

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

SANTA FE GAMING CORP

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Type: **10-K** | Act: **34** | File No.: **001-09481** | Film No.: **96688153**
SIC: **7990** Miscellaneous amusement & recreation

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X Annual report pursuant to Section 13 or 15(d) of the Securities
--- Exchange Act of 1934 for the fiscal year ended September 30, 1996 or

--- Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

COMMISSION FILE NUMBER: 1-9481

SANTA FE GAMING CORPORATION

(Exact name of registrant as specified in its Charter)

Nevada

88-0304348

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

4949 N. RANCHO DR., LAS VEGAS, NEVADA

89130

(Address of principal Executive Office)

(Zip Code)

Registrant's telephone number, including area code: (702) 658-4300

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS: -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED: -----
COMMON STOCK, PAR VALUE \$.01 PER SHARE	AMERICAN STOCK EXCHANGE
EXCHANGEABLE REDEEMABLE PREFERRED STOCK	AMERICAN STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

(Title of Class)

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 filing requirements for the past 90 days. YES X No
--- ---

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. _____

The number of shares of common stock outstanding as of December 27, 1996, was 6,195,356. The market value of the common stock held by nonaffiliates of the Registrant as of December 27, 1996, was approximately \$3,705,718. The market value was computed by reference to the closing sales price of \$1.3125 per share of common stock on the American Stock Exchange as of December 27, 1996.

DOCUMENTS INCORPORATED BY REFERENCE:

PART III HEREOF INCORPORATES BY REFERENCE PORTIONS OF THE PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 21, 1997 (TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WITHIN 120 DAYS AFTER SEPTEMBER 30, 1996).

SANTA FE GAMING CORPORATION AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL
YEAR ENDED SEPTEMBER 30, 1996

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PART I

Item 1.	Business

GENERAL

Santa Fe Gaming Corporation, formerly known as Sahara Gaming Corporation, (the "Company" or "Santa Fe Gaming"), a publicly traded Nevada corporation, is the successor corporation of two affiliates, Sahara Resorts and Sahara Casino Partners, L.P., which combined in a business combination in September, 1993. The Company's primary business operations are currently conducted through two wholly owned subsidiary corporations, Santa Fe Hotel Inc. ("Santa Fe Inc.") and Pioneer Hotel Inc. ("Pioneer Inc.") (the "Operating Companies"). Santa Fe Inc. owns and operates the Santa Fe Hotel and Casino (the "Santa Fe"), located in Las Vegas, Nevada, and Pioneer Inc. owns and operates the Pioneer Hotel & Gambling Hall (the "Pioneer") in Laughlin, Nevada. In addition, the Company owns real estate parcels on Las Vegas Boulevard and in Henderson, Nevada, for future development opportunities. The Company through its wholly-owned subsidiaries, Hacienda Hotel Inc., ("Hacienda Inc.") and Sahara Nevada Corp., ("Sahara Nevada") owned and operated the Hacienda Resort Hotel and Casino (the "Hacienda") and the Sahara Hotel and Casino (the "Sahara"), but sold substantially all of the assets related to those hotel-casinos in August 1995, and October 1995, respectively.

The principal executive office of the Company is located at 4949 N. Rancho Dr., Las Vegas, Nevada 89130 and the telephone number is (702) 658-4300.

HOTEL AND CASINO OPERATIONS

The Company's primary business operations are in the gaming industry and are conducted at the Santa Fe property in Las Vegas, Nevada and the Pioneer property in Laughlin, Nevada.

DESCRIPTION OF THE HOTEL-CASINOS

The Santa Fe is located on a 40-acre site in the northwest part of Las Vegas, approximately nine miles from the north end of the Las Vegas Strip. The target clientele are residents of northwest Las Vegas and, to a lesser extent, residents of the entire Las Vegas Valley. The Company also owns a 22-acre tract of property located adjacent to the Santa Fe.

The Santa Fe features 200 standard hotel rooms, an 85,000 square foot casino, an ice skating arena, a 60-lane bowling center, three themed restaurants, a dedicated bingo room, a race book and other public areas. Additionally, the Santa Fe includes a coffee shop, buffet, five full service bars and a lounge area that features live entertainment.

The Pioneer is located on approximately 12 acres of land, with Colorado River frontage of approximately 770 feet, and is situated near the center of Laughlin's Casino Drive. Approximately 6-1/2 acres of the 12 acres are subject to a 99-year ground lease which, by its terms, is scheduled to terminate in December 2078. One of the three motel buildings together with a portion of both the Pioneer's casino building and a second motel building, are located on land subject to the ground lease. The leased land lies between and separates the two parcels of land that are held in fee.

The Pioneer hotel-casino complex was built in 1982 in a classical western architectural style. The Pioneer is comprised of four buildings. The casino is located in the main building, totaling approximately 50,000 square feet of which approximately 21,500 square feet house the casino. An aggregate of 417 motel rooms are housed in the three remaining buildings. The complex amenities include a special events area, coffee shop/buffet, two bars, snack bar, and gift shop. A partial second floor in the main building houses a gourmet restaurant, administrative offices and banquet rooms.

REVENUES

The primary source of revenues to the Company's hotel-casinos is gaming, which represented 78.6% in 1996, 61.4% in 1995, and 61.3% in 1994 of total revenues, excluding gain on sale of assets, in the respective fiscal years. The following table sets forth information regarding the approximate number of licensed games and gaming devices of the Santa Fe and the Pioneer as of September 30, 1996:

<TABLE>
<CAPTION>

	Santa Fe ----- <C>	Pioneer ----- <C>	Total ----- <C>
<S>			
Slot Machines	1,874	905	2,779
Blackjack ("21")	18	10	28
Craps	2	2	4
Roulette	2	1	3
Poker and Pan	5	6	11
Race/Sports Book	1	--	1
Keno	1	1	2
Bingo	1	--	1
Other	4	2	6

</TABLE>

The Santa Fe's target market is primarily the residents of northwest Las Vegas, visitors to the local area, local businesses, and hockey and bowling leagues. The Santa Fe emphasizes its convenient location, the southwestern theme and its broad range of amenities, including a 60 lane bowling center and an ice skating arena. The occupancy rate at the Santa Fe for the last three fiscal years was 93.0% in fiscal 1996, 96.0% in fiscal 1995 and 96.9% in fiscal 1994.

The Santa Fe implemented an automated player tracking system in December 1995. The "Desert Fortune Player Club" at the Santa Fe was established to encourage repeat business from frequent and active slot and bingo customers. The Desert Fortune Player Club offers members points for slot machine and bingo play, which can be redeemed for cash as well as food, beverage, and rooms at the Santa Fe. The automated player tracking system used for the Desert Fortune Player Club is designed to allow the Santa Fe to more precisely track play and more efficiently reward frequent players, and to enhance management's ability to better market directly to different segments of the Santa Fe customer base.

The Pioneer has two predominant market segments. A majority of Pioneer players come from the local area around Laughlin. The Pioneer also attracts a drive-in market of gamblers from Southern California and Arizona. The Pioneer's focus is on a direct marketing strategy emphasizing the property's unique atmosphere and attractive prices. The Pioneer has experienced a decrease in occupied room nights in each of the last three fiscal years with an occupancy rate of 84.8%, 86.3% and 88.8%, respectively, in fiscal years 1996, 1995, and 1994.

The Pioneer has an automated slot player tracking system. The "Round-Up Club" at the Pioneer was established to encourage repeat business from frequent and active slot customers. The Round-Up Club offers members points for slot machine play that can be redeemed for cash, as well as gifts, rooms, and food and beverages at the Pioneer.

MANAGEMENT AND PERSONNEL

At September 30, 1996, the Company employed 26 administrative personnel, and the Santa Fe and the Pioneer employed 1,185, and 838 persons, respectively.

A union representation election was held at the Santa Fe in 1993 by the

Teamsters, Operating Engineers, Culinary and Bartenders unions, in which the unions received the majority of the votes cast. Santa Fe Inc. filed objections to the election and an unfair labor practice charge. In July 1995, an administrative law judge ruled in favor of the unions with respect to the election and the unfair labor practice charges, and recommended that the unions be certified by the National Labor Relations Board ("NLRB") as a bargaining agent for certain of the Santa Fe employees. The unions were subsequently certified by the NLRB. Following Santa Fe Inc.'s refusal to bargain because of its

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belief that the certification was in error, in November 1995, the NLRB issued a bargaining order which Santa Fe Inc. appealed to the U.S. Court of Appeals for the District of Columbia. The appeal was denied in October 1996. As a result, Santa Fe Inc. has recognized its obligation to bargain with the unions and is preparing to negotiate a collective bargaining agreement with them.

As a result of the Santa Fe's obligation to bargain with the unions, operating expenses may increase. In addition, the unions are continuing organizing efforts at the Pioneer. If those efforts are successful, operating expenses may increase at the Pioneer. In the event negotiations between the Santa Fe and the unions fail to produce an agreement and the unions call a strike, or if the union calls a strike at the Pioneer in support of its organizing or bargaining efforts, operating revenues may be reduced, which, in turn, could have a material adverse effect on the Company and on its financial condition and results of operation.

Both the Santa Fe and the Pioneer continue to be the target of a union boycott in which the unions ask that the public not patronize the properties. Management is unable to determine the impact, if any, of the union boycott.

COMPETITION

In Las Vegas, Nevada, hotels and gambling casinos compete primarily in three areas: on or near the Las Vegas Strip; within downtown Las Vegas, and in the locals market. The Strip and downtown properties have a predominant target market of out of town visitors, while local properties generally target residents of the Las Vegas Valley. The Santa Fe targets and competes for the residents of northwest Las Vegas, a growing residential community, and, to a lesser extent, the residents of the entire Las Vegas Valley, emphasizing its convenient location, the southwestern theme and its broad range of amenities. There has been significant growth in the number of facilities throughout the Las Vegas Valley catering to the local population, including several new facilities within five miles of the Santa Fe in North Las Vegas resulting in increased competition among the locals facilities.

In Laughlin, Nevada, located approximately 90 miles south of Las Vegas, the gaming win from October 1995 through September 1996 decreased approximately 3.9% compared with the same period in the prior year, according to the Nevada Gaming Control Board. Management believes that the decrease is attributable primarily to the development of legalized casinos on reservations in Arizona and Southern California. The decrease in gaming revenue has been coupled with an increase in the number of hotel/casinos, including a number of Las Vegas-based entities, making hotel-casino competition in the area intense.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of competition.

DEVELOPMENT OPPORTUNITIES

HENDERSON, NEVADA

The Company owns a 39 acre parcel of real property in Henderson, Nevada, located in the southeast Las Vegas Valley. The Company is evaluating the development of a casino entertainment complex on this property. As of September 30, 1996, the Company had incurred approximately \$20.4 million in connection with the project, representing land acquisition costs and preliminary engineering and development costs. Any future development would be subject to, among other things, the Company's ability to obtain necessary financing. The Company is currently negotiating certain financing and development agreements for the Henderson property, although no assurance can be given that the Company will obtain development financing or develop successfully the Henderson property.

LAS VEGAS, NEVADA

In connection with the sale of the Sahara, the Company acquired an approximately 27-acre parcel of real property on the Las Vegas Strip, which may be used for possible future development. In connection with the acquisition, the Company assumed an operating lease under which a water theme park operates which may be terminated by the Company at anytime after December 1996. (See Item 2. Properties) Any future development would be subject to, among other things, the Company's ability to obtain necessary financing. No assurance can

be given that the Company will obtain development financing or develop successfully the Las Vegas Strip property.

BILOXI, MISSISSIPPI - TREASURE BAY

In April 1994, Santa Fe Inc. purchased from Treasure Bay Gaming & Resorts Inc. ("Treasure Bay") for \$10.0 million approximately 20% of Treasure Bay's common stock and 33 1/3% of Treasure Bay's preferred stock. In connection with its stock purchase, Santa Fe Inc. entered into an agreement with Treasure Bay to manage both properties. However, in December 1994, Treasure Bay notified the Company that Treasure Bay was assuming management control of Treasure Bay's properties and alleged that the Company was in default under the management agreement. On January 10, 1995, Treasure Bay and its operating subsidiary, Treasure Bay Corp., filed for Chapter 11 relief in the United States Bankruptcy Court for the Southern District of Mississippi. The operations of Treasure Bay currently consist solely of a riverboat casino in Biloxi, Mississippi. Treasure Bay's management, the Company and an ad hoc committee of Treasure Bay bondholders have each filed plans of reorganization with the U.S. Bankruptcy Court. On October 7, 1996, U.S. Bankruptcy Court denied confirmation of Treasure Bay management's confirmation plan. Subsequent to the denial of Treasure Bay's confirmation plan, the entire bankruptcy case was transferred to U.S. Bankruptcy Court of New Orleans, LA.

The U.S. Bankruptcy Court of New Orleans ordered that the reorganization plans and disclosure statements be filed no later than December 23, 1996. The Company filed an amended reorganization plan and disclosure statement on December 23, 1996 (the "Amended Plan"). The Court scheduled a hearing on the disclosure statements for January 29, 1997.

The Amended Plan contemplates that, subject to various conditions, the various classes of secured and unsecured creditors of Treasure Bay agree to accept modifications to, and reductions in outstanding amounts of, Treasure Bay's outstanding obligations and the Company make a cash equity contribution to acquire 100% of the equity interests in Treasure Bay. No assurance can be given that the Company's plan will be confirmed by the Court. Additionally, the Company may elect not to proceed with its plan or the Company may amend its current reorganization plan one or more times resulting in changes to the amount and terms of debt of the reorganized debtor and equity ownership acquired.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Santa Fe --Treasure Bay." See "Legal Proceedings" for information regarding litigation between the Company and certain of its officers and certain current and former officers of Treasure Bay.

NEVADA REGULATIONS AND LICENCING

The Company, Pioneer Inc., and Santa Fe Inc., (collectively, the "Santa Fe Group") are subject to extensive state and local regulation by the Nevada Gaming Commission, Nevada Gaming Control Board and in the case of Pioneer Hotel, Inc. and Santa Fe Hotel, Inc., the Clark County Liquor and Gaming Licensing Board and the City of Las Vegas, respectively, (collectively the "Nevada Gaming Authorities").

