

AZTAR CORP
Form 10-K
March 01, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 1, 2004

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)

Registrant's telephone number, including area code

(602) 381-4100

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock, \$.01 par value	New York
Preferred share purchase rights	New York

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Facing Page (Continued)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was \$551,900,918 at July 3, 2003 and is based on a closing price of \$15.96 and 34,580,258 common shares outstanding.

At February 17, 2004, the registrant had outstanding 34,270,803 shares of its common stock, \$.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant's 2004 definitive Proxy Statement, to be filed with the Commission, is incorporated by reference into this Form 10-K. The following cross-referenced index details the location of such information. All other sections of the 2004 Proxy Statement are not required in Form 10-K and should not be considered a part thereof.

Part and Item of the Form 10-K

2004 Proxy Statement

PART III

<u>ITEM 10.</u>	Directors and Executive Officers of the Registrant	Under the captions "ELECTION OF DIRECTORS OF THE COMPANY," "THE BOARD AND ITS COMMITTEES" and "AUDIT COMMITTEE"
<u>ITEM 11.</u>	Executive Compensation	Under the caption "EXECUTIVE COMPENSATION"
<u>ITEM 12.</u>	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	Under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL HOLDERS AND DIRECTORS AND OFFICERS"
<u>ITEM 14.</u>	Principal Accountant Fees and Services	Under the caption "INDEPENDENT PUBLIC ACCOUNTANTS"

PART I

ITEM 1. BUSINESS

Aztar Corporation was incorporated in Delaware in June 1989 to operate the gaming business of Ramada Inc. after the restructuring of Ramada Inc. The terms "Aztar", "we", "our", and "us", as used in this Form 10-K, refer to Aztar Corporation and its subsidiaries as a combined entity, except where it is clear that these terms mean only Aztar Corporation.

The restructuring of Ramada Inc. involved the disposition of Ramada Inc.'s hotel and restaurant businesses with Ramada Inc.'s shareholders retaining their interest in the gaming business. As part of the restructuring of Ramada Inc., the gaming business and certain other assets and liabilities of Ramada Inc. were transferred to Aztar, and a wholly-owned subsidiary of New World Hotels (U.S.A.), Inc. was merged with Ramada Inc. In this merger, each

share of Ramada Inc. common stock was converted into the right to receive \$1.00 and one share of Aztar common stock.

Aztar operates in major domestic gaming markets with casino hotel facilities in Atlantic City, New Jersey, and Las Vegas and Laughlin, Nevada. Aztar operates riverboat casinos in Caruthersville, Missouri, and Evansville, Indiana. Aztar is an experienced developer and operator of casinos that provide an excellent gaming environment. Each of our casinos is designed and operated to serve the unique demographics of its particular market.

AVAILABLE INFORMATION

You may obtain access, free of charge, to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports through our internet website, www.aztar.com, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

In addition, our code of ethics, our corporate governance guidelines, our charters for the audit committee, compensation and stock option committee and nominating/corporate governance committee, our code of business conduct and ethics and our audit committee complaint(s) procedures are anticipated to be available on our internet website, www.aztar.com, by the end of March 2004. When available, a copy of this information may be obtained upon request, without charge, by contacting our Corporate Communications Department at (602)381-4100, or by writing to us at Aztar Corporation, Corporate Communications, 2390 E. Camelback Road, Suite 400, Phoenix, AZ 85016-3452.

TROPICANA ATLANTIC CITY

Tropicana Casino and Resort encompasses approximately 14 acres of land, including the adjoining site where we are constructing an expansion, with 220 yards of ocean frontage along the boardwalk in Atlantic City. Tropicana Atlantic City features 1,625 hotel rooms and a 137,000-square-foot casino with 4,433 slot machines and 172 table games including poker. This facility has parking facilities to accommodate 3,400 vehicles. Tropicana Atlantic City also features:

- a 2,003-seat theatrical showroom which regularly presents headliner entertainment;
- approximately 50,000 square feet of meeting, convention and banquet space;
- three gourmet restaurants and several medium-priced restaurants; and

3

- other amenities including indoor and outdoor swimming pools, tennis courts, a health and fitness club and a jogging track.

In April 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," the project's centerpiece, a 200,000-square-foot dining, entertainment and retail center. The cost of the expansion was targeted to be \$225 million; we also anticipated providing \$20 million of tenant allowances. Due to revised estimates for tenant allowances and incremental project costs resulting from construction delays related to the October 30, 2003 accident discussed below that may not be recoverable under our insurance, the expansion project may cost \$15 million

to \$20 million more than previously estimated. Portions of the incremental delay-related costs may be recoverable from third parties and their insurers, but the amount and timing of any such recoveries are unknown at this time. Funds for the expansion will come in part from public sector subsidies, tax rebates and other credits, the present value of which could be up to \$60 million. During 2003, our purchases of property and equipment on an accrual basis, including capitalized interest of \$8.3 million, were \$104.8 million for this expansion. The expansion had been expected to open near the end of the first quarter 2004. On October 30, 2003, there was a serious accident on the expansion site which brought construction to a halt. Construction has recommenced on portions of the project, but debris removal from the accident area will need to be completed and the adjacent structure inspected before a full understanding of the reconstruction tasks and completion timeframe can be reached. Our preliminary schedule calls for the opening of the expansion by the end of September 2004.

The Atlantic City gaming market has historically demonstrated continued growth despite the emergence of new gaming venues across the country. The 12 hotel casinos in Atlantic City generated approximately \$4.5 billion in gaming revenues in 2003, a 2% increase over 2002. The primary target market for Tropicana Atlantic City is the area consisting of New Jersey, New York and Pennsylvania. Based on the most recent census data, accumulated in 2000, there are approximately 27 million persons within a 120-mile radius of Atlantic City and 62 million persons within a 300-mile radius. The Borgata Hotel, Casino and Spa, a major casino resort located in the Marina District of Atlantic City, opened in July 2003. Several major casino operators have announced plans to develop projects or expand existing facilities in the marina or the boardwalk areas. The Borgata has and other possible projects, when complete, will create increased competition in Atlantic City. In 2003, the Borgata attracted new patrons to the Atlantic City gaming market, but not enough to offset their increase to the supply. However, our view is that the Borgata will continue to attract new patrons and these new projects, if well-designed and executed, may also attract new patrons to the Atlantic City gaming market. If so, this will mitigate concern about the ultimate impact on our existing Atlantic City operations.

TROPICANA LAS VEGAS

Tropicana Resort and Casino is located on approximately 34 acres on the "Strip" in Las Vegas, Nevada. The Tropicana has 1,875 hotel rooms and suites and a 62,000-square-foot casino containing 1,337 slot machines and 35 table games. The facility also has parking to accommodate approximately 2,300 vehicles. Tropicana Las Vegas also features:

- one of the world's largest indoor/outdoor swimming pools;
- a five-acre water park and tropical garden;
- approximately 100,000 square feet of convention and exhibit space;

4

- seven restaurants; and
- the Folies Bergere, the longest-running production show in Las Vegas.

Together with the MGM Grand, Excalibur, Luxor, Monte Carlo and New York-New York mega-resorts, the Tropicana Las Vegas is located at the intersection known as the "New Four Corners" at Las Vegas Boulevard and

Tropicana Avenue. The Las Vegas gaming market consisted of approximately 130,000 hotel rooms at the end of 2003. Gaming revenues in Las Vegas were \$6.1 billion and \$6.0 billion in 2003 and 2002, respectively.

Aztar leased the Tropicana Las Vegas, through a wholly-owned subsidiary, from an unconsolidated partnership, Tropicana Enterprises, a Nevada general partnership in which we had a noncontrolling 50% interest. On February 28, 2002, we purchased the 50% partnership interest that we did not own. After credits, we paid \$117.5 million. In addition, we assumed \$48.9 million of partnership debt that we were servicing through our rent payments.

Our master plan for a potential development of our Las Vegas Tropicana site envisions the creation of two separate but essentially equal and inter-connected sites. We would develop the north site and we would hold the south site for our future development, joint venture development, or sale for development by another party. For development of a potential project on the north site, a detailed design has almost been completed. The design concept that we are finalizing calls for 2,500 hotel rooms and suites, 200,000 square feet of dining, entertainment and retail facilities, a 120,000-square-foot casino, a 3,800-car parking garage, and a four-acre rooftop pool recreation deck overlooking the Strip. We plan to complete construction documents and estimated construction costs by the end of the second quarter of 2004. We will decide by the end of the first quarter of 2005 whether to proceed, whether to delay, or whether not to proceed at all with development of a project on the north site. The amount and timing of any future expenditure, and the extent of any impact on existing operations, will depend on the nature and timing of the development we ultimately undertake, if any.

