AZTAR CORP
Form 10-Q
October 27, 2006

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 30, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer _X_ Accelerated Filer _ Non-Accelerated Filer _

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 26, 2006, the registrant had outstanding 36,490,231 shares of its common stock, $.01 par value.

AZTAR CORPORATION AND SUBSIDIARIES

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

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 76,179	$ 86,361
Accounts receivable, net	24,761	26,469
Construction accident receivables	9,352	2,949
Refundable income taxes	--	1,288
Inventories	8,105	7,350
Prepaid expenses	19,003	13,394
Deferred income taxes	10,567	11,026
Total current assets	147,967	148,837
Assets held for sale	34,780	33,559
Investments	27,483	25,215
Property and equipment:		
Buildings, riverboats and equipment, net	964,552	986,025
Land	207,513	207,514

Construction in progress	45,680	18,339
Leased under capital leases, net	86	9
	1,217,831	1,211,887
Intangible assets	33,228	33,331
Other assets	85,363	102,505
	$1,546,652	$1,555,334
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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 30, 2006	December 31, 2005
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accruals	$ 76,252	$ 91,369
Accrued payroll and employee benefits	25,261	25,765
Accrued interest payable	9,840	7,577
Accrued rent	231	760
Income taxes payable	9,573	--
Current portion of long-term debt	4,230	1,293
Current portion of other long-term liabilities	808	824
Merger termination fee reimbursement	78,000	--
Liabilities related to assets held for sale	1,894	2,495
Total current liabilities	206,089	130,083
Long-term debt	662,614	721,676
Other long-term liabilities	16,840	16,419
Deferred income taxes	42,443	46,006
Contingencies and commitments		
Series B convertible preferred stock (redemption value $23,580 and $15,107)	4,264	4,620
Shareholders' equity:		
Common stock, $.01 par value (36,490,231 and 35,778,952 shares outstanding)	554	546
Paid-in capital	501,175	474,637
Retained earnings	332,715	373,897
Accumulated other comprehensive loss	(1,899)	(1,899)
Less: Treasury stock	(218,143)	(210,651)
Total shareholders' equity	614,402	636,530
	$1,546,652	$1,555,334

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 30, 2006 and September 29, 2005
(in thousands, except per share data)

	Third Quarter	Nine Months

	2006	2005	2006	2005
Revenues				
Casino				
Rooms				
Food and beverage	$175,150	$177,744	$510,268	$508,548
Other	28,559	26,997	81,817	80,223
	14,855	14,840	44,670	44,633
Costs and expenses	15,400	14,673	40,405	38,164
Casino	233,964	234,254	677,160	671,568
Rooms				
Food and beverage	66,111	68,953	199,898	201,348
Other	12,752	12,538	37,010	36,232
Marketing	14,189	14,061	43,444	42,426
General and administrative	7,456	7,626	22,088	22,535
Utilities	20,760	21,287	61,394	69,102
Repairs and maintenance	20,663	20,877	66,459	67,952
Provision for doubtful accounts	7,767	7,628	19,617	19,712
Property taxes and insurance	7,026	6,879	20,963	19,887
Rent	913	636	1,991	1,343
Construction accident related	10,275	8,506	27,740	24,381
Construction accident insurance	2,465	1,949	7,203	5,972
recoveries	1,019	1,383	4,660	2,652
Merger related				
Depreciation and amortization	(3,871)	--	(12,229)	(526)
Tropicana Las Vegas capitalized	1,176	--	82,536	--
development costs write-off	17,107	16,028	52,349	47,525
	--	--	26,021	--
Operating income	185,808	188,351	661,144	560,541
Other income(expense)	48,156	45,903	16,016	111,027
Interest income				
Interest expense	2,712	(267)	4,954	4,161
	395	465	1,315	1,001
Income(loss) from continuing operations before income taxes	(14,106)	(14,256)	(42,389)	(42,324)
Income taxes	37,157	31,845	(20,104)	73,865
Income(loss) from continuing operations	(15,310)	(13,075)	(22,577)	(31,029)
Discontinued operations, net of income taxes	21,847	18,770	(42,681)	42,836
Net income(loss)	1,416	613	3,051	1,911
	$ 23,263	$ 19,383	$(39,630)	$ 44,747
	========	========	========	========

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

AZTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)(continued)
For the periods ended September 30, 2006 and September 29, 2005
(in thousands, except per share data)

	Third Quarter 2006	Third Quarter 2005	Nine Months 2006	Nine Months 2005
Earnings per common share assuming no dilution:				
Income(loss) from continuing operations	$ .58	$ .52	$ (1.22)	$ 1.20
Discontinued operations, net of income taxes	.04	.02	.08	.05
Net income(loss)	$ .62	$ .54	$ (1.14)	$ 1.25
Earnings per common share assuming dilution:				
Income(loss) from continuing operations	$ .56	$ .50	$ (1.22)	$ 1.14
Discontinued operations, net of income taxes	.04	.01	.08	.05
Net income(loss)	$ .60	$ .51	$ (1.14)	$ 1.19
Weighted-average common shares applicable to:				
Earnings per common share assuming no dilution				

Earnings per common share assuming dilution	36,483	35,642	36,172	35,190
	38,084	37,351	36,172	37,065

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 30, 2006 and September 29, 2005
(in thousands)

	Nine Months	
	2006	2005
Cash Flows from Operating Activities		
Net income(loss)		
Adjustments to reconcile net income(loss) to net cash		
provided by (used in) operating activities:	$ (39,630)	$ 44,747
Depreciation and amortization		
Tropicana Las Vegas capitalized development		
costs write-off	55,400	51,545
Stock options compensation expense		
Provision for losses on accounts receivable	26,021	--
Loss on reinvestment obligation	2,909	462
Rent expense	1,991	1,343
Deferred income taxes	1,305	1,367
Proceeds from insurance	1,134	367
Stock options tax benefit	(3,104)	2,296
Change in assets and liabilities:	(3,694)	(4,931)
(Increase) decrease in receivables	(6,839)	--
(Increase) decrease in refundable income taxes		
(Increase) decrease in inventories and	(6,467)	(2,372)
prepaid expenses	1,288	19,457
Increase (decrease) in accounts payable,		
accrued expenses and income taxes payable	(6,406)	(3,138)
Other items, net		
	14,565	11,581
Net cash provided by (used in) operating activities	(790)	(8,249)
Cash Flows from Investing Activities	37,683	114,475
Reduction in investments		
Return of insurance deposits		
Proceeds from insurance	1,293	3,329
Reduction in other assets	--	6,000
Purchases of property and equipment	3,694	4,931
Additions to other long-term assets	6,014	6,537
	(58,856)	(68,577)
Net cash provided by (used in) investing activities	(15,437)	(16,902)
Cash Flows from Financing Activities	(63,292)	(64,682)
Proceeds from issuance of long-term debt		
Proceeds from issuance of common stock		
Merger termination fee reimbursement	505,050	303,200

Stock options tax benefit	14,309	8,630
Principal payments on long-term debt	78,000	--
Principal payments on other long-term liabilities	6,839	--
Repurchase of common stock	(578,637)	(353,613)
Preferred stock dividend	(11)	(11)
Redemption of preferred stock	(7,492)	(5,799)
	(350)	(383)
Net cash provided by (used in) financing activities	(1,651)	(664)
Net increase (decrease) in cash and cash equivalents	16,057	(48,640)
Less the change related to assets held for sale		
Cash and cash equivalents at beginning of period	(9,552)	1,153
	(630)	(537)
Cash and cash equivalents at end of period	86,361	51,353
	$ 76,179	$ 51,969
	=========	=========

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 30, 2006 and September 29, 2005
(in thousands)

	Nine Months	
	2006	2005
Supplemental Cash Flow Disclosures		

Summary of non-cash investing and financing activities:		
Contract payable incurred for intangible assets		
Contract payable incurred for property and equipment		
Accounts payable and accruals incurred for property		
and equipment	$ 307	$ --
Capital lease obligations incurred for property	--	356
and equipment		
Other long term liabilities reduced for property	543	--
and equipment		
Exchange of common stock in lieu of cash payments in	94	--
connection with the exercise of stock options		
	795	--
Cash flow during the period for the following:		
Interest paid, net of amount capitalized	--	3,447
Income taxes paid(refunded)		
	$ 38,390	$ 37,700
	7,078	(10,422)

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 30, 2006 and September 29, 2005
(in thousands)

	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
	======	========	========	=========	=========	========

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss - Minimum Pension Liability Adjustment	Treasury Stock	Total
Balance, December 31, 2005	$ 546	$474,637	$373,897	$ (1,899)	$(210,651)	$636,530
Net income(loss)			(39,630)			(39,630)
Minimum pension liability adjustment, net of income tax				--		--
Total comprehensive income(loss)						(39,630)
Stock options compensation expense		2,909				2,909
Stock options exercised	8	14,301			(7,492)	6,817
Tax benefit from stock options exercised		9,328				9,328
Preferred stock dividend and losses on redemption	___	____	(1,552)	____	____	(1,552)
Balance, September 30, 2006	$ 554	$501,175	$332,715	$ (1,899)	$(218,143)	$614,402
	======	========	========	=========	=========	========

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 Company changed its fiscal year to the calendar year, effective December 31, 2005. The Company previously used a 52/53 week fiscal year ending on the Thursday nearest December 31. The third quarter of 2006 reflects the Company's results of operations for a 92-day period beginning July 1, 2006 and ending September 30, 2006. The third quarter of 2005 contained 91 days, beginning on July 1, 2005 and ending on September 29, 2005. The nine months ended 2006 reflects the Company's results of operations for a 273-day period beginning January 1, 2006 and ending September 30, 2006. The nine months ended 2005 contained 273 days, beginning on December 31, 2004 and ending on September 29, 2005.

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 2006 was $346,000 and $653,000, respectively; it was $41,000 and $69,000, respectively, during the third quarter and nine months ended 2005. Capitalized costs related to development projects, included in other assets, were $12,249,000 and $25,008,000 at September 30, 2006 and December 31, 2005, 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 31, 2005.

The accompanying consolidated financial statements for 2005 reflect certain reclassifications for discontinued operations as described in "Note 10: Discontinued Operations." These reclassifications have no effect on previously reported net income(loss). In addition, certain reclassifications have been made in the 2005 Consolidated Statement of Cash Flows in order to be comparable with the 2006 presentation.

Equity Instruments

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment". SFAS 123(R), which became effective for the Company on January 1, 2006, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, which the Company previously elected to follow. In addition, SFAS 123(R) replaces Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation".

