AZTAR CORP
Form 10-Q
October 31, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 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	86-0636534
(State or other jurisdiction of incorporation or organization)	(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 _X_ No __

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No _X_

At October 27, 2005, the registrant had outstanding 35,744,952 shares of its common stock, $.01 par value.

AZTAR CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

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

	September 29, 2005	December 30, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 54,061	$ 52,908
Accounts receivable, net	21,078	17,668
Construction accident receivables	2,274	4,247
Refundable income taxes	--	19,457
Inventories	7,406	8,643
Prepaid expenses	13,185	10,300
Insurance deposits	--	6,000
Deferred income taxes	11,284	11,331
Total current assets	109,288	130,554
Investments	24,476	23,602
Property and equipment:		

Buildings, riverboats and equipment, net	1,008,586	1,015,140
Land	216,166	216,111
Construction in progress	16,746	7,869
Leased under capital leases, net	13	26
	1,241,511	1,239,146
Intangible assets	33,915	34,380
Other assets	85,408	83,958
	$1,494,598	$1,511,640
	==========	==========

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

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

	September 29, 2005	December 30, 2004
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accruals	$ 70,177	$ 94,321
Accrued payroll and employee benefits	27,006	29,978
Accrued interest payable	11,956	9,029
Accrued rent	1,577	8,787
Income taxes payable	12,529	--
Current portion of long-term debt	1,293	1,292
Current portion of other long-term liabilities	825	972
Total current liabilities	125,363	144,379
Long-term debt	682,812	731,253
Other long-term liabilities	14,671	23,815
Deferred income taxes	43,237	40,988
Contingencies and commitments		
Series B convertible preferred stock (redemption value $17,283 and $17,791)	4,722	4,914
Shareholders' equity:		
Common stock, $.01 par value (35,679,618 and 34,781,585 shares outstanding)	545	533
Paid-in capital	472,593	451,404
Retained earnings	363,009	319,018
Accumulated other comprehensive loss	(1,703)	(3,259)
Less: Treasury stock	(210,651)	(201,405)
Total shareholders' equity	623,793	566,291
	$1,494,598	$1,511,640
	=========	=========

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
For the periods ended September 29, 2005 and September 30, 2004
(in thousands, except per share data)

	Third Quarter	Nine Months

	2005	2004	2005	2004
Revenues				
Casino				
Rooms				
Food and beverage	$184,254	$159,789	$528,909	$464,127
Other	26,997	22,751	80,223	66,215
	14,973	14,340	45,061	42,119
Costs and expenses	14,756	10,742	38,418	29,873
Casino	240,980	207,622	692,611	602,334
Rooms				
Food and beverage	71,380	65,424	208,899	192,044
Other	12,538	11,455	36,232	32,072
Marketing	14,139	13,867	42,681	40,789
General and administrative	8,176	7,708	24,275	22,650
Utilities	21,937	18,773	71,074	55,268
Repairs and maintenance	21,897	20,609	71,116	61,934
Provision for doubtful accounts	7,747	6,160	20,062	14,965
Property taxes and insurance	7,036	6,700	20,402	19,335
Rent	636	355	1,343	848
Construction accident related	8,696	7,021	24,989	22,051
Construction accident insurance	1,949	2,220	5,972	6,468
recoveries	1,383	1,808	2,652	3,423
Depreciation and amortization				
Preopening costs	--	(2,000)	(526)	(10,500)
	16,821	13,894	49,848	40,129
	--	1,123	--	1,123
Operating income	194,335	175,117	579,019	502,599
Other income (expense)	46,645	32,505	113,592	99,735
Interest income				
Interest expense	(267)	315	4,161	315
Loss on early retirement of debt	465	199	1,001	578
	(14,256)	(8,883)	(42,324)	(26,292)
Income before income taxes	--	(1,751)	--	(10,372)
Income taxes	32,587	22,385	76,430	63,964
	(13,204)	(9,191)	(31,683)	(37,756)
Net income				
	$ 19,383	$ 13,194	$ 44,747	$ 26,208
Net income per common share	========	========	========	========
Net income per common share assuming dilution	$ .54	$ .37	$ 1.25	$ .74
Weighted-average common shares applicable to:	$ .51	$ .36	$ 1.19	$ .71
Net income per common share				
Net income per common share				

assuming dilution	35,642	34,617	35,190	34,498
	37,351	36,548	37,065	36,448

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the periods ended September 29, 2005 and September 30, 2004
(in thousands)

	Nine Months	
	2005	2004
Cash Flows from Operating Activities		
Net income		
Adjustments to reconcile net income to net cash		
provided by (used in) operating activities:	$ 44,747	$ 26,208
Depreciation and amortization		
Provision for losses on accounts receivable		
Loss on early retirement of debt	51,545	41,399
Loss on reinvestment obligation	1,343	848
Rent expense	--	10,372
Deferred income taxes	1,367	584
Proceeds from insurance	367	344
Change in assets and liabilities:	2,296	10,226
(Increase) decrease in receivables	(4,931)	(3,000)
(Increase) decrease in refundable income taxes		
(Increase) decrease in inventories and	(2,372)	(6,206)
prepaid expenses	19,457	5,587
Increase (decrease) in accounts payable,		

accrued expenses and income taxes payable	(3,138)	(1,355)
Other items, net		
	11,581	23,022
Net cash provided by (used in) operating activities	(7,787)	1,166
Cash Flows from Investing Activities	114,475	109,195
Reduction in investments		
Return of insurance deposits		
Proceeds from insurance	3,329	2,068
Purchases of property and equipment	6,000	--
Additions to other long-term assets	4,931	3,000
	(68,577)	(116,456)
Net cash provided by (used in) investing activities	(10,365)	(33,136)
Cash Flows from Financing Activities	(64,682)	(144,524)
Proceeds from issuance of long-term debt		
Proceeds from issuance of common stock		
Principal payments on long-term debt	303,200	826,590
Premium paid on early retirement of debt	8,630	2,363
Principal payments on other long-term liabilities	(353,613)	(791,584)
Debt issuance costs	--	(7,616)
Repurchase of common stock	(11)	(11)
Preferred stock dividend	--	(12,744)
Redemption of preferred stock	(5,799)	(1,858)
	(383)	(406)
Net cash provided by (used in) financing activities	(664)	(716)
Net increase (decrease) in cash and cash equivalents	(48,640)	14,018
Cash and cash equivalents at beginning of period		
	1,153	(21,311)
Cash and cash equivalents at end of period	52,908	70,586
	$ 54,061	$ 49,275
	=========	=========