RAMADA EXPRESS

Ramada Express Hotel and Casino is located on approximately 31 acres in Laughlin, Nevada. Laughlin is situated on the Colorado River at Nevada's southern tip. The Ramada Express features a Victorian-era railroad theme, which includes a train that carries guests between the parking areas and the casino hotel. The property has 1,500 hotel rooms and a 52,000-square-foot casino containing 1,548 slot machines and 28 table games. The facility also has parking to accommodate 2,900 vehicles. Ramada Express also features:

- five restaurants;
- a lounge; and
- special events and retail space.

The Laughlin gaming market consists of approximately 11,000 rooms and its gaming revenue for 2003 and 2002 was \$0.6 billion.

CASINO AZTAR EVANSVILLE

Casino Aztar Evansville was the first gaming facility to open in Indiana. It operates on the Ohio River in Evansville. The facility encompasses approximately 15 acres and contains approximately 38,360 square feet of casino space with 1,347

slot machines and 47 table games. Casino Aztar Evansville has a 250-room hotel and has parking for 1,700 vehicles.

The casino riverboat is certified to carry 2,700 passengers and a crew of 300. The 44,000-square-foot pavilion which accompanies the riverboat contains passenger ticketing and pre-boarding facilities, including:

- four restaurants;
- an entertainment lounge;
- a gift shop; and
- a full-service Starbucks

Casino Aztar Evansville is located in the heart of metropolitan Evansville and has developed strong brand recognition in Southwest Indiana. The closest casino property is approximately 100 miles and over a two-hour drive away. Gaming revenue in the Southern Indiana market (five riverboats) grew by 8% in 2003 to \$1.1 billion. Although we believe that Casino Aztar Evansville has a strong base of loyal customers, the property operates in a more competitive environment due to the opening in November 1998 of a riverboat near Louisville, Kentucky and the opening in late October 2000 of a riverboat in our outer market between Louisville, Kentucky and Cincinnati, Ohio. Future competition is expected since the Indiana Gaming Commission is processing applications to award the eleventh and final license in West Baden, Indiana. This facility is not expected to open until late 2005 or possibly early 2006. The Indiana General Assembly passed legislation allowing flexible boarding that went into effect August 1, 2002. Dockside gaming increased accessibility to our casino riverboat by eliminating cruise schedules. This change incorporates a progressive wagering tax schedule and a change in admissions tax to \$3.00 per entry from \$3.00 per person per cruise. The new wagering tax schedule starts at 15% of casino revenue and rises to 20%, 25%, 30% and 35% based on incremental casino revenue and based on the state's fiscal year (July 1 of one year through June 30 of the following year).

CASINO AZTAR CARUTHERSVILLE

Casino Aztar Caruthersville operates on a 37-acre site on the Mississippi River in Caruthersville, Missouri. The property is located in the "boot heel" of Missouri in close proximity to I-55, the major north-south interstate running along the Mississippi River. It serves the southeast Missouri market including the neighboring states of Illinois, Kentucky, Tennessee and Arkansas. The casino riverboat has a capacity of 1,200 passengers plus crew and contains approximately 20,000 square feet of casino space with 700 slot machines and 14 table games. The facility has parking for 1,000 vehicles including recreational vehicles. The property's passenger pavilion provides ticketing and pre-boarding facilities, including:

- a restaurant;
- a sports lounge; and
- a snack bar and other amenities.

In addition, a climate-controlled pavilion and an outdoor arena are used for exhibitions, entertainment, rodeo competitions and other events. We have some unused land at this site and we are encouraging third-party developers to develop facilities on this land that would complement our operations.

COMPETITION

We face intense competition in each of the markets in which our land-based gaming facilities are located. All of our casinos primarily compete with other casinos in their geographic markets and, to a lesser extent, with casinos in other locations, including on Native American lands and on cruise ships, and with other forms of legalized gaming in the United States, including state-sponsored lotteries, racetracks, off-track wagering and card parlors. We expect this competition to intensify as new gaming operators enter our markets and existing competitors expand their operations. Some of our competitors have significantly greater financial resources than we and as a result we may not be able to successfully compete against them in the future. Several states have considered legalizing casino gaming and others may in the future. Legalization of large-scale, unlimited casino gaming in or near any major metropolitan area or increased gaming in other areas could have an adverse economic impact on the business of any or all of our gaming facilities by diverting our customers to competitors in those areas. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a material adverse effect on us.

Tropicana Atlantic City. Tropicana Atlantic City competes with 11 other casinos in Atlantic City. It also competes with two large Native American casinos in Connecticut. The Borgata Hotel, Casino and Spa, a joint venture between Boyd Gaming Corporation and MGM Mirage, opened in July 2003, in Atlantic City's Marina District. The Borgata was the first casino to open in Atlantic City since April 1990, although many of the existing casinos have increased their gaming capacities and a few casino hotels have had major expansions. Other companies have announced a desire to open new casino hotels or expand existing properties in Atlantic City in the future. The Atlantic City market also faces additional future competition from the growing Native American casinos in Connecticut and the possibility of competition from the potential legalization of casino gaming in Delaware, Maryland, New York and Pennsylvania. In addition, slot machines have been added to race tracks in Delaware and West Virginia.

Tropicana Las Vegas. Tropicana Las Vegas operates in the intensely competitive Las Vegas market. Several major new casino hotels have opened on the Las Vegas Strip during the last several years, including Aladdin, Mandalay Bay, Venetian and Paris. Announcements have been made for other new developments. In addition, several casino hotels have opened or have been expanded in other parts of Las Vegas or near Las Vegas. We cannot assure you that we will be able to compete successfully with this additional capacity in this active market of mega-casinos.

Ramada Express. Ramada Express competes with several other casinos in Laughlin. Ramada Express also competes with casinos outside of Laughlin, including the Mojave tribe's casino hotel located approximately 8 miles south of Laughlin. The Laughlin market is also affected by the Native American casinos in Arizona and California and additional capacity in Las Vegas and the surrounding area.

Casino Aztar Evansville. Casino Aztar Evansville competes primarily with an Indiana riverboat in the Louisville, Kentucky market area that opened in November 1998 and which added a hotel in 2001 and a recently expanded riverboat casino in Metropolis, Illinois. Casino Aztar Evansville also indirectly competes with the Belterra Casino Resort, a hotel and riverboat casino in Switzerland County, Indiana. In addition, Casino Aztar Evansville competes with other Indiana riverboat casinos on the Ohio River in the Cincinnati, Ohio market area and to a lesser extent with riverboat casinos in other Indiana locations, none of which are in its primary 50-mile radius market area. Casino Aztar Evansville will face additional future competition from an eleventh Indiana riverboat license, which

will be awarded in the West Baden area. This license was originally awarded to Lake Patoka but the U.S. Army Corps of Engineers will not allow a riverboat on the lake. There is also the potential for the legalization of casino gaming in Kentucky.

Casino Aztar Caruthersville. Casino Aztar Caruthersville competes primarily with other riverboat casinos in nearby states, including a recently expanded riverboat in Metropolis, Illinois and riverboat casinos in Mississippi that attract residents of Casino Aztar Caruthersville's secondary Memphis, Tennessee market. Casino Aztar Caruthersville also competes to a lesser extent with riverboat casinos in other cities in Missouri, none of which are in its primary 60-mile radius market area. Casino Aztar Caruthersville may also face additional future competition from the potential legalization of casino gaming in Arkansas.

General. Competition involves not only the quality of casino, room, restaurant, entertainment and convention facilities, but also room, food and beverage prices. The level of gaming activity also varies significantly from time to time depending on factors including:

- general economic conditions;
- offering of special events and promotions;
- hotel occupancies;
- the extent and quality of complimentary services to attract high-stakes players;
- in Atlantic City, casino customers arriving under bus programs;
- personal attention offered to guests and casino customers;
- advertising;
- entertainment;
- slot machine pay-out rates; and
- credit policies with respect to high-stakes players.

As a result, our operating results can be adversely affected by significant cash outlays for advertising and promotion and complimentary services to patrons, the amount and timing of which are partially dictated by the policies of competitors. If our operating revenues are insufficient to allow management the flexibility to match the promotions of competitors, the number of our casino patrons may decline, which may have an adverse effect on our financial performance.