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 is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. As permitted under SFAS 123(R), the Company has elected to apply a modified prospective application as the transition method from APB 25 to SFAS 123(R). Compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date is recognized as the requisite service is rendered on or after the required effective date based on the grant-date fair value as previously determined under SFAS 123. For periods before the required effective date, companies 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 elected not to adjust its financial statements for prior

periods. The Company recognized $837,000 and $2,909,000, respectively, of compensation expense in the Consolidated Statement of Operations during the third quarter and nine months ended September 30, 2006. After the related income tax effect, this resulted in a decrease in net income, net income per common share assuming no dilution and net income per common share assuming dilution of $536,000, $.01 and $.01, respectively, during the third quarter of 2006 and an increase in net loss, net loss per common share assuming no dilution and net loss per common share assuming dilution of $1,863,000, $.05 and $.05, respectively, during the nine months ended 2006. Under APB 25, there would not have been any compensation expense. The Company classifies its stock-based compensation expense in the Consolidated Statement of Operations in a manner consistent with its classification of cash compensation paid to the same employees. Also during the nine months ended September 30, 2006, in the Consolidated Statement of Cash Flows, the Company decreased cash from operating activities and increased cash from financing activities by $6,839,000 related to tax benefits from stock options exercised. Under APB 25, the Company would not have decreased cash from operating activities or increased cash from financing activities by $6,839,000. As of September 30, 2006, the Company had $3,913,000 of unrecognized compensation cost related to awards granted under its stock option plans. The Company expects to recognize that cost over a weighted-average period of 1.4 years.

Prior to January 1, 2006, the Company measured the cost of its stock options by applying the intrinsic-value-based method of accounting as prescribed by APB 25 and related interpretations. Under APB 25, because the exercise price of the Company's stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized. Because of the prior election to follow APB 25, the Company is required to continue providing pro forma information regarding net income(loss) and earnings per share for all reporting periods ending prior to January 1, 2006 as if the Company had accounted for its stock option plans under the fair-value-based method of SFAS 123. The fair value for options granted was estimated at the date of grant or modification using a

Black-Scholes option pricing model with the following weighted-average assumptions for the 2005 fiscal year: risk-free interest rate of 3.8%, no dividend, volatility factor of the expected market price of the Company's common stock of .36 and an expected life of the option of 5.0 years. The risk-free interest rate was derived from the annual interest yield on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options. The annual interest yield was taken from an authoritative published source such as the Wall Street Journal on the date the options were granted. Expected volatility was estimated through a review of historical stock price volatility adjusted for future expectations. The expected term of the options represented the period of time options granted were expected to be outstanding and was estimated through a review of historical exercise behavior and other factors expected to influence behavior such as expected volatility and employees' ages and lengths of service.

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 elected retirement before the end of the options' vesting period, the Company recognized an expense on the retirement date for the remaining unamortized compensation cost.

Starting in 2006, the Company adopted the non-substantive vesting approach for new options granted. 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 January 1, 2006 for all options granted prior to January 1, 2006.

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

The computations of pro forma net income(loss) 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 using the nominal vesting approach is as follows (in thousands, except per share data):

	Third Quarter	Nine Months
	2005	2005
Net income, as reported		
Add: Stock-based employee compensation expense included in reported net income, net of income	$ 19,383	$ 44,747

tax benefit		
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	(739)	(3,373)
Net income per common share assuming no dilution:	$ 18,644	$ 41,674
As reported	========	========
Pro forma		
	$ .54	$ 1.25
Net income per common share assuming dilution:	$ .52	$ 1.16
As reported		
Pro forma		
	$ .51	$ 1.19
	$ .49	$ 1.11

The pro forma information for the periods ended September 30, 2006 and September 29, 2005 assuming the Company had previously adopted the non-substantive vesting approach is as follows (in thousands, except per share data):

	Third Quarter		Nine Months	
	2006	2005	2006	2005
Net income(loss), as reported				
Add: Stock-based employee compensation expense included in reported net income, net of income tax benefit	$ 23,263	$ 19,383	$(39,630)	$ 44,747
Add (Deduct): Impact of stock-based employee compensation expense if the non-substantive approach had been used to amortize compensation expense determined under the fair-value-based method of accounting, net of income tax	--	--	--	300
Pro forma net income(loss)	237	(492)	691	(3,151)
Net income(loss) per common share assuming no dilution:	$ 23,500	$ 18,891	$(38,939)	$ 41,896
	========	========	========	========
As reported				
Pro forma				
	$ .62	$ .54	$ (1.14)	$ 1.25
Net income(loss) per common share assuming dilution:	$ .63	$ .52	$ (1.12)	$ 1.17
As reported				
Pro forma				
	$ .60	$ .51	$ (1.14)	$ 1.19

$ .60	$ .50	$ (1.12)	$ 1.11

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires employers to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. The funded status of a defined benefit pension plan is measured as the difference between plan assets at fair value and the plan's projected benefit obligation. Under SFAS 158, employers are required to measure plan assets and benefit obligations at the date of their fiscal year-end statement of financial position. SFAS 158 is effective for the Company at the end of the 2006 calendar year. Based on the projected benefit obligations of the Company's defined benefit plans and deferred compensation plan, which were last measured at December 31, 2005, the aggregate underfunded status of the Company's defined benefit postretirement plans at December 31, 2005 was $19,500,000. If the Company were required to adopt SFAS 158 based on its underfunded status at December 31, 2005, the Company would recognize an additional accrued benefit liability of approximately $3,900,000 and derecognize an intangible asset for unrecognized prior service costs of approximately $100,000. The impact of these changes would be recognized as an adjustment to other comprehensive loss of $2,600,000, which is net of a $1,400,000 tax benefit. Since the benefit obligations will not be measured until December 31, 2006, the Company cannot yet quantify the actual impact the adoption of SFAS 158 will have on its consolidated financial statements.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. In doing so, FIN 48 prescribes the application of a two-step process to account for tax positions. The first step establishes standards for the recognition of the financial effect of a tax position. The second step establishes standards for the measurement of the financial effect of a tax position that meets the recognition standards of step one. A tax position, as used in FIN 48, refers to a position taken in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. Under the first step, the financial statement effect of a tax position is recognized when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. Under the second step, a tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 is effective for the Company at the beginning of the 2007 calendar year. The cumulative effect of adopting FIN 48, if any, shall be reported as an adjustment to the opening balance of retained earnings or other appropriate component of shareholders' equity. The Company has not determined the effect of FIN 48 on its consolidated financial position.

Note 2: Long-term Debt

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

	September 30, 2006	December 31, 2005
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, 7.4% at September 30, 2006; matures July 22, 2009	69,000	124,500
Term Loan; floating rate, 6.8% at September 30, 2006; matures July 22, 2009	122,188	123,125

Contracts payable; 4.3% to 9.5%; maturities to 2014	576	328
Obligations under capital leases	80	16
	666,844	722,969
Less current portion	(4,230)	(1,293)
	$662,614	$721,676
	========	========

On June 30, 2006, the maximum amount available under the Revolver decreased by $125,000,000, leaving $300,111,000 available as of September 30, 2006 for future borrowing after consideration of outstanding letters of credit, subject to quarterly financial tests as described below. The maximum amount available under the Revolver decreased since the Company did not commence redevelopment of the Las Vegas Tropicana property or enter into an alternative project approved by the lenders holding a majority of the commitments.

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 September 30, 2006. On July 17, 2006, the Company and the lenders amended the definition of operating cash flow effective June 30, 2006, to exclude the Pinnacle termination payment of $78,000,000 and the Sussex reimbursement of $78,000,000 (see Note 7: Merger Related). The actual fixed charge coverage ratio was 2.63 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 2.93 to 1.0 and 1.0 to 1.0, respectively at September 30, 2006.

Note 3: Other Long-term Liabilities

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

	September 30, 2006	December 31, 2005
Deferred compensation and retirement plans	$ 16,806	$ 15,630
Asset retirement obligations	582	1,342
Las Vegas Boulevard beautification assessment	260	271
	17,648	17,243
Less current portion	(808)	(824)
	$ 16,840	$ 16,419
	========	========

Note 4: Stock Options

The Company's 1989 Stock Option and Incentive Plan ("1989 Plan") expired in June 1999. The 1989 Plan had authorized the grant of up to 6,000,000 shares of the Company's common stock pursuant to options, restricted shares and performance shares to officers and key employees of the Company. During 1999, the Company adopted the 1999 Employee Stock Option and Incentive Plan ("1999 Plan"). The 1999 Plan has

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

authorized the grant of up to 4,000,000 shares of the Company's common stock pursuant to options, stock appreciation rights, restricted shares, deferred shares and performance shares to officers and key employees of the Company. During 2004, the Company adopted the 2004 Employee Stock Option and Incentive Plan ("2004 Plan"). The 2004 Plan has authorized the grant of up to 4,000,000 shares of the Company's common stock pursuant to options, stock appreciation rights, restricted shares, deferred shares and performance shares to officers and key employees of the Company. Options granted under the 1989, 1999 and 2004 Plans have 10-year terms and vest and become exercisable at the rate of 1/3 per year on each of the first three anniversary dates of the grant, subject to continued employment on those dates. Options granted on May 8, 2002, or later, under the 1999 and 2004 Plans include an additional provision that provides for accelerated vesting under certain circumstances related to retirement, disability or death.

The Company's 1990 Nonemployee Directors Stock Option Plan ("1990 Plan") expired in July 2000. The 1990 Plan had authorized the grant of up to 250,000 shares of the Company's common stock pursuant to options granted to nonemployee Directors of the Company. Options granted under the 1990 Plan have 10-year terms and vested and became exercisable on the date of the grant. During 2001, the Company's shareholders approved the 2000 Nonemployee Directors Stock Option Plan ("2000 Plan"). The 2000 Plan has authorized the grant of up to 250,000 shares of the Company's common stock pursuant to options granted to nonemployee Directors of the Company. Options granted under the 2000 Plan have 10-year terms. The 2000 Plan provides for the granting of options that vest and become exercisable on the date of grant and provides for the granting of options whereby a portion vests and becomes exercisable on the date of grant and the remainder vests and becomes exercisable evenly over varying terms depending on the date of the grant, subject to being a Company Director on those dates.

During the nine months ended 2006 and 2005, the Company received cash of $14,309,000 and $8,630,000, respectively, in connection with stock option exercises. During the nine months ended 2005, the Company issued 1,207,000 shares of its common stock in connection with stock option exercises. During the nine months ended 2006, the Company accepted 164,387 shares of its common stock in satisfaction of $7,492,000 of tax obligations paid by the Company, which were associated with the exercise of stock options. During the nine months ended 2005, the Company accepted 119,649 shares of its common stock in lieu of cash due to the Company in connection with the exercise of stock options. The Company also accepted an additional 189,318 shares of its common stock in satisfaction of $5,799,000 of tax obligations paid by the Company during the nine months ended 2005, 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. The Company satisfies stock option exercises by authorizing its transfer agent to issue new shares after confirming that all requisite consideration has been received from the option holder. The total intrinsic value of options exercised during the periods ended September 30, 2006 and September 29, 2005 was $26,327,000 and $25,166,000, respectively. The tax benefit realized for these option exercises was $9,398,000 and $8,825,000, respectively, for the periods ended September 30, 2006 and September 29, 2005.