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)(continued)
For the periods ended September 29, 2005 and September 30, 2004
(in thousands)

	Nine Months	
	2005	2004
Supplemental Cash Flow Disclosures		
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	$ 3,447	$ 2,050
Contract payable incurred for property and equipment	356	--
Cash flow during the period for the following:		
Interest paid, net of amount capitalized	$ 37,700	$ 23,512
Income taxes paid (refunded)	(10,422)	9,211

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
For the periods ended September 29, 2005 and September 30, 2004
(in thousands)

	Accumulated Other Comprehensive Loss - Minimum Pension Liability

	Common Stock	Paid-in Capital	Retained Earnings	Adjustment	Treasury Stock	Total
Balance, January 1, 2004	$ 526	$441,498	$291,573	$ (1,526)	$(197,497)	$534,574
Net income			26,208			26,208
Minimum pension liability adjustment, net of income tax				--		--
Total comprehensive income						26,208
Stock options exercised	5	4,408			(3,908)	505
Tax benefit from stock options exercised		3,031				3,031
Preferred stock dividend and losses on redemption			(748)			(748)
Balance, September 30, 2004	$ 531	$448,937	$317,033	$ (1,526)	$(201,405)	$563,570
	======	========	========	=========	=========	========

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss - Minimum Pension Liability Adjustment	Treasury Stock	Total
Balance, December 30, 2004	$ 533	$451,404	$319,018	$ (3,259)	$(201,405)	$566,291
Net income			44,747			44,747
Minimum pension liability adjustment, net of income tax				1,556		1,556
Total comprehensive income						46,303
Stock options exercised	12	12,527			(9,246)	3,293
Tax benefit from						

stock options exercised		8,662				8,662
Preferred stock dividend and losses on redemption	___	___	(756)	___	___	(756)
Balance, September 29, 2005	$ 545	$472,593	$363,009	$ (1,703)	$(210,651)	$623,793
	======	========	========	=========	=========	========

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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 third quarter and nine months ended 2005 was $41,000 and $69,000, respectively; it was $3,968,000 and $10,282,000 during the third quarter and nine months ended 2004. Capitalized costs related to development projects, included in other assets, were $21,645,000 and $18,350,000 at September 29, 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.

Certain reclassifications have been made in the 2004 Consolidated Statement of Cash Flows in order to be comparable with the 2005 presentation.

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 third quarter and nine months ended September 29, 2005 in its Consolidated Statement of Operations. The Company has also made corresponding adjustments to its Consolidated Statement of Operations for the third quarter and nine months ended September 30, 2004 to classify $7,842,000 and $21,155,000, 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 third quarter and nine months ended 2005 were 16,000 and 562,500, respectively; there were 10,000 and 535,000 granted during the third quarter and nine 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.

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, 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 September 29, 2005 and September 30, 2004 using the nominal vesting approach is as follows (in thousands, except per share data):

	Third Quarter		Nine Months	
	2005	2004	2005	2004
Net income, as reported				
Add: Stock-based employee compensation				
expense included in reported net	$ 19,383	$ 13,194	$ 44,747	$ 26,208
income, net of income tax benefit				
Deduct: Total stock-based employee				
compensation expense determined	--	--	300	--
under the fair-value-based method				
of accounting, net of income tax				
benefit				
Pro forma net income	(739)	(943)	(3,373)	(2,651)
Net income per common share:	$ 18,644	$ 12,251	$ 41,674	$ 23,557
As reported	========	========	========	========
Pro forma				
	$ .54	$ .37	$ 1.25	$ .74
Net income per common share assuming	$ .52	$ .35	$ 1.16	$ .66
dilution:				
As reported				
Pro forma				
	$ .51	$ .36	$ 1.19	$ .71
	$ .49	$ .33	$ 1.11	$ .63

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

The pro forma information for the periods ended September 29, 2005 and September 30, 2004 assuming the Company had previously adopted the non-substantive vesting approach is as follows (in thousands, except per share data):

	Third Quarter		Nine Months	
	2005	2004	2005	2004
Net income, as reported				
Add: Stock-based employee compensation expense included in reported net income, net of income tax benefit	$ 19,383	$ 13,194	$ 44,747	$ 26,208
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method of accounting, net of income tax benefit	--	--	300	--
Pro forma net income	(492)	(959)	(3,151)	(3,822)
Net income per common share:	$ 18,891	$ 12,235	$ 41,896	$ 22,386
As reported	========	========	========	========
Pro forma				
	$ .54	$ .37	$ 1.25	$ .74
Net income per common share assuming dilution:	$ .52	$ .35	$ 1.17	$ .63

As reported	$ .51	$ .36	$ 1.19	$ .71
Pro forma	$ .50	$ .33	$ 1.11	$ .60

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 September 29, 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 $55,035,000 at September 29, 2005. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was $7,488,000 at September 29, 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):

	September 29, 2005	December 30, 2004
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, 5.5% at September 29, 2005; matures July 22, 2009	85,000	132,800
Term Loan; floating rate, 5.4% at September 29, 2005; matures July 22, 2009	123,750	124,688
Contract payable; 7.2%; matures 2014	339	--
Obligations under capital leases	16	57
	684,105	732,545
Less current portion	(1,293)	(1,292)
	$682,812	$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)

September 29, 2005. The actual fixed charge coverage ratio was 2.76 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 3.40 to 1.0 and 1.06 to 1.0, respectively, at September 29, 2005.