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities seek (i) to prevent unsavory or unsuitable persons from having any direct or indirect involvement with gaming at any time or in any capacity, (ii) to establish and maintain responsible accounting practices and procedures, (iii) to maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record-keeping, and making periodic reports to the Nevada Gaming Authorities, (iv) to prevent cheating and fraudulent practices, and (v) to provide a source of state and local revenues through taxation and licensing fees. Changes in such laws, regulations and procedures could have an adverse effect on any or all of the members of the Santa Fe Group.

Licensing and Registration. Pioneer Inc. and Santa Fe Inc. hold Nevada

State gaming licenses to operate the Pioneer and the Santa Fe, respectively (collectively the "Operating Companies"). The Company has been approved by the Nevada Gaming Authorities to own, directly or indirectly, a beneficial interest in the Operating Companies.

The licenses held by members of the Santa Fe Group are not transferable. Each issuing agency may at any time revoke, suspend, condition, limit or restrict licenses or approvals to own a beneficial interest in an Operating Company for any cause deemed reasonable by such agency. Any failure to retain a valid license or approval would have a material adverse effect on all members of the Santa Fe Group.

If it is determined that the Operating Companies or, when applicable, new members of the Santa Fe Group, have violated the Nevada laws or regulations relating to gaming, the Operating Companies or, when applicable, new members of the Santa Fe Group, could, under certain circumstances, be fined and the licenses of the Operating Companies or, when applicable, new members of the Santa Fe Group, could also be limited, conditioned, revoked or suspended. A violation under any of the licenses held by the Company, or any of the Operating Companies or, when applicable, new members of the Santa Fe Group, may be deemed a violation of all the other licenses held by the Company and each of the Operating Companies or, when applicable, new members of the Santa Fe Group. If the Nevada Gaming Commission does petition for a supervisor to manage the affected casino and hotel facilities, the suspended or former licensees shall not receive any earnings of the gaming establishment until approved by the court, and after deductions for the costs of the supervisor's operation and expenses and amounts necessary to establish a reserve fund to facilitate continued operation in light of any pending litigation, disputed claims, taxes, fees, and other contingencies known to the supervisor which may require payment. The supervisor is authorized to offer the gaming establishment for sale if requested by the suspended or former licensee, or without such a request after six months after the date the license was suspended, revoked, or not renewed.

Individual Licensing. Stockholders, directors, officers and certain key

employees of corporate licensees must be licensed by the Nevada Gaming Authorities. An application for licensing of an individual may be denied for any cause deemed reasonable by the issuing agency. Changes in licensed positions must be reported to Nevada Gaming Authorities. In addition to its authority to deny an application for an individual license, the Nevada Gaming Authorities have jurisdiction to disapprove a change in corporate position. If the Nevada Gaming Authorities were to find any such person unsuitable for licensing or unsuitable to continue having a relationship with a corporate licensee, such licensee would have to suspend, dismiss and sever all relationships with such person. Such corporate licensee would have similar obligations with regard to any person who refuses to file appropriate applications, who is denied licensing following the filing of an application or whose license is revoked. Each gaming employee must obtain a work permit which may be revoked upon the occurrence of certain specified events.

Any individual who is found to have a material relationship or a material involvement with a gaming licensee may be required to be investigated in order to be found suitable or to be licensed. The finding of suitability is comparable to licensing and requires submission of detailed financial information and a full investigation. Key employees, controlling persons or others who exercise significant influence upon the management or affairs of a gaming licensee may be deemed to have such a relationship or involvement.

Beneficial owners of more than 10% of the voting securities of a corporation or partner interests of a partnership registered with the Nevada Gaming Authorities that is "publicly traded" (a "Registered Entity") must be found suitable by the Nevada Gaming Authorities, and any person who acquires more than 5% of the voting securities or partner interests, as the case may be, of a Registered Entity must report the acquisition to the Nevada Gaming Authorities in a filing similar to the beneficial ownership filings required by the Federal securities laws. Under certain circumstances an institutional investor, as such term is defined in the regulations of the Nevada Gaming Commission and Nevada Gaming Board ("Nevada Gaming Regulations"), that acquires more than 10% of the Company's voting securities may apply to the Nevada Gaming Commission for a waiver of such finding of suitability requirement. If the stockholder 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.

Any beneficial owner of equity or debt securities of a Registered Entity (whether or not a controlling stockholder) may be required to be found suitable if the relevant Nevada Gaming Authorities have reason to believe that such ownership would be inconsistent with the declared policy of the State of Nevada. If the beneficial owner who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information, including a list of its securities. In addition, the Clark County Liquor and Gaming Licensing Board has taken the position that it has the authority to approve all persons owning or controlling more than 2% of the stock or partner interests of a Registered Entity, including a gaming licensee or otherwise, or of any corporation, partnership or person controlling such an entity. The applicant is required to pay all costs of investigation.

Any stockholder found unsuitable and who beneficially owns, directly or indirectly, any securities or partner interests of a Registered Entity beyond such period of time as may be prescribed by the Nevada Gaming Authorities may be guilty of a gross misdemeanor. Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so may be found unsuitable. A Registered Entity is subject to disciplinary

action if, after it receives notice that a person is unsuitable to be a securityholder or partner, as the case may be, or to have any other relationship with it, such Registered Entity (a) pays the unsuitable person any dividends or property upon any voting securities or partner interests or makes any payments or distributions of any kind whatsoever to such person, (b) recognizes the exercise, directly or indirectly, of any voting rights in its securities or partner interests by the unsuitable person, (c) pays the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain and specific circumstances or (d) fails to pursue all lawful efforts to require the unsuitable person to divest himself of his voting securities, including, if necessary, the immediate purchase of the voting securities for cash at fair market value.

Registered Entities are required to maintain current stock ledgers, as the case may be, in the State of Nevada that may be examined by the Nevada Gaming Authorities at any time. If any securities or partner interests 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 owner unsuitable. Record owners are required to conform to all applicable rules and regulations of the Nevada Gaming Authorities. Licensees also are required to render maximum assistance in determining the identity of a beneficial owner.

The Nevada Gaming Authorities have the power to require that certificates representing voting securities of a corporate licensee bear a legend to the general effect that such voting securities or partner interests are subject to the Nevada Gaming Control Act and the regulations thereunder. The Nevada Gaming Authorities, through the power to regulate licensees, have the power to impose additional restrictions on the holders of such voting securities at any time.

Financial Responsibility. Each of the Company and the Operating Companies is required to submit detailed financial and operating reports to the Nevada Gaming Authorities. Substantially all loans, leases, sales of securities and other financial transactions entered into by the Company or the Operating Companies must be reported to and, in some cases, approved by the Nevada Gaming Authorities.

Certain Transactions. None of the Santa Fe Group may make a public offering of its securities without the approval of the Nevada Gaming Commission if the proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or retire or extend obligations incurred for such purposes. Such approval, if given, will not constitute a recommendation or approval of the investment merits of the securities offered. The Offering requires the approval of the Nevada Gaming Commission.

Changes in control of the Company through merger, consolidation, acquisition of assets, management or consulting agreements or any form of takeover cannot occur without the prior investigation of the Nevada Gaming Control Board and approval of the Nevada Gaming Commission. The Nevada Gaming Commission may require controlling stockholders, partners, officers, directors and other persons having a material relationship or involvement, to be licensed.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Nevada, and corporations whose securities are publicly traded that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Gaming 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 (i) assure the financial stability of corporate or partnership gaming operators and their affiliates; (ii) preserve the beneficial aspects of conducting business in the corporate form; and (iii) promote a neutral environment for the orderly governance of corporate or partnership affairs. Approvals are, in certain circumstances, required from the Nevada Gaming Commission before the Company can make exceptional repurchases of voting securities above the current market price thereof (commonly referred to as "greenmail") and before an acquisition opposed by management can be consummated. Nevada's gaming regulations also require prior approval by the Nevada Gaming Commission if the Company were to adopt a plan of recapitalization proposed by the Company's Board of Directors in opposition to a tender offer made directly to the stockholders for the purpose of acquiring control of the Company.

Miscellaneous. Pursuant to recent changes in Nevada law, the Company, and its affiliates, including subsidiaries may engage in gaming activities outside the State of Nevada without seeking the approval of the Nevada Gaming Authorities provided that such activities are lawful in the jurisdiction where they are to be conducted and that certain information regarding the foreign

operation is provided to the Nevada Gaming Board on a periodic basis. The Company and its Nevada-based affiliates may be disciplined by the Nevada Gaming Commission if any of them violates any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fails to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engages in activities that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employs a person in the foreign operation who had been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

License fees and taxes, computed in various ways depending on the type of gaming involved, are payable to the State of Nevada and to the counties and cities in which the Company and the Operating Companies' 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 either: (i) a percentage of the gross gaming revenues received by the casino operation; (ii) the number of slot machines operated by the casino; or (iii) the number of table games operated by the casino. A casino entertainment tax is also paid by the licensee where entertainment is furnished in connection with the selling of food or refreshments.

Finally, the Nevada Gaming Authorities may require that lenders to licensees, including each holder of Notes, be investigated to determine if they are suitable and, if found unsuitable, may require that they dispose of their loans (including the Notes).

Item 2. Properties -----

The Santa Fe is located on a 40-acre site in the northwest part of Las Vegas, approximately nine miles from the north end of the Las Vegas Strip. See "Business-- Description of the Hotel-Casinos" for more detailed information regarding the Santa Fe. The Santa Fe property is subject to a first priority deed of trust securing 11% First Mortgage Notes due December 2000 ("11% Notes"). As of September 30, 1996, \$99.4 million principal amount of 11% Notes was outstanding.

The Pioneer is located on approximately 12 acres of land, with Colorado River frontage of approximately 770 feet, and is situated near the center of Laughlin's Casino Drive. Approximately 6.5 acres of the 12-acre Pioneer site is leased from an unaffiliated third party pursuant to a lease expiring in 2078. One of the Pioneer's three motel buildings, a portion of a second motel building and a portion of the casino building are located on the leased property. The Pioneer property is subject to a first deed of trust securing 13 1/2% First Mortgage Notes due December 1, 1998 ("13 1/2% Notes"). As of September 30, 1996, \$60.0 million principal amount of the 13 1/2% Notes was outstanding.

In November 1993, Santa Fe Inc. acquired an approximately 22-acre parcel of property across the street from the Santa Fe Inc. In May 1996, the Company purchased from Santa Fe Inc. the 22-acre parcel for \$2.85 million which the Company and Santa Fe believe to be the fair market value of the property. This property is subject to a first deed of trust securing a \$1.6 million promissory note due in December 1999.

A wholly-owned subsidiary of the Company owns a 39 acre parcel of real property in Henderson, Nevada, located in southeast Las Vegas Valley. The Company is evaluating the potential development of a casino entertainment complex. See "Business - Development Opportunities" for more information regarding the real property.

In October 1995, in connection with the Sahara sale, the Company acquired 27 acres of real property located on the Las Vegas Strip, just south of the Sahara. This property is subject to a first deed of trust securing 12% First Mortgage Notes due December 31, 1999 ("12% Notes"). As of September 30, 1996, \$20 million principal amount of the 12% Notes were outstanding. The property is subject to a ground lease, which may be terminated by the Company at any time after December 1996. The Company has guaranteed payments by the tenant of a loan to the prior owner of the property ("tenant loan") and has agreed to pay the loan in full in certain situations, including in the

event the lease is terminated for any reason prior to its scheduled termination date of 2004. The tenant loan, which is amortized through monthly principal and interest payments through December 2004, had an outstanding balance of \$5.8 million as of September 30, 1996. See "Business-Development Opportunities" for more information regarding the real property.

The Company owns 40 acres of undeveloped real property located approximately eight miles south of the Las Vegas Strip. In November 1996, the Company entered into an option agreement pursuant to which the option holder has the right to acquire the property at any time before May, 15, 1997. See "Management Discussion and Analysis, Liquidity - Corporate" for more information.

POULOS V. CAESAR'S WORLD, INC., ET AL. AND AHERN V. CAESAR'S WORLD, INC., ET AL.

The Company and its predecessor, Sahara Casino Partners, L.P. are defendants in three class action lawsuits filed in the United States District Court of Florida, Orlando Division, entitled Poulos v. Caesar's World, Inc., et al., Ahern v. Caesar's World, Inc., et al. and Schrier v. Caesar's World, Inc., et al., which have been consolidated in a single action. Also named as defendants in these actions are many, if not most, of the largest gaming companies in the United States and certain gaming equipment manufacturers. Each complaint is identical in its material allegations. The actions allege that the defendants have engaged in fraudulent and misleading conduct by inducing people to play video poker machines and electronic slot machines based on false beliefs concerning how the machines operate and the extent to which there is actually an opportunity to win on a given play. The complaints allege that the defendants' acts constitute violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO") and also give rise to claims for common law fraud and unjust enrichment, and it seeks compensatory, special consequential, incidental and punitive damages of several billion dollars.

In response to the complaints, all of the defendants, including the Company and the Partnership, filed motions attacking the pleadings for failure to state a claim, seeking to dismiss the complaints for lack of personal jurisdiction and venue, and, in the case of the consolidated case, seeking to transfer venue of the actions to Las Vegas. The Court granted the defendants' motion to transfer venue of the Poulos action to Las Vegas. The Court has required the Plaintiffs in the three consolidated cases to file a single consolidated amended complaint. All pending motions are deemed withdrawn without prejudice and may, if applicable, be filed again after plaintiffs file their amended complaint.

HYLAND V. GRIFFIN INVESTIGATIONS ET AL.

The Company, its predecessor, Sahara Casino Partners, L.P. and Pioneer Inc. are defendants in a class-action lawsuit filed in the United States District Court of New Jersey, Camden Division, entitled Hyland v. Griffin Investigations et al. Also named as defendants in this action are many, if not most, of the largest gaming companies in the United States. The action alleges violations of Federal anti-trust law, the Fair Credit Reporting Act and state trespass statutes stemming from plaintiffs' exclusion from various casinos on the basis that plaintiffs are card counters. The complaint seeks compensatory as well as punitive damages. Pioneer Inc. has already been dismissed, and the Company has filed a motion to dismiss for lack of personal jurisdiction and failure to state a claim upon which relief may be granted. This motion is presently pending before the Court.