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 during the second quarter of 2005 approximately $462,000 of compensation expense.

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

A summary of the Company's stock option activity and related information is as follows:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2006	3,750	$ 17.72		
Granted	--	--		
Exercised	(876)	$ 16.34		
Forfeited or expired	(30)	$ 30.90		
Outstanding at September 30, 2006	2,844	$ 18.01	5.4 years	$ 99,544
Exercisable at September 30, 2006	2,385	$ 15.80	4.9 years	$ 88,727

Stock options that were granted during the third quarter and nine months ended 2005 were 16,000 and 562,500, respectively; the weighted-average grant-date fair value of these options was $13.18 and $11.73, respectively. There were no stock options granted during the third quarter and nine months ended 2006.

Note 5: Benefit Plans

The components of benefit plan expense(income) for the periods ended September 30, 2006 and September 29, 2005 are as follows (in thousands):

	Defined Benefit Plans		Defined Benefit Plans	
	Third Quarter		Nine Months	
	2006	2005	2006	2005
Service cost	$ 34	$ 47	$ 102	$ 130
Interest cost	173	128	520	470
Amortization of prior service cost	19	18	56	55
Settlement loss (a)	--	--	--	2,851
Recognized net actuarial loss	284	102	853	436
	$ 510	$ 295	$1,531	$3,942
	======	======	======	======

	Deferred Compensation Plan Third Quarter		Deferred Compensation Plan Nine Months	
	2006	2005	2006	2005
Service cost	$ --	$ 1	$ 1	$ 3
Interest cost	84	88	253	264
Cash surrender value increase net of premium expense	(93)	(88)	(280)	(264)
	$ (9)	$ 1	$ (26)	$ 3
	======	======	======	======

(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

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

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 nine months ended September 29, 2005.

Note 6: Accounting for the Impact of the October 30, 2003 Construction Accident

An accident occurred on the site of the construction 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.

The Company incurred construction accident related costs and expenses that may not be reimbursed by insurance of $1,019,000 and $4,660,000, respectively, during the third quarter and nine months ended 2006, and $1,383,000 and $2,652,000, respectively, during the third quarter and nine months ended 2005. These costs and expenses primarily consist of professional fees incurred as a result of the accident.

The Company recorded insurance recoveries due to the delay of the opening of the expansion of $3,871,000 and $12,229,000, respectively, during the third quarter and nine months ended 2006, and $526,000 during the nine months ended 2005; none were recorded during the third quarter of 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. These insurance recoveries were classified as construction accident insurance recoveries in the Consolidated Statements of Operations. Insurance claims for business interruption that occurred from the date of the accident through December 31, 2005 have been filed with the Company's insurers in the amount of approximately $52,100,000, of which $3,500,000 has been received by the Company. 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 $64,700,000, of which approximately $18,200,000 has been received by the Company and $3,871,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at September 30, 2006.

Profit recovery from insurance is recorded when the amount of recovery, which may be different than 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 construction accident receivables at September 30, 2006.

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. The Company recorded insurance recoveries associated with the rebuild, net of direct costs to obtain the recoveries of $2,712,000 and $4,954,000, respectively, during the third quarter and nine months ended 2006, and $(267,000) and $4,161,000, respectively, during the third quarter and nine months ended 2005, of which $3,881,000 was included in the Consolidated Balance Sheet as part of the construction accident receivables at September 30, 2006. These amounts were classified as other income(expense) in the Consolidated Statements of Operations. In addition, at September 30, 2006, the Company's

share of claims outstanding for dismantlement, debris removal and rebuild was approximately $24,200,000.

Note 7: Merger Related

On March 13, 2006, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Pinnacle Entertainment, Inc. ("Pinnacle") and Pinnacle's wholly-owned subsidiary, PNK Development 1, Inc. Under the terms of the Merger Agreement, Pinnacle agreed to pay $38.00 in cash for each share of the Company's common stock and $401.90 in cash for each share of the Company's Series B convertible preferred stock outstanding at the Effective Time (as defined in the Merger Agreement). Subsequently, the Merger Agreement was amended three times and on May 5, 2006, the Company entered into a fourth amendment (the "Fourth Amendment") to the Merger Agreement with Pinnacle. Pursuant to the Fourth Amendment, each share of Aztar common stock would be exchanged for $47.00 in cash and a fraction of a share of Pinnacle common stock equal to $4.00 divided by the trading price of a share of Pinnacle common stock over a specified trading period, but no more than 0.16584 shares and no fewer than 0.11056 shares, and each share of Aztar preferred stock would be exchanged for $497.09 in cash plus $42.304 of Pinnacle common stock, subject to a collar provision. The Fourth Amendment increased a termination fee provision to $52,160,000 plus the reimbursement of up to $25,840,000 of merger-related costs incurred by Pinnacle.

On May 19, 2006, the Company entered into an Agreement and Plan of Merger (the "Columbia Merger Agreement") with Columbia Sussex Corporation ("Sussex"), Wimar Tahoe Corporation, d/b/a Columbia Entertainment, the gaming affiliate of Sussex ("Columbia Entertainment"), and WT-Columbia Development, Inc., a wholly-owned subsidiary of Columbia Entertainment. Prior to signing the Columbia Merger Agreement, the Company terminated its earlier merger agreement with Pinnacle and paid to Pinnacle a termination fee of $52,160,000 and termination expenses of $25,840,000. The payment is not deductible for tax purposes. The termination fee and termination expenses paid to Pinnacle were classified as merger-related expenses in the 2006 Consolidated Statements of Operations.

Under the Columbia Merger Agreement, Columbia Entertainment will acquire all the outstanding shares of Aztar common stock for $54.00 per share in cash and all the outstanding shares of Aztar preferred stock for $571.13 per share in cash. The Columbia Merger Agreement also provides for an increase in the purchase price under certain conditions at the rate per day of $0.00888 per share of Aztar common stock and $0.09388 per share of Aztar preferred stock beginning November 20, 2006, and then to $0.01184 per share of Aztar common stock and $0.12518 per share of Aztar preferred stock beginning February 20, 2007 until the closing of the transaction. The Columbia Merger Agreement contains a termination fee provision of $55,228,000 plus the reimbursement of up to $27,360,000 of merger-related costs incurred by Columbia Entertainment. On October 17, 2006, Aztar shareholders approved the Columbia Merger Agreement at a special meeting of Aztar shareholders. The transaction is subject to the satisfaction of customary closing conditions, including the receipt of necessary gaming approvals.

In the Columbia Merger Agreement, the Company agreed to use commercially reasonable efforts to sell or close the Company's Missouri property, Casino Aztar Caruthersville. The Company signed an agreement with Fortunes Entertainment, LLC on August 17, 2006 under which Fortunes Entertainment would acquire the Caruthersville property. Approval by Missouri gaming authorities is required for any transaction involving the sale, or a closure, of the Company's Missouri property. On October 25, 2006, the Missouri Gaming Commission determined that the licensing of Fortunes Entertainment will not occur on or before November 19, 2006, the deadline for obtaining the necessary licenses to complete the sale. In addition, the Commission directed its staff to take the necessary legal steps for the appointment of a supervisor of Casino Aztar Caruthersville to avoid closure of the gaming operation. The supervisor is to be appointed for an undetermined time until an owner acceptable to the Commission for licensing can be found.

In connection with the Columbia Merger Agreement, Sussex deposited $313,000,000 into a custody account, payable to Aztar in certain circumstances (including failure to obtain regulatory approvals) in the event that the Columbia Merger Agreement is terminated. Of the deposit, $78,000,000 has been paid to Aztar as reimbursement of the termination fees and expenses paid to Pinnacle. Since this reimbursement is considered to be a deposit toward the merger for accounting purposes, it was classified as a current liability in the Consolidated Balance Sheet as merger termination fee reimbursement at September 30, 2006. If the merger is terminated under certain conditions, the reimbursement is repayable by the Company to Sussex and if the merger is terminated under certain other conditions or if the merger is consummated, it is retained by the Company.

During the third quarter and nine months ended 2006, the Company recorded $1,176,000 and $82,536,000, respectively, of merger-related costs and expenses. These costs and expenses primarily consist of the Pinnacle termination fee and expenses of $78,000,000 and professional fees.

Note 8: Tropicana Las Vegas Capitalized Development Costs Write-Off

During the 2006 first quarter, the Company concluded that it was not probable that it would implement its plans for redevelopment of Tropicana Las Vegas. As a result, the Company wrote off $26,021,000 of capitalized development costs.

Note 9: Income Taxes

In the first quarter of 2006, the Company reached a favorable settlement with the Internal Revenue Service on the only remaining issue in dispute for the examinations of the Company's federal income tax returns for the years 1994 through 2003. The issue involved the deductibility of a portion of payments on certain liabilities related to the restructuring of Ramada, Inc. (the "Restructuring"). As a result of the settlement, the Company recorded an income tax benefit of $1,383,000.

Also in the first quarter of 2006, the Company's application for tax credits available from New Jersey was approved. As a result of the approval, the Company recognized, net of a federal income tax effect, a non-recurring income tax benefit of $1,993,000.

The Company has been notified by the IRS that they will be examining the 2003 and 2004 income tax returns of Aztar Riverboat Holding Company, LLC, an indirect subsidiary of the Company that holds the Company's interests in its operations in Indiana and Missouri. The Indiana Department of Revenue completed their examination of the Indiana income tax returns for the years 2003 and 2004 and issued no change reports for both years.

Note 10: Discontinued Operations

The results of operations for Casino Aztar Caruthersville are reported as discontinued operations net of income taxes, reflecting the Company's commitment to sell or close that property as part of the Company's Columbia Merger Agreement. On August 17, 2006, the Company signed an agreement with Fortunes Entertainment, LLC under which Fortunes Entertainment would acquire the Caruthersville property. Approval by Missouri gaming authorities is required for any transaction involving the sale, or a closure, of the property. Any gain related to the sale would be recognized when the transaction is completed. On October 25, 2006, the Missouri Gaming Commission determined that the licensing of Fortunes Entertainment will not occur on or before November 19, 2006, the deadline for obtaining the necessary licenses to complete the sale. In addition, the Commission directed its staff to take the necessary legal steps for the appointment of a supervisor of Casino Aztar Caruthersville to avoid closure of the gaming operation. The supervisor is to be appointed for an undetermined time until an owner acceptable to the Commission for licensing can be found.

The consolidated financial statements for all prior periods have been reclassified to reflect the results of operations of Casino Aztar Caruthersville as discontinued. In accordance with generally accepted accounting principles, the assets held for sale are no longer depreciated. The assets and liabilities of Casino Aztar Caruthersville are classified as assets held for sale and liabilities related to assets held for sale, respectively, in the accompanying Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005.