Note 4: Other Long-term Liabilities

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

	September 29, 2005	December 30, 2004
Deferred compensation and retirement plans	$ 15,214	$ 22,215
Deferred income	--	2,279
Las Vegas Boulevard beautification assessment	282	293
	15,496	24,787
Less current portion	(825)	(972)
	$ 14,671	$ 23,815
	========	========

Note 5: Capital Stock

The Company issued 1,207,000 and 541,835 shares of its common stock in connection with the exercise of stock options during the periods ended September 29, 2005 and September 30, 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 September 29, 2005 and September 30, 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 September 29, 2005 and September 30, 2004 are as follows (in thousands):

	Defined Benefit Plans		Defined Benefit Plans	
	Third Quarter		Nine Months	
	2005	2004	2005	2004
Service cost	$ 47	$ 24	$ 130	$ 71
Interest cost	128	240	470	722
Amortization of prior service cost	18	28	55	85
Settlement loss (a)	--	--	2,851	--
Recognized net actuarial loss	102	225	436	673
	$ 295	$ 517	$3,942	$1,551
	======	======	======	======

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

Deferred Compensation Plan Third Quarter		Deferred Compensation Plan Nine Months	
2005	2004	2005	2004

Service cost	$ 1	$ 3	$ 3	$ 8
Interest cost	88	96	264	288
Cash surrender value increase net of premium expense	(88)	(85)	(264)	(255)
	$ 1	$ 14	$ 3	$ 41
	======	======	======	======

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(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 September 29, 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 third quarter and nine months ended 2005, the Company incurred $1,383,000 and $2,652,000, 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 nine months ended 2005, the Company recorded $526,000 of insurance recoveries due to the delay of the opening of the expansion; none were recorded during the third quarter ended 2005. These insurance recoveries represent 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. In the Consolidated Statement of Operations, these insurance recoveries were classified as construction accident insurance recoveries. 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 and third quarters 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 $65,000,000, of which approximately $9,200,000 has been received by the Company. 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 September 29, 2005.

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 third quarter of 2005, the Company recorded $267,000 of direct costs to obtain insurance recoveries associated with the rebuild. During the nine months ended 2005, the Company recorded $4,161,000 of insurance recoveries associated with the rebuild, net of direct costs to obtain the recoveries. These amounts were classified as other income (expense) in the Consolidated Statement of Operations. A receivable of $1,625,000 was recorded during 2004 for dismantlement and debris removal activities, of which $675,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at September 29, 2005. In addition, at September 29, 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 July 7, 2004, the Company redeemed $42,680,000 of 8 7/8% Senior Subordinated Notes due 2007. In connection with this redemption, during the third quarter of 2004, the Company expensed the redemption premium of $1,262,000 and the unamortized debt issuance costs of $489,000 for a total of $1,751,000. On June 2, 2004, the Company redeemed $192,320,000 of 8 7/8% Notes. In connection with this redemption, during the second quarter of 2004, 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. Loss on early retirement of debt was $10,372,000 for the nine months ended 2004.

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.

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 September 29, 2005 and September 30, 2004, are as follows (in thousands, except per share data):

	Third Quarter		Nine Months	
	2005	2004	2005	2004
Net income				
Less: preferred stock dividend and losses on redemption	$ 19,383	$ 13,194	$ 44,747	$ 26,208
Income available to common	(288)	(217)	(756)	(748)

shareholders				
Plus: income impact of assumed conversion of dilutive preferred stock	19,095	12,977	43,991	25,460
Income available to common shareholders plus dilutive potential common shares	95	99	283	299
Weighted-average common shares applicable to net income per common share	$ 19,190	$ 13,076	$ 44,274	$ 25,759
	========	========	========	========
Effect of dilutive securities:	35,642	34,617	35,190	34,498
Stock option incremental shares				
Assumed conversion of preferred stock	1,210	1,404	1,376	1,423
Dilutive potential common shares	499	527	499	527
Weighted-average common shares applicable to net income per common share assuming dilution	1,709	1,931	1,875	1,950
	37,351	36,548	37,065	36,448
Net income per common share	========	========	========	========
Net income per common share assuming dilution	$ .54	$ .37	$ 1.25	$ .74
	========	========	========	========
	$ .51	$ .36	$ 1.19	$ .71
	========	========	========	========

Stock options that were excluded from the earnings per share computations because their effect would have been antidilutive were 16,000 and 10,000 at September 29, 2005 and September 30, 2004, respectively.

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 September 29, 2005 and September 30, 2004 (in thousands):

	Third Quarter		Nine Months	
	2005	2004	2005	2004
Revenues				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	$137,657	$106,441	$372,101	$294,644
Casino Aztar Evansville	40,005	40,532	124,044	123,192
Casino Aztar Caruthersville	22,565	21,268	72,468	68,335
Total consolidated	34,027	33,496	102,955	98,841
	6,726	5,885	21,043	17,322
EBITDA (a)	$240,980	$207,622	$692,611	$602,334
Tropicana Atlantic City	========	========	========	========
Tropicana Las Vegas				
Ramada Express Laughlin	$ 41,423	$ 26,141	$ 93,407	$ 73,956
Casino Aztar Evansville	8,527	8,769	30,199	28,128
Casino Aztar Caruthersville	5,460	4,238	20,267	17,463
Property EBITDA	10,331	9,891	31,610	29,649
Corporate	1,535	1,215	4,888	3,447
Depreciation and amortization	67,276	50,254	180,371	152,643
Operating income	(3,810)	(3,855)	(16,931)	(12,779)
Other income (expense)	(16,821)	(13,894)	(49,848)	(40,129)
Interest income	46,645	32,505	113,592	99,735
Interest expense	(267)	315	4,161	315
Loss on early retirement of debt	465	199	1,001	578
Income taxes	(14,256)	(8,883)	(42,324)	(26,292)
Net income	--	(1,751)	--	(10,372)
	(13,204)	(9,191)	(31,683)	(37,756)
	$ 19,383	$ 13,194	$ 44,747	$ 26,208
	========	========	========	========

(a)

EBITDA is net income before income taxes, loss on early retirement of debt, interest expense, interest income, other income (expense), 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 (expense), interest expense, net of interest income, loss on early

retirement of 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 September 29, 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 September 29, 2005 and December 30, 2004.