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TREASURE BAY - SECURITIES LITIGATION

On December 12, 1994, the Company and Santa Fe Inc. filed a lawsuit in the United States District Court, District of Nevada, naming Treasure Bay officers A. Clay Rankin III, Joe N. Hendrix and Bernie Burkholder, and former officer Francis L. Miller as defendants in matters involving violations of Section 10(b) and Rule 10(b)-5 of the Securities Exchange Act, violation of Nevada state securities laws, fraud and negligent misrepresentation in connection with the Company's investment of \$10 million in exchange for a 20% interest in Treasure Bay, and the Company's guarantee of \$4.5 million of Treasure Bay's indebtedness. The defendants have filed answers to the complaint and discovery is continuing.

On December 15, 1994, Francis L. Miller filed a lawsuit in the Mississippi Circuit Court, Second Judicial District, against the Company and Santa Fe Inc., as well as Paul W. Lowden and Suzanne Lowden, alleging, among other things, that the Company made certain misrepresentations which induced Francis Miller to entrust the management of his investments in Treasure Bay's two Mississippi casinos to the Company and Santa Fe and to sell the Company and Santa Fe a 20% ownership interest in Treasure Bay. The lawsuit was subsequently amended to remove Suzanne Lowden as a defendant. The Company and Santa Fe filed a successful motion to transfer this case to the United States District Court in Nevada.

On March 31, 1995, Treasure Bay Corp. commenced an adversary proceeding in its bankruptcy case by filing a complaint for a preliminary and permanent injunction pursuant to 11 U.S.C. Sec. 105 and Sec. 362 against the Company and Santa Fe Inc. The Complaint alleges that the filing of the action on December 12, 1994 against Bernie Burkholder, an officer of Treasure Bay Corp., in Nevada federal court violated the automatic stay imposed by 11 U.S.C. Sec. 362, or alternatively, that the Bankruptcy Court should issue an injunction pursuant to 11 U.S.C. Sec. 105 preventing the Company from proceeding with its action as against Burkholder. In addition to an injunction, the complaint seeks actual and punitive damages and attorneys' fees. In a hearing on this complaint, Treasure

Bay abandoned its claims for damages and violation of the stay. However, the bankruptcy court granted Treasure Bay's request for a stay of discovery against Bernie Burkholder that will expire after the confirmation hearing on Treasure Bay's bankruptcy plan. The Company has filed a motion for relief from the order granting a stay on discovery from Bernie Burkholder. The Court has scheduled a January 29, 1997 hearing on the motion.

TREASURE BAY-ADVERSARY PROCEEDING

On or about January 17, 1995, the Company and Santa Fe Inc. commenced an adversary proceeding in Treasure Bay's bankruptcy case in the United States Bankruptcy Court for the Southern District of Mississippi. The adversary proceeding seeks the return of bankroll or cage cash at Treasure Bay's casinos on the grounds that such funds are held by Treasure Bay in constructive trust for the Company and Santa Fe Hotel Inc. The complaint alleges that Treasure Bay fraudulently induced the Company to execute the guarantees of the loans by which Treasure Bay obtained the bankroll or cage cash. The complaint also seeks an injunction from the bankruptcy court requiring the bankroll or cage cash to be held intact pending the litigation. Treasure Bay filed an answer to the complaint denying the Company's claim. On March 18, 1995, the U.S. Bankruptcy Court granted the Company's request for a preliminary injunction prohibiting Treasure Bay from using the bankroll or cage cash except in the ordinary course of business until further order of the Court.

Subsequent to the bankruptcy court's entry of an injunction to preserve the bankroll proceeds pending the constructive trust litigation, Treasure Bay successfully urged the Court to lift the injunction for the limited purpose of allowing the bankroll proceeds to be used as collateral for specific interim financing by Treasure Bay. However, the Court conditioned the use of the bankroll as collateral upon approval of the Mississippi Gaming Commission of the proposed interim financing. Upon review, Treasure Bay's interim financing plan was not approved by the Mississippi Gaming Commission and Treasure Bay subsequently announced that it was withdrawing its plans for interim financing.

On June 18, 1996, the Court ruled against the Company on the constructive trust lawsuit. The Company has appealed the Bankruptcy Court's judgment to the United States District Court for the Southern District of Mississippi.

In addition, the Company is subject to various lawsuits relating to routine matters incidental to its business. The Company does not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on the Company. See "Business Hotel-Casino Operations - Management and Personnel" for discussion of proceedings relating to labor matters.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the Company's security holders during the fourth quarter of fiscal 1996.

PART II

Item 5. Market for Registrant's Stock and Related Security Holders Matters

Since October 1, 1993, the Company's Common Stock has traded on the American Stock Exchange ("AMEX") under the symbol "SGM". The closing sales price of the Common Stock on December 27, 1996, as reported by the American Stock Exchange was \$1.31 per share. The tables below set forth the high and low closing sales prices by quarter for the fiscal years ended September 30, 1996 and 1995 for the Common Stock, as reported by the AMEX.

<TABLE>

<CAPTION>

Fiscal 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>	<C>	<C>	<C>
High	\$3 7/8	\$4	\$3 5/8	\$3 1/8
Low	\$2 1/8	\$2 3/8	\$2 3/4	\$1 3/4

Fiscal 1995	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$6 3/8	\$5 7/8	\$7 7/8	\$5 1/2
Low	\$3 1/16	\$3 1/2	\$4	\$3 3/8

</TABLE>

The Company has never paid cash dividends on its Common Stock, nor does it anticipate paying such dividends in the foreseeable future. On January 25, 1994, the Company announced a 25% stock dividend on the Common Stock payable on February 25, 1994, to stockholders of record on February 4, 1994. The

accompanying financial statements have been adjusted to give effect to this stock dividend as if it has occurred as of the earliest period presented.

There were approximately 8,300 stockholders as of December 27, 1996. The number of stockholders was computed by including those stockholders whose stock is beneficially held for them by participants in a clearing agency as of that date.

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Item 6. Selected Financial Data

The table below sets forth a summary of selected financial data of the Company for the years ended September 30 (dollars in thousands, except per share amounts):

<TABLE>
<CAPTION>

	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Total Revenues/(1)/	\$148,432	\$251,109	\$253,718	\$244,765	\$219,519
Net Income (Loss) before extraordinary items, net of taxes	\$ 9,739	\$ (23,183)	\$ (15,739)	\$ (1,090)	\$ (6,476)
Per Common Share /(3)/	\$ 1.57	\$ (3.74)	\$ (2.54)	\$ (.18)	\$ (1.05)
Net Income (Loss)/(2)/	\$ 16,160	\$ (23,363)	\$ (16,961)	\$ (1,090)	\$ (6,476)
Per Common Share/(3)/	\$ 2.61	\$ (3.77)	\$ (2.74)	\$ (0.18)	\$ (1.05)
Cash Dividends					
Per Common Share	---	---	---	---	---
Total Assets	\$228,656	\$366,638	\$478,555	\$395,089	\$359,624
Long-Term Debt, less current portion	\$167,687	\$198,655	\$379,093	\$301,780	\$286,764
Redeemable Preferred Stock/(4)/	\$ 18,953	\$ 17,521	\$ 16,202	\$ 14,980	---

</TABLE>

-
- (1) Operating results for fiscal 1996 do not include any revenues attributable to the Hacienda and Sahara, which were sold in August 1995 and October 1995, respectively. Fiscal 1996 includes a \$40.8 million gain relating to the sale of the Sahara. Fiscal 1995 includes a \$8.9 million gain relating to the sale of substantially all the assets of Hacienda Inc.
 - (2) Fiscal 1996, 1995 and 1994 amounts presented include dividends on preferred shares.
 - (3) Per common share amounts have been restated to reflect the common stock dividend paid in February 1994.
 - (4) The Company has declared and issued paid in kind dividends on its Exchangeable, Redeemable 8% Preferred Stock during fiscal years 1996, 1995 and 1994.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company

FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

FISCAL 1996 COMPARED TO FISCAL 1995

Santa Fe Gaming Corporation (the "Company") sold substantially all the assets of the Hacienda Hotel and Casino (the "Hacienda") in August 1995 and of the Sahara Hotel and Casino (the "Sahara") in October 1995. Accordingly, consolidated results of operations for the year ended September 30, 1996 are not comparable to the same period in the prior year.

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The Company reported revenues of \$148.4 million in fiscal 1996 as compared to \$251.1 million in the previous fiscal year. The decrease in revenues is the result of decreases in casino, hotel, food and beverage and other revenues in fiscal 1996 resulting primarily from the sales of the Hacienda and Sahara, which contributed \$140.4 million of fiscal 1995 total revenues, partially offset by a gain of \$40.8 million recorded on the sale of the Sahara as well as decreased

revenues at the Santa Fe and Pioneer. Revenues in the prior year included a gain of \$8.9 million recorded on the sale of the Hacienda.

Operating expenses decreased \$133.2 million, primarily as a result of the sales of the Hacienda and Sahara. During fiscal 1995, \$126.6 million of operating expenses were attributable to those two properties. Operating income increased \$30.5 million to \$41.2 million in 1996 from \$10.6 million in 1995 due to the \$40.8 million gain on the sale of the Sahara, offset partially by decreased operating income in fiscal 1996 at both the Santa Fe and Pioneer. The Company's interest expense decreased by \$20.6 million to \$24.4 million in fiscal 1996 due to the retirement of debt with the proceeds of the sales of the Hacienda and Sahara.

In the fourth quarter of fiscal 1996, the Company recorded a provision to reduce the remaining carrying value of its investment in Treasure Bay in the amount of approximately \$2.8 million. In fiscal 1994, the Company recorded a \$12.6 million charge to reduce the carrying value of its investment in Treasure Bay. See "Legal Proceedings" and "Business-Development Opportunities" for more information.

In fiscal 1996, the Company recorded an extraordinary gain of \$7.9 million after tax on the repurchase of \$25.6 million and \$22.8 million principal amount of 11% Notes and 13 1/2% Notes, respectively. In fiscal 1995, the Company recorded a \$2.8 million after-tax gain on the repurchase of \$20 million principal amount of 13 1/2% Notes, offset by an after-tax charge of \$1.7 million in connection with the repurchase of \$21.5 million principal amount 11% Notes.

The Company reported net income applicable to common shares of \$16.2 million or \$2.61 per common share in fiscal 1996 compared to a loss of \$23.4 million or \$3.77 per common share in fiscal 1995. For additional information regarding results of operations, see the discussion below by property.

In accordance with the provisions of SFAS No. 121, management reviews on a quarterly basis whether the anticipated net cash flows will be sufficient to recover the Company's investment in each of its properties. At September 30, 1996, the Company had approximately \$87 million in recorded net long-lived assets and intangibles associated with the Pioneer. A number of factors are considered in the evaluation of recoverability, including, but not limited to, anticipated revenues and the duration thereof, and expected operating costs. Management believes that such net asset balances are recoverable under the requirements of SFAS 121, although, in light of the uncertainties discussed below under "Pioneer" and "Liquidity - Pioneer" there can be no assurance that the results of the evaluation of recoverability will remain the same in the future.

SANTA FE

Revenues at the Santa Fe in fiscal 1996 were \$61.7 million as compared to \$64.8 million in fiscal 1995, representing a decrease of 4.9%, or \$3.1 million. Casino revenues decreased 7.1%, or \$3.5 million, to \$45.6 million from \$49.1 million. Management believes that the decrease in casino revenues is primarily due to the opening of two competing facilities within five miles of the Santa Fe in December 1994 and July 1995, the expansions of the two competing facilities in April and May 1996, the opening and expansion of other casinos targeting the local population in the Las Vegas Valley and restricted access to the property beginning in April 1996, as a result of construction of an interchange next to the property.

Operating expenses decreased by 14.8%, or \$10.5 million in fiscal 1996 compared to fiscal 1995. The Company recorded in utilities and property expense an approximately \$1.7 million charge in connection with sale leaseback transactions in the 1996 fiscal year. The Company deferred an approximate \$1.7 million gain during fiscal 1996 associated with sale leaseback transactions, which gain will be recognized over the 36-month lease term. In the prior year, the Santa Fe recorded a \$14.9 million write-down of development costs associated with a proposed project in Parkville, Missouri. Excluding the loss associated with the sale leaseback transactions in fiscal 1996 and write-down of development costs in fiscal 1995, operating expenses increased 4.7% or \$2.7 million in fiscal 1996. Casino expenses increased by 8.3% or \$1.7 million, primarily due to increased payroll and other costs in the first three months of the current year, associated with operating an additional 15,000 square feet of casino space, and increased promotional costs incurred as a result of the expanding competition in the area. Selling, general and administrative expenses increased 14.5%, or \$1.1 million, primarily as a

result of increased advertising costs. Rent expense increased \$500,000 due to the lease of slot equipment. A decrease in depreciation and amortization of 11.4% or \$1.0 million was due to equipment placed in service at the opening of the Santa Fe in February 1991 being fully depreciated, and the sale of certain slot equipment. Operating income decreased \$5.8 million or 68.9% to \$2.6 million in 1996 (excluding the \$1.7 million charge in connection with sale leaseback transactions) from \$8.4 million in 1995 (excluding the \$14.9 million write-down

of development costs). See Management and Personnel for discussion of potential increased personnel costs as a result of bargaining obligations with the unions.

In the fourth quarter of 1996, revenues decreased \$200,000 or 1.0% to \$14.6 million and operating expenses (excluding the \$1.7 million charge in connection with sale leaseback transactions) increased \$900,000 or 6.2% to \$15.2 million compared to the same period in the prior year. Accordingly, operating income (excluding the \$1.7 million charge in connection with sale leaseback transactions) decreased \$1.0 million to a loss of \$700,000 compared to the same period in the prior year. Additionally, operating income before depreciation and amortization (excluding the \$1.7 million charge in connection with sale leaseback transactions) decreased \$1.5 million, or 57.0%, to \$1.1 million, compared to the same period in the prior year. Management believes operations in the fourth quarter were impacted primarily by the expansions of competing facilities within five miles of the Santa Fe and restricted access to the property as a result of construction on an interchange next to the property.