Summary operating results of Casino Aztar Caruthersville are as follows for the periods ended September 30, 2006 and September 29, 2005 (in thousands):

	Third Quarter		Nine Months	
	2006	2005	2006	2005
Revenues	$ 7,346	$ 6,726	$ 21,838	$ 21,043
	========	========	========	========
Operating income	$ 2,099	$ 742	$ 4,637	$ 2,565
Income taxes	(683)	(129)	(1,586)	(654)
Income from discontinued operations	$ 1,416	$ 613	$ 3,051	$ 1,911
	========	========	========	========

Assets held for sale and liabilities related to assets held for sale are as follows (in thousands):

	September 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	$ 2,468	$ 1,838
Accounts receivable, net	33	21
Inventories	29	32
Prepaid expenses	168	149
Property and equipment, net	31,686	31,123
Intangible assets	391	391
Other assets	5	5
Total assets held for sale	$ 34,780	$ 33,559
	========	========
Liabilities		
Accounts payable and accruals	$ 1,445	$ 1,466
Accrued payroll and employee benefits	449	1,029
Total liabilities related to assets held for sale	$ 1,894	$ 2,495
	========	========

Note 11: Earnings Per Share

Income(loss) from continuing operations per common share assuming no dilution is computed by dividing income(loss) from continuing operations applicable to common shareholders by the weighted-average number of common shares outstanding. Income(loss) from continuing operations 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 income(loss) from continuing operations per common share assuming no dilution and income(loss) from continuing operations per common share

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

assuming dilution for the periods ended September 30, 2006 and September 29, 2005, are as follows (in thousands, except per share data):

	Third Quarter	Nine Months

	2006	2005	2006	2005
Income(loss) from continuing operations				
Less: preferred stock dividend and losses on redemption	$ 21,847	$ 18,770	$(42,681)	$ 42,836
Income(loss) from continuing operations applicable to common shareholders	(615)	(288)	(1,552)	(756)
Plus: income impact of assumed conversion of dilutive preferred stock	21,232	18,482	(44,233)	42,080
Income(loss) from continuing operations applicable to common shareholders plus dilutive potential common shares	85	95	--	283
Weighted-average common shares applicable to income(loss) from continuing operations per common share assuming no dilution	$ 21,317	$ 18,577	$(44,233)	$ 42,363
Effect of dilutive securities: Stock option incremental shares	36,483	35,642	36,172	35,190
Assumed conversion of preferred stock	1,150	1,210	*	1,376
Dilutive potential common shares				
	451	499	*	499
Weighted-average common shares applicable to income(loss) from continuing operations per common share assuming dilution	1,601	1,709	*	1,875
Income(loss) from continuing operations per common share assuming no dilution	38,084	37,351	36,172	37,065
Income(loss) from continuing operations per common share assuming dilution	$ .58	$ .52	$ (1.22)	$ 1.20
	$ .56	$ .50	$ (1.22)	$ 1.14

Stock options that were excluded from consideration for the earnings per share computations because their effect would have been antidilutive were 16,000 at September 29, 2005 and none at September 30, 2006.

For the nine months ended 2006, no potential common shares were included in the computation of earnings per common share assuming dilution because there was a loss from continuing operations.

* Antidilutive

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

Note 12: Segment Information

The Company reviews results of operations based on distinct geographic gaming market segments. The Company's chief operating decision maker uses only Segment Adjusted EBITDA in assessing segment performance and deciding how to allocate resources. The Company's segment information is as follows for the periods ended September 30, 2006 and September 29, 2005 (in thousands):

	Third Quarter	Nine Months

	2006	2005	2006	2005
Revenues				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	$135,256	$137,657	$376,937	$372,101
Casino Aztar Evansville	40,804	40,005	121,334	124,044
Total consolidated	22,700	22,565	74,707	72,468
	35,204	34,027	104,182	102,955
Segment Adjusted EBITDA (a)	$233,964	$234,254	$677,160	$671,568
Tropicana Atlantic City	========	========	========	========
Tropicana Las Vegas				
Ramada Express Laughlin	$ 45,760	$ 41,423	$113,271	$ 93,407
Casino Aztar Evansville	9,600	8,527	27,342	30,199
Total Segment Adjusted	5,255	5,460	20,283	20,267
EBITDA	10,342	10,331	30,869	31,610
Corporate	70,957	65,741	191,765	175,483
Depreciation and amortization	(5,694)	(3,810)	(123,400)	(16,931)
Operating income	(17,107)	(16,028)	(52,349)	(47,525)
Other income(expense)	48,156	45,903	16,016	111,027
Interest income	2,712	(267)	4,954	4,161
Interest expense	395	465	1,315	1,001
Income taxes	(14,106)	(14,256)	(42,389)	(42,324)
Income(loss) from continuing operations	(15,310)	(13,075)	(22,577)	(31,029)
Discontinued operations, net of income taxes	21,847	18,770	(42,681)	42,836
Net income(loss)	1,416	613	3,051	1,911
	$ 23,263	$ 19,383	$(39,630)	$ 44,747
	========	========	========	========

(a) Segment Adjusted EBITDA is net income(loss) before discontinued operations, income taxes, interest expense, interest income, other income(expense), depreciation and amortization and corporate. Segment Adjusted EBITDA should not be construed as a substitute for either operating income or net income(loss) as they are determined in accordance with generally accepted accounting principles (GAAP). Segment Adjusted EBITDA, which is computed in accordance with SFAS No. 131, does not represent a non-GAAP financial measure as it is presented in the above summary. The use of Segment Adjusted EBITDA for any other purpose would constitute a non-GAAP financial measure. The Company uses Segment Adjusted 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 Segment Adjusted 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 believes that Segment Adjusted 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 Segment Adjusted 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

Segment Adjusted EBITDA provides a useful perspective for some purposes, Segment Adjusted 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 Segment

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

Adjusted EBITDA does not reflect the requirements for such replacements. Corporate, other income(expense), interest expense, net of interest income, income taxes and discontinued operations are also not reflected in Segment Adjusted EBITDA. Therefore, the Company does not consider Segment Adjusted EBITDA in isolation, and it should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of Segment Adjusted EBITDA with operating income and net income(loss) as determined in accordance with GAAP is reflected in the above summary.

Note 13: 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 $6,100,000 at September 30, 2006. 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 $3,821,000 and $3,833,000 at September 30, 2006 and December 31, 2005, respectively.

The Company is a party to various other claims, legal actions and complaints arising in the course of business or asserted by way of defense or counterclaim in actions filed by the Company. Management believes that its defenses are substantial in each of these matters and that the Company's legal posture can be successfully defended without material adverse effect on its consolidated financial position, results of operations or cash flows.

The Company has severance agreements with certain of its senior executives. Severance benefits range from a lump-sum cash payment equal to three times the sum of the executive's annual base salary and the average of the executive's annual bonuses awarded in the preceding three years plus payment of the value in the executive's outstanding stock options and vesting and distribution of any restricted stock to a lump-sum cash payment equal to one fourth of the executive's annual base salary. In certain agreements, the termination must be as a result of a change in control of the Company. Based upon salary levels and stock options at September 30, 2006, the aggregate commitment under the severance agreements should all these executives be terminated was approximately $89,000,000 at September 30, 2006.

At September 30, 2006, the Company had commitments of approximately $7,000,000 for a hotel and entertainment complex project at Casino Aztar Evansville.

AZTAR CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis

Merger Agreement

On March 13, 2006, Aztar entered into an Agreement and Plan of Merger (the "Merger Agreement") with Pinnacle Entertainment, Inc. ("Pinnacle") and PNK Development 1, Inc., a wholly-owned subsidiary of Pinnacle. Under the terms of the Merger Agreement, each share of Aztar common stock would be exchanged for the right to receive $38.00 in cash and each share of Aztar Series B convertible preferred stock would be exchanged for the right to receive $401.90 in cash. Subsequently, the Merger Agreement was amended three times and on May 5, 2006, the Company entered into a fourth amendment (the "Fourth Amendment") to the Merger Agreement with Pinnacle.

Pursuant to the Fourth Amendment, each share of Aztar common stock would be exchanged for the right to receive $47.00 in cash and a fraction of a share of Pinnacle common stock equal to $4.00 divided by the trading price of a share of Pinnacle common stock over a specified trading period, but no more than 0.16584 shares and no fewer than 0.11056 shares, and each share of Aztar preferred stock would be exchanged for the right to receive $497.09 in cash plus $42.304 of Pinnacle common stock, subject to a collar provision. The Fourth Amendment increased a termination fee provision to $52.16 million plus the reimbursement of up to $25.84 million of merger-related costs incurred by Pinnacle.

On May 19, 2006, the Company terminated the Pinnacle Merger Agreement and in doing so, paid Pinnacle $78 million, consisting of the termination fee of $52.16 million and termination expenses of $25.84 million. The payment, which is not tax deductible, was classified as merger-related expenses in the 2006 Consolidated Statements of Operations. Also on May 19, 2006, the Company entered into an Agreement and Plan of Merger (the "Columbia Merger Agreement") with Columbia Sussex Corporation ("Sussex"), Wimar Tahoe Corporation, d/b/a Columbia Entertainment, the gaming affiliate of Sussex ("Columbia Entertainment"), and WT-Columbia Development, Inc., a wholly-owned subsidiary of Columbia Entertainment. Under the terms of the Columbia Merger Agreement, each share of Aztar common stock will be exchanged for the right to receive $54.00 in cash and each share of Aztar Series B convertible preferred stock will be exchanged for the right to receive $571.13 in cash. The Columbia Merger Agreement also provides for an increase in the purchase price under certain conditions at the rate per day of $0.00888 per share of Aztar common stock and $0.09388 per share of Aztar preferred stock beginning November 20, 2006, and then to $0.01184 per share of Aztar common stock and $0.12518 per share of Aztar preferred stock beginning February 20, 2007 until the closing of the transaction. On October 17, 2006, Aztar shareholders approved the Columbia Merger Agreement at a special meeting of Aztar shareholders. The transaction remains subject to the satisfaction of customary closing conditions, including the receipt of necessary gaming approvals. The Columbia Merger Agreement contains a termination fee provision of $55.228 million plus the reimbursement of up to $27.36 million of merger-related costs incurred by Columbia Entertainment.

In the Columbia Merger Agreement, the Company agreed to use commercially reasonable efforts to sell or close the Company's Missouri property, Casino Aztar Caruthersville. We signed an agreement with Fortunes Entertainment, LLC on August 17, 2006 under which Fortunes would acquire the Caruthersville property. The sale is subject to approval by the Missouri gaming authorities. On October 25, 2006, the Missouri Gaming Commission determined that the licensing of Fortunes Entertainment will not occur on or before November 19, 2006, the deadline for obtaining the necessary licenses to complete the sale. In addition, the Commission directed its staff to take the necessary legal steps for the appointment of a supervisor of Casino Aztar Caruthersville to avoid closure of the gaming operation. The supervisor is to be appointed for an undetermined time until an owner acceptable to the Commission for licensing can be found.