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 September 29, 2005, the aggregate commitment under the severance agreements should all these executives be terminated was approximately $39,000,000 at September 29, 2005.

Item 2. Management's Discussion and Analysis

Financial Condition

During the nine months of 2005, the outstanding balance on our revolving credit facility decreased to $85 million from $132.8 million at December 30, 2004, leaving $459.4 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 September 29, 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 1.00 and 2.5 to 1.00, respectively, at September 29, 2005. The actual fixed charge coverage ratio was 2.76 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 3.40 to 1.00 and 1.06 to 1.00, respectively at September 29, 2005.

During the nine months of 2005, we received $8.6 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 nine months of 2005, our purchases of property and equipment on an accrual basis were $13.2 million for this project and on a cash basis they were $32.5 million. No interest was capitalized during the nine months of 2005 for this project.

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 and third quarters of 2005. In addition, we have filed insurance claims for lost profits and additional costs as

AZTAR CORPORATION AND SUBSIDIARIES

a result of the delay in the opening of the expansion. The total of these claims is $65.0 million, of which $9.2 million has been received. 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 September 29, 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 nine months of 2005, we recorded $4.9 million of insurance recovery associated with the rebuild. The recovery was recognized as other income and was offset by $0.8 million of direct costs to obtain the recovery. In addition, at September 29, 2005, our share of claims outstanding for dismantlement, debris removal and rebuild was approximately $39 million.

During 2005 we began the development of a two-phase master plan for the renovation of portions of our Tropicana Atlantic City. Phase one of the renovation, which is expected to be completed by June 2006, will include enhancements to portions of the south casino, the north tower hotel rooms and certain non-gaming amenities. Phase two of the renovation is still being finalized. It is expected to include enhancements to the balance of the casino floor and a refurbishment of the south tower hotel rooms. A primary objective of the two-phase renovation is to better integrate the Tropicana's existing decor with that of the recently completed expansion. Our capital expenditures for phase one of the project are expected to be approximately $20 million. Capital expenditures for phase two of the project have not yet been quantified.

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 nine months of 2005, we capitalized $2.1 million for development costs, which are 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 million at September 29, 2005. The net book value of accounts receivable, inventories and prepaid expenses at the Las Vegas Tropicana was $7.5 million at September 29, 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 $32 million.

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 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 September 29, 2005, the aggregate commitment under the severance agreements should all these executives be terminated was approximately $39 million at September 29, 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 deciding how to allocate resources.

	Third Quarter		Nine Months	
	2005	2004	2005	2004
Revenues				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	$ 137.7	$ 106.4	$ 372.1	$ 294.6
Casino Aztar Evansville	40.0	40.5	124.0	123.2
Casino Aztar Caruthersville	22.6	21.3	72.5	68.3
Total consolidated	34.0	33.5	103.0	98.9
	6.7	5.9	21.0	17.3
EBITDA (a)	$ 241.0	$ 207.6	$ 692.6	$ 602.3
Tropicana Atlantic City	========	========	========	========
Tropicana Las Vegas				
Ramada Express Laughlin	$ 41.4	$ 26.1	$ 93.4	$ 74.0
Casino Aztar Evansville	8.5	8.8	30.2	28.1
Casino Aztar Caruthersville	5.5	4.3	20.3	17.5
Property EBITDA	10.3	9.9	31.6	29.6
Corporate	1.5	1.2	4.9	3.4
Depreciation and amortization	67.2	50.3	180.4	152.6
Operating income	(3.8)	(3.9)	(17.0)	(12.8)
Other income (expense)	(16.8)	(13.9)	(49.8)	(40.1)
Interest income	46.6	32.5	113.6	99.7
Interest expense	(0.3)	0.3	4.1	0.3
Loss on early retirement of debt	0.5	0.2	1.0	0.6
Income taxes	(14.2)	(8.9)	(42.3)	(26.3)
Net income	--	(1.7)	--	(10.4)
	(13.2)	(9.2)	(31.7)	(37.7)
	$ 19.4	$ 13.2	$ 44.7	$ 26.2
	========	========	========	========

(a) EBITDA is net income before income taxes, loss on early retirement of debt, interest expense, interest income, other income (expense), 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 (expense), 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.

Nine Months Ended September 29, 2005 Compared to Nine Months Ended September 30, 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 nine months of 2005, thus affecting comparability with the nine months 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 $71.1 million during the nine months of 2005, up $9.2 million from $61.9 million during the nine months of 2004. The increase was largely due to corporate and Atlantic City, where general and administrative expenses increased $4.6 million and $3.2 million, respectively, during the 2005 versus 2004 nine-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. The increase at Atlantic City was due primarily to higher payroll costs associated with the expansion.

Other income was $4.1 million in the nine months 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 $42.3 million in the nine months of 2005 compared with $26.3 million in the nine months of 2004. The increase in interest expense was due to a decrease in capitalized interest as well as increases in both the average level of debt outstanding and the average cost of borrowing under our credit facility. The decrease in capitalized interest was attributable to the Atlantic City expansion project, which was substantially completed in December 2004. Interest capitalized was $10.2 million lower in the 2005 versus 2004 nine-month period.

