50.9	113.1	102.3
Operating income	(5.2)	(4.2)	(13.2)	(8.9)
Other income	<u>(16.7)</u>	<u>(13.2)</u>	<u>(33.0)</u>	<u>(26.2)</u>
Interest income	37.5	33.5	66.9	67.2
Interest expense	2.9	--	4.4	--
Loss on early retirement of debt	0.3	0.2	0.5	0.4
Income taxes	(14.2)	(8.8)	(28.0)	(17.4)
Net income	--	(8.6)	--	(8.6)
	<u>(11.0)</u>	<u>(7.0)</u>	<u>(18.4)</u>	<u>(28.6)</u>
	\$ 15.5	\$ 9.3	\$ 25.4	\$ 13.0
	=====	=====	=====	=====

- (a) EBITDA is net income before income taxes, loss on early retirement of debt, interest expense, interest income, other income, and depreciation and amortization. EBITDA should not be construed as a substitute for either operating income or net income as they are determined in accordance with generally accepted accounting principles (GAAP). Management uses EBITDA as a measure to compare operating results among our properties and between accounting periods. We manage cash and finance our operations at the corporate level. We manage the allocation of capital among properties at the corporate level. We also file a consolidated income tax return. Management accordingly believes EBITDA is useful as a measure of operating results at the property level because it reflects the results of operating decisions at that level separated from the effects of tax and financing decisions that are managed at the corporate level. We also use EBITDA as the primary operating performance measure in our bonus programs for executive officers. Management also believes that EBITDA is a commonly used measure of operating performance in the gaming industry and is an important basis for the valuation of gaming companies. Our calculation of EBITDA may not be comparable to similarly titled measures reported by other companies and, therefore, any such differences must be considered when

comparing performance among different companies. While management believes EBITDA provides a useful perspective for some purposes, EBITDA has material limitations as an analytical tool. For example, among other things, although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect the requirements for such replacements. Other income, interest expense, net of interest income, loss on early retirement of debt, and income taxes are also not reflected in EBITDA. Therefore, management does not consider EBITDA in isolation, and it should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of EBITDA with operating income and net income as determined in accordance with GAAP is reflected in the above summary.

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## AZTAR CORPORATION AND SUBSIDIARIES

### Six Months Ended June 30, 2005 Compared to Six Months Ended July 1, 2004

The Tropicana Atlantic City expansion project opened on a limited basis in late November 2004 and was substantially completed by December 2004. As a result, both consolidated operating revenues and consolidated operating costs increased significantly during the first half of 2005, thus affecting comparability with the first half of 2004. All our properties benefited from the timing of New Year's Eve and New Year's Day, which fell in the 2005 fiscal first quarter but did not fall in the 2004 fiscal first quarter.

Consolidated general and administrative expenses were \$49.2 million during the first six months of 2005, up \$7.9 million from \$41.3 million during the first six months of 2004. The increase was largely due to corporate, where general and administrative expenses increased \$4.7 million during the 2005 versus 2004 six-month period. The increase at corporate consisted of a settlement loss of \$2.9 million related to a lump sum cash payment made to a defined benefit plan participant and employee termination expenses totaling \$1.5 million.

Other income was \$4.4 million in the first half of 2005. Other income consists of \$4.9 million of insurance recovery associated with the rebuilding of the expansion at the Atlantic City Tropicana, net of direct costs to obtain the recovery.

Consolidated interest expense was \$28.0 million in the first half of 2005 compared with \$17.4 million in the first half of 2004. The increase in interest expense was due to a decrease in capitalized interest as well as an increase in the average level of debt outstanding. The decrease in capitalized interest was attributable to the Atlantic City expansion project, which was substantially completed in December 2004. Interest capitalized was \$6.3 million lower in the 2005 versus 2004 six-month period.

Loss on early retirement of debt was \$8.6 million in the first half of 2004. The loss, which resulted from the June 2, 2004 redemption of \$192.3 million of our outstanding 8 7/8% Senior Subordinated Notes, consisted of a redemption

premium of \$6.3 million and the write-off of unamortized debt issuance costs of \$2.3 million.