SEASONALITY

We experience significant fluctuations in our operating results due to seasonality. Tropicana Atlantic City experiences seasonal fluctuation in casino play that is higher during the months of May through October. As a result, Aztar's

revenues during the first and fourth quarters have generally been lower than for the second and third quarters and from time to time Aztar has experienced losses in the first and fourth quarters. Because Atlantic City Tropicana's operating results especially depend upon operations in the summer months, any event that adversely affects the operating results of the Atlantic City Tropicana during that period

could have a material adverse effect on our operations and financial condition. Given Atlantic City's location, it is also subject to occasional adverse weather conditions including storms and hurricanes that would impede access to Atlantic City and adversely impact our operations.

The gaming markets in Las Vegas and Laughlin experience a slight decrease in gaming activity in the hot summer months and during the holiday period between Thanksgiving and Christmas.

PLAYER CREDIT

We conduct our gaming activities on a credit as well as a cash basis, except in Missouri, which prohibits gaming on a credit basis. Table games players are typically extended more credit than slot players, and high-stakes players are typically extended more credit than patrons who tend to wager lower amounts. Our credit policy varies from facility to facility based upon the various types of customers at each facility and regulatory requirements in each jurisdiction. In general, credit is extended to new credit customers after verification of certain banking information and evaluation of the customer's credit history from other casinos, the customer's income and net worth, and traditional consumer credit reports. Additional credit may be extended to existing credit customers after evaluating the above factors plus the player's prior gaming and credit history with our casino. Gaming debts are legally enforceable under the current laws of Indiana, New Jersey and Nevada; however, it is not clear that all other states or that foreign countries will honor these policies. At January 1, 2004, receivables due from non-United States customers were 11% of our accounts receivable before the allowance for doubtful accounts. We have made provisions for estimated uncollectible gaming receivables in order to reduce gaming receivables to amounts deemed to be collectible. However, our inability to collect gaming receivables could have a material adverse effect on our results of operations.

WORKING CAPITAL DEFICIT

Consistent with gaming industry practice, we conduct our operations with a net working capital deficit. Unlike traditional industrial companies, a gaming company's balance sheet has limited accounts receivable and inventories. In addition, casinos generate significant cash on a daily basis. We generally apply our daily cash flows to pay down indebtedness under our revolving credit facility and pay our current liabilities pursuant to their normal cycles. Given the significant daily cash flows generated by our operations and the financial flexibility provided by our credit facility, the existence of a working capital deficit has no impact on our ability to operate our business or meet our obligations as they become due.

SECURITY AND SURVEILLANCE

Gaming operations at our casinos are also subject to risk of substantial loss as a result of employee or patron dishonesty, credit fraud or illegal slot machine manipulation. We have in place stringent control procedures to

minimize these risks including supervision of employees, monitoring by electronic surveillance equipment and use of two-way mirrors. However, we cannot assure you that losses will not occur. In New Jersey, our activities are observed and monitored on an ongoing basis by agents of both the New Jersey Casino Control Commission and the New Jersey Division of Gaming Enforcement, each of which maintains a staff on the premises of Tropicana Atlantic City. Similarly, in Nevada our gaming subsidiaries must comply with certain regulatory requirements concerning casino and game

security and surveillance. The gaming operations of Tropicana Las Vegas and Ramada Express are subject to routine audit and supervision by agents of the Nevada State Gaming Control Board. In Missouri and Indiana, our casino riverboat operations are subject to the control procedures of the Missouri Gaming Commission and the Indiana Gaming Commission, respectively. The Missouri Gaming Commission maintains a staff at Casino Aztar Caruthersville and the Indiana Gaming Commission maintains a staff at Casino Aztar Evansville.

REGULATION AND LICENSING

General

Regulatory aspects of the gaming business are pervasive in nature and the following description should not be construed as a complete summary of all the regulatory requirements faced by Aztar. Gaming authorizations, once obtained, can be suspended or revoked for a variety of reasons. If Aztar is ever precluded from operating one of its gaming facilities, it would, to the extent permitted by law, seek to recover its investment by sale of the property affected, but Aztar cannot guarantee that it would recover its full investment.

From time to time, legislative and regulatory changes are proposed, and court decisions rendered, that could be adverse to Aztar. On June 18, 1999, the National Gambling Impact Study Commission released a report that could result in federal legislation regulating the gaming industry. In addition, from time to time, investigations are conducted relating to the gaming industry. We are required to report particular cash transactions to the U.S. Department of the Treasury pursuant to the Bank Secrecy Act. Violation of the reporting requirements of the Bank Secrecy Act could result in civil as well as criminal penalties, including fines, imprisonment or both, which in turn could result in the revocation, suspension, imposition of conditions upon or failure to renew the casino license of the affected facility. The States of Nevada and Indiana have adopted regulations similar to the Bank Secrecy Act that require the Nevada and Indiana facilities to document and report specific currency transactions to the Nevada State Gaming Control Board and the Indiana Gaming Commission, respectively in addition to reporting to the U.S. Department of the Treasury. Violation of these regulations could result in action by Nevada or Indiana authorities to fine or revoke, suspend, impose conditions upon or fail to renew the Nevada or Indiana facilities' licenses and Aztar's licensing approval. Except to the extent of a violation as noted above, these reporting requirements are not expected to have any adverse effects on Aztar's casino operations.

Regulation and Licensing - Nevada

The ownership and operation of casino gaming facilities in Nevada are subject to (a) the Nevada Gaming Control Act and the regulations promulgated under that Act, referred to collectively as the "Nevada Act" and (b) various local regulations. The gaming operations of the Tropicana Las Vegas and Ramada Express are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board and the Clark County Liquor and Gaming Licensing Board. Each of the Nevada Commission, Nevada Board and Clark County Board are collectively referred to as the "Nevada Gaming Authorities".

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- the prevention of cheating and fraudulent practices; and
- the provision of a source of state and local revenues through taxation and licensing fees.

Change in these or other laws, regulations and procedures that apply to Aztar could have an adverse effect on Aztar.

Hotel Ramada of Nevada is Aztar's wholly-owned subsidiary which operates the casino at Tropicana Las Vegas. Ramada Express, Inc. is Aztar's wholly-owned subsidiary which operates the Ramada Express casino in Laughlin. Hotel Ramada of Nevada and Ramada Express are both required to be licensed by the Nevada Gaming Authorities. The gaming licenses require the periodic payment of fees and taxes and are not transferable. Aztar is registered by the Nevada Commission as a publicly traded corporation ("Registered Corporation") and is therefore required periodically to submit detailed financial and operating reports to the Nevada Commission and furnish any other information which the Nevada Commission may require. No person may become a stockholder of, or receive any percentage of profits from, Hotel Ramada of Nevada or Ramada Express without first obtaining licenses and approvals from the Nevada Gaming Authorities. Aztar, Hotel Ramada of Nevada, and Ramada Express have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required in order to engage in gaming activities

in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Aztar, Hotel Ramada of Nevada or Ramada Express in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and some key employees of Hotel Ramada of Nevada and Ramada Express must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Some officers, directors and key employees of Aztar who are actively and directly involved in gaming activities of Hotel Ramada of Nevada and Ramada Express may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing or a finding of suitability for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability, or the gaming licensee by whom the applicant is employed or for whom the applicant serves, must pay all the costs of the investigation. Changes in licensed positions

must be reported to the Nevada Gaming Authorities and in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with Aztar, Hotel Ramada of Nevada or Ramada Express, the companies involved would have to sever all relationships with this person. In addition, the Nevada Commission may require Aztar, Hotel Ramada of Nevada or Ramada Express to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

Aztar, Hotel Ramada of Nevada and Ramada Express are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Hotel Ramada of Nevada and Ramada Express must be reported to, or approved by, the Nevada Commission.

If it were determined that the Nevada Act was violated by Hotel Ramada of Nevada or Ramada Express, the gaming licenses held by Hotel Ramada of Nevada or Ramada Express could be limited, conditioned, suspended or revoked, subject to compliance with particular statutory and regulatory procedures. In addition, Hotel Ramada of Nevada, Ramada Express, Aztar and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, a supervisor could be appointed by the Nevada Commission to operate Aztar's Nevada gaming properties and, under some circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of Aztar's Nevada gaming properties) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect Aztar.

Any beneficial holder of Aztar's voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his suitability as a beneficial holder of Aztar's voting securities determined if the Nevada Commission has reason to believe that this ownership would otherwise be inconsistent with the declared

policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting this investigation.