In connection with the Columbia Merger Agreement, Sussex deposited $313 million into a custody account, payable to Aztar in certain circumstances (including failure to obtain regulatory approvals) in the event that the Columbia Merger Agreement is terminated. Of the deposit, $78 million has been paid to Aztar as reimbursement of the termination fees and expenses paid to Pinnacle. Since this reimbursement is considered to be a deposit toward the merger for accounting purposes, it was classified as a current liability in the Consolidated Balance Sheet as merger termination fee reimbursement at September 30, 2006. If the merger is terminated under certain conditions, the reimbursement is repayable by the Company to Sussex and if the merger is terminated under certain other conditions or if the merger is consummated, it is retained by the Company.

Financial Condition

During the nine months of 2006, the outstanding balance on our revolving credit facility decreased to $69.0 million from $124.5 million at December 31, 2005, leaving $300.1 million available for future borrowing, after consideration of outstanding letters of credit, subject to quarterly financial tests as described below. On June 30, 2006, the maximum amount available under our revolving credit facility decreased by $125 million since we had not commenced redevelopment of the Las Vegas Tropicana property or entered into an alternative project approved by the lenders holding a majority of the commitments. At September 30, 2006, the outstanding balance of our term loan facility was $122.2 million.

The Revolver and Term Loan contain quarterly financial tests, including a minimum fixed charge coverage ratio of 1.35 to 1.00 and maximum ratios of total debt and senior debt to operating cash flow of 4.5 to 1.0 and 2.5 to 1.0, respectively, at September 30, 2006. On July 17, 2006, we and the lenders amended the definition of operating cash flow effective June 30, 2006, to exclude the Pinnacle termination payment of $78 million and the Sussex reimbursement of $78 million. The actual fixed charge coverage ratio was 2.63 to 1.00 and the actual total debt and senior debt to operating cash flow ratios were 2.93 to 1.00 and 1.0 to 1.0, respectively at September 30, 2006.

During the nine months of 2006, we received $14.3 million in cash in connection with stock option exercises. We accepted 164,387 shares of our common stock in satisfaction of $7.5 million of tax obligations paid by the company during the nine months of 2006, which were associated with the exercise of stock options.

During the nine months of 2006, our purchases of property and equipment, other than those pertaining to the development in Evansville, Indiana discussed below, were primarily of a routine nature.

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 expansion 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. Insurance claims for business interruption that occurred from the date of the accident through December 31, 2005 have been filed with our insurers in the amount of $52.1 million of which $3.5 million has been received. In addition, we have filed insurance claims for lost profits and additional costs as a result of the delay in the opening of the expansion. The total of these claims is $64.7 million, of which $18.2 million has been received and $3.9 million was included in construction accident receivables at September 30, 2006. Profit recovery from insurance is recorded when the amount of 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 30, 2006. 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 2006, we recognized $7.1 million of insurance recovery associated with the rebuild of which $3.9 million was included in construction accident receivables at September 30, 2006. The recovery was classified as other income and

was offset by $2.1 million of direct costs incurred to obtain the recovery. In addition, at September 30, 2006, our share of claims outstanding for dismantlement, debris removal and rebuild was approximately $24.2 million.

During 2005, we began phase one of our development in Evansville, Indiana, which includes the construction of a 100-room boutique hotel and a multi-venue entertainment complex. During the nine months of 2006, our purchases of property and equipment on an accrual basis, including capitalized interest of $0.7 million, were $19.8 million for this project.

During the nine months of 2006, we capitalized $10.3 million for site acquisition, design development and licensing costs related to our planned investment in Allentown, Pennsylvania. If we ultimately fail to obtain a license in Pennsylvania, we would expense any development costs unrelated to land acquisitions, which were approximately $2.7 million at September 30, 2006.

During the 2006 first quarter, we determined that the carrying amount of the deferred costs associated with our potential redevelopment of the Las Vegas Tropicana was not recoverable because the likelihood of proceeding with a redevelopment was assessed as less than probable. As a result, we recognized an expense of $26 million, which was classified as Tropicana Las Vegas capitalized development costs write-off in the 2006 first quarter Consolidated Statement of Operations.

Under the terms of the Columbia Merger Agreement, we have agreed to use commercially reasonable efforts to sell our property in Caruthersville, Missouri (the "Property"). Alternatively, we have agreed to use commercially reasonable efforts to close the Property in accordance with the applicable laws if any of the following events were to occur: (1) we failed to enter into a purchase and sale agreement with respect to the Property by August 17, 2006, (2) a purchase and sale agreement is entered into by August 17, 2006 but we fail to obtain the required gaming approvals for such sale by November 19, 2006 or (3) any party to such purchase and sale agreement terminates such agreement prior to the consummation of the merger with Columbia Entertainment. On August 17, 2006, we signed an agreement with Fortunes Entertainment, LLC under which Fortunes would acquire the Property. Approval of the sale by the Missouri gaming authorities is required. All costs and expenses incurred by us in connection with the pending sale or a closure of the Property are unconditionally reimbursable by Columbia Entertainment. The Property's assets and liabilities were classified as assets held for sale and liabilities related to assets held for sale, respectively, in the Consolidated Balance Sheets at September 30, 2006 and December 31, 2005. In addition, the Property's net operating results were classified as discontinued operations, net of income taxes in the Consolidated Statements of Operations for the quarter and year-to-date periods ended September 30, 2006 and September 29, 2005. On October 25, 2006, the Missouri Gaming Commission determined that the licensing of Fortunes Entertainment will not occur on or before November 19, 2006, the deadline for obtaining the necessary licenses to complete the sale. In addition, the

Commission directed its staff to take the necessary legal steps for the appointment of a supervisor of Casino Aztar Caruthersville to avoid closure of the gaming operation. The supervisor is to be appointed for an undetermined time until an owner acceptable to the Commission for licensing can be found.

We have severance agreements with certain of our senior executives. Severance benefits range from a lump-sum cash payment equal to three times the sum of the executive's annual base salary and the average of the executive's annual bonuses awarded in the preceding three years plus payment of the value in the executive's outstanding stock options and vesting and distribution of any restricted stock to a lump-sum cash payment equal to one fourth of the executive's annual base salary. In certain agreements, the termination must be as a result of a change in control of Aztar. Based upon salary levels and stock options at September 30, 2006, the aggregate commitment under the severance agreements should all these executives be terminated was approximately $89 million at September 30, 2006.

At September 30, 2006, we had commitments of approximately $7 million for the hotel and entertainment complex at Casino Aztar Evansville.

AZTAR CORPORATION AND SUBSIDIARIES

Results of Operations

The following table sets forth, in millions, our segment information for casino revenue, total revenues and Segment Adjusted EBITDA. Our chief operating decision maker uses only Segment Adjusted EBITDA in assessing segment performance and deciding how to allocate resources.

	Third Quarter	Nine Months

	2006	2005	2006	2005
Casino revenue				
Tropicana Atlantic City				
Tropicana Las Vegas				
Ramada Express Laughlin	$ 111.2	$ 113.1	$ 313.8	$ 312.6
Casino Aztar Evansville	15.9	17.2	47.1	48.8
Total consolidated	16.3	16.6	55.1	53.6
	31.8	30.8	94.3	93.5
Total revenues	$ 175.2	$ 177.7	$ 510.3	$ 508.5
Tropicana Atlantic City	========	========	========	========
Tropicana Las Vegas				
Ramada Express Laughlin	$ 135.3	$ 137.7	$ 377.0	$ 372.1
Casino Aztar Evansville	40.8	40.0	121.3	124.0
Total consolidated	22.7	22.6	74.7	72.5
	35.2	34.0	104.2	103.0
Segment Adjusted EBITDA (a)	$ 234.0	$ 234.3	$ 677.2	$ 671.6
Tropicana Atlantic City	========	========	========	========
Tropicana Las Vegas				
Ramada Express Laughlin	$ 45.8	$ 41.4	$ 113.2	$ 93.4
Casino Aztar Evansville	9.6	8.5	27.3	30.2
Corporate	5.3	5.5	20.3	20.3
Depreciation and amortization	10.3	10.3	30.9	31.6
Operating income	(5.7)	(3.8)	(123.4)	(17.0)
Other income(expense)	(17.1)	(16.0)	(52.3)	(47.5)
Interest income	48.2	45.9	16.0	111.0
Interest expense	2.7	(0.3)	5.0	4.1
Income taxes	0.4	0.5	1.3	1.0
Income(loss) from continuing	(14.1)	(14.2)	(42.4)	(42.3)
operations	(15.3)	(13.1)	(22.6)	(31.0)
Discontinued operations, net of				
income taxes	21.9	18.8	(42.7)	42.8
Net income(loss)				
___________	1.4	0.6	3.1	1.9
	$ 23.3	$ 19.4	$ (39.6)	$ 44.7
	========	========	========	========

(a) Segment Adjusted EBITDA is net income(loss) before discontinued operations, income taxes, interest expense, interest income, other income(expense), depreciation and amortization and corporate. Segment Adjusted EBITDA should not be construed as a substitute for either operating income or net income(loss) as they are determined in accordance with generally accepted accounting principles (GAAP). Segment Adjusted EBITDA, which is computed in accordance with SFAS No. 131, does not represent a non-GAAP financial measure as it is presented in the above summary. The use of Segment Adjusted EBITDA for any other purpose would constitute a non-GAAP financial measure. Management uses Segment Adjusted 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 Segment Adjusted 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. Management also believes that Segment Adjusted 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 Segment Adjusted 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 Segment Adjusted EBITDA provides a useful perspective for some purposes, Segment Adjusted 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 Segment Adjusted EBITDA does not reflect the requirements for such replacements. Corporate, other income(expense), interest expense, net of interest income, income taxes and discontinued operations are also not reflected in Segment Adjusted EBITDA. Therefore, management does not consider Segment Adjusted EBITDA in isolation, and it should not be considered as a substitute for measures determined in accordance with GAAP. A reconciliation of Segment Adjusted EBITDA with operating income and net income(loss) as determined in accordance with GAAP is reflected in the above summary.

Nine Months September 30, 2006 Compared to Nine Months Ended September 29, 2005

During the 2005 fourth quarter, we changed from a 52/53 week fiscal year (ending on the Thursday nearest December 31) to a calendar year ending December 31. Both the 2006 and 2005 nine month periods contain 273 days, however, the nine months of 2005, which began on December 31, 2004 and ended on September 29, 2005, includes the benefit of New Year's Eve. The nine months of 2006 did not have a New Year's Eve.