Consolidated income taxes were \$18.4 million in the first half of 2005 compared with \$28.6 million in the first half of 2004. The decrease of \$10.2 million was largely due to a decrease in the Indiana income tax provision, partially offset by an increase in income before income taxes. In connection with a review of our Indiana income tax returns for the years 1996 through 2002, the Indiana Department of Revenue took the position that our gaming taxes that are based on gaming revenue are not deductible for Indiana income tax purposes. In response to the position taken by the Indiana Department of Revenue, we filed a petition with the Indiana Tax Court for the 1996 and 1997 tax years and we filed a formal protest for the 1998 through 2002 tax years. In April 2004, the Indiana Tax Court ruled in favor of the Indiana Department of Revenue. We asked the Indiana Supreme Court to review the ruling. Our request was denied. As a result, we estimated that we were obligated to pay approximately \$17.3 million to cover assessments of taxes and interest from 1996 through the end of the first quarter of 2004. This amount was deductible for federal income tax purposes, resulting in a net effect of approximately \$11.3 million, which was recorded as an increase to income tax expense in the first quarter of 2004.

#### TROPICANA ATLANTIC CITY

As previously noted, the Tropicana Atlantic City expansion project includes 502 additional hotel rooms, 20,000 square feet of meeting space, 2,400 parking spaces, and the Quarter, the project's centerpiece, a 200,000-square-foot dining, entertainment and retail center. As a result of the expansion, Tropicana Atlantic City now has approximately 2,125 hotel rooms, which represents a 30% increase over the property's previous capacity. The Quarter includes approximately 40 outlets consisting of restaurants, entertainment venues and retail stores. Due to its unique nature and the diversity of venues available to customers, the Quarter

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#### AZTAR CORPORATION AND SUBSIDIARIES

generated media attention and created interest among local residents and visitors to Atlantic City. For these reasons, coupled with marketing efforts, demand for hotel rooms and gaming activities at the Tropicana increased during the first half of 2005 compared with the first half of 2004. Revenues in the first half of 2005 totaled \$234.5 million, up \$46.3 million or 25% from the first half of 2004. The comparatively higher revenues in the 2005 versus 2004 six-month period also were attributable to business interruption caused by the October 30, 2003 construction accident, which was more severe in the 2004 versus 2005 six-month period. The increase in revenues consisted primarily of casino revenue, which increased \$34.9 million or 21%, and to a lesser extent rooms revenue, which increased \$5.2 million or 47%.

The increase in casino revenue of \$34.9 million during the 2005 versus 2004 six-month period consisted of a \$19.7 million increase in slot revenue and a \$15.2 million increase in games revenue. Casino costs increased \$9.6 million or 14% in the 2005 versus 2004 six-month period primarily as a result of the increase in casino revenue.

The increase in rooms revenue of \$5.2 million during the 2005 versus 2004 six-month period was attributable to an increase in the number of rooms occupied on a non-complimentary basis and an increase in the average daily rate. The total number of rooms occupied on a non-complimentary basis increased 31% and the average daily rate increased 12% during the 2005 versus 2004 six-month period. Rooms costs increased \$2.4 million or 37% in the 2005 versus 2004 six-month period primarily as a result of the increase in rooms revenue.

As previously noted, the increase in gaming and hotel revenues was partially attributable to our marketing efforts to promote the opening of the expansion. As a result, marketing costs increased \$12.4 million or 53% in the first half of 2005 from \$23.5 million the first half of 2004. The increase in marketing costs consisted primarily of increases in business promotional expenses, entertainment contracts, payroll costs and advertising expenses.

Utilities expense was \$8.0 million in the first six months of 2005, up \$3.2 million or 67% from \$4.8 million in the first six months of 2004. In addition to the increased energy consumption brought on by the expansion, the increase was also attributable to a new electrical power contract that became effective July 2004. The new contract, which replaced a contract that had been in place since July 1997, contains less favorable rates.

Construction accident insurance recoveries were \$8.0 million lower in the 2005 versus 2004 six-month period. The 2004 recoveries consisted of a business interruption recovery of \$3.5 million and a recovery due to the delay in the opening of the Atlantic City Tropicana expansion project of \$5.0 million. The business interruption recovery in 2004 reflected a profit recovery applicable to the fourth quarter of 2003. The recovery in 2004 from the delay in the opening of the expansion project represented a portion of the anticipated profit that we would have recognized had the expansion opened as originally projected as well as some reimbursement for costs incurred as a result of the delay. These type of insurance recoveries are recorded when they are agreed to by our insurers.

Depreciation expense was \$21.6 million during the first half of 2005, up \$5.7 million or 36% from \$15.9 million in the first half of 2004. The increase was primarily due to the expansion.

#### TROPICANA LAS VEGAS

Rooms revenue increased \$3.9 million in the first half of 2005, up 15% from \$26.4 million in the first half of 2004. The increase was primarily attributable to a 14% increase in the average daily rate. The increase in the average daily rate is due primarily to increased tourism to the Las Vegas market.