The Nevada Act requires any person who acquires more than 5% of any class of Aztar's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of any class of Aztar's voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the chairman of the Nevada Board mails the written notice requiring this filing. Under some circumstances, an "institutional investor," as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of Aztar's voting securities may apply to the Nevada Commission for a waiver of the finding of suitability if this institutional investor holds the voting securities for investment purposes only. An institutional investor will not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly,

12

the election of a majority of the members of the board of directors of Aztar, any change in Aztar's corporate charter, bylaws, management, policies or operations of Aztar, or any of its gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding Aztar's voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and
- other activities as the Nevada Commission may determine to be consistent with this investment intent.

If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Under the Nevada Act and in certain circumstances, an "institutional investor" as defined in the Nevada Act, which intends to acquire not more than 15% of any class of nonvoting securities of a privately-held corporation, limited partnership or limited liability company that is also a registered holding or intermediary company or the holder of a gaming license, may apply to the Nevada Commission for a waiver of the usual prior licensing or finding of suitability requirement if such institutional investor holds such nonvoting securities for investment purposes only. An institutional investor shall not be deemed to hold nonvoting securities for investment purposes unless the nonvoting securities were acquired and are held in the ordinary course of business as an institutional investor, do not give the institutional investor management authority, and do not, directly or indirectly, allow the institutional investor to vote for the election or appointment of members of the board of directors, a general partner or manager, cause any change in the articles of organization, operating agreement, other organic document, management, policies or operations, or cause any other action that the Nevada Commission finds to be inconsistent with holding nonvoting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding nonvoting securities for investment purposes only include: (i) nominating any candidate for election or appointment to the entity's board of

directors or equivalent in connection with a debt restructuring; (ii) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in the entity's management, policies or operations; and (iii) such other activities as the Nevada Commission may determine to be consistent with such investment intent. If the beneficial holder of nonvoting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the

beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond the period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. Aztar is subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with Aztar, Hotel Ramada of Nevada or Ramada Express, Aztar:

- pays that person any dividend or interest upon its voting securities;
- allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
- pays remuneration in any form to that person for services rendered or otherwise; or
- fails to pursue all lawful efforts to require the unsuitable person to relinquish his voting securities for cash at fair market value.

Additionally, the Clark County Board has taken the position that it has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming license.

The Nevada Commission may, in its discretion, require the holder of any debt security of a Registered Corporation, including Aztar, to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Commission determines that a person is unsuitable to own the debt security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- recognizes any voting right by such unsuitable person in connection with the securities;

- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

Aztar is required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Aztar is also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power to require Aztar's stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. However, to date, the Nevada Commission has not imposed this requirement on Aztar.

Aztar may not make a public offering of any securities without the prior approval of the Nevada Commission if the securities or the proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for these purposes. This approval, if given, does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful.

On May 22, 2003, the Nevada Commission granted Aztar prior approval to make public offerings for a period of two years subject to some conditions (the "Shelf Approval"). However, the Shelf Approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the chairman of the Nevada Board. The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in control of Aztar through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada Board and Nevada Commission in a variety of stringent standards prior to assuming control of the Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licensees and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon

Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in some circumstances, required from the Nevada Commission before Aztar can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by Aztar's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Nevada licensee's respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon:

- a percentage of the gross revenues received;
- the number of gaming devices operated; or
- the number of table games operated.

An excise tax is also paid by Hotel Ramada of Nevada and Ramada Express on charges for admission to any facility where certain forms of live entertainment are provided.

Any person who is licensed, required to be licensed, registered, required to be registered or is under common control with these persons (a "Licensee", or collectively, "Licensees"), and who proposes to become involved in a gaming venture outside of Nevada is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation of the Nevada Board of their participation in this foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with specific reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in any activity or enter into any association that is unsuitable because it poses an unreasonable threat to the control of gaming in Nevada, reflects or tends to reflect discredit or disrepute upon the State of Nevada or gaming in Nevada, or is contrary to the gaming policies of Nevada, engage in any activity or enter into any association that interferes with the ability of the State of Nevada to collect gaming taxes and fees, or employ, contract with or associate with any person in the foreign gaming

operation who has been denied a license or a finding of suitability in Nevada on the ground of personal unsuitability, or who has been found guilty of cheating at gambling.

The sale of alcoholic beverages by Hotel Ramada of Nevada and Ramada Express is subject to licensing, control and regulation by the Clark County Board. All licenses are revocable and are not transferable. The Clark County Board has full power to limit, condition, suspend or revoke any license, and any disciplinary action could (and revocation would) have a material adverse effect upon the operations of Aztar, Hotel Ramada of Nevada or Ramada Express.

Regulation and Licensing - New Jersey

The ownership and operation of casino hotel facilities and gaming activities in Atlantic City, New Jersey, are subject to extensive state regulation under the New Jersey Casino Control Act, referred to as the "New Jersey Act," and the regulations of the New Jersey Casino Control Commission, referred to as the "New Jersey Commission."

The New Jersey Act and regulations concern primarily the financial stability and character of casino licensees, their intermediary and holding companies, their employees, their security holders and others financially interested in casino operations, the nature of hotel and casino facilities and a wide range of gaming and non-gaming related operations. The New Jersey Act and regulations include detailed provisions concerning, among other things:

- financial and accounting practices used in connection with casino operations;
- residence and equal employment opportunities for employees of casino operators, contractors and other vendors for casino facilities and others;
- rules of games, levels of supervision of games and methods of selling and redeeming chips;
- manner of granting credit, duration of credit and enforceability of gaming debts;
- manufacture, distribution and sale of gaming equipment;
- security standards;
- management control procedures;
- accounting and cash control methods;
- reports to gaming authorities;
- advertising of casinos; and

- standards for entertainment and distribution of alcoholic beverages in casinos.

The New Jersey Act also established the New Jersey Division of Gaming Enforcement, referred to as the "New Jersey Division," to investigate all license applications, enforce the provisions of the New Jersey Act and attendant regulations and prosecute all proceedings for violations of the New Jersey Act and regulations before the New Jersey Commission. The New Jersey Division also conducts audits and continuing reviews of all casino operations.

Adamar of New Jersey, Inc., a wholly-owned subsidiary of Aztar, has been licensed (subject to quadrennial renewal) by the New Jersey Commission to operate Tropicana Atlantic City. In November 1982, the New Jersey Commission granted a plenary license to Adamar of New Jersey, Inc. In November 2003, the license was renewed for a period of four years, subject to the condition that Adamar of New Jersey, Inc. and Aztar provide the New Jersey Commission and the New Jersey Division with revised financial forecasts for the first two years of the license term by February 10, 2004. The revised financial forecasts were required to supplement previously filed financial forecasts to reflect a revised projected opening date for the expansion of the Tropicana Atlantic City which was delayed as a result of an accident which occurred on October 30, 2003 at the site of the construction of the parking-garage component of the expansion. The revised financial forecasts have been submitted in accordance with the license condition and the New Jersey Commission will determine whether there is any impact on the financial stability of Adamar of New Jersey, Inc. and Aztar in view of those revised forecasts. In making that determination, the New Jersey Commission may schedule a hearing to assess continuing financial stability.

Aztar and Ramada New Jersey Holdings Corporation, another of Aztar's New Jersey gaming subsidiaries, have been approved as qualified holding companies for Adamar of New Jersey, Inc.'s casino license. Officers and directors of Aztar, Ramada New Jersey Holdings Corporation and Adamar of New Jersey, Inc. and employees who work at casino hotel facilities operated by Adamar of New Jersey, Inc. also have been or must be qualified, licensed or registered. In addition, all contracts affecting the facilities are subject to approval, and all enterprises that conduct business with Adamar of New Jersey, Inc. must register with the New Jersey Commission and those enterprises that conduct gaming related businesses or that conduct business on a regular and continuing basis, as defined by the regulations under the New Jersey Act, must be licensed by the New Jersey Commission.

The New Jersey Commission has broad discretion regarding the issuance, renewal, revocation and suspension of casino licenses. Casino licenses are not transferable. A casino hotel facility must also continually satisfy specific requirements concerning, among other things, the number of qualifying sleeping units and the relationship between the number of qualifying sleeping units and the square footage of casino space. Aztar believes that Tropicana Atlantic City continues to meet these requirements.