PIONEER

Revenues at the Pioneer decreased 3.5%, or \$1.6 million, to \$44.4 million from \$46.0 million in fiscal 1995. Casino revenues were \$38.7 million in fiscal 1996, representing a decrease of 4.6%, or \$1.9 million, compared to fiscal 1995 due primarily to a decrease in slot revenue of 6.3%, or \$2.2 million. The decrease in fiscal 1996 revenues is believed to be primarily due to the competitive gaming market environment in and around Laughlin, including Indian gaming facilities opened in Arizona and Southern California, and new casinos opened in Las Vegas.

Operating expenses increased \$2.2 million or 5.3% to \$42.7 million. Casino expenses decreased only 0.4%, or \$100,000, as volume related decreases in expenses were offset by increased promotional expenses incurred as a result of the competition in the area. Food and beverage expenses had a volume related increase of 5.4%, or \$300,000. Selling, general and administrative expenses increased \$1.2 million, or 30.5%, primarily as a result of increased advertising and promotional costs. Increases in depreciation and amortization expenses of \$700,000, or 12.5%, were related to an expansion project completed in December 1994. Accordingly, operating income decreased by 68.6%, or \$3.8 million, to \$1.7 million in fiscal 1996 from \$5.5 million in fiscal 1995.

In the fourth quarter of 1996, revenues decreased \$900,000, or 8.5%, to \$9.9 million and operating income decreased by \$1.4 million to a loss of \$800,000, compared to the same period in the prior year. Additionally, operating income before depreciation and amortization decreased \$1.4 million or 70.2% to \$600,000 compared to the same period in the last fiscal year. Management believes the decrease in revenues and operating results in the fourth quarter of fiscal 1996 compared to the fourth quarter of fiscal 1995 are the result of increased competition in and around the Laughlin market.

FISCAL 1995 COMPARED TO FISCAL 1994

The Company's revenues decreased \$2.6 million, or 1.0%, to \$251.1 million in fiscal 1995 as compared to \$253.7 million in the previous fiscal year. The decrease in revenues is the result of decreases in casino, food and beverage and other revenues in fiscal 1995 resulting primarily from the agreement to sell the Hacienda and Sahara, partially offset by a gain of \$8.9 million recorded on the sale of the Hacienda. Operating expenses increased \$19.8 million, or 8.9%, primarily due to a write-down of development costs of \$14.9 million and also increased payroll, advertising and promotional costs, professional fees, as well as increased depreciation associated with the expansion of two of the Company's properties. Accordingly, operating income decreased \$22.4 million or 67.8% to \$10.6 million in 1995 from \$33.0 million in 1994. The Company's interest expense increased by \$1.8 million to \$45.0 million in fiscal 1995 primarily as a result of the issuance of \$115.0 million principal amount of 11% Notes in December 1993.

The Company recorded an extraordinary gain of \$1.1 million after tax on early extinguishment of debt in fiscal 1995. In June 1995, the Company recorded an after-tax charge of \$1.7 million in connection with the repurchase of \$21.5 million principal amount 11% Notes. In September 1995, the Company recorded a \$2.8 million after-tax gain from the repurchase of \$20 million principal amount of 13 1/2% Notes.

The Company reported a net loss applicable to common shares of \$23.4 million or \$3.77 per common share in fiscal 1995 compared to a loss of \$17.0 million or \$2.74 per common share in fiscal 1994. For additional information regarding Results of Operations see discussion below, by property.

SANTA FE

Revenues at the Santa Fe increased 1.5%, or \$1.0 million in fiscal 1995 to \$64.8 million as compared to \$63.8 million in fiscal 1994. Casino revenues

increased 1.3%, or \$600,000, to \$49.1 million from \$48.5 million. Management believes that the increase in casino revenues at the Santa Fe is primarily due to the addition of a race book in December 1994. Other casino revenues reported were flat when compared to the same twelve month period of 1994, which management believes is due primarily to the opening of two competing facilities within five miles of the Santa Fe in December 1994 and July 1995 and the opening and expansion of other casinos targeting the local population in the Las Vegas Valley. In addition, management believes that Santa Fe casino revenues were impacted during construction of the Santa Fe expansion completed during December 1994 and, to a lesser extent, by restricted access to the property from February 1995 to April 1995 during construction on an interchange next to the facility. The food and beverage departments posted an increase in revenues of \$1.2 million or 17.9% over the same period in the prior year. This increase is believed to be primarily due to the opening of additional food and beverage facilities in December 1994. Other revenues for the current period declined \$900,000, or 15.2% to \$5.0 million, due to approximately \$700,000 recorded in the prior year from a management agreement for which revenues were not recorded in the current year.

The \$1.0 million increase in revenues was offset by a 14.7%, or \$7.2 million, increase in operating expenses. Casino expenses increased by 18.1%, or \$3.2 million, primarily due to increased payroll and other costs associated with operating an additional 15,000 square feet of casino space, which includes a new race book, and increased promotional costs incurred to compete with the expanding competition in the area. Food and beverage expenses had volume related increases of 21.8%, or \$1.8 million over the prior year period, the results of the opening of additional food and beverage facilities in December 1994. Selling, general and administrative expenses increased 4.7%, or \$400,000, primarily related to increased advertising and promotional costs. Increases in utilities and property expenses of 9.3% or \$400,000, and depreciation and amortization expenses of 20.2% or \$1.5 million, were related to the expansion project. Excluding a write-down of development costs of \$14.9 million discussed below, operating income decreased by 42.6%, or \$6.3 million, to \$8.4 million from \$14.7 million.

In the third quarter of 1995, the Company recorded a \$14.9 million charge against income to write-down development costs related to a proposed project in Parkville, Missouri, by a wholly-owned subsidiary of the Santa Fe.

In the fourth quarter of 1995, revenues decreased \$1.6 million or 9.9% to \$14.7 million and operating expenses increased \$1.3 million or 9.7% to \$14.4 million compared to the same period in the prior year. Accordingly, operating income decreased \$2.9 million to \$350,000 or 89.2% compared to the same period in the prior year. Additionally, operating income before depreciation and amortization decreased \$2.6 million, or 49.8%, to \$2.6 million, compared to the same period in the prior year. Management believes operations in the fourth quarter were impacted primarily by the opening in July 1995 of a competing facility within five miles of the Santa Fe.

Interest expense increased \$2.6 million, or 22.7%, in fiscal 1995 compared to fiscal 1994, primarily due to the 11% Notes issued in December 1993, which were outstanding for the entire year in fiscal 1995. In addition, as a result of the repurchase offer described below, interest costs which were previously capitalized in connection with the development of the proposed Parkville project were expensed during the fourth quarter of fiscal 1995.

In August 1995, in accordance with the indenture governing the 11% Notes, Santa Fe Inc. completed an offer to repurchase \$21.5 million principal amount of 11% Notes, representing that principal amount that could be purchased with funds remaining in the Parkville collateral account dedicated for use in the development of a proposed dockside riverboat casino and received upon liquidation of the Parkville assets. In satisfaction of the obligation to liquidate the Parkville assets, Santa Fe Inc. sold the Parkville assets to an affiliate of the Company, for \$2.99 million, which the Company and Santa Fe Inc. believed to be the fair market value of such assets. The repurchase offer was required because the proposed casino in Parkville, Missouri that Santa Fe Inc. intended to develop was not operating by June 30, 1995.

Pursuant to the offer to repurchase, Santa Fe Inc. purchased for cash \$21.5 million principal amount of the 11% Notes at a price of \$1,010 per \$1,000 principal amount, plus accrued interest. As a result of the commencement of the repurchase offer, \$11.5 million in principal amount of 11% Notes were issued upon exercise of outstanding warrants.

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The Company recorded a extraordinary charge to earnings in the amount of approximately \$2.6 million, less income tax benefit of \$890,000, related to debt premium payments, debt issue costs and debt discount in connection with the repurchase offer.

PIONEER

Revenues at the Pioneer decreased 6.6%, or \$3.2 million, to \$46.0 million from \$49.3 million in fiscal 1994. Casino revenues were \$40.5 million in fiscal

1995, representing a decrease of 6.2%, or \$2.7 million, comprised mostly of a decrease in slot revenue of 6.3%, or \$2.4 million. The decrease in fiscal 1995 is believed to be primarily due to the competitive gaming market environment in and around Laughlin, including Indian gaming facilities opened in Arizona and Southern California, coupled with disruption of operations related to the construction of the expansion which was completed in December 1994.

Operating expenses increased \$700,000 or 1.7% to \$40.5 million. Casino expenses decreased only .5%, or \$100,000, as volume related decreases in expenses were offset by increased promotional expenses. Utilities and property expenses increased 19.9%, or \$800,000, primarily due to a \$500,000 loss on sale of gaming equipment, incurred in connection with the expansion of casino space. Accordingly, operating income decreased by 41.6%, or \$3.9 million, to \$5.4 million in fiscal 1995 from \$9.4 million in fiscal 1994.

In the fourth quarter of 1995, revenues decreased \$300,000, or 3.1%, to \$10.8 million and operating income decreased by \$500,000 or 44.3% to \$600,000, compared to the same period in the prior year. Additionally, operating income before depreciation and amortization decreased \$300,000 to \$2.0 million or 14.3% compared to the same period in the last fiscal year. Management believes the decrease in revenues and operating results in the fourth quarter of fiscal 1995 compared to the fourth quarter of fiscal 1994 are the result of increased competition in and around the Laughlin market.

In September 1995, with proceeds of the sale of Hacienda, the Company acquired and retired \$20 million principal amount of 13 1/2% Notes for \$15.5 million. The Company recorded a non-recurring gain of \$4.3 million, less income tax provision of \$1.5 million, in connection with the acquisition.

HACIENDA

The Company sold the Hacienda on August 31, 1995. The results for the Hacienda include eleven months in fiscal 1995 as opposed to twelve months in fiscal 1994. Accordingly, revenues at the Hacienda, excluding a gain on the sale of \$8.9 million, decreased 6.7%, or \$3.6 million, to \$50.3 million from \$53.8 million in fiscal 1994. Casino revenues decreased 6.0%, or \$1.6 million, to \$24.6 million from \$26.2 million in the prior year. Food and beverage revenues decreased 12.9%, or \$1.1 million.

The Company recorded a gain of \$8.9 million from the sale of substantially all the assets of the Hacienda. The gain includes the \$80 million in cash consideration less the carrying value of assets sold (\$67.1 million), and an allowance to relocate the Camperland facility (\$4.0 million).

Operating expenses decreased \$2.0 million, or 4.0% to \$49.2 million when comparing the 11 months of fiscal 1995 to the full fiscal year of 1994. Accordingly, operating income excluding the gain on sale decreased 58.4%, or \$1.5 million, to \$1.1 million from \$2.6 million.

SAHARA

Revenues at the Sahara for fiscal 1995 decreased 6.7%, or \$5.8 million, to \$81.0 million from \$86.8 million in fiscal 1994. This decrease in revenues is primarily attributable to decreased casino revenues. Casino revenues decreased \$3.1 million, or 8.3%, to \$34.5 million from \$37.6 million in the prior year, with decreases in slot revenue of \$2.0 million, or 9.7%, and in table games of \$1.1 million, or 8.1%. Food and beverage revenues decreased 11.6%, or \$1.6 million.

The decrease in revenues was partially offset by a decrease in operating expenses of \$2.2 million, or 2.8%. Operating income decreased by 50.7%, or \$3.7 million, to \$3.6 million in fiscal 1995.

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The agreement to sell the Sahara was executed in June 1995 and closed in October 1995. Management believes that while the agreement to sell assets of the Sahara was in escrow, general business conditions were impacted, negatively affecting operating results. In the fourth quarter, operating income before depreciation and amortization decreased by 69.2% or \$2.7 million to \$1.2 million compared to fiscal 1994.

LIQUIDITY AND CAPITAL RESOURCES; TRENDS AND FACTORS RELEVANT TO FUTURE OPERATIONS

The Company's earnings before interest, taxes, depreciation and amortization ("EBITDA") were \$55.2 million and \$38.8 million for the years ended September 30, 1996 and 1995. EBITDA in fiscal 1996 included a \$40.8 million gain from the sale of the Sahara and a \$1.7 million charge associated with the sale/leaseback of equipment at the Santa Fe. EBITDA in fiscal 1995 included an \$8.9 million gain from the sale of the Hacienda and a \$14.9 million charge against earnings due to the write down of development costs related to a proposed casino development in Parkville, Missouri. The Hacienda and Sahara

generated EBITDA from operations of \$18.1 million for the year ended September 30, 1995. Excluding EBITDA attributable to the Sahara and Hacienda and the other items discussed above, the Company's EBITDA was \$16.1 million for the current twelve month period, as compared to \$26.7 million for the prior year period, a decline of \$10.6 million during the year ended September 30, 1996. Management believes that the current year decline is primarily due to a decline in operating results at the Santa Fe due to the increased competition and restricted access to the property resulting from road construction, as well as declining operating results at the Pioneer attributable principally to the conditions of the Laughlin market. Management believes that Santa Fe's EBITDA in future periods may continue to be adversely impacted by restricted access to the property during construction of an interchange (at US 95 and Rancho) next to the property which commenced in April 1996. Northbound access from US 95 was opened at the end of July 1996 and the Company has been advised by the Nevada Department of Transportation that southbound access is anticipated to reopen in the early part of 1997. The Company has also been advised that construction work is planned during 1997 at the intersection of Lone Mountain Road and US 95 next to the property, which management believes may result in reduced traffic flow by the property during construction. The Company believes that when completed the construction work will ultimately improve traffic flow to the property.

EBITDA is presented to enhance the understanding of the financial performance of the Company and its ability to service its indebtedness, but should not be construed as an alternative to operating income (as determined in accordance with generally accepted accounting principles) as an indicator of the Company's operating performance, or to cash flows from operating activities (as determined in accordance with generally accepted accounting principles) as a measure of liquidity.