Consolidated marketing expense decreased $7.7 million, down 11% from $69.1 million in the nine months of 2005. Of this decrease, $6.4 million was attributable to Tropicana Atlantic City, which incurred higher advertising and other marketing costs in the first and second quarters of 2005 because of efforts to promote the Tropicana Atlantic City expansion project, which opened on a limited basis in late November 2004 and was substantially completed by December 2004. Other factors contributing to the decrease at Tropicana Atlantic City include a reduction in payroll costs and the impact of costs associated with New Year's Eve special event functions, which due to the change in our fiscal year described above, were incurred in the nine months of 2005 but not in the nine months of 2006.

Consolidated general and administrative expenses were $66.5 million during the nine months of 2006, down $1.5 million from $68.0 million during the nine months of 2005. The decrease was due to corporate, where general and administrative expenses decreased $3.0 million, down 18% from $16.7 million in the nine months of 2005. 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. The decrease at corporate was offset by increases at each of our operating properties. These increases were not attributable to any one significant factor but instead due to a combination of several smaller factors.

Consolidated property taxes and insurance expense increased $3.4 million, up 14% from $24.4 million in the 2005 nine-month period. The increase consisted primarily of a $1.8 million increase at Tropicana Atlantic City combined with smaller increases at each of our operating properties. The increase at Tropicana Atlantic City was attributable to an increase in property insurance premiums combined with an increase in property taxes. The increases at our other properties were driven primarily by increases in property insurance premiums.

Consolidated rent expense was $7.2 million in the nine months of 2006, up $1.2 million from $6.0 million in the nine months of 2005. The increase was due to Casino Aztar Evansville, which incurred higher rent expense in the 2006 versus 2005 nine-month period due to additional rent credits that we received during 2005. Under the terms of our lease agreement, the City provides us with $1 of credit for each $2.50 of development capital expenditures that we make with certain limitations.

Construction accident related expense was $4.7 million in the nine months of 2006, up $2.0 million from $2.7 million in the nine months of 2005. The costs and expenses in the nine months of 2006 and 2005 consisted of professional fees incurred as a result of the October 30, 2003 construction accident.

Construction accident insurance recoveries were $12.2 million in the nine months of 2006 as compared with $0.5 million in the nine months of 2005. The recoveries in the 2006 and 2005 nine-month periods consisted of recoveries due to the delay in the opening of the Atlantic City Tropicana expansion project. The recoveries represent 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.

Merger related expenses were $82.5 million in the nine months of 2006. Merger related expenses include costs incurred to terminate our merger agreement with Pinnacle and to a lesser extent, professional fees incurred in connection with merger activities. During the 2006 second quarter, we terminated our merger agreement with Pinnacle and as a result paid Pinnacle $78 million consisting of a termination fee of $52.16 million and termination expenses of $25.84 million. No income tax benefit was recognized for the payment to Pinnacle since it is not deductible for tax purposes.

Consolidated depreciation and amortization expense increased $4.8 million in the nine months of 2006, up 10% from

$47.5 million in the nine months of 2005. Approximately $4.5 million of the increase was attributable to Tropicana Atlantic City and was due primarily to a reduction in the useful lives of certain assets that are being renovated.

Tropicana Las Vegas capitalized development costs write-off was $26.0 million in the nine months of 2006. In the 2006 first quarter, we determined that the carrying amount of the deferred costs associated with our potential redevelopment of the Las Vegas Tropicana was not recoverable because the likelihood of proceeding with a redevelopment was assessed as less than probable.

Other income was $5.0 million in the nine months of 2006, up $0.9 million from $4.1 million in the nine months of 2005. Other income in the 2006 and 2005 nine-month periods consisted of insurance recovery associated with the rebuilding of the expansion at the Atlantic City Tropicana, net of direct costs to obtain the recovery.

Consolidated income taxes for continuing operations were $22.6 million in the nine months of 2006 as compared with $31.0 million in the nine months of 2005. We recognized a provision for income taxes in the nine months of 2006 despite incurring a loss from continuing operations before income taxes as a result of the merger related costs, which for the most part are not deductible for tax purposes. The tax effect of the non-deductible merger-related costs was offset slightly by $3.4 million of non-recurring income tax benefits that were recognized during the 2006 first quarter. During the 2006 first quarter, we reached a favorable settlement with the Internal Revenue Service on the only remaining issue in dispute for the examinations of our federal income tax returns for the years 1994 through 2003. The issue involved the deductibility of a portion of payments on certain liabilities related to the restructuring of Ramada, Inc. As a result of the settlement, we recognized an income tax benefit of $1.4 million. Also in the 2006 first quarter, our application for tax credits available from New Jersey was approved. As a result of the approval, we recognized, net of a federal income tax effect, a non-recurring income tax benefit of $2.0 million.

TROPICANA ATLANTIC CITY

Rooms revenue was $31.6 million in the nine months of 2006, up 11% from $28.5 million in the nine months of 2005. The increase was attributable to an increase in the number of rooms occupied on a non-complimentary basis and to a lesser extent, an

increase in the average daily rate. The total number of rooms occupied on a non-complimentary basis increased 8% and the average daily rate increased 3% during the 2006 versus 2005 nine-month period. Rooms costs remained unchanged at $14.1 million in the 2006 versus 2005 nine-month period.

Marketing expense decreased $6.4 million, down 13% from $51.2 million in the nine months of 2005. Tropicana Atlantic City incurred higher advertising and other marketing costs in the nine months of 2005 because of efforts to promote the Tropicana Atlantic City expansion project, which opened on a limited basis in late November 2004 and was substantially completed by December 2004. Other factors contributing to the decrease include a reduction in payroll costs and the impact of costs associated with New Year's Eve special event functions, which due to the change in our fiscal year described above, were incurred in the nine months of 2005 but not in the nine months of 2006.

Property taxes and insurance expense increased $1.8 million in the 2006 nine months, up 9% from $19.6 million in the 2005 nine months. The increase was due primarily to an increase in property insurance premiums and to a lesser extent an increase in property tax rates.

Construction accident related expense was $4.7 million in the nine months of 2006, up $2.0 million from $2.7 million in the nine months of 2005. The costs and expenses in the nine months of 2006 and 2005 consisted of professional fees incurred as a result of the October 30, 2003 construction accident.

Construction accident insurance recoveries were $12.2 million in the nine months of 2006 as compared with $0.5 million in the nine months of 2005. The recoveries in the 2006 and 2005 nine-month periods consisted of recoveries due to the delay in the opening of the Atlantic City Tropicana expansion project. The recoveries represent 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 $37.2 million during the nine months of 2006, up $4.5 million or 14% from $32.7 million in the nine months of 2005. The increase was due primarily to a reduction in the useful lives of certain assets that are being renovated.

TROPICANA LAS VEGAS

Rooms revenue decreased $2.0 million in the nine months of 2006, down 5% from $41.8 million in the nine months of 2005. The decrease was primarily attributable to a 4% decrease in the average daily rate as a result of lower room demand. Despite the decrease in rooms revenue, rooms expense, which is not affected by a change in the average daily rate, increased slightly in the nine months of 2006, up $0.5 million or 3% from $15.8 million in the nine months of 2005.

CASINO AZTAR EVANSVILLE

Rent expense was $4.1 million, up 64% from $2.5 million in the nine months of 2005. Rent expense was lower in the 2005 nine months due to additional rent credits that we received during 2005. Under the terms of our lease agreement, the City provides us with $1 of credit for each $2.50 of development capital expenditures that we make with certain limitations.

CORPORATE

General and administrative expenses decreased $3.0 million in the nine months of 2006, down 18% from $16.7 million in the nine months of 2005. 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.

AZTAR CORPORATION AND SUBSIDIARIES

Merger related expenses were $82.5 million in the nine months of 2006. Merger related expenses include costs incurred to terminate our merger agreement with Pinnacle and to a lesser extent, professional fees incurred in connection with merger activities. During the 2006 second quarter, we terminated our merger agreement with Pinnacle and as a result paid Pinnacle $78 million consisting of a termination fee of $52.16 million and termination expenses of $25.84 million. No income tax benefit was recognized for the payment to Pinnacle since it is not deductible for tax purposes.

Tropicana Las Vegas capitalized development costs write-off was $26.0 million in the nine months of 2006. In the 2006 first quarter, we determined that the carrying amount of the deferred costs associated with our potential redevelopment of the Las Vegas Tropicana was not recoverable because the likelihood of proceeding with a redevelopment was assessed as less than probable.

Quarter Ended September 30, 2006 Compared to Quarter Ended September 29, 2005

During the 2005 fourth quarter, we changed from a 52/53 week fiscal year (ending on the Thursday nearest December 31) to a calendar year ending December 31. The 2006 third quarter, which began on July 1, 2006, and ended on September 30, 2006, contains 92 days. The 2005 third quarter, which began on July 1, 2005, and ended on September 29, 2005, contains 91 days.

Consolidated property taxes and insurance expense increased $1.8 million, up 21% from $8.5 million in the 2005 third quarter. The increase consisted primarily of a $1.1 million increase at Tropicana Atlantic City combined with smaller increases at each of our other operating properties. The increase at Tropicana Atlantic City was attributable to an increase in property insurance premiums combined with an increase in property taxes. The increases at our other properties were driven primarily by increases in property insurance premiums.

Consolidated rent expense was $2.5 million in the 2006 third quarter, up $0.6 million from $1.9 million in the 2005 third quarter. The increase was due to Casino Aztar Evansville, which incurred higher rent expense in the 2006 versus 2005 third quarter due to additional rent credits that we received during 2005. Under the terms of our lease agreement, the City provides us with $1 of credit for each $2.50 of development capital expenditures that we make with certain limitations.

Construction accident related expense was $1.0 million in the 2006 third quarter, down $0.4 million from $1.4 million in the 2005 third quarter. The costs and expenses in the 2006 and 2005 third quarters consisted of professional fees incurred as a result of the October 30, 2003 construction accident.

Construction accident insurance recoveries were $3.9 million in the 2006 third quarter. The 2006 third quarter recoveries consisted of recoveries due to the delay in the opening of the Atlantic City Tropicana expansion project. The recoveries represent 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.

Merger related expenses were $1.2 million in the 2006 third quarter. Merger related expenses relate to professional fees incurred in connection with merger activities and a $0.5 million settlement of litigation related to merger activities.

Consolidated depreciation and amortization expense increased $1.1 million in the 2006 third quarter, up 7% from $16.0 million in the 2005 third quarter. The increase was attributable to Tropicana Atlantic City and was due primarily to a reduction in the useful lives of certain assets that are being renovated.

Other income was $2.7 million in the 2006 third quarter compared with other expense of $0.3 million in the 2005 third quarter. Other income in the 2006 third quarter consists of $3.9 million of insurance recovery associated with the rebuilding of the expansion at the Atlantic City Tropicana, net of direct costs to obtain the recovery. Other expense in the 2005 third quarter consists of professional fees incurred in connection with our efforts to pursue the settlement of outstanding insurance claims associated with the rebuilding of the expansion at the Tropicana Atlantic City.