The New Jersey Act further provides that each person who directly or indirectly holds any beneficial interest or ownership of the securities issued by a casino licensee or any of its intermediary or holding companies, those persons who, in the opinion of the New Jersey Commission, have the ability to control the casino licensee or its intermediary or holding companies or elect a majority of the board of directors of said companies, other than a banking or other licensed lending institution which makes a loan or holds a mortgage or other lien acquired in the ordinary course of business, and lenders and underwriters of said companies may be required to seek qualification from the New Jersey Commission. However, because Aztar is a publicly traded holding company, in accordance with the provisions of the New Jersey Act, a waiver of qualification may be granted by the New Jersey Commission, with the concurrence of the director of the New Jersey Division, if it is determined that said persons or entities are not significantly involved in the

activities of Adamar of New Jersey, Inc. and, in the case of security holders, do not have the ability to control Aztar or elect one or more of its directors. There exists a rebuttable presumption that any person holding 5% or more of the equity securities of a casino licensee's intermediary or holding company or a person having the ability to elect one or more of the directors of such a company has the ability to control the company and thus must obtain qualification from the New Jersey Commission.

Notwithstanding this presumption of control, the New Jersey Act provides for a waiver of qualification for passive "institutional investors," as defined by the New Jersey Act, if the institutional investor purchased the securities for investment purposes only and where the securities constitute:

- less than 10% of the equity securities of a casino licensee's holding or intermediary company; or
- debt securities of a casino licensee's holding or intermediary company representing a percentage of the outstanding debt of the company not exceeding 20% or a percentage of any issue of the outstanding debt of the company not exceeding 50%.

The waiver of qualification is subject to some conditions including, upon request of the New Jersey Commission, filing a certified statement that the institutional investor has no intention of influencing or affecting the affairs of the issuer. A waiver of qualification may also be granted to institutional investors holding a

higher percentage of securities of a casino licensee's holding or intermediary company upon a showing of good cause.

If the institutional investor is granted a waiver and subsequently determines to influence or affect the affairs of the issuer, it must provide not less than 30 days notice of this intent and file with the New Jersey Commission an application for qualification before taking any action which may influence or affect the affairs of the issuer, except that an institutional investor holding voting securities will be permitted to vote on matters put to the vote of the holders of outstanding voting securities. If an institutional investor that has been granted a waiver subsequently changes its investment intent, or if the New Jersey Commission finds reasonable cause to believe that the institutional investor may be found unqualified, no action other than divestiture will be taken by the investor with respect to the security holdings until the investor complies with the provisions of the New Jersey Act concerning Interim Casino Authorization. The provisions of the New Jersey Act concerning Interim Casino Authorization provide that whenever a security holder of either equity or debt is required to qualify pursuant to the New Jersey Act, the security holder will, within 30 days after the New Jersey Commission determines that qualification is required or declines to waive qualification,

- file a completed application for qualification, along with an executed and approved Trust Agreement, wherein all securities of the holding or intermediary company held by that security holder are placed in trust pending qualification, or
- file a notice of intent to divest itself of the securities as the New Jersey Commission may require so as to remove the need for qualification, which securities must be divested within 120 days from the date the determination was made.

The New Jersey Act further requires that corporate licensees and their subsidiaries, intermediaries and holding companies adopt specific provisions in their certificates of incorporation that require some remedial action in the

event that an individual owner of any security of such company is found disqualified under the New Jersey Act. The required certificate of incorporation provisions vary depending on whether the stock of the company subject to the requirements of the New Jersey Act is publicly or privately traded. Pursuant to the New Jersey Act, the certificate of incorporation of a publicly held company must provide that any securities of the corporation are held subject to the condition that if a holder is found to be disqualified by the New Jersey Commission pursuant to the New Jersey Act the holder will dispose of his interest in the company. The certificate of incorporation of a privately held company must create the absolute right of the company to repurchase at the market price or purchase price, whichever is the lesser, any security, share or other interest in the company in the event the New Jersey Commission disapproves a transfer in accordance with the provisions of the New Jersey Act.

Aztar is a publicly held company and, accordingly, a provision has been placed in its restated certificate of incorporation which provides that a holder of its securities must dispose of the securities if the holder is found disqualified under the New Jersey Act. In addition, Aztar's restated certificate of incorporation provides that it may redeem the stock of any holder found to be disqualified.

If, at any time, it is determined that Adamar of New Jersey, Inc. has violated the New Jersey Act or regulations, or if any security holder of Aztar, Adamar of New Jersey, Inc. or Ramada New Jersey Holdings Corporation who is required to be qualified under the New Jersey Act is found disqualified but does not dispose of the securities, Adamar of New Jersey, Inc. could be subject to fines or its license could be suspended or revoked. If Adamar of New Jersey, Inc.'s license is revoked, the New Jersey Commission could appoint a conservator to operate and to dispose of any casino hotel facilities of Adamar of New Jersey, Inc. Net proceeds of a sale by a conservator and net profits of operations by a conservator (at least up to an amount equal to a fair return on Adamar of New Jersey, Inc.'s investment which is reasonable for casinos or hotels) would be paid to Adamar of New Jersey, Inc.

In addition to compliance with the New Jersey Act and regulations relating to gaming, any facility built in Atlantic City by Adamar of New Jersey, Inc. or any other subsidiary of Aztar must comply with the New Jersey and Atlantic City laws and regulations relating to, among other things, the Coastal Area Facilities Review Act, construction of buildings, environmental considerations, operation of hotels and the sale of alcoholic beverages.

The New Jersey Commission is authorized to establish fees for the issuance or renewal of casino licenses. Yearly casino hotel alcoholic beverage license fees are payable for each facility in any of five specified categories in any licensed casino hotel. There is also an annual license fee on each slot machine. The New Jersey Commission is also authorized by regulation to establish annual fees for the issuance and renewal of licenses other than casino licenses.

The New Jersey Act imposes an annual tax of eight percent on gross revenues (as defined in the New Jersey Act). In addition, casino licensees are required to invest one and one-quarter percent of gross casino revenues for the purchase of bonds to be issued by the Casino Reinvestment Development Authority or make other approved investments equal to that amount; in the event the investment requirement is not met, the casino licensee is subject to a tax in the amount of two and one-half percent on gross revenues.

Regulation and Licensing - Missouri

On November 3, 1992, a statewide referendum authorized gaming in the State of Missouri on the Missouri and the Mississippi Rivers. Local approval from the home dock municipality, as required by the legislation, was also obtained from the City of Caruthersville in the November 3, 1992 election. On April 29, 1993, Missouri enacted revised legislation (as amended, the "Missouri Gaming Law") which amended the existing legislation. The Missouri Gaming Law established the Missouri Gaming Commission, which is responsible for the licensing and regulation, and enforcement with respect to some aspects, of riverboat gaming in Missouri and has the discretion to approve license applications for riverboat gaming facilities as well as employees and key persons associated with the facilities. In July 1993, Aztar was chosen by the City of Caruthersville as the preferred applicant to develop a gaming facility, and on September 20, 1993, Aztar's subsidiary, Aztar Missouri Gaming Corporation, predecessor in interest to the current licensee, Aztar Missouri Riverboat Gaming Company, L.L.C. ("Aztar Missouri"), filed its initial application with the Missouri Gaming Commission. The Missouri Gaming Commission conducted a formal investigation of Aztar Missouri's application and granted an owner/operator gaming license to Aztar Missouri on April 26, 1995.

20

In a decision handed down on January 25, 1994, the Missouri Supreme Court held that games of chance were prohibited under the Missouri constitution. On April 5, 1994, Missouri voters narrowly defeated the adoption of a constitutional amendment that would have excepted excursion boats and floating facilities from the constitutional prohibition on lotteries. Local voters did re-approve gaming in the City of Caruthersville in the April 5, 1994 election. Following the April 5, 1994 election, the Missouri legislature amended the existing Missouri Gaming Law to clarify some definitions and to resolve some constitutional questions raised in the Missouri Supreme Court decision. Pursuant to the Missouri Gaming Law, there are eleven operating riverboat gaming facility sites in Missouri: one in Caruthersville; one in Boonville; three in the St. Louis area; four in the Kansas City area; one in La Grange; and one in St. Joseph.

In a statewide election held on November 8, 1994, Missouri voters approved the adoption of an amendment to the Missouri Constitution which permits the legislature to allow games of chance to be conducted on excursion boats and floating facilities on the Mississippi River and the Missouri River. As a result of the amendment, full-scale gaming, subject to Missouri Gaming Law, is now available in Missouri.

Opponents of gaming in Missouri have brought several legal challenges to gaming in the past and may possibly bring similar challenges in the future. On November 25, 1997, the Missouri Supreme Court overturned a state lower court and held that a portion of the Missouri Gaming Law that authorized excursion gaming facilities in "artificial basins" up to 1,000 feet from the Mississippi or Missouri rivers was unconstitutional. This ruling created uncertainty as to the legal status of several excursion gaming riverboat facilities in the state; however, as Aztar Missouri facilities were fully on the Mississippi River, they did not appear to be affected. On November 3, 1998, a statewide referendum was held, whereby the voters amended the constitution to allow "artificial basins" for existing facilities, effectively overturning the above Missouri Supreme Court decision. There can be no assurances that any future challenges, if brought, would not further interfere with full-scale gaming operations in Missouri, including the operations of Aztar

Missouri.