Prior to fiscal 1996, the Company generally generated sufficient cash liquidity from operations to finance operations, meet existing debt service obligations, complete capital improvements, maintain existing facilities, and provide working capital. However, during fiscal year 1996, the Pioneer expended the balance of its restricted working capital, and the Santa Fe sold assets and entered into financing arrangements to generate working capital necessary to satisfy its cash requirements. Indenture restrictions on Santa Fe Inc. and Pioneer Inc. restrict the distribution of cash to the Company, and cash flow of these subsidiaries is not currently, and is not expected in the foreseeable future to be, available for distribution to the Company. In addition, indenture restrictions limit additional indebtedness at the Santa Fe and at the Pioneer. Therefore, the Company and its subsidiaries other than Pioneer Inc. and Santa Fe Inc. (collectively "Corporate") must rely on existing cash and cash resources to provide liquidity to fund Corporate cash requirements. Corporate consists primarily of non-operating entities which do not generate cash flow from operations.

Liquidity - Corporate - Approximately \$9.7 million of the Company's current

assets at September 30, 1996, including approximately \$4.5 million of cash and short-term investments, was held by Corporate.

In November 1996, the Company sold an option to acquire its 40 acre parcel of land located approximately eight miles south of the Hacienda on Las Vegas Boulevard South for \$2.8 million. Pursuant to the option agreement, the option holder is entitled to purchase the property at any time prior to May 15, 1997 for \$350,000 in additional net proceeds to the Company. In the event the option holder elects not to purchase the property during the option term, the \$2.8 million option payment will convert to a promissory note secured by a first mortgage on the property. If the option payment converts to a loan, the promissory note will bear interest at the rate of 10% per annum payable monthly, with the entire principal amount due one year from the date the option payment converts to a loan.

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In December 1996, the Company loaned to Santa Fe Inc. approximately \$3.9 million for working capital purposes pursuant to a revolving loan note (the "Revolving Note") with a maximum outstanding principal amount of \$5 million. Indebtedness outstanding under the Revolving Note bears interest at 12% per annum (which the Company and Santa Fe Inc. believe to be a market rate), with interest payable monthly in arrears. All principal and any accrued but unpaid interest on the Revolving Note is payable on May 31, 1998.

In December 1996, the Company borrowed approximately \$1.6 million pursuant to a First Mortgage Note secured by the 22 acre parcel of real property ("Land Note"). The Land Note requires interest only payments at a rate of 12% interest for a three-year term. The Company retired an existing note in the amount of \$850,000 secured by a first mortgage on the property with the net proceeds of approximately \$1.5 million from the Land Note.

Corporate's principal uses of cash are for debt services, administrative and professional expenses of the parent company, and costs associated with the evaluation and development of proposed projects. Corporate debt service includes payment obligations on \$9.0 million principal amount of 10 1/4 %

Subordinated Debentures due June 1998 (the "10 1/4% Debentures"), a \$5.8 million note payable to Sierra Construction Corp. ("Sierra Construction") due 1998 and \$20 million principal amount of 12% Notes due 1999 (the "12% Notes"). See "Debt Obligations" below.

In December 1996, the Company and the holder of the 12% Notes amended the terms of the 12% Notes to (i) provide that a \$500,000 principal payment originally due on December 31, 1996 would be deferred until June 30, 1997 and (ii) revise a covenant requiring redemption of \$3.5 million principal amount of 12% Notes (or, alternatively, the redemption of \$3.5 million principal amount of 11% Notes of Santa Fe Inc.) in the event that, for any four-quarter period commencing with the four-quarter period ending December 31, 1996, the cash flow of the Santa Fe (as determined pursuant to the agreement under which the 12% Notes were issued) is less than \$13.5 million. The revised covenant requires such redemption in the event cash flow at the Santa Fe is less than \$13.5 million for any four-quarter period commencing with the four-quarter period ending June 30, 1997, rather than December 31, 1996.

The Company has in the past satisfied the semi-annual dividend payments on its preferred stock through the issuance of paid in kind dividends. Commencing in fiscal 1997, dividends paid on the preferred stock, to the extent declared, must be paid in cash. In the event not declared, dividends would accrue on the preferred stock. The Company is a party to financing arrangements that restrict the Company's ability to declare and pay dividends or make distributions with respect to the Company's capital stock, which currently prohibit the payment of cash dividends on the preferred stock.

Additional potential uses of cash by Corporate include the payment of a guaranteed tenant loan if the Company terminates the lease to which the 27 acre parcel on Las Vegas Boulevard South is subject (which loan had an outstanding balance of \$5.8 million as of September 20, 1996) and the payment of \$750,000 to the recreational vehicle park operator to which the Company transferred its rights and obligations relating to the Camperland recreational vehicle group contracts if the operator chooses to relocate the Camperland membership to a mutually acceptable new location. Furthermore, in the event that cash at Santa Fe Inc. or Pioneer Inc. is insufficient to meet liquidity requirements, Corporate may be required to make contributions or loans to either Santa Fe Inc. or Pioneer Inc. to prevent an event of default under debt instruments to which Santa Fe Inc. or Pioneer Inc. is a party.

Management believes that Corporate does have sufficient available working capital and available cash resources to meet its operating requirements through the twelve month period September 30, 1997. Additionally, management believes that it has available cash resources, consisting primarily of real property that may be sold or financed to the extent necessary, to generate the liquidity to meet debt service requirements through the twelve month period ending September 30, 1997, although no assurance can be given to that effect. See "Liquidity - Santa Fe," "Liquidity -Pioneer" and "Debt Obligations."

Liquidity - Santa Fe - Approximately \$9.7 million of the Company's current

assets, including approximately \$7.1 million of cash and short term investments, was held by Santa Fe Inc. at September 30, 1996. In December 1996, Santa Fe borrowed \$3.9 million under the Revolving Note from the parent company and used such funds, together with available working capital, to make payment of the \$5.5 million semi-annual interest payment due December 15, 1996 on the 11% Notes.

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Results from operations at the Santa Fe for the twelve months ended September 30, 1996 generated EBITDA of \$10.7 million (excluding a \$1.7 million charge in connection with sale leaseback transactions), approximately 0.79 times interest expense during the same period compared to \$17.5 million of EBITDA in 1995 (excluding the \$14.9 million charge against earnings to write down development costs regarding Parkville) or approximately 1.25 times interest expense. During the three-month period ended September 30, 1996, the Santa Fe reported EBITDA of \$1.1 million (excluding a \$1.7 million charge in connection with sale leaseback transactions) compared to \$2.6 million in the same period last year. Santa Fe operating expenses in fiscal 1997 will be greater than in fiscal 1996 due to increased lease expense associated with sale leaseback transactions completed in fiscal 1996, which will impact EBITDA. Additionally, management believes that Santa Fe's EBITDA in future periods may continue to be adversely impacted as a result of expansions at its two closet competitors, which expansions opened in April and May 1996, and restricted access to the property due to construction work on an interchange near the property which commenced in April 1996 and, which is expected to continue through the early part of 1997, and by reduced traffic flow around the property expected to result from construction on another interchange near the property, which is expected to occur through 1997. The Company believes that when completed the construction work will ultimately improve traffic flow to the property.

Santa Fe Inc.'s principal uses of cash generated from operations are for interest payments on indebtedness and capital expenditures to maintain the facility. Interest expense for the years ended September 30, 1996 and 1995 was

\$13.5 million and \$14.0 million, respectively. Interest expense attributable to the 11% Notes is expected to decrease in fiscal 1997 as a result of the repurchase and cancellation of \$5.6 million principal amount of 11% Notes in January 1996. Capital expenditures for the years ended September 30, 1996 and 1995 were \$3.4 million and \$15.8 million, respectively. Capital expenditures to maintain the facility in fiscal 1997 are expected to be less than in fiscal 1996 and 1995 in which expansion projects were completed.

Management believes that, based on operations for the twelve months ended September 30, 1996, Santa Fe Inc. will have sufficient cash resources to meet its operating requirements through the twelve month period ending September 30, 1997. If operating results do not improve in the future compared to the quarter and year ended September 30, 1996, Santa Fe Inc. may not have sufficient cash from operations and available resources to meet its debt service requirements. Santa Fe Inc. is exploring financing alternatives to improve its liquidity, including but not limited to refinancing or modification of existing indebtedness, and funds from corporate, to the extent available.

Liquidity - Pioneer - At September 30, 1996, approximately \$7.7 million of the

Company's current assets, including approximately \$5.9 million of cash and short term investments, was held by Pioneer. As of September 30, 1996, \$3.5 million of cash and short-term investments held at the Pioneer was restricted in use for, among other things, debt service on the 13 1/2% Notes. In December 1996, the Pioneer used all of such funds together with available working capital to make the December 1, 1996 semi-annual interest payment of approximately \$4.1 million on the 13 1/2% Notes.

Results from operations at the Pioneer for the twelve months ended September 30, 1996 generated EBITDA of \$7.6 million, approximately 0.81 times interest expense during the same period, compared with \$10.7 million of EBITDA in fiscal 1995 or approximately 0.78 times interest expense. During the three month period ended September 30, 1996, EBITDA was \$600,000 compared with \$2.0 million of EBITDA in the same period in fiscal 1995. Pioneer operating expenses in fiscal 1997 will be greater than fiscal 1996 due to increased lease expense associated with leases for new gaming equipment which will impact EBITDA.

Pioneer Inc.'s principal uses of funds generated from operations are for interest payments on indebtedness and capital expenditures to maintain the facility. Interest expense for the years ended September 30, 1996 and 1995 was \$9.4 million and \$13.8 million, respectively. Interest expense attributable to the 13 1/2% Notes is expected to decrease to \$8.1 million in fiscal 1997 as a result of the retirement of \$22.8 million principal amount of 13 1/2% Notes in January and March 1996. (See Results of Operations - Pioneer). Capital expenditures for the years ended September 30, 1996 and 1995 were \$1.2 million and \$4.0 million, respectively. Capital expenditures to maintain the facility in fiscal 1997 are expected to be approximately that expended during fiscal 1996.

Management believes that, based on current operations for the twelve months ended September 30, 1996, Pioneer Inc. will have sufficient cash resources to meet its operating requirements through the twelve months ending September 30, 1997. If operating results do not improve in the future compared to the quarter and year ended September 30, 1996, management believes Pioneer Inc. may not have sufficient cash from operations and available

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resources to meet its debt service requirements. Pioneer Inc. is exploring financing alternatives to improve liquidity, including but not limited to refinancing or modification of existing indebtedness, funds from Corporate to the extent available.

Debt Obligations - During fiscal 1997 and 1998, scheduled maturities of long-

term debt (excluding capital leases) due to third parties are \$3.6 million and \$7.5 million, respectively, which include a sinking fund payments on the 10 1/4% Debentures of \$2.1 million in June 1997 and payment at maturity of the 10 1/4% Debentures, of \$6.9 million in June 1998.

Additionally, approximately \$66.6 million of long-term debt (excluding capital leases) matures during fiscal 1999 comprising primarily \$60.0 million of principal amount of 13 1/2% Notes in December 1998, and a \$4.9 million balloon payment due in December 1998 on the note payable to Sierra Construction. Although management has in the past and is currently exploring refinancing alternatives, as well as possible dispositions or financing of certain assets, in order to satisfy long-term debt obligations as they become due, no assurance can be given that the Company will be able to refinance or modify some or all of its indebtedness or dispose of any assets. Any such refinancing would be subject to the Company's future operations and the prevailing market conditions at the time of such proposed refinancing and would require the approval of the Nevada Gaming Authorities and potentially other state gaming authorities. If the Company is ultimately unable to refinance or modify such debt prior to maturity, and/or obtain sufficient proceeds from asset dispositions or financings to repay

the debt, and if the holders of the various debt instruments were to demand payment upon the maturity dates, events of default would occur which would lead to cross-defaults in other material agreements of the Company including, without limitations, agreements relating to substantially all of the outstanding long-term debt of the Company and its subsidiaries.

Related Parties - In 1991, LICO, a company wholly-owned by Mr. Lowden, Chairman

of the Board, Chief Executive Officer and 54% stockholder of the Company, borrowed \$476,000 from Hacienda Inc. pursuant to an unsecured demand loan which bears interest at 2% over the prime rate. The outstanding balance of the loan, including accrued interest, was \$636,000 as of September 30, 1996.

In November 1993, Mr. Lowden and Bank of America entered into a personal loan agreement whereby the principal balance of the loan is amortized through quarterly principal payments through April 1998, with any remaining principal balance due July 31, 1998. The principal balance of the loan was approximately \$927,000 at December 27, 1996. The loan is secured by substantially all of the common stock of the Company owned by Mr. Lowden (the "Pledged Shares"). Mr. Lowden's loan agreement provides that in the event the market value of the Pledged Shares is less than three times the outstanding loan balance, the bank, at its sole option, may require either an immediate reduction in the outstanding balance or the pledging of additional collateral acceptable to the bank such that the value of the pledged collateral is at least three times the outstanding loan balance. If an event of default were to occur under Mr. Lowden's personal loan with the bank, and if the bank acquired the Pledged Shares upon foreclosure, Mr. Lowden's ownership of the Company's outstanding common stock would be reduced to below 50%. If Mr. Lowden ceases to own more than 50% of the outstanding shares of the Company's common stock, an event of default would result under certain of the Company's long-term indebtedness, which could result in cross-defaults under substantially all of the Company's other long-term indebtedness.

Private Securities Litigation Reform Act

Certain statements in this Annual Report on Form 10-K which are not historical facts are forward looking statements, such as statements relating to future operating results, existing and expected competition, financing and refinancing sources and availability and plans for future development or expansion activities and capital expenditures. Such forward looking statements involve a number of risks and uncertainties that may significantly affect the Company's liquidity and results in the future and, accordingly, actual results may differ materially from those expressed in any forward looking statements. Such risks and uncertainties include, but are not limited to, those related to effects of competition, leverage and debt service and ability, financing and refinancing efforts, general economic conditions, changes in gaming laws or regulations (including the legalization of gaming in various jurisdictions) and risks related to development and construction activities.