Loss on early retirement of debt was $10.4 million in the nine months of 2004. The loss, which resulted from the redemption of our outstanding 8 7/8% Senior Subordinated Notes, consisted of a redemption premium of $7.6 million and the write-off of unamortized debt issuance costs of $2.8 million.

Consolidated income taxes were $31.7 million in the nine months of 2005 compared with $37.7 million in the nine months of 2004. The decrease of $6.0 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 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 nine months of 2005 compared with the nine months of 2004. Revenues in the nine months of 2005 totaled $372.1 million, up $77.5 million or 26% from the nine months of 2004. The comparatively higher revenues in the 2005 versus 2004 nine-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 nine-month period. The increase in revenues consisted primarily of casino revenue, which increased $56.8 million or 22%, and to a lesser extent rooms revenue, which increased $9.4 million or 49% and other revenue, which increased $8.9 million or 121%.

The increase in casino revenue of $56.8 million during the 2005 versus 2004 nine-month period consisted of a $31.5 million increase in slot revenue and a $25.3 million increase in games revenue. Casino costs increased $14.9 million or 14% in the 2005 versus 2004 nine-month period primarily as a result of the increase in casino revenue.

The increase in rooms revenue of $9.4 million during the 2005 versus 2004 nine-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 35% and the average daily rate increased 11% during the 2005 versus 2004 nine-month period. Rooms costs increased $3.5 million or 33% in the 2005 versus 2004 nine-month period primarily as a result of the increase in rooms revenue.

The increase in other revenue of $8.9 million during the 2005 versus 2004 nine-month period was due primarily to an increase in rental revenue of approximately $4.0 million and guarantee fee income of $2.1 million, which was recognized in the 2005 third quarter. The increase in rental revenue is attributable to rent from tenants of The Quarter, which opened on a limited basis in November 2004. The $2.1 million of other revenue represents the unamortized balance of funds previously received in consideration for an agreement to collateralize a series of revenue bonds issued by the CRDA. The amount was previously classified as deferred income in the Consolidated Balance Sheet and was being amortized over the life of the bonds. The unamortized balance was recognized as other revenue upon the CRDA providing notice that the revenue bonds had been refunded and the Company had been released from its guarantee.

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 $15.2 million or 42% in the nine months of 2005 from $36.0 million the nine months of 2004. The increase in marketing costs consisted primarily of increases in business promotional expenses, entertainment contracts, advertising expenses and payroll costs.

General and administrative expenses were $23.5 million during the nine months of 2005, up $3.2 million or 16% from $20.3 million in the nine months of 2004. The increase was due to higher payroll costs attributable to the expansion primarily for security personnel as well as a combination of other less significant factors including increases in litigation costs and the provision for loss on CRDA investments.

Utilities expense was $12.9 million in the nine months of 2005, up $4.7 million or 57% from $8.2 million in the nine 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.

Property taxes and insurance expense increased $3.5 million or 22% in the 2005 versus 2004 nine-month period. This increase was due primarily to property taxes, which were higher in 2005 as a result of the expansion.

Construction accident insurance recoveries were $10.0 million lower in the 2005 versus 2004 nine-month period. The 2004 recoveries consisted of a business interruption recovery of $3.5 million and two recoveries due to the delay in the opening of the Atlantic City Tropicana expansion project totaling $7.0 million. The business interruption recovery in 2004 reflected a profit recovery applicable to the fourth quarter of 2003. The recoveries 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 types of insurance recoveries are recorded when they are agreed to by our insurers.

Depreciation expense was $32.7 million during the nine months of 2005, up $8.5 million or 35% from $24.2 million in the nine months of 2004. The increase was primarily due to the expansion.

Preopening costs were $1.1 million in the nine months of 2004. These costs relate to marketing costs incurred to promote The Quarter prior to its November 2004 opening.

TROPICANA LAS VEGAS

Rooms revenue increased $3.8 million in the nine months of 2005, up 10% from $38 million in the nine months of 2004. The increase was primarily attributable to an 11% increase in the average daily rate. The increase in the average daily rate is due primarily to increased tourism to the Las Vegas market.

CORPORATE

Corporate general and administrative expenses increased $4.6 million during the nine months of 2005 up 38% from $12.1 million in the nine months of 2004. 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. The distribution resulted in a settlement loss of $2.9 million in the 2005 first quarter. During the 2005 second quarter, we recognized employee termination expenses of $1.5 million consisting of a severance payment and costs recognized upon the acceleration of the vesting provisions of certain of the individual's stock options.

Quarter Ended September 29, 2005 Compared to Quarter Ended September 30, 2004

As previously indicated, 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 were significantly higher during the 2005 third quarter as compared with the 2004 third quarter.

Consolidated interest expense was $14.2 million in the third quarter of 2005 compared with $8.9 million in the third quarter of 2004. The increase in interest expense was due to a decrease in capitalized interest as well as increases in both the average level of debt outstanding and the average cost of borrowing under our credit facility. The decrease in capitalized interest was attributable to the Atlantic City expansion project, which was substantially completed in December 2004. Interest capitalized during the third quarter was $3.9 million lower in 2005 versus 2004.

Loss on early retirement of debt was $1.7 million in the 2004 third quarter. The loss, which resulted from the July 7, 2004 redemption of $42.7 million of our outstanding 8 7/8% Senior Subordinated Notes, consisted of a redemption premium of $1.2 million and the write-off of unamortized debt issuance costs of $0.5 million.