Under the Missouri Gaming Law, the ownership and operation of riverboat gaming facilities in Missouri are subject to extensive state and local regulation. Aztar, Aztar Missouri, any subsidiaries, and some of their officers and employees are and will be subject to specific regulations, including licensing requirements. As part of the application and licensing process for a gaming license, the applicant must submit detailed financial, operating and other reports to the Missouri Gaming Commission. Each applicant has an ongoing duty to update the information provided to the Missouri Gaming Commission in the application. Aztar Missouri has frequently updated its application materials since it was initially licensed. In addition to the information required of the applicant, directors, officers and other defined "key persons" (which include individuals designated by the Missouri Gaming Commission) must submit Personal Disclosure Forms, which include detailed personal financial information, and are subject to thorough investigations. In addition, some officers and directors of Aztar, as well as Aztar itself, have submitted Personal Disclosure Forms and applications to the Missouri Gaming Commission. All gaming employees must obtain an occupational license issued by the Missouri Gaming Commission.

21

The operators' licenses (or "Class A" gaming licenses) are issued through application to the Missouri Gaming Commission, which requires, among other things:

- investigations into an applicant's character, financial responsibility and experience qualifications and
- that applicants furnish:
 - financial information, referenced above;
 - detailed information about the applicant's history, business, affiliations, officers, directors and owners;
 - an affirmative action plan for the hiring and training of minorities and women; and
 - an economic development or impact report.

License fees are a minimum of \$50,000 for the initial application and \$25,000 annually thereafter. Aztar Missouri has undergone a full relicensing investigation and hearing in connection with its licensing in 2003. Aztar Missouri's gaming license was renewed on April 29, 2003 for the period April 26, 2003 to April 25, 2004.

The Missouri Gaming Law regulations impose restrictions on the use and transfer of the gaming licenses as well as limitations on transactions engaged in by licensees. The licenses issued by the Missouri Gaming Commission may not be transferred nor pledged as collateral. The Missouri Gaming Law regulations bar a licensee from taking any of the

following actions without prior notice to, and approval by, the Missouri Gaming Commission:

- any transfer or issuance of an ownership interest of five percent or more of the issued and outstanding ownership interest;
- any private incurrence of debt by the licensee or any holding company of \$1,000,000 or more;
- any public issuance of debt by a licensee or its holding company; and
- defined "significant related party transactions."

In addition, the licensee must notify the Missouri Gaming Commission of other transactions, including the transfer of five percent or more of an ownership interest in the licensee or holding company if publicly held and any transaction of at least \$1,000,000. The restrictions on transfer of ownership apply to Aztar as well as the direct licensee, Aztar Missouri. Gaming equipment and corporate stock of some licensees may not be pledged except in narrow circumstances and subject to some regulatory conditions.

Missouri statutes and administrative rules contain detailed requirements concerning the operation of a licensed excursion gaming boat facility, including:

22

- a charge of two dollars per gaming customer per excursion, as discussed below, that licensees must pay to the Missouri Gaming Commission;
- requirements regarding minimum payouts;
- a 20% tax on adjusted gross receipts;
- prohibitions against providing credit to gaming customers, except for the use of credit cards and cashing checks; and
- a requirement that each licensee reimburse the Missouri Gaming Commission for all costs of any Missouri Gaming Commission staff, including Missouri Highway Patrol Officers, necessary to protect the public on the licensee's riverboat.

Licensees also must submit monthly, quarterly and annual reports of financial and statistical data and quarterly and annual audited financial information and compliance reports to the Missouri Gaming Commission and pay the associated auditing fees. Other areas of operation which are subject to regulation under the Missouri rules are the color, denomination and handling of chips and tokens; the surveillance methods and computer monitoring of electronic games; accounting and audit methods and procedures; and approval of an extensive internal control system.

The Missouri Gaming Commission requires comprehensive safety inspections and compliance with local and federal safety requirements. Liquor licenses are issued and regulated by the Missouri Gaming Commission. The Missouri rules also require that all of an operator's purchases must be from suppliers licensed by the Missouri Gaming Commission or another entity approved by the Commission.

The Missouri Gaming Commission has the power, as well as broad discretion in exercising this power, to revoke or suspend gaming or occupational licenses and impose other penalties for violations of the Missouri Gaming Law and the rules and regulations promulgated thereunder, including without limitation, forfeiture of all gaming equipment used for improper gaming and fines of up to three times a licensee's highest daily gross receipts during the preceding twelve months.

Although the Missouri Gaming Law provides no limit on the amount of riverboat space that may be used for gaming, the Missouri Gaming Commission is empowered to impose space limitations through the adoption of rules and regulations. In addition, the Missouri Gaming Law imposes a \$500 loss limit per two-hour period established by each licensee with the approval of the Missouri Gaming Commission. In order to establish an excursion schedule, which allows patrons to enter and exit the gaming floor at any time during the excursion the licensee must prove to the Missouri Gaming Commission that it can enforce the \$500 loss limit.

In addition, the Missouri Gaming Commission is empowered to determine on a city and county-specific basis where "dockside" or permanently-docked gaming is appropriate and may be permitted. The Missouri Gaming Commission has authorized all eleven licensed sites to operate all or a portion of their facilities on a continuously docked basis. On February 15, 1996, the Commission granted Aztar Missouri the authority to operate gambling games on part of its floating facility previously used for non-gaming activities, including ticketing, under the continuous docking provision of the Missouri Gaming Law. On February 15, 1997, the Commission granted Aztar Missouri the authority to permanently dock the excursion gambling riverboat facility known as the "City of Caruthersville."

Regulation and Licensing - Indiana

The ownership and operation of riverboat casinos in specific designated waters are subject to extensive state regulation under the Indiana Riverboat Gambling Act (the "Indiana Act") and regulations which the Indiana Gaming Commission ("Indiana Commission") is authorized to adopt under the Indiana Act. The Indiana Act extends broad and pervasive regulatory powers and authority to the Indiana Commission. The Indiana Act and the regulations of the Indiana Commission are significant to Aztar's prospects for successfully operating its riverboat casino and associated developments based in Evansville, Indiana.

The Indiana Commission has issued

- five riverboat owner's licenses on Lake Michigan, and
- five riverboat owner's licenses on the Ohio River, including Aztar's facility.

The Indiana Commission has not considered applicants for a license on Patoka Lake in Southwestern Indiana, since that site has been determined by the United States Army Corps of Engineers to be unsuitable for a riverboat casino project. Pursuant to legislation effective July 1, 2003, the site for a gaming license on Patoka Lake was eliminated and the Indiana Commission is now authorized to enter into a contract with an Operating Agent on behalf of the Indiana Commission for one riverboat in a historic hotel district in Orange County in southern Indiana. In November 2003, Orange County voters passed the requisite referendum permitting riverboat gambling in Orange County. The Indiana Commission is in the initial stages of selecting an Operating Agent, from reportedly five applicants, and the Operating Agent Contract will be valid, when issued, for twenty years. The Operating Agent must pay a non-refundable initial fee of \$1.0 million to the Indiana Commission. Effective July 1, 2003, an entity may own up to a one hundred percent interest in two riverboat owner licenses. Previously, an entity could not own more than a 10% interest in any other owner's license. There is a \$2 million transfer fee if a riverboat owner purchases a second riverboat owner license. The Indiana Commission has adopted regulations under the Indiana Act which covers numerous operational matters concerning riverboat casinos licensed by the Commission, including rules for

- authorized games,
- internal control procedures,
- accounting records,
- security,
- gaming equipment, and
- extensions of credit.

Aztar, through an Indiana subsidiary, Aztar Indiana Gaming Corporation, has received from the Indiana Commission a riverboat owner's license for the Evansville, Indiana market. Aztar Indiana Gaming Corporation completed requirements for formal licensing and commenced operations in Evansville on December 7, 1995. On August 20, 1999, the Indiana Commission authorized a transfer of the assets of Aztar Indiana Gaming Corporation, including the riverboat owner's

license, to Aztar Indiana Gaming Company, L.L.C. ("Aztar Indiana"), a recently-formed limited liability company, in which Aztar Riverboat Holding Company, L.L.C. owns all of the membership interests. Aztar Riverboat Holding Company, L.L.C. is 100% owned by Aztar through wholly-owned subsidiaries. On December 31, 1999, Aztar Indiana Gaming Corporation transferred its assets and riverboat owner's license to Aztar Indiana.