TROPICANA ATLANTIC CITY

Casino revenue was $111.2 million in the 2006 third quarter, down $1.9 million from $113.1 million in the 2005 third quarter. The decrease consisted of a $5.1 million decrease in games revenue offset by a $3.2 million increase in slot revenue. The decrease in games revenue was attributable to a decrease in the volume of table games play and the table games hold percentage, which decreased to 14.7% in the 2006 third quarter from 15.9% in the 2005 third quarter. The decrease in the volume of table games play was attributable to increased competition and the elimination of a segment of our table games business that was not profitable. The increase in slot revenue was attributable primarily to an increase in the volume of slot play, which was driven in part by an increase in the use of cash incentives. In addition to the above, our business was negatively impacted by the cessation of our gaming operations from July 5, 2006 through July 7, 2006. All casino operators in Atlantic City were required to suspend their gaming operations during this period after the New Jersey governor ordered the temporary closure of all "nonessential" state government offices, which includes the New Jersey Casino Control Commission, due to New Jersey budget issues. Casino costs decreased $2.3 million or 6% in the 2006 versus 2005 third quarter primarily as a result of the decrease in casino revenue.

Rooms revenue was $12.8 million in the 2006 third quarter, up 5% from $12.2 million in the 2005 third quarter. The increase was attributable to a 6% increase in the average daily rate offset slightly by a 1% decrease in the number of rooms occupied on a non-complimentary basis.

Property taxes and insurance expense increased $1.1 million, up 16% from $6.7 million in the 2005 third quarter. The increase at Tropicana Atlantic City was attributable to an increase in property insurance premiums combined with an increase in property taxes.

Construction accident related expense was $1.0 million in the 2006 third quarter, down $0.4 million from $1.4 million in the 2005 third quarter. The costs and expenses in the 2006 and 2005 third quarters consisted of professional fees incurred as a result of the October 30, 2003 construction accident.

Construction accident insurance recoveries were $3.9 million in the 2006 third quarter. The 2006 third quarter recoveries consisted of recoveries due to the delay in the opening of the Atlantic City Tropicana expansion project. The recoveries represent 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 $12.1 million in the 2006 third quarter, up $1.0 million or 9% from $11.1 million in the 2005 third quarter. The increase was due primarily to a reduction in the useful lives of certain assets that are being renovated.

TROPICANA LAS VEGAS

Rooms revenue increased $0.6 million in the 2006 third quarter, up 5% from $11.5 million in the third quarter of 2005. The increase was due to a 3% increase in the average daily rate and a 2% increase in the number of rooms occupied on a non-complimentary basis.

CASINO AZTAR EVANSVILLE

Rent expense increased $0.6 million, up 75% from $0.8 million in the 2005 third quarter. The increase in rent expense in the 2006 versus 2005 third quarter was due to additional rent credits that we received during 2005. Under the terms of our lease agreement, the City provides us with $1 of credit for each $2.50 of development capital expenditures that we make with certain limitations.

CORPORATE

Merger related expenses were $1.2 million in the 2006 third quarter. Merger related expenses relate to professional fees incurred in connection with merger activities and a $0.5 million settlement of litigation related to merger activities.

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 - 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, (3) estimating the fair value of a legally enforceable asset retirement obligation and in situations where the timing and/or method of settlement are conditional on a future event, incorporating this uncertainty into the estimate of the obligation's fair value, and (4) 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, the fair value of asset retirement obligations and the related accretion expense recognized in subsequent periods, 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, cash flows in connection with asset retirement obligations 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. 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 the acquisition and (or) normal operation of a tangible long-lived asset legally obligates us to perform or stand ready to perform certain retirement activities, we recognize the fair value of the obligation in the period in which it is incurred. The fair value of the liability is estimated using a quoted market price or alternatively, a present value technique based on the expected future cash flows of the retirement activities. Uncertainty with regard to the performance and (or) timing of the obligation is factored into the calculation of the obligation's fair value. The offset to the liability is recorded as an increase to the carrying value of the asset, which is subsequently allocated to depreciation expense on a straight-line basis over the remaining useful life of the asset. Accretion in the fair value of the obligation is recognized as accretion expense and is measured by applying our estimated credit-adjusted risk-free interest rate, which existed when the liability was initially established, to the amount of the liability at the beginning of each period. Changes in the fair value of the obligation resulting from changes in the factors used to determine it are recorded in the period of change by a corresponding change in the carrying value of the tangible long-lived asset and in the period of change and (or) in subsequent periods by changes in depreciation and accretion expenses. Our recorded obligations for retirement activities totaled $0.6 million at September 30, 2006.

When events or changes in circumstances warrant a review for impairment, we compare the carrying amount of a long-lived asset to the anticipated undiscounted cash flow from such asset. We perform this test for recoverability on a property-by-property basis. In doing so, we group the property's long-lived assets with all of the property's other assets and liabilities since we believe the property is the lowest level for which identifiable cash flows are largely independent of the cash flows of our other assets and liabilities. 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(loss). Our ability to determine and measure an impaired asset depends, to a large extent, on our ability to properly estimate future cash flows.

Development Costs - During the 2006 first quarter, we determined that the carrying amount of the deferred development costs associated with our potential redevelopment of the Las Vegas Tropicana was not recoverable because the likelihood of proceeding with a redevelopment was assessed as less than probable. As a result, we recognized an expense of $26 million, which was classified as Tropicana Las Vegas capitalized development costs write-off in the 2006 first quarter Consolidated Statement of Operations. At September 30, 2006, capitalized development costs, included as part of other assets, totaled $12.2 million. These costs include site acquisition, design development and licensing costs incurred in connection with our planned investment in Allentown, Pennsylvania, which is contingent upon our obtaining a Pennsylvania gaming license. If we ultimately fail to obtain a gaming license in Pennsylvania, we would expense any development costs unrelated to land acquisitions, which were approximately $2.7 million at September 30, 2006.

Stock-based compensation - We 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. The grant-date fair value of stock options was estimated using a Black-Scholes option pricing model, which takes into account the following six factors: (1) the current price of the underlying stock on the date of grant, (2) the exercise price of the option, (3) the expected dividend yield, (4) the expected volatility of the underlying stock over the option's expected life, (5) the expected life of the option, and (6) the risk-free interest rate during the expected life of the option. Of these factors, we exercise judgment with regard to selecting both the expected volatility of the underlying stock and the expected life of the option. Expected volatility is estimated through a review of historical stock price volatility adjusted for future expectations. The expected term of the options is estimated through a review of historical exercise behavior and other factors expected to influence behavior such as expected volatility and employees' ages and lengths of service. We also exercise judgment with regard to estimating the number of awards that are expected to vest, which is based on historical experience adjusted for future expectations. January 1, 2006, we began recognizing compensation cost for stock options under SFAS 123(R). Compensation cost for the portion of awards for which the requisite service had not

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been rendered that were outstanding on January 1, 2006 is recognized over the remaining vesting period based on the grant-date fair value that was previously established for pro forma purposes and disclosed in the notes to the Consolidated Financial Statements for reporting periods that ended prior to January 1, 2006.

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.

During 2005, the IRS completed its examination of the company's income tax return for the year 2003. During 2004, the IRS completed its examination of the company's income tax returns for the years 2000 through 2002. The only issue in dispute in these examinations involved the deductibility of a portion of the payments on certain liabilities related to the restructuring of Ramada Inc. During 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. During the 2006 first quarter, we reached a favorable settlement with the IRS on the only remaining issue for the years 1994 through 2003. As a result of the settlement, we recorded an income tax benefit of $1.4 million.

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 $6.1 million at September 30, 2006. 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 30, 2006.

Impact of the October 30, 2003 construction accident - An accident occurred on the site 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 2006, we recorded $7.1 million of insurance recovery for rebuild activities. The recovery was recognized as other income and was offset by $2.1 million of direct costs to obtain the recovery.

Equity Instruments

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment". SFAS 123(R), which became effective for the company on January 1, 2006, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123(R) replaces Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". In addition, SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, which we previously elected to follow. Prior to January 1, 2006, we measured the cost of our stock options by applying the intrinsic-value-based method of accounting as prescribed by APB 25 and related interpretations. Under APB 25, because the exercise price of the company's stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized.

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 is recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. As permitted under SFAS 123(R), we have elected to apply a modified prospective application as the transition method from APB 25 to SFAS 123(R). Compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date is recognized as the requisite service is rendered on or after the required effective date based on the grant-date fair value as previously determined under SFAS 123. For periods before the required effective date, companies 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 elected not to adjust our financial statements for prior periods. We recognized $2.9 million of compensation expense in the Consolidated Statement of Operations during the nine months of 2006. After the related income tax effect, this resulted in an increase in net loss, net loss per common share assuming no dilution and net loss per common share assuming dilution of $1.9 million, $.05 and $.05, respectively. Under APB 25, there would not have been any compensation expense. Based on stock options granted through September 30, 2006, we estimate that we will record compensation expense of $0.8 million for the remainder of 2006, $2.4 million for 2007 and $0.7 million for 2008. As of September 30, 2006, we had $3.9 million of unrecognized compensation cost and we expect to recognize that cost over a weighted-average period of 1.4 years.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires employers to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. The funded status of a defined benefit pension plan is measured as the difference between plan assets at fair value and the plan's projected benefit obligation. Under SFAS 158, employers are required to measure plan assets and benefit obligations at the date of their fiscal year-end statement of financial position. SFAS 158 is effective for us at the end of the 2006 calendar year. Based on the projected benefit obligations of our defined benefit plans and deferred compensation plan, which were last measured at December 31, 2005, the aggregate underfunded status of our defined benefit postretirement plans at December 31, 2005 was $19.5 million. If we were required to adopt SFAS 158 based on our underfunded status at December 31, 2005, we would recognize an additional accrued benefit liability of approximately $3.9 million and derecognize an intangible asset for unrecognized prior service costs of approximately $0.1 million. The impact of these changes would be recognized as an adjustment to other comprehensive loss of $2.6 million, which is net of a $1.4 million tax benefit. Since the benefit obligations will not be measured until December 31, 2006, we cannot yet quantify the actual impact the adoption of SFAS 158 will have on our consolidated financial statements.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. In doing so, FIN 48 prescribes the application of a two-step process to account for tax positions. The first step establishes standards for the recognition of the financial effect of a tax position. The second step establishes standards for the measurement of the financial effect of a tax position that meets the recognition standards of step one. A tax position, as used in FIN 48, refers to a position taken in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. Under the first step, the financial statement effect of a tax position is recognized when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. Under the second step, a tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. FIN 48 is effective for us at the beginning of the 2007 calendar year. The cumulative effect of adopting FIN 48, if any, shall be reported as an adjustment to the opening balance of retained earnings or other appropriate component of shareholders' equity. We have not determined the effect of FIN 48 on our consolidated financial position.