AZTAR CORPORATION AND SUBSIDIARIES

TROPICANA ATLANTIC CITY

As noted above, the Tropicana Atlantic City expansion opened on a limited basis in late November 2004 and was substantially completed by December 2004. Due to its unique nature and the diversity of venues available to customers, The Quarter 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 2005 third quarter compared with the 2004 third quarter. Revenues in the 2005 third quarter totaled $137.7 million, up $31.3 million or 29% from the 2004 third quarter. The comparatively higher revenues in the 2005 versus 2004 third quarter also were attributable to business interruption caused by the October 30, 2003 construction accident, which was more severe in the 2004 quarter than the 2005 quarter. The increase in revenues consisted primarily of casino revenue, which increased $21.9 million or 24%, and to a lesser extent rooms revenue, which increased $4.2 million or 52% and other revenue, which increased $4.2 million or 144%.

The increase in casino revenue of $21.9 million during the 2005 versus 2004 third quarter consisted of a $11.8 million increase in slot revenue and a $10.1 million increase in games revenue. Casino costs increased $5.3 million or 14% in the 2005 versus 2004 third quarter primarily as a result of the increase in casino revenue.

The increase in rooms revenue of $4.2 million during the 2005 versus 2004 third quarter 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 41% and the average daily rate increased 8% during the 2005 versus 2004 third quarter. Rooms costs increased $1.1 million or 26% in the 2005 versus 2004 third quarter primarily as a result of the increase in rooms revenue.

The increase in other revenue of $4.2 million during the 2005 versus 2004 third quarter was due primarily to an increase in rental revenue of approximately $1.5 million and guarantee fee income of $2.1 million, which was recognized in the 2005 third quarter. The increase in rental revenue is attributable to rent from tenants of The Quarter, which opened on a limited basis in November 2004. The $2.1 million of other revenue represents the unamortized balance of funds previously received in consideration for an agreement to collateralize a series of revenue bonds issued by the CRDA. The amount was previously classified as deferred income in the Consolidated Balance Sheet and was being amortized over the life of the bonds. The unamortized balance was recognized as other revenue upon the CRDA providing notice that the revenue bonds had been refunded and the Company had been released from its guarantee.

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 $2.8 million or 23% in the 2005 third quarter from $12.5 million in the 2004 third quarter. The increase in marketing costs consisted primarily of increases in business promotional expenses and entertainment contracts.

Utilities expense was $4.8 million in the 2005 third quarter, up $1.4 million or 41% from $3.4 million in the 2004 third quarter. The increase was primarily due to the expansion.

Property taxes and insurance expense increased $1.7 million or 34% in the 2005 versus 2004 third quarter. This increase was due primarily to property taxes, which were higher in 2005 as a result of the expansion.

Construction accident insurance recoveries were $2.0 million in the 2004 third quarter. This recovery was attributable to the delay in the opening of the Atlantic City Tropicana expansion project. This type of insurance recovery is recorded when it is agreed to by our insurers.

Depreciation expense was $11.1 million in the 2005 third quarter, up 34% from $8.3 million in the 2004 third quarter. The increase was primarily due to the expansion.

Preopening costs were $1.1 million in the 2004 third quarter. These expenses relate to marketing costs incurred to promote The Quarter prior to its November 2004 opening.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America that require us to make estimates and assumptions about the effects of matters that are inherently uncertain. Those estimates and assumptions affect the reported amounts and disclosures in our consolidated financial statements. Actual results inevitably will differ from those estimates, and such difference may be material to the financial statements. Of our accounting estimates, we believe the following may involve a higher degree of judgment and complexity.

Property and equipment - At September 29, 2005, we have property and equipment of $1.2 billion, representing 83% of our total assets. We exercise judgment with regard to property and equipment in the following areas: (1) determining whether an expenditure is eligible for capitalization or if it should be expensed as incurred, (2) estimating the useful life and determining the depreciation method of a capitalized asset, and (3) if events or changes in circumstances warrant an assessment, determining if and to what extent an asset has been impaired. The accuracy of our judgments impacts the amount of depreciation expense we recognize, the amount of gain or loss on the disposal of these assets, whether or not an asset is impaired and, if an asset is impaired, the amount of the loss related to the impaired asset that is recognized. Our judgments about useful lives as well as the existence and degree of asset impairments could be affected by future events, such as property expansions, property developments, obsolescence, new competition, new regulations and new taxes, and other economic factors. Historically, there have been no events or changes in circumstances that have resulted in an impairment loss and our other estimates as they relate to property and equipment have not resulted in significant changes. With the exception of a possible impairment review with regard to the Tropicana Las Vegas development discussed below, we don't anticipate that our current estimates are reasonably likely to change in the future.

Expenditures associated with the repair or maintenance of a capital asset are expensed as incurred. Expenditures that are expected to provide future benefits to the company or that extend the useful life of an existing asset are capitalized. The useful lives that we assign to property and equipment represent the estimated number of years that the property and equipment is expected to contribute to the revenue generating process based on our current operating strategy. We believe that the useful lives of our property and equipment expire evenly over time. Accordingly, we depreciate our property and equipment on a straight-line basis over their useful lives.

When events or changes in circumstances indicate the carrying value of an asset may not be recoverable, we group assets to the level where we can identify future cash flows and estimate the undiscounted future cash flows that the assets are expected to generate. In the event that the sum of the undiscounted future cash flows is less than the carrying amount, we would recognize an impairment loss equal to the excess of the carrying value over the fair value. Such an impairment loss would be recognized as a non-cash component of operating income. Our ability to determine and measure an impaired asset depends, to a large extent, on our ability to properly estimate future cash flows. 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. However, 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 million at September 29, 2005. The net book value of accounts receivable, inventories, and prepaid expenses at the Las Vegas Tropicana was $7.5 million at September 29, 2005.

Development Costs - At September 29, 2005, capitalized development costs, included as part of other assets, totaled $21.6 million. These costs relate primarily to expenditures incurred in connection with the master plan for a potential development of our Las Vegas Tropicana site, including a detailed design plan and construction documents. However, we have postponed a decision about whether and when we will proceed with this development. If we ultimately decide to abandon the project and there is no other use for our plans, we would write off these development costs. Our final decision could be impacted by a number of factors, including, but not limited to, changing market conditions, an inability to obtain sufficient financing, an act of terror, new regulations and new laws, the estimated construction costs, etc.