A riverboat owner's license has an initial effective period of five years but is subject to an annual renewal thereafter. The Indiana Commission has broad discretion with respect to the initial issuance of licenses and also with respect to

the renewal, revocation, suspension and control of riverboat owner's licenses. The Indiana Act requires a reinvestigation after three years to ensure the owner continues to be suitable for licensure. On December 7, 2000, the Indiana Commission made a preliminary determination to renew Aztar Indiana's riverboat owner's license until such time as Aztar Indiana has an opportunity to make a presentation to the Indiana Commission at a regular business meeting. On March 2, 2001, the Indiana Commission renewed Aztar Indiana's riverboat owner's license for a period of one year with an annual review. On December 6, 2001, the Indiana Commission renewed Aztar Indiana's riverboat owner's license for a period of one year, from December 8, 2001 to December 7, 2002. On November 15, 2002, the Indiana Commission renewed Aztar Indiana's riverboat owner's license for a period of one year, from December 5, 2002, to December 4, 2003. On November 14, 2003, the Indiana Commission renewed Aztar Indiana's riverboat owner's license for a period of one year, from December 5, 2003, through December 4, 2004. The Indiana Commission has adopted a rule which requires, in the event a riverboat owner's license is terminated, the riverboat licensee to secure all the assets of the riverboat gambling operation, and the licensee may not dispose of any of these assets without the written approval of the Indiana Commission. Officers, directors and principal owners of the actual license holder and employees who are to work on the riverboat are subject to substantial disclosure requirements as a part of securing and maintaining necessary licenses. Significant contracts are subject to disclosure.

A riverboat owner licensee may not enter into or perform any contract or transaction in which it transfers or receives consideration which is not commercially reasonable or which does not reflect the fair market value of the goods or services rendered or received. All contracts are subject to disapproval by the Indiana Commission. Suppliers of gaming equipment and materials must also be licensed under the Indiana Act.

The Indiana Act requires licensees to disclose to the Indiana Commission the identity of all directors, officers and persons holding direct or indirect beneficial interests of 1% or greater. The Indiana Commission also requires a broad and comprehensive disclosure of financial and operating information on licensees and their principal officers. Aztar has provided full information and documentation to the Indiana Commission and it must continue to do so during the term of the license. The Indiana Act prohibits, among other things:

- a key person or a person holding an ownership interest in a riverboat licensee, or an employee of a riverboat licensee, from participating in a game conducted on a riverboat which is the subject of a license; and
- contributions to a candidate for a state, legislative, or local office, or to a candidate's committee or to a regular party committee by the holder of a riverboat owner's license or a supplier's license, by an officer of a licensee, by an officer of a person that holds at least a 1% interest in the licensee, or by a person holding at least a 1% interest in the licensee.

The Indiana Commission has adopted a rule requiring quarterly reporting by the holder of a riverboat owner's license, including Aztar Indiana, or a holder of a supplier's license, of the officers of the licensee, officers of persons that hold at least a 1% interest in the licensee, including Aztar, and of persons who directly or indirectly own a 1% interest in the licensee, including beneficial owners of Aztar.

The Indiana Commission has adopted rules which (a) prohibit the distribution by a riverboat licensee, including Aztar Indiana, to its partners, shareholders, itself, or any affiliated entity, if the distribution would impair the financial viability of the riverboat gambling operation, (b) require riverboat licensees, including Aztar Indiana, to maintain on a quarterly basis a cash reserve in the amount of the actual payout for three days, and the cash reserve would include

cash in the casino cage, cash in a bank account in Indiana, or cash equivalents not committed or obligated, and (c) require independent financial audits annually by firms licensed in Indiana and approved by the Executive Director of the Indiana Commission of riverboat licensees, including Aztar Indiana, and disclosure to the Indiana Commission of material errors and irregularities, or illegal acts, or significant deficiencies discovered during the course of the audit.

In addition to receiving a license to conduct riverboat casino operations from the Indiana Commission, Aztar Indiana has secured permits and approvals from the United States Army Corps of Engineers to develop the facilities it is using to conduct operations. Aztar Indiana has received three alcoholic beverage permits which are subject to annual renewal: one for the riverboat and two for land support facilities. All building permits and other approvals for the permanent facilities have been received, and the project is complete.

The Indiana General Assembly amended the Indiana Riverboat Gaming Act in 2002 to allow riverboats to choose between continuing to conduct excursions or operate dockside. The Indiana Commission authorized riverboats to commence dockside operations on August 1, 2002. Aztar opted to operate dockside and commenced dockside operations on August 1, 2002. Pursuant to the legislation, the tax rate was increased from 20% to 22.5%, retroactive to July 1, 2002, during any time an Indiana riverboat does not operate dockside. For those riverboats that operate dockside and for the Operating Agent, the following graduated tax rate is applicable: (i) 15% of the first \$25 million of adjusted gross receipts ("AGR"), (ii) 20% of AGR in excess of \$25 million, but not exceeding \$50 million; (iii) 25% of AGR in excess of \$50 million, but not exceeding \$75 million; (iv) 30% of AGR in excess of \$75 million, but not exceeding \$150 million; and (v) 35% of AGR in excess of \$150 million. AGR is based on the State's fiscal year (July 1 of one year through June 30 of the following year). The Indiana Act requires that riverboat licensees pay a \$3.00 admission tax for each person, and that the Operating Agent pay a \$4.00 admission tax for each person. A riverboat that opts to continue excursions pays the admission tax on a per excursion basis while a riverboat that operates dockside pays the admission tax on a per entry basis. The Indiana Act provides for the suspension or revocation of a license whose owner does not timely submit the wagering or admission tax.

Effective July 1, 2002, riverboats must withhold adjusted gross state income tax from slot winnings of \$1,200 or more and Keno winnings of \$1,500 or more. Riverboats are assessed for property tax purposes as real property at rates to be determined by local taxing authorities. Sales on a riverboat are subject to applicable use, excise and retail taxes. Effective July 1, 2003, furnishing complimentary rooms for less than thirty days is a retail transaction subject to

the state gross retail tax and may also be subject to the state innkeeper's tax. The Indiana Act requires a riverboat owner licensee to directly reimburse the Indiana Commission for the costs of inspectors and agents required to be present during the conduct of gaming operations. Effective July 1, 2002, each riverboat must contribute \$25,000 annually to the Indiana Department of Gaming Research.

The Indiana Act places special emphasis upon minority and women's business enterprise participation in the riverboat industry. Any person issued a riverboat owner's license must establish goals of at least 10% of the total dollar value of the licensee's contracts for goods and services with minority business enterprises and 5% of the total dollar value of the licensee's contracts for goods and services with women's business enterprises. The Indiana Commission may suspend, limit or revoke the owner's license or impose a fine for failure to comply with the statutory requirements.

Minimum and maximum wagers on games on the riverboat are left to the discretion of the licensee. Wagering may not be conducted with money or other negotiable currency. Effective July 1, 2003, the Indiana Commission may approve a riverboat owner licensee's plan to conduct twenty-four hour gambling, and Aztar Indiana's plan was approved. No person under the age of 21 is permitted to wager on a riverboat. It is a Class A misdemeanor for a person to aid, induce or cause a person under the age of 21 to enter or attempt to enter a riverboat. In accordance with an amendment to the Indiana Act, the Indiana Commission has adopted voluntary exclusion rules for persons to be included on a list of persons excluded from all Indiana riverboats, which also require riverboat owners to make reasonable efforts to cease direct marketing efforts to such persons and to prohibit riverboat owners from cashing checks or extending credit to persons participating in the voluntary exclusion program.

An institutional investor which acquires 5% or more of any class of voting securities of a holding company of a licensee is required to notify the Indiana Commission and to provide additional information, and may be subject to a finding of suitability. A person who acquires 5% or more of any class of voting securities of a holding company of a licensee is required to apply to the Indiana Commission for a finding of suitability. A riverboat licensee or an affiliate may not enter into a debt transaction of \$1 million or more without approval of the Indiana Commission. The Indiana Commission has delegated authority to its Executive Director to waive preapproval of financing transactions, provided prior discussions have been held with the Chair and the CPA member of the Indiana Commission. The Executive Director must report the waiver at the next Indiana Commission meeting and the Indiana Commission may direct the Executive Director to take different action with respect to the waiver.

A riverboat owner's license is a revocable privilege and is not a property right under the Indiana Act. A riverboat owner licensee or any other person may not lease, hypothecate, borrow money against or loan money against a riverboat owner's license.

Environmental Matters

Aztar is subject to federal, state and local environmental laws, regulations and ordinances that (a) govern activities or operations that may have adverse environmental effects, such as discharges to air and water as well as handling and disposal practices for solid and hazardous wastes, and (b) impose liability for the costs of cleaning up, and some damages resulting from, past spills, disposals or other releases of hazardous substances. Aztar uses some substances and generates some wastes that are regulated or may be deemed hazardous under applicable environmental laws. From time to time, our operations have resulted, or may result, in some noncompliance with applicable requirements under environmental

laws. Aztar has also incurred, and in the future may incur, costs related to cleaning up contamination relating to historical uses of some of our current or former properties. Specifically, the riverboat properties have been used for various industrial purposes in the past. Any noncompliance with applicable requirements or liability under environmental laws has not had, and is not expected to have, a material adverse effect on our consolidated financial position, results of operations or cash flows.

Other Regulations

Aztar's businesses are subject to various federal, state and local laws and regulations in addition to those discussed above. These laws and regulations include but are not limited to restrictions and conditions concerning employees, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect Aztar.

EMPLOYEES

Aztar employs approximately 9,400 people. Approximately 3,200 Aztar employees are represented by unions. Of the approximately 4,500 employees at Tropicana Atlantic City, approximately 1,900 are covered by collective bargaining contracts. Substantially all of these employees are covered by a contract that expires on September 14, 2004 and a small number are covered by contracts that expire in 2005 or 2006. At Tropicana Las Vegas, approximately 1,300 of the 2,000 employees are covered by collective bargaining contracts. Substantially all of these employees are covered by contracts that expire in 2007. The remainder of employees are covered by contracts that expire in 2004, 2005 or 2008. At Ramada Express there are approximately 1,400 employees, none of which are covered by collective bargaining agreements. Aztar has approximately 1,200 employees and 300 employees, respectively, at Casino Aztar Evansville and Casino Aztar Caruthersville, none of which are covered by collective bargaining agreements.

TRADEMARKS

We use a variety of trade names, service marks and trademarks and believe that we have all the licenses necessary to conduct our business. We have registered several service marks and trademarks with the United States Patent and Trademark Office or otherwise acquired the licenses to use those which are material to the conduct of our business.

Substantially all of our trademarks and service names have been assigned to the lenders under Aztar's bank credit facility.

Ramada Inc. has licensed Aztar to use the name "Ramada" in conjunction with the operation of Ramada Express, and will not use or permit the use of the name "Ramada" in Laughlin, Nevada by any other person or entity.

We have registered the following important trademarks or service marks: Aztar, Casino Aztar, Trop, Tropicana, Trop Park, and The Island of Las Vegas. Aztar believes there are no other trademarks or service marks the use of which is material to the conduct of our business as a whole.

CATASTROPHIC EVENTS

Certain catastrophic events such as major fires, floods, storms, earthquakes, hurricanes, tornadoes, tidal waves, civil

disorders, riots, biological attacks, war, acts of sabotage or terrorism or other similar events could result in a significant negative impact on our business, financial condition and results of operations.

ITEM 2. PROPERTIES

TROPICANA ATLANTIC CITY

Tropicana Atlantic City is located on an approximately 10-acre site in Atlantic City, New Jersey. In addition, we have approximately 3 1/2 acres next to our operating site that we are using for expansion of our Tropicana Atlantic City. In July 1993, Tropicana Atlantic City became wholly-owned by Aztar.

TROPICANA LAS VEGAS

Tropicana Las Vegas is located on a 34-acre site in Las Vegas, Nevada. Tropicana Enterprises owned the Tropicana Las Vegas and leased it to Hotel Ramada of Nevada, a wholly-owned subsidiary of Aztar. Hotel Ramada of Nevada operated the casino and hotel under the lease. Adamar of Nevada, a wholly-owned subsidiary of Aztar, owned a noncontrolling 50% general partnership interest in Tropicana Enterprises. The remaining 50% general partnership interest in Tropicana Enterprises was held by various trusts associated with the Jaffe family. On February 28, 2002, we purchased the 50% partnership interest that we did not own and Tropicana Las Vegas became wholly-owned by Aztar. We have a master-plan for a potential development of the Las Vegas Tropicana site. The amount and timing of any future expenditure, and the extent of any impact on existing operations, will depend on the nature and timing of the development that we ultimately undertake, if any.

RAMADA EXPRESS

Ramada Express is located on an approximate 31-acre site in Laughlin, Nevada. Ramada Express is wholly-owned by Aztar.

CASINO AZTAR EVANSVILLE

Casino Aztar Evansville operates on and from a base 8 1/2-acre site next to the Ohio River in downtown Evansville, Indiana. Approximately 4 1/2 acres are leased. The lease was entered into in 1995 for 10 years. The lease has 3 options to renew for 5 years each. We own the remaining 4 acres, a portion of which we acquired during 2003. Approximately three-fourths of one of these acres is being used to accommodate an 11,000 square-foot executive conference center that is under construction and scheduled for completion in the fall of 2004. The conference center is being constructed on two levels adjoining the existing hotel and parking garage and will feature an exterior appearance that blends architecturally and aesthetically with the hotel, pavilion and parking garage. In addition, we have an approximately seven-acre site located near our base site that we are using for parking. This site could be used for additional development. On December 27, 2002, we amended our riverboat landing lease agreement with the City of Evansville. We agreed to change a portion of our contingent rent into a fixed stated amount and

to make it available to the City at their request. The City agreed to provide us with \$1 of credit against our rent for each \$2.50 of development capital expenditures that we make. We plan to have additional development in Evansville but the timing is tentative.

CASINO AZTAR CARUTHERSVILLE

Casino Aztar Caruthersville operates on and from a 37-acre site next to the Mississippi River in downtown Caruthersville, Missouri. The site and facilities are wholly-owned by us. We have some unused land at this site and we are encouraging third-party developers to develop facilities on this land that would complement our operations.

GENERAL

We lease our corporate headquarters located in Phoenix, Arizona and own or lease some other facilities which are not material to our operations.

Substantially all land, casino hotel buildings, casino riverboats, pavilions, furnishings and equipment owned by us are pledged as collateral under our revolving credit facility.

ITEM 3. LEGAL PROCEEDINGS

Aztar is a defendant in an action originally filed in the United States District Court for the Middle District of Florida, Orlando Division entitled William H. Poulos, On Behalf of Himself and All Others Similarly Situated vs. Caesars World, Inc., et al., filed on April 26, 1994. This action was consolidated with another subsequently filed action in that court entitled William Ahearn, On Behalf of Himself and All Others Similarly Situated vs. Caesars World, Inc., et al., currently consolidated Case No. CV-S-94-1126-DAE(RJJ)-BASE FILE (the "Actions" or collectively, the "Poulos/Ahearn Case"). Both Actions were brought under RICO and state common law and seek compensatory and punitive damages in excess of \$1 billion from the defendants. The complaints allege that the defendants took part in a scheme intended to induce people to play video poker and electronic slot machines based on false beliefs concerning how those machines actually operate as well as the extent to which there is actually an opportunity to win on any given play. The precise nature of Aztar's role in the alleged fraud and conspiracy to defraud is not discernible from the complaint.

On September 26, 1995, an action entitled Larry Schreier, On Behalf of Himself and All Others Similarly Situated vs. Caesars World, Inc., et al., Case No. CV-S-95-00923-DWH(RJJ)(the "Schreier Case") was commenced in the United States District Court for the District of Nevada. The Schreier Case is identical to the Poulos/Ahearn Case in all material respects, except that the named plaintiff in the Schreier Case purports to represent a smaller and more precisely defined class of persons than the plaintiffs in the Poulos/Ahearn Case. The defendants (including Aztar) moved to dismiss the Schreier complaint on the same grounds as in the previously described Poulos/Ahearn Case, as well as on the ground that this case was filed for an improper purpose, an attempt to circumvent prior rulings of the Court in the Poulos/Ahearn Case. On August 15, 1996, District Judge Lloyd D. George granted the motion to dismiss, without prejudice. An amended complaint containing the same principal allegations was filed on September 30, 1996. The defendants (including Aztar) filed motions to dismiss the amended complaint for failure to state a claim and on

other grounds. The Plaintiff opposed these motions.

The Poulos/Ahearn Case and the Schreier Ca