Effects of Inflation

The Company has been generally successful in recovering costs associated with inflation through price adjustments in its hotel operations. Any such increases in costs associated with casino operations and maintenance of properties may not be completely recovered by the Company.

Item 8. Financial Statements and Supplementary Data

INDEX
TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

For the Years Ended September 30, 1996, 1995, and 1994

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Financial Statement Schedules are omitted because of the absence of conditions under which they are required or because the information is included in the financial statements or the notes thereto.

INDEPENDENT AUDITORS' REPORT

SANTA FE GAMING CORPORATION:

We have audited the accompanying consolidated balance sheets of Santa Fe Gaming Corporation and subsidiaries (the "Corporation") as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Santa Fe Gaming Corporation and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Las Vegas, Nevada
December 20, 1996

Santa Fe Gaming Corporation and Subsidiaries
Consolidated Balance Sheets
As of September 30, 1996 and 1995

<TABLE>
<CAPTION>

ASSETS	Notes	1996	1995
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Current assets:			
Cash and short-term investments	2,3	\$ 17,497,824	\$42,749,932
Accounts receivable, net	4	1,529,723	6,189,109
Accounts receivable, officer	5	636,113	545,042
Inventories	2	1,218,120	1,776,427
Prepaid expenses & other		3,778,514	5,758,808
Assets under agreement for sale	6	2,424,821	98,712,541
		-----	-----
Total current assets		27,085,115	155,731,859
Property and equipment:	2,7,8,11,12,21		
Land held for development		38,194,065	19,114,486
Land used in operations		29,343,886	29,343,886
Buildings and improvements		90,360,100	90,903,684
Machinery and equipment		33,822,408	48,166,197
Accumulated depreciation		(43,308,735)	(44,904,176)
		-----	-----
Property and equipment, net		148,411,724	142,624,077
Goodwill, net	2,9	46,073,869	47,506,348
Deferred income taxes	2,15	0	5,663,665

Other assets	2	7,085,069	15,112,052
Total assets		\$228,655,777	\$366,638,001

LIABILITIES and STOCKHOLDERS' EQUITY

Current liabilities:			
Current portion of long-term debt	11,12,18,21	\$3,770,817	\$6,234,550
Accounts payable		5,757,161	7,024,980
Interest payable		7,142,225	9,516,776
Accrued and other liabilities		9,134,856	15,709,850
Debt due upon sale of assets	10,21	0	114,612,680
Total current liabilities		25,805,059	153,098,836
Deferred income taxes	2,15	2,687,751	0
Long-term debt - less current portion	11,12,18,21	167,687,476	198,655,174
Commitments	7,12,18,19,21		
Stockholders' Equity:	1,8,13,14,17		
Common Stock, \$.01 par value; authorized-100,000,000 shares; issued and outstanding-6,195,356 shares		61,954	61,954
Preferred stock, exchangeable, redeemable 8% cumulative, stated at \$2.14 liquidation value, authorized-10,000,000 shares; issued and outstanding-8,856,651 shares at September 30, 1996 and 8,187,563 at September 30, 1995		18,953,233	17,521,385
Additional paid-in capital		51,513,504	51,513,504
Accumulated deficit		(37,965,426)	(54,125,078)
Total		32,563,265	14,971,765
Less treasury stock - 4,875 shares, at cost		(87,774)	(87,774)
Total stockholders' equity		32,475,491	14,883,991
Total liabilities and stockholders' equity		\$228,655,777	\$366,638,001

</TABLE>

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations
For the Years Ended September 30, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	Notes	1996	1995	1994
<S>	<C>	<C>	<C>	<C>
Revenues:	2			
Casino		\$84,595,109	\$148,740,793	\$155,452,433
Hotel		3,988,991	39,721,946	39,299,449
Food and beverage		11,133,823	30,755,268	32,240,923
Other		7,960,612	23,028,262	26,724,784
Gain on sale of assets	6	40,753,738	8,863,049	
Total revenues		148,432,273	251,109,318	253,717,589
Operating expenses:	2			
Casino		43,474,270	70,578,873	68,873,260
Hotel		1,806,907	17,316,036	18,011,909
Food and beverage		16,160,601	39,639,544	38,990,583
Other		3,452,922	9,682,434	9,845,726
Other expense paid to affiliate	17	0	3,425,007	3,549,498
Selling, general & administrative		16,335,613	31,327,009	30,424,408

Utilities & property expenses		11,982,079	25,447,749	24,344,909
Depreciation & amortization	2,8,9,12	14,069,415	28,183,806	26,704,563
Write-down of development costs	8	0	14,898,317	0

Total operating expenses		107,281,807	240,498,775	220,744,856

Operating income		41,150,466	10,610,543	32,972,733
Interest expense	11,12	24,422,302	45,017,461	43,191,261
Provision to reduce carrying value of investment in Treasure Bay	18	2,752,405	0	12,579,482

Income (loss) before income tax expense (benefit) and extraordinary item		13,975,759	(34,406,918)	(22,798,010)
Federal income tax expense (benefit)	15	4,236,523	(11,224,000)	(7,059,000)

Income (loss) before extraordinary item		9,739,236	(23,182,918)	(15,739,010)
Extraordinary item-gain on early extinguishment of debt, net of tax provision of \$4,229,000 in 1996 and \$615,000 in 1995	10,11	7,854,707	1,141,670	0

Net income (loss)		17,593,943	(22,041,248)	(15,739,010)
Dividends on preferred shares		1,434,291	1,322,240	1,222,343

Net income (loss) applicable to common shares		\$16,159,652	(\$23,363,488)	(\$16,961,353)
=====				
Average common shares outstanding		6,195,356	6,195,356	6,195,356
=====				
Income (loss) per common share:				
before extraordinary item		\$1.57	(\$3.74)	(\$2.54)
extraordinary item		1.27	0.18	
dividends on preferred shares		(0.23)	(0.21)	(0.20)

Income (loss) per common share	2	\$2.61	(\$3.77)	(\$2.74)
=====				

</TABLE>

See the accompanying Notes to Consolidated Financial Statements.

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Santa Fe Gaming Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Years Ended September 30, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, October 1, 1993	\$61,954	\$14,980,000	\$51,513,519	(\$13,800,237)	(\$87,774)	\$52,667,462
Net loss				(15,739,010)		(15,739,010)
Other			(15)			(15)
Preferred stock dividends		1,221,715		(1,222,343)		(628)

Balances, September 30, 1994	61,954	16,201,715	51,513,504	(30,761,590)	(87,774)	36,927,809
Net loss				(22,041,248)		(22,041,248)
Preferred stock dividends		1,319,670		(1,322,240)		(2,570)

Balances, September 30, 1995	61,954	17,521,385	51,513,504	(54,125,078)	(87,774)	14,883,991
Net income				17,593,943		17,593,943
Preferred stock dividends	-----	1,431,848	-----	(1,434,291)	-----	(2,443)
Balances, September 30, 1996	=====	=====	=====	=====	=====	=====

</TABLE>

See the accompanying Notes to Consolidated Financial Statements.

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Santa Fe Gaming Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 17,593,943	(\$22,041,248)	(\$15,739,010)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	14,069,415	28,183,806	26,704,563
Gain on sale of assets	(40,753,738)	(8,863,049)	
Write-down of development costs		14,898,317	
Gain on early extinguishment of debt	(7,854,707)	(1,141,670)	
Provision to reduce carrying value of investment in Treasure Bay	2,752,405		12,579,482
Debt discount amortization	1,765,887	1,978,747	1,668,603
Decrease (increase) in accounts receivable, net	4,659,386	1,165,053	(271,124)
Decrease (increase) in accounts receivable, office	(91,071)	(44,517)	1,965,007
Decrease in inventories	558,307	618,836	231,177
Decrease (increase) in prepaid expenses & other	1,009,110	1,660,547	(251,508)
Decrease (increase) in deferred income taxes	4,122,416	(11,224,000)	(7,059,000)
Decrease (increase) in other assets	2,145,494	(868,292)	(247,871)
Decrease in accounts payable	(1,267,819)	(57,643)	(811,050)
Increase (decrease) in interest payable	(2,374,551)	(2,072,798)	5,788,676
Increase (decrease) in accrued and other liabilities	(6,574,994)	(4,803,102)	2,461,480
Net cash provided by (used in) operating activities	(10,240,517)	(2,611,013)	27,019,425
Cash flows from investing activities:			
Proceeds from sale of subsidiary assets	128,508,377	80,000,000	
Proceeds from sale leaseback of equipment	5,000,000		
Investment in Treasure Bay			(10,000,000)
Decrease (increase) in restricted cash		22,984,222	(23,079,791)
Capital expenditures	(4,571,140)	(27,992,380)	(40,080,972)
Net cash provided by (used in) investing activities	128,937,237	74,991,842	(73,160,763)
Cash flows from financing activities:			
Cash proceeds of long-term debt	20,000,000	1,800,000	130,000,000
Cash paid on long-term debt	(163,948,828)	(87,013,400)	(51,726,226)
Loan issue cost	0	0	(5,727,799)
Net cash provided by (used in) financing activities	(143,948,828)	(85,213,400)	72,545,975
Increase (decrease) in cash and short-term investments	(25,252,108)	(12,832,571)	26,404,637
Cash and short-term investments, beginning of year	42,749,932	55,582,503	29,177,866
Cash and short-term investments, end of year	\$ 17,497,824	\$ 42,749,932	\$ 55,582,503

</TABLE>

See the accompanying Notes to Consolidated Financial Statements.

SANTA FE GAMING CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 For the years ended September 30, 1996, 1995, and 1994

1. BASIS OF PRESENTATION AND GENERAL INFORMATION

Santa Fe Gaming Corporation, formerly known as Sahara Gaming Corporation, (the "Company" or "Santa Fe Gaming"), a publicly traded Nevada corporation, is the successor corporation to a reorganization of two affiliates, Sahara Resorts and Sahara Casino Partners, L.P., which combined in a business combination in September, 1993. During 1996, the Company's primary business operations were conducted through two wholly owned subsidiary corporations, Santa Fe Hotel Inc. ("SFHI") and Pioneer Hotel Inc. ("PHI") (the "Operating Companies"). SFHI owns and operates the Santa Fe Hotel and Casino (the "Santa Fe"), located in Las Vegas, Nevada, and PHI owns and operates the Pioneer Hotel & Gambling Hall (the "Pioneer") in Laughlin, Nevada. In addition, the Company owns real estate parcels on Las Vegas Boulevard, in Henderson, Nevada, and adjacent to the Santa Fe, for development opportunities. The Company, through its wholly-owned subsidiaries, Hacienda Hotel, Inc. ("HHI") and Sahara Nevada Corp ("SNC") previously owned and operated the Hacienda Resort Hotel & Casino (the "Hacienda") and the Sahara Hotel & Casino (the "Sahara"), but sold substantially all of the assets related to those hotel/casinos in August 1995 and October 1995, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Santa Fe Gaming and its wholly owned subsidiaries, primarily SFHI and PHI in fiscal 1996 and SFHI, PHI, HHI and SNC in fiscal 1995 and 1994 (collectively, the "Company"). Amounts representing the Company's investment in less than majority-owned companies in which a significant equity ownership interest is held are accounted for on the equity method. All material inter-company accounts and transactions have been eliminated in consolidation.

Cash and Short-Term Investments

Investments which mature within 90 days from the date of purchase are treated as cash equivalents and are included in cash and short-term investments.

Inventories

Food, beverage, gift shop and other inventories are stated at first-in, first-out cost, not in excess of market.

Property and Equipment

Property and equipment are stated at cost. Costs of maintenance and repairs of property and equipment are expensed as incurred. Costs of major improvements are capitalized and depreciated pursuant to the standard described below. Gains or losses on the disposal of property and equipment are recognized in the year of sale. In sale leaseback transactions of property and equipment gains are deferred and recognized over the lease term and losses are recognized in the year of sale.

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Depreciation and amortization are computed by the straight-line method over the shorter of the estimated useful lives or lease terms. The length of depreciation and amortization periods are for buildings and improvements 7 to 40 years and for machinery and equipment 3 to 15 years.

Pre-Opening Expenses and Capitalized Interest

All pre-opening expenses directly related to development of gaming operations are capitalized as incurred and included in Other Assets and expensed within the first year of operations. Interest costs are capitalized on funds disbursed during the development phase of projects and expensed pursuant to depreciation and amortization methods over the assets estimated useful file.

Goodwill

The excess cost over the net assets of an acquired company is amortized using the straight line method over a 40 year period. Management periodically evaluates the realizability of goodwill as events and circumstances indicate a possible inability to recover the carrying amount.

Federal Income Taxes

Deferred income taxes are provided on temporary differences between pretax financial statement income and taxable income resulting from different methods of depreciation and amortization. The Company accounts for Income Taxes in accordance with SFAS No. 109, Accounting for Income Taxes.

Revenue Recognition

Casino revenue is recorded as gaming wins less losses. Operating revenues do not include the retail amount of room, food, beverage and other services provided gratuitously to customers. The estimated cost of providing these promotional services has been reported in the accompanying consolidated financial statements as an expense of each department granting complimentary services. The casino department has recorded 87%, 80%, and 79% of total promotional allowances in fiscal years ended September 30, 1996, 1995 and 1994, respectively. The table below summarizes the departments costs of such services. (dollars in thousands):

	1996	1995	1994
Food & Beverage	\$12,114	\$17,180	\$16,125
Hotel	1,128	3,673	3,933
Other	216	402	239
Total	\$13,458	\$21,255	\$20,297

Indirect Expenses

Certain indirect expenses of operating departments such as utilities and property expense and depreciation and amortization are shown separately in the accompanying consolidated statements of operations and are not allocated to departmental operating costs and expenses.

Earnings Per Share

Net income (loss) per common share is computed by dividing net income (loss) less the amount applicable to preferred stock, by the weighted average common shares outstanding during the year. Fully diluted earnings per common and common equivalent share are not presented since dilution is less than 3%.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure

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of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates.

Reclassification

Certain reclassifications have been made in the 1995 and 1994 consolidated financial statements in order to conform to the presentation used in 1996.

New Accounting Pronouncements

The Company adopted the provisions of the Financial Accounting Standard Board ("FASB") Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of". The Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews on a quarterly basis whether the anticipated net cash flows will be sufficient to recover the Company's investment in each of its properties. Adoption of FASB 121 in fiscal 1996 had no impact on the financial statements of the Company.

In October 1995, the FASB issued Statement No. 123 "Accounting for Stock-Based Compensation" which establishes financial accounting and reporting standards for stock-based employee compensation plans and for transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Statement No. 123 is generally effective for fiscal years beginning after December 15, 1995. The Company intends to continue to account for employee stock options in accordance with APB No. 25 and accordingly will provide the pro forma and other additional disclosures about stock based

employee compensation plans in its 1997 financial statements as required by SFAS 123.

Fair Value of Financial Instruments

The Company estimates the fair value of its Long Term Debt and Preferred Stock to be \$153 million and \$6.0 million at September 30, 1996 based upon available market prices. The Company estimates that all other financial instruments have a fair value which approximates their recorded value.

3. CASH AND SHORT-TERM INVESTMENTS

At September 30, 1996, approximately \$7.1 million of the Company's consolidated cash and short term investments was held by SFHI and was subject to certain restrictions and limitations on its use, including restrictions on its availability for distribution to the Company, by the terms of an indenture pursuant to which \$115 million principal amount of 11% First Mortgage Notes due 2000 ("11% Notes") of SFHI was issued. In fiscal 1994, SFHI distributed \$700,000 to the Company. As of September 30, 1996, SFHI did not meet the conditions precedent to making a distribution to the Company. See Note 11

At September 30, 1996, approximately \$5.9 million of the Company's consolidated cash and short-term investments was held by PHI and was subject to certain restrictions, including restrictions on its availability for distribution to the Company, by the terms of an indenture pursuant to which the 13 1/2% First Mortgage Notes due 1998 ("13 1/2% Notes") of Pioneer Finance Corp. were issued, the proceeds of which were loaned to PHI. As of September 30, 1996, PHI did not meet the conditions precedent to making a distribution to the Company. See Note 11

In November 1995, the Company made an equity contribution of \$15 million in cash to PHI, in accordance with terms of an agreement reached with holders of the 13 1/2% Notes pursuant to which the holders of the 13 1/2% Notes consented to the sale of the Hacienda and Sahara. In December 1995, the Pioneer used \$3 million of such funds together with cash on hand to make the December 1, 1995 semi-annual interest payment on the 13 1/2% Notes of \$5.6 million. In March 1996, the Pioneer used \$8.6 million of such funds to acquire \$10.2 million principal amount of 13 1/2% Notes and accrued interest thereon. The funds remaining from the equity contribution represent approximately \$3.5 million of the \$5.9 million of cash and short term investments held at the Pioneer as of September 30, 1996, and are restricted in use for debt service on the 13 1/2% Notes, repurchase of 13 1/2% Notes, capital expenditures at the Pioneer, and contribution to capital of a wholly-owned subsidiary of PHI that owns real property in Henderson, Nevada.

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4. ACCOUNTS RECEIVABLE, NET

Accounts receivable at September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Casino and hotel	\$2,590,201	\$5,817,793
Other	1,136,369	2,689,018
Sub-total	3,726,570	8,506,811
Less allowance for doubtful accounts	2,196,847	2,317,702
Total	\$1,529,723	\$6,189,109

</TABLE>

Changes in the allowance for doubtful accounts for the years ended September 30, 1996, 1995 and 1994 were as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Balance, beginning of year	\$2,317,702	\$ 3,538,639	\$3,477,663
Provision	397,413	634,938	348,534
Accounts written-off	(518,268)	(1,855,875)	(287,558)
Balance, end of year	\$2,196,847	\$ 2,317,702	\$3,538,639

</TABLE>

5. ACCOUNTS RECEIVABLE, OFFICER

As of September 30, 1996 and 1995, included in Accounts Receivable, Officer is an unsecured demand loan in the principal amount of \$476,000, which, together with accrued interest, totaled approximately \$636,000 and \$545,000, respectively, from HHI to LICO, a company wholly-owned by Paul W. Lowden, Chairman of the Board, Chief Executive Officer and 54% stockholder of the Company. The loan from HHI to LICO bears interest at the rate equal to 2% over the prime rate. See Note 17

6. ASSETS UNDER AGREEMENT FOR SALE

In September 1995, the Company acquired an undeveloped 40 acre parcel of land located approximately eight miles south of the Hacienda on Las Vegas Blvd. South. This land was acquired for \$2.4 million as a potential site to relocate the Camperland membership. The Company sold an option to acquire this property in November 1996. See Note 21

On October 2, 1995, the Company sold substantially all of the assets of the Sahara for \$128 million in cash and exchanged 22 acres of land, a portion of which was utilized by the Sahara as a parking lot, for 27 acres of land just south of the Sahara on Las Vegas Boulevard, on which a water theme park currently operates. As of September 30, 1995, the properties and equipment relating to those sites subject to the agreement have been classified as current assets on the consolidated balance sheet. The Company recorded a pre-tax gain of \$40.8 million. The gain represents the \$150.0 million sale price offset by the carrying value of the assets sold, estimated cost and expenses of the transaction, and net of the extinguishment of debt charge discussed in Note 10 on the sale in the quarter ended December 31, 1995.

7. LAND HELD FOR DEVELOPMENT

In March 1994, the Company, through a wholly-owned subsidiary, purchased for approximately \$15.1 million a 39-acre parcel of land located in Henderson, Nevada, for future development of a proposed casino hotel complex. At September 30, 1996 the cost to acquire the property is reported as land held for development in the consolidated balance sheet. In addition to costs to acquire the property, the Company had recorded approximately \$2.5 million in preliminary engineering and development costs and \$2.8 million representing capitalized interest.

In connection with the acquisition of the 27 acre parcel (See Note 6), the Company assumed the operating lease under which a water theme park operates. The lease may be terminated by the Company at any time after December 1996. The Company has guaranteed payments by the tenant of a loan to the prior owner of the property ("tenant loan") and has agreed to pay the loan in full in certain situations, including in the event the lease is

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terminated for any reason prior to 2004. The tenant loan, which is amortized through monthly principal and interest payments through December 2004, had an outstanding balance of \$5.8 million as of September 30, 1996. Under the terms of the lease, as amended, the water-theme park remits a base rent of approximately \$16,000 monthly plus an annual rent payment based on gross receipts. The 27 acre parcel was valued at approximately \$22 million for purposes of the Sahara sale and is reported as land held for development in the September 30, 1996 Consolidated Balance Sheet.

In November 1993, SFHI acquired a 22-acre tract of property located next to the Santa Fe for \$1.6 million of which amount \$850,000 is payable pursuant to a note due November 1998. The balance of the purchase price was paid in cash. In May 1996, the Company purchased from SFHI the 22-acre parcel for \$2.85 million, which the Company and SFHI believe to be the fair market value of the property. The Company paid \$2.0 million in cash and assumed the existing \$850,000 note secured by the property. The intercompany gain on sale recorded by SFHI has been eliminated in the consolidated financial statements. See Notes 11 and 21

8. PROPERTY AND EQUIPMENT, NET

In May 1994, the Company acquired an additional four-acre tract adjacent to the Santa Fe. The entire purchase price of \$980,000 was paid in cash.

In December 1994, the Company completed construction of an expansion of the Santa Fe, including the addition of three theme restaurants, approximately 300 new slot machines, a dedicated bingo room, race book, and other public areas. The cost of construction and equipment was approximately \$14.4 million. The expansion was financed through working capital and equipment financing.

In December 1994, the Company completed construction of an expansion of the Pioneer, including the addition of casino space, the addition of a special events area and increased administrative and support areas. The cost of construction and equipment was approximately \$4.1 million. The expansion was financed through working capital and equipment financing.

In June 1995, the Company recorded a \$14.9 million pre-tax charge against

income in connection with its development of a proposed dockside riverboat gaming facility in Parkville, Missouri. The Company had incurred \$16.9 million in connection with the development of the proposed Parkville project. Of this amount, approximately \$8.0 million was used to purchase a barge vessel for the site, approximately \$3.7 million represents preliminary engineering and development expenses and approximately \$5.2 million represents capitalized interest costs. In November 1995, the Company sold the barge vessel for \$3.3 million which approximates the carrying value in the Consolidated Balance Sheet.

In August 1995, the Company sold substantially all of the assets of the Hacienda for \$80 million in an all cash transaction. The Company recorded a pre-tax gain from the sale of the Hacienda of \$8.9 million. The gain represents the \$80 million sale price offset by the carrying value of the assets sold, estimated costs and expenses of the transaction and an estimated cost to relocate the Camperland operation.

In October 1995, the Company entered into an agreement, subject to various conditions, to transfer its rights and obligations under contracts with members of Camperland, a recreational vehicle park that was located on approximately 14 acres of Hacienda property that was operated by the Company under a lease with the new owners of the Hacienda, to an existing recreational vehicle park. In July 1996, the Company entered into an amended agreement with the existing recreational vehicle park. Pursuant to the amended agreement, the Company paid approximately \$2.3 million to transfer its rights and obligations under contracts with members of Camperland. The

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Company is obligated to make an additional payment of \$750,000 in the event the owners of the existing park relocate the Camperland membership to a mutually acceptable new location. The Company received a first deed of trust on 14 acres of vacant land owned by the existing park to secure performance of the existing park's operators in connection with the assumption of the Camperland contracts. As a result of the termination of the Hacienda lease prior to February 1997, the Hacienda owners paid the Company approximately \$350,000.

During 1996, the Company completed \$5.0 million in sale/leaseback transactions with respect to gaming and other equipment at the Santa Fe. In connection with the transactions, the Company deferred an approximate \$1.7 million gain which will be recognized over the 36 month lease term. In the fourth quarter of fiscal 1996, the Company recorded an approximate \$1.7 million charge in connection with the sale leaseback transactions. See Note 12

9. GOODWILL, NET

Goodwill is net of accumulated amortization of \$10.4 million and \$9.1 million at September 30, 1996 and 1995, respectively. Amortization expense was \$1.4 million in 1996, \$1.4 million in 1995 and \$1.5 million in 1994.

10. DEBT DUE UPON SALE OF ASSETS

In October 1995 the sale of substantially all of the assets of the Sahara was consummated. The 12-1/8% First Mortgage Notes due August 1996 ("12 1/8% Notes") were issued by Sahara Finance Corp., a wholly-owned subsidiary of the Company, were guaranteed by the Company, and were secured by a first deed of trust on the Sahara Hotel and unsecured affiliates notes totaling \$40 million. The 12 1/8% Notes, effective rate of 12-1/4%, had monthly principal and interest payments of \$1,206,440 and matured on September 1, 1996. The 12 1/8% Notes did not have a call provision prior to maturity. At September 30, 1995 the 12 1/8% Notes had an outstanding balance of \$114.6 million.

In connection with the sale of the Sahara, the Company made a tender offer to purchase for cash all outstanding 12 1/8% Notes at a price of \$1,047 per \$1,000 principal amount, plus accrued interest. The Company accepted for payment and retired \$89.2 million original principal amount of 12 1/8% Notes tendered in the offer and the Company defeased the remaining approximately \$27 million balance of 12 1/8% Notes. In November 1995, the Company purchased and retired the remaining \$27 million original principal amount of 12 1/8% Notes that were defeased upon consummation of the sale. The Company recorded an approximate \$6.0 million charge for extinguishment of debt against the gain on the sale of the Sahara in the quarter ended December 31, 1995. See Note 6

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11. LONG-TERM DEBT

Long-term debt, net of unamortized discount, at September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>

11% First Mortgage Notes, ("11% Notes") due 2000 Effective Rate - 12.46%	\$ 73,921,189	\$ 97,840,906
13 1/2% First Mortgage Notes, ("13 1/2% Notes") due 1998	60,000,000	82,750,000
12% Note Purchase Agreement (12% Notes) due November 15, 1999	20,000,000	-0-
10 1/4% Subordinated Sinking Fund Debentures ("10 1/4% Debentures"), due 1998 Effective Rate 16.9%	8,164,667	10,044,751
Note payable to Sierra Construct- tion Corp., due 1998; interest at prime plus 2%	5,679,064	6,020,117
First Mortgage Note due 1998, interest payable monthly at 12%	850,000	850,000
Other notes payable, collater- alized primarily by equipment	2,436,246	6,207,141
Obligations under capital leases (See Note 12)	407,127	1,176,809
	-----	-----
Subtotal	171,458,293	204,889,724
Less current portion	3,770,817	6,234,550
	-----	-----
Total long-term debt	\$167,687,476	\$198,655,174
	=====	=====

</TABLE>

The scheduled maturities of long-term debt (excluding capital leases) for the year ending September 30 are as follows:

<TABLE>

<S>	<C>
1997	\$ 3,577,915
1998	7,463,786
1999	66,609,980
2000	18,950,288
2001	74,124,830
Thereafter	324,367

Total	\$171,051,166
	=====

</TABLE>

The 11% Notes are secured by, among other things, a first priority deed of trust on the Santa Fe and are guaranteed by the Company. Interest is payable semi-annually on June 15 and December 15, at the rate of 11% per annum. On December 29, 1993, SFHI consummated a public offering (the "Offering") of 11,500 units, with each unit consisting of \$10,000 principal of the 11% Notes and one warrant to acquire, for no additional consideration, an additional \$1,000 principal amount of the 11% Notes upon exercise no later than December 15, 1996. Assuming all warrants were exercised on December 15, 1996, the total principal amount of 11% Notes to be paid at maturity would have been \$126.5 million and the effective rate of interest per annum would have been 12.46%. SFHI is subject to certain covenants under the indenture in which the 11% Notes were issued including, among other things, restrictions on the incurrence of additional debt and making any loan or any distribution or dividends to any affiliate of the Company. See Note 3

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As a result of the commencement of the Repurchase Offer discussed below, warrants to acquire \$11.5 million principal amount 11% Notes were exercised resulting in \$126.5 million principal amount of 11% Notes outstanding. In August 1995, in accordance with the indenture governing the 11% Notes, SFHI completed an offer to repurchase for cash \$21.5 million principal amount of 11% Notes at a price of \$1,010 per \$1,000 principal amount, plus accrued interest, representing that principal amount that could be purchased with funds remaining in the Parkville collateral account dedicated to use in the development of a proposed dockside riverboat casino and received upon liquidation of the Parkville assets. The repurchase offer was required to be made because the proposed casino in Parkville, Missouri that SFHI intended to develop was not operating by June 30, 1995. Upon completion of the Repurchase Offer, \$105 million principal amount of 11% Notes were outstanding. The Company recorded an extraordinary charge to earnings in the amount of approximately \$2.6 million, less income tax benefit of \$890,000, related to debt premium payments, debt issue costs and debt discount in connection with the completed Repurchase Offer.

In January 1996, the Company completed the repurchase of \$25.6 million

principal amount of 11% Notes. The Company financed the repurchase of debt with the net proceeds of a private placement of \$20 million principal amount of 12% Notes due 1999 (the "12% Notes") issued by the Company's subsidiary, Sahara Las Vegas Corp. The Company retired \$5.6 million principal amount of the 11% Notes and \$20.0 million principal amount is held by the Company and pledged as collateral for the 12% Notes. As of September 30, 1996, \$99.4 million principal amount of the 11% Notes remain outstanding, and are reported in the Consolidated Balance Sheet net of unamortized debt discount of \$5.5 million and \$20 million principal amount held by the Company. The Company recorded an extraordinary gain of approximately \$4.9 million after tax related to the debt repurchases in the quarter ended March 31, 1996.

The 13 1/2% Notes are secured by a first deed of trust on the Pioneer and were issued by Pioneer Finance Corp., a wholly-owned subsidiary of the Company. The 13 1/2% Notes are guaranteed by the Company. Interest is payable semi-annually on June 1 and December 1 at a rate of 13 1/2% per annum. PHI is subject to certain conditions under the indenture under which the 13 1/2% Notes were issued, including, without limitation restrictions on the incurrence of additional debt and the making of any loans or distributions or dividends to affiliates of the Company. See Note 3

In September 1995, from the proceeds of the sale of the Hacienda, the Company acquired \$20 million principal amount of 13 1/2% Notes. The Company recorded an extraordinary gain of \$4.3 million less income tax charge of \$1.5 million. The \$20.0 million principal amount of the 13 1/2% Notes acquired were submitted to the trustee for cancellation in satisfaction in full of the Company's sinking fund payment due in December 1996 and reduced the December 1997 sinking fund obligation to \$22.75 million.

In January 1996, the Company completed the repurchase of an aggregate of \$12.5 million principal amount of 13 1/2% Notes. The Company financed the repurchase of debt with \$7.5 million of working capital and a portion of the net proceeds of a private placement of 12% Notes. In addition, in March 1996, the Company completed the repurchase of \$10.2 million principal amount of 13 1/2% Notes and accrued interest thereon for \$8.6 million. The January and March repurchases were submitted to the trustee for cancellation in satisfaction of the December 1997 sinking fund obligation. At September 30, 1996 the outstanding balance of the 13 1/2% Notes was \$60.0 million. The Company recorded an extraordinary gain of approximately \$3.0 million after tax related to the debt repurchases in the quarter ended March 31, 1996.

The 12% Notes are secured by, among other things, the Company's 27 acre parcel of real property on the Las Vegas Strip and \$20 million principal amount of the 11% Notes held by the Company. The 12% Notes are guaranteed by the Company. Interest is payable semi-annually on June 30 and December 31, and principal payments of \$500,000, respectively, are due December 31, 1996, 1997 and 1998. In addition, pursuant to the 12% Note Agreement, if, as of the end of any quarter commencing with the quarter ending December 31, 1996, SFHI Cash Flow (as defined in the 12% Note Agreement) for the preceding four quarter period is less than \$13.5 million, the Company will be required to redeem \$3.5 million principal amount of 12% Notes at a redemption price of 100% of the principal amount, plus accrued and unpaid interest thereon. Such obligation, if it arises, will be reduced-on-a-

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dollar for dollar basis to the extent that, during the period in which the Company is so required to repurchase 12% Notes, the Company acquires 11% Notes and pledges such acquired 11% Notes as additional collateral for the 12% Notes or contributes the acquired 11% Notes to SFHI and causes the contributed SFHI Notes to be canceled. The Company may, at its option, exclude a fiscal quarter from the calculation of SFHI Cash Flow if SFHI undertakes certain capital expenditures in such quarter and provides notification under the 12% note agreement. See Note 21

The 10 1/4% Debentures have an effective interest rate of 16.9%, payable semi-annually, and a principal balance of \$9.0 million and \$11.4 million less unamortized discount of \$800,000 and \$1.3 million on September 30, 1996 and 1995, respectively; the 10 1/4% Debentures have an annual sinking fund payment obligation of \$2.3 million. The 10 1/4% Debentures restrict the purchase of the Company's capital stock and payment of cash dividends on any of the Company's capital stock to the extent of the aggregate consolidated net income of the Company from September 30, 1982 to the end of the most recent fiscal quarter preceding the date of declaration of the dividend. As of September 30, 1996, the Company had a cumulative consolidated net loss of \$41.9 million since October 1, 1982. In December 1995, the Company acquired \$2.6 million principal amount of 10 1/4% Debentures which were submitted to the trustee for cancellation in satisfaction of the sinking fund payment due in June 1996 and in reduction of the sinking fund payment due in June 1997 to approximately \$2.1 million.

The note payable to Sierra Construction Corp. bears interest at prime plus 2% (10.25% at September 30, 1996); payable in monthly installments of principal and interest of \$80,099 commencing December 1993 until maturity in December 1998. At the current interest rate, the balance due at maturity will be

approximately \$4.7 million.

The first mortgage note, due 1998, bears interest at 12%, interest is payable monthly with principal due November 1998. The first mortgage note is secured by a first deed of trust on 22 acre parcel of real property. See note 7 and 21.

On December 7, 1994, SFHI borrowed \$3.0 million pursuant to a working capital loan agreement. The loan agreement required monthly installments of principal and interest at an annual rate of 11% and was guaranteed by the Company. In February 1996, SFHI prepaid in full the remaining \$1.6 million principal balance on its working capital loan agreement.

12. LEASES

All non-cancelable leases have been classified as capital or operating leases. At September 30, 1996, the Company had leases for personal and real property which expire in various years to 2078. Under most leasing arrangements, the Company pays the taxes, insurance and the operating expenses related to the leased property.

At September 30, 1996 and 1995, equipment leased under capital leases are recorded in the Consolidated Balance Sheet as follows:

<TABLE>
<CAPTION>

	September 30	
	1996	1995
<S>	<C>	<C>
Equipment	\$1,049,000	\$5,463,000
Less accumulated amortization	342,000	4,154,000
Total	\$ 707,000	\$1,309,000

</TABLE>

Amortization of assets leased under capital leases is included in depreciation and amortization expense in the Consolidated Statements of Operations.

Future minimum lease payments as of September 30, 1996 are as follows:

<TABLE>
<CAPTION>

	Capital	Operating
<S>	<C>	<C>
1997	\$227,131	\$ 3,223,668
1998	144,062	2,964,142
1999	48,660	1,862,478
2000	44,605	722,296
2001	-0-	680,028
Thereafter	-0-	51,723,815
	464,458	\$61,176,427
Less amount representing interest	57,331	
Present value of minimum lease payments	\$407,127	

</TABLE>

Included in future minimum operating lease payments are rental costs associated with the real property under the lease at the Pioneer. Approximately 6 1/2 acres of the Pioneer property are subject to a 99 year ground lease, expiring in December 2078. Under the ground lease the Company is subject to an annual rental obligation of \$680,000 per year, adjusted annually based on the Consumer Price Index. Additionally, every ten years beginning January 1, 2004, the annual rent will be adjusted to an amount equal to 10% of the fair market value of the land subject to the ground lease, on an unimproved basis.

Included in future minimum operating lease payments are rental costs associated with the \$5.0 million sale leaseback of personal property at the Santa Fe. Under the leases, which have 36 month terms, the Company is obligated to rental obligations of \$170,000 per month. In addition, in June 1996, the Company completed a \$1.4 million lease transaction with respect to a slot tracking system at the Santa Fe. The lease requires an approximate payment of \$39,000 per month per a 36 month term.

13. STOCKHOLDERS' EQUITY

On January 25, 1994, the Company announced a 25% stock dividend on the

Common Stock payable on February 25, 1994 to stockholders of record on February 4, 1994. The accompanying financial statements have been adjusted to give effect to this stock dividend as if it has occurred as of the earliest period presented.

In March and September of fiscal years 1996, 1995, and 1994, the Company declared a semi-annual dividend on its Preferred Stock pursuant to the terms of the Certificate of Designation with respect to the Preferred Stock. Each semi-annual dividend was paid in shares of Preferred Stock in an amount equal to .04 of a share for each share of Preferred Stock. Cash was paid in lieu of fractional shares.

At the election of the Company, the Preferred Stock is redeemable, in whole or in part, at any time and from time to time at a redemption price equal to the per share liquidation preference of \$2.14 plus (i) an amount equal to all accrued but unpaid dividends, whether or not declared, plus (ii) under certain circumstances relating to asset dispositions and mergers, an additional amount determined in accordance with the Certificate of Designation of the Preferred Stock (the "Liquidation Preference"). Additionally, at the election of the Company, if any shares of

Preferred Stock have not been redeemed on or prior to the tenth dividend payment date from the issuance of the Preferred Stock, such shares may be exchanged from time to time for Junior Subordinated Notes of the Company. The principal amount of the Junior Subordinated Notes, if issued, will be equal to the Liquidation Preference of the Preferred Stock for which such notes are exchanged. The Junior Subordinated Notes will mature on September 30, 2008, and will bear interest at an annual rate of 11%, payable semi-annually.

14. STOCK OPTION PLAN

The Company has a Key Employee Stock Option Plan (the "Stock Option Plan") providing for the grant of up to 319,375 shares of its common stock to key employees. The Stock Option Plan provides for both incentive stock options and non-qualified stock options. As of September 30, 1994 there were 61,250 options outstanding having exercise prices ranging from \$22.60 to \$3.30 per share. In October 1995, the Company cancelled all outstanding options and issued 192,500 options at a exercise price of \$3.00 per share. In 1996, options to acquire 31,250 were cancelled. As of September 30, 1996, there were 161,250 options outstanding under the Stock Option Plan. No options were exercised during fiscal years 1996, 1995 and 1994. The outstanding options have an expiration date of October 2005.

15. FEDERAL INCOME TAXES

The Company accounts for Income Taxes under Statement of Financial Accounting Standards No. 109. In accordance with SFAS No. 109, deferred income taxes reflect the net effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credits carryforwards. The Company has recognized approximately \$29.3 million in federal income tax benefit for financial reporting purposes based on book losses.

The expense (benefit) for income taxes attributable to pre-tax income consisted of:

<TABLE>
<CAPTION>

Year Ended September 30	1996	1995	1994
-----	-----	-----	-----
<S>	<C>	<C>	<C>
(Dollars in thousands)			
Current	\$ 114	---	---
Deferred	8,352	\$(10,609)	\$(7,059)
Total expense (benefit)	\$8,466	\$(10,609)	\$(7,059)
	=====	=====	=====

</TABLE>

The expense (benefit) for income taxes attributable to pre-tax income differs from the amount computed at the federal income tax statutory rate as a result of the following:

<TABLE>
<CAPTION>

Year Ended September 30	1996	1995	1994
-----	-----	-----	-----
<S>	<C>	<C>	<C>
(Dollars in thousands)			
Amount at statutory rate	\$9,121	\$(11,428)	\$(7,979)

Goodwill	487	487	522
Lobbying costs	12	0	170
Deferred tax credits	(699)	---	---
Other	(455)	332	228
	-----	-----	-----
	\$8,466	\$(10,609)	\$(7,059)
	=====	=====	=====

</TABLE>

The components of the deferred tax asset (liability) consisted of the following:

<TABLE>

<CAPTION>

At September 30 (Dollars in thousands)	1996 -----	1995 -----
<S>	<C>	<C>
DEFERRED TAX LIABILITIES		
Prepaid expenses	\$ 1,026	\$ 1,851
Fixed asset cost, depreciation and amortization, net	10,166	11,857
Capitalized interest	953	953
Original issue discount	240	414
Other	475	588
	-----	-----
Gross deferred tax liabilities	\$12,860	\$15,663
	=====	=====
DEFERRED TAX ASSETS		
Net operating loss carryforward	\$ 8,316	\$15,344
Reserves for accounts and contracts receivable	420	763
Other/Treasure Bay	159	4,419
Deferred payroll	383	801
Tax credits	894	---
	-----	-----
Gross deferred tax assets	10,172	21,327
	-----	-----
Net deferred tax assets (liabilities)	(\$2,688)	\$ 5,664
	=====	=====

</TABLE>

At September 30, 1996, the Company has a net operating loss carryforward for regular income tax purposes of approximately \$24.5 million, which expires by the year 2010. The Company has not recorded a valuation allowance to reduce the carrying value of the deferred tax assets since these assets arose principally from temporary differences which will reverse within the prescribed carryforward period or will be recognized in periods corresponding to the reversal of certain of the deferred tax liabilities.

16. BENEFIT PLANS

The Company has a savings plan (the "Plan") qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan covers substantially all employees who are not covered by a collective bargaining unit. The Company's matching contributions paid in 1996, 1995, and 1994, were \$106,000, \$93,000 and \$89,000, respectively.

The Company contributed to multi-employer pension plans under various union agreements to which SNC and HHI were a party. Contributions, based on wages paid to covered employees, were approximately \$100,000, \$1.9 million and \$1.9 million for the years ended September 30, 1996, 1995 and 1994, respectively. The Company's share of any unfunded liability related to multi-employer plans, if any, is not determinable.

17. RELATED PARTIES

LICO, a company wholly-owned by Mr. Lowden, Chairman of the Board, Chief Executive Officer and 54% stockholder of the Company, had borrowed \$476,000 from Hacienda