Income tax liabilities - We are subject to federal income taxes and state income taxes in those jurisdictions in which our properties operate. We exercise judgment with regard to income taxes in the following areas: (1) interpreting whether expenses are deductible in accordance with federal income tax and state income tax codes, (2) estimating annual effective federal and state income tax rates and (3) assessing whether deferred tax assets are, more likely than not, expected to be realized. The accuracy of these judgments impacts the amount of income tax expense we recognize each period.

As a matter of law, we are subject to examination by federal and state taxing authorities. We have estimated and provided for income taxes in accordance with settlements reached with the Internal Revenue Service in prior audits. Although we believe that the amounts reflected in our tax returns substantially comply with the applicable federal and state tax regulations, both the IRS and the various state taxing authorities can and have taken positions contrary to ours based on their interpretation of the law. A tax position that is challenged by a taxing authority could result in an adjustment to our income tax liabilities and related tax provision.

In June 2005, the IRS 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. We believe that adequate provision for income taxes and interest has been made in the financial statements.

During the first quarter of 2004, the IRS completed its examination of the company's income tax returns for the years 2000 through 2002. The only issue in dispute involved the deductibility of a portion of the payments on certain liabilities related to the restructuring of Ramada Inc. During the fourth quarter of 2003, the IRS completed its examination for the years 1994 through 1999 and settled one of the two remaining issues entirely and a portion of the other remaining issue, resulting in a tax benefit of $6.7 million. The issue that was settled entirely involved the deductibility of certain complimentaries provided to customers. The other issue involved the deductibility of a portion of payments on certain liabilities related to the restructuring, the same issue as described above for the 2000 through 2003 years. We have reserved the right to pursue the unagreed portion of this issue in court and we would receive a refund, if successful.

On July 2, 2002, the State of New Jersey enacted the Business Tax Reform Act. We have provided for New Jersey income taxes based on our best estimate of the effect of this law. Certain provisions of the Act are subject to future rules and regulations and the discretion of the Director. We believe our interpretation of the law is reasonable and we don't expect material adjustments; however, we are unable to determine the discretion of the Director. The New Jersey Division of Taxation is examining the New Jersey income tax returns for the years 1995 through 2001. We believe that adequate provision for income taxes and interest has been made in the financial statements.

Ramada indemnification - We have agreed to indemnify 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 attorney's 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 $5.0 million 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, we 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. We have recourse against a subsequent purchaser of the operations covered by these leases. The estimated maximum potential amount of future payments we could be required to make under these indemnifications is $7 million at September 29, 2005. We 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, we established a liability at the time of the Restructuring and our remaining accrued liability was $3.8 million at September 29, 2005.

Impact of the October 30, 2003 construction accident - An accident occurred on the site of the parking-garage component of the expansion of the Atlantic City Tropicana. 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 nine months of 2005, we recorded $4.9 million of insurance recovery for rebuild activities. The recovery was recognized as other income and was offset by $0.8 million of direct costs to obtain the recovery.

AZTAR CORPORATION AND SUBSIDIARIES

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 we have elected to follow. As a result of an amendment by the Securities and Exchange Commission in April 2005, SFAS 123(R) is effective for us at the beginning of our 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 we have followed for disclosure purposes. For periods before the required effective date, we 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. We have not decided whether or not to restate prior periods. Based on stock options granted through September 29, 2005, we estimate that, net of the related income tax benefits, we will record an additional cost of $2.5 million 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 our 2005 fiscal year. As a result of FIN 47, we have determined that we have asset retirement obligations where the timing is uncertain but the amount is not material to our consolidated financial position, results of operations or cash flows. We will adopt FIN 47 in the fourth quarter of 2005.

30

AZTAR CORPORATION AND SUBSIDIARIES

Private Securities Litigation Reform Act

Certain information included in Aztar's Form 10-K for the year ended December 30, 2004, this Form 10-Q and other materials filed or to be filed with, or furnished or to be furnished to 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 2004 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, in particular the Atlantic City Tropicana, 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; possible future debt refinancings; 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 or furnished to the SEC: those factors relating to war and terrorist activities and other factors affecting discretionary consumer spending; uncertainties related to the extent and timing of our recoveries from our insurance carriers for our various losses suffered in connection with the accident on October 30, 2003; the extent to which our existing operations will continue to be adversely affected by the ongoing effects of the accident on October 30, 2003; the extent to which we realize revenue and EBITDA increases as a result of the Tropicana Atlantic City expansion; our ability to execute our development plans, estimates of development costs and returns on development capital; construction and development factors, including zoning and other regulatory issues, environmental restrictions, soil conditions, weather, fire, flood and other natural hazards, site access matters, shortages of material and skilled labor, labor disputes and work stoppages, and engineering and equipment problems; 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 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 outcomes, judicial actions, labor negotiations, legislative matters and referenda including the potential legalization of gaming in Maryland and New York and VLTs at the Meadowlands in New Jersey, and taxation including potential tax increases in Indiana, Missouri, Nevada and New Jersey; the impact of new competition on our operations including prospective new competition in Pennsylvania; and the effects of other 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 speak only as of the date made.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For current information that affects information incorporated by reference in Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2004 see "Note 3: Long-term Debt" of the Notes to Consolidated Financial Statements included in this Form 10-Q under Item 1.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation as of September 29, 2005, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended September 29, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In connection with Case No. CV-S-94-1126-DAE(RJJ)-BASE FILE (the "Poulos/Ahearn Case"), Case No. CV-S-95-00923-DWH(RJJ) (the "Schreier Case") and Case No. CV-S-95-936-LDG(RLH) (the "Cruise Ship Case"), (collectively, the "Consolidated Cases" as Case No. CV-S-94-1126-RLH(RJJ)), as reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004 and under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2005 and the Form 10-Q for the quarter ended June 30, 2005, all defendants filed motions for summary judgment. Those motions were granted on September 15, 2005. All of the plaintiffs' claims against the Company were dismissed. The plaintiffs have appealed to the Court of Appeals for the Ninth Circuit from the order dismissing their case, and have also appealed several previously issued discovery orders. The appeal is in its infancy, and no briefing or argument dates have been set.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004, the Company and its affiliate Adamar of New Jersey, Inc. were named as defendants to an action brought by Zurich American Insurance Company. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2005 and updated in the Form 10-Q for the quarter ended June 30, 2005, Zurich filed an amended complaint that asserts additional claims in which Zurich contests its obligation to pay all or portions of the Company's "delay," "physical damage," and "extended general conditions" claims. The Company disagrees with Zurich's positions and intends to contest the action vigorously. Discovery has begun.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004, the Company filed an action against Lexington Insurance Company; U.S. Fire Insurance Company; Westchester Surplus Lines Insurance Company; Essex Insurance Company; Certain Underwriters at Lloyd's, London; Hartford Fire Insurance Company and Zurich American Insurance Company. As reported under Part II, Item 1 of

AZTAR CORPORATION AND SUBSIDIARIES

the Company's Form 10-Q for the quarter ended March 31, 2005, Lexington Insurance Company paid its applicable policy limits and has been dismissed from the action. The Company subsequently added AXIS (Bermuda) Limited as an additional defendant. Discovery has begun.

As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2005, shortly after paying its limits of liability to the Company, Lexington Insurance Company filed a subrogation action in the Superior Court of New Jersey, Atlantic County, against Fabi Construction, Inc., Pro Management Group, Inc., and Mitchell Bar Placement, Inc. On June 15, 2005, those subrogation defendants filed a third party complaint against the Company and others, alleging claims against the Company for breach of implied covenant of good faith and fair dealing and comparative fault and seeking contribution or indemnity from the Company for any sums that those entities are held liable to pay to Lexington Insurance Company. The Company has moved to dismiss the third party complaint against it; briefing on the motion has not yet been completed and the Court has not yet ruled on the motion. The Company disagrees with the allegations in this third party complaint and intends to contest the third party complaint vigorously if it is not dismissed. Discovery has not yet begun.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004, the Company was named as a defendant to an action brought by Aaron Dolgin. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2005, the parties briefed the issue of whether this matter should be certified as a class action. In an order dated February 28, 2005, the Court denied the plaintiff's motion to certify this matter as a class action. As a result, only the plaintiff's individual claims based on the single $1 telephone surcharge he paid to the Tropicana Resort and Casino in Las Vegas, Nevada remained pending. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2005, the plaintiff has not actively litigated this matter since the denial of the motion for class certification except to respond to the fee application, referenced below. The Court subsequently placed the case on the Inactive Calendar for dismissal on June 20, 2005 unless the plaintiff filed a motion to set the matter for trial before that date. The plaintiff failed to file a motion to set the matter for trial before the June 20, 2005 deadline. On July 15, 2005, the Court entered a Judgment of Dismissal Without Prejudice as to all of the plaintiff's remaining claims for lack of prosecution. On August 12, 2005, the Company filed an application with the Court seeking a discretionary award from the plaintiff and his counsel of the attorneys' fees and costs incurred by the Company in defending against the plaintiff's claims. That application is still in the briefing stages.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004, the Company and its affiliate Adamar of New Jersey, Inc. were named as defendants to an action brought by Liberty Mutual Fire Insurance Company. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2005, in April 2005, the District Court of New Jersey dismissed this action without prejudice.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 30, 2004, the Company and its affiliate Adamar of New Jersey, Inc. were named as defendants to an action brought by Govathlay Givens in the Superior Court of New Jersey in Atlantic County and other lawsuits filed in connection with the October 30, 2003 garage collapse. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2005, on July 7, 2005, an additional lawsuit for personal injuries was filed. This lawsuit included some additional defendants. The anticipated mediation as previously reported did not take place. Instead, depositions of the defendants and other persons with knowledge of the construction and collapse are ongoing. The Company disagrees with the allegations against it and its affiliate and is contesting the liability aspect of them vigorously.

AZTAR CORPORATION AND SUBSIDIARIES

In September 2005, the Liberty Mutual Insurance Company, the insurance company for the Company, its affiliate Adamar of New Jersey, Inc. and the four other defendants insured under the Owner Controlled Insurance Policy (Keating Building Corporation, Fabi Construction, Inc., Mitchell Bar Placement Inc. and Site-Blauvelt Engineers) asked the Court to approve eight proposed settlements of lawsuits filed in connection with the October 30, 2003 garage collapse. The eight lawsuits are tentatively settled, pending the review and acceptance of said settlement by the presiding Judge.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities

The following table provides information on a monthly basis for the third quarter ended September 29, 2005 with respect to the Company's purchases of equity securities.

Period	(a) Total Number of Shares Purchased	(b)Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 July 1, 2005 to July 28, 2005	--	--	--	794,224*
Month #2 July 29, 2005				

to September 1, 2005	--	--	--	794,224*
Month #3 September 2, 2005 to September 29, 2005	--	--	--	794,224*

* In December 2002, the Board of Directors authorized the Company to make discretionary repurchases of up to 4,000,000 shares of its common stock. There is no expiration date under this authority. There were 2,922,576 and 283,200 shares repurchased under this program in 2003 and 2002, respectively.

Item 6. Exhibits

31.1 Certification of CEO.

31.2 Certification of CFO.

32 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: October 31, 2005

NEIL A. CIARFALIA
Neil A. Ciarfalia
Chief Financial Officer,
Vice President and Treasurer

AZTAR CORPORATION AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit Number	Description
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36