Private Securities Litigation Reform Act

Certain information included in Aztar's Form 10-K for the year ended December 31, 2005, 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 2005 annual report) contains statements that are forward-looking. These include forward-looking statements relating to the following items, among others: operation and expansion of existing properties, including future performance; business development activities; uses of free cash flow; stock repurchases; debt repayments; possible future debt refinancings; expensing of actuarial losses and stock option compensation; and the sale of Casino Aztar Caruthersville. 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, the price of fuel 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 we realize revenue and Segment Adjusted 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; salaries and retirement dates of defined benefit plan participants; 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; the effects of other competition, including locations of competitors and operating and marketing competition; the potential impact of the announcement of the merger, and the merger, on relations with employees, customers, partners, suppliers, vendors and other third parties; and the ability of a purchaser for Casino Aztar Caruthersville to close the purchase including the ability to obtain financing and regulatory approval. 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 31, 2005 see "Note 2: Long-term Debt" of the Notes to Consolidated Financial Statements included in this Form 10-Q under Item 1.

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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 30, 2006, 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 30, 2006, 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 31, 2005 and under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2006, the defendants (including the Company) filed cost bills seeking recovery of certain costs incurred in the litigation. The plaintiffs opposed the awarding of these costs. The parties agreed to delay the filing of briefs in the Ninth Circuit on the plaintiffs' appeal of the underlying case until the District Court ruled on the defendants' motion for an award of their costs. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2006, the parties then agreed to settle and resolve the entire matter on the following terms: the plaintiffs would dismiss their appeal and the defendants (including the Company) would withdraw their cost bills. Stipulations to accomplish these agreements were signed and filed in the Court of Appeals for the Ninth Circuit (June 26, 2006) and the United States District Court for the District of Nevada (June 30, 2006). The Matter is therefore concluded.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 2005, and under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2006, the Company was named as a defendant to an action brought by Aaron Dolgin. The Company explored a negotiated resolution of the Appeal and issues regarding the collection of the Judgment. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2006, the Company subsequently entered into a confidential settlement agreement resolving the Appeal and the issue of collecting the Judgment from the plaintiff that resolved those issues to the satisfaction of all parties.

As reported under Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 2005, and under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2006, 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. Those defendants filed a third party complaint against the Company and others. The Company moved to dismiss the third party complaint against it and the Court granted the motion. On June 30, 2006, the plaintiffs filed an amended third party complaint. On October 2, 2006, the Company moved to dismiss the third party complaint against it; the Court has not yet ruled on the motion. The Company disagrees with the allegations in the amended third party complaint and intends to contest the amended 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 31, 2005, the Company and its affiliate Adamar of New Jersey, Inc. were named as defendants to an action brought by Zurich American Insurance Company. On September 12, 2006, the Company reached a settlement with Zurich on certain portions of the claim in exchange for a payment by Zurich of $8.3 million. The Company disagrees with Zurich's positions on the remaining issues, which concern the claims that Zurich labels "debris removal," "extended general conditions," and "expedite normal contract," 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 31, 2005, the Company and its affiliate Adamar of New Jersey, Inc. were named as defendants in an action in the Superior Court of New Jersey in Atlantic County. The action arises out of an incident that took place on October 24, 2002, at the site of the construction of the new garage at the Tropicana Casino and Resort in Atlantic City, New Jersey. The plaintiffs are

Antonio DeShazo and Johnnie J. Caldwell. Mr. DeShazo's claim was settled.

As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 2006, between approximately March 17, 2006 and April 24 2006, five substantially identical putative class actions were filed against Aztar and the members of our board of directors, or collectively the Aztar Defendants. Two of the lawsuits were filed in the Superior Court of the State of Arizona in and for the County of Maricopa, one was filed in the Nevada District Court in and for Clark County, and two were filed in the Court of Chancery of the State of Delaware in and for New Castle County. The Arizona complaints are captioned Plumbers Local Union No. 519 Pension Trust Fund v. Aztar Corp. et al., Case No. CV2006-004622; and Robert Glasmann, v. Aztar Corp. et al., Case No. CV2006-004087. The Nevada complaint is captioned John Drauch v. Aztar Corp. et al., Case No. A519833. The Delaware complaints are captioned Esther Lowinger v. Aztar Corp. et al., Civil Action No. 2045-N and Yolanda Heady v. Robert M. Haddock, et al., Civil Action No. 2090-N. Collectively, we refer to these actions as the Pinnacle Cases. The Pinnacle Cases allege, among other things, that the Aztar Defendants, aided and abetted by Pinnacle, breached their fiduciary duties by failing to conduct an auction or active market check prior to entering into the merger agreement with Pinnacle and by causing Aztar to agree to the termination fee provisions in the Pinnacle merger agreement. The Pinnacle Cases seek, among other things, an injunction against the Pinnacle merger, rescission of the Pinnacle merger if it is consummated and fees and costs. Plaintiffs in the Glasmann and Plumbers Local Union No. 519 actions, or collectively the Arizona Actions, moved on April 11, 2006 for a temporary restraining order and preliminary injunction barring us from paying to Pinnacle the termination fee and expenses provided for in the Pinnacle merger agreement. On April 27, 2006, the Arizona court denied the plaintiffs' motions in all respects. As reported under Part II, Item 1 of the Company's Form 10-Q for the quarter ended June 30, 2006, on May 15, 2006, the Aztar Defendants and Drauch entered a stipulation to stay the Drauch proceedings pending disposition of the Arizona Actions. On April 20 and May 3, 2006, respectively, the Aztar Defendants moved to dismiss the Lowinger and Heady actions for failure to state a claim upon which relief may be granted and to dismiss or stay the actions in light of the prior filed Arizona Actions. In addition, the Aztar Defendants moved for an order staying discovery in the Lowinger action pending the resolution of their motion to dismiss

or stay this action. On May 3, 2006, the Aztar Defendants and Lowinger entered a joint stipulation to stay the Lowinger proceedings pending disposition of the Arizona Actions. On May 4, 2006, the Aztar Defendants moved to consolidate the two Delaware actions, and the Delaware Court of Chancery granted the motion on May 15, 2006. On May 25, 2006, the Aztar Defendants, Lowinger and Heady entered a revised joint stipulation to stay the two Delaware actions pending disposition of the Arizona Actions.

On August 25, 2006, the plaintiffs in the Arizona Actions, acting on behalf of themselves and all persons who beneficially owned Aztar common stock at any time between February 15, 2005 and the date of the consummation of the merger, or if the merger is not consummated, through and including the record date for voting thereon, entered into a settlement with the Aztar Defendants. Pursuant to the terms of the settlement, the Aztar Defendants acknowledge that prosecution of the Actions was a factor in their subsequent decisions to decline to agree to pay enhanced termination fees and expenses in connection with Pinnacle's $43 per share acquisition proposal made on or about April 18, 2006, and Ameristar Casinos, Inc.'s $45 per share acquisition proposal made on or about April 20, 2006, which in turn, facilitated the ongoing auction of Aztar. In addition, Plaintiffs' counsel reviewed and provided comments to the Aztar Defendants' counsel on the preliminary proxy statement concerning the Acquisition, and the Aztar Defendants took Plaintiffs' counsel's comments into account in preparing the definitive proxy statement disseminated to Aztar common and preferred stockholders for purposes of voting on the Acquisition. Finally, Aztar agrees to pay Plaintiffs' counsel, subject to court approval, attorney's fees and litigation expenses awarded in an amount up to $500,000 in the aggregate. The settlement was preliminarily approved on September 1, 2006. If a judgment approving the settlement of the Arizona Actions is entered, all claims against the Aztar Defendants and Pinnacle in the Arizona Actions will be resolved and the Aztar Defendants will move to dismiss the remaining actions described above based on such judgment.

Item 1A. Risk Factors

The discussion of our results of operations and financial condition should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "2005 10-K"), which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. In addition to the risks identified in the 2005 10-K, we are also subject to the following additional risks:

Risks Related to Our Proposed Merger

On May 19, 2006, we entered into the Columbia Merger Agreement. The proposed merger is subject to the satisfaction of customary closing conditions, including the receipt of certain required gaming approvals.

In connection with the proposed merger, we are subject to certain risks including, but not limited to, the following:

- the risks and contingencies related to the announcement and pendency of the merger, including the impact of the merger on our employees, customers, suppliers and vendors and the effect of the merger on our existing relationships with third parties and the effect on Aztar's stock price; and
- the amount of time it could take to complete the merger, including the risk that Columbia Entertainment might not receive the necessary regulatory approvals or clearances to complete the merger or that governmental authorities could attempt to condition their approvals or clearances of the merger on one or more of the parties' compliance with certain burdensome terms or conditions.

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The completion of the proposed merger is subject to the satisfaction of numerous closing conditions, including the receipt of certain required gaming approvals. In addition, the occurrence of certain material events, changes or other circumstances could give rise to the termination of the Columbia Merger Agreement. As a result, no assurances can be given that the merger will be consummated.

- If we are unable to consummate the proposed merger, our business, financial condition, operating results and stock price could suffer and we could be subject to various adverse consequences, including, but not limited to, the following:

  - under certain circumstances, if the merger agreement is terminated and the merger is not completed, we may be required to pay to Columbia Entertainment a termination fee of $55,228,000 and to reimburse Columbia Entertainment for its fees and expenses incurred in connection with the merger up to a maximum of $27,360,000 and to reimburse Sussex the $78,000,000 that was paid to Pinnacle in connection with the termination of the Pinnacle merger agreement;
  - an announcement that the proposed merger will not be consummated could trigger a decline in our stock price to the extent that our stock price reflects a market assumption that we will complete the merger;
  - certain costs relating to the proposed merger, including, among others, legal, accounting, financial advisory and financial printing expenses, are payable by us whether or not the merger is completed;
  - in connection with the merger with Columbia Entertainment, we will forgo the potential redevelopment of our Las Vegas site and the risk that if the merger is not consummated, our inaction with respect to the potential redevelopment of the Las Vegas site could have a material adverse effect on our operations and financial performance;
  - pursuant to the Columbia Merger Agreement, we must generally conduct our business in the ordinary course and we are subject to a variety of other restrictions on the conduct of our business prior to completion of the merger or termination of the merger agreement, which may delay or prevent us from undertaking business opportunities that may arise or preclude actions that would be advisable if we were to remain an independent company; and

- we would continue to face the risks that we currently face as an independent company.

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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 30, 2006 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, 2006 to July 31, 2006	37,026*	$51.84*	--	794,224**

Month #2 August 1, 2006 to August 31, 2006	--	--	--	794,224**
Month #3 September 1, 2006 to September 30, 2006	--	--	--	794,224**

* In July 2006, the Company accepted 37,026 shares of its common stock in lieu of cash due to the Company in connection with the exercise of stock options. Such shares are stated at cost and held as treasury shares to be used for general corporate purposes.

** In December 2002, the Board of Directors authorized the Company to make discretionary repurchases 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.

AZTAR CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AZTAR CORPORATION
(Registrant)

Date: October 27, 2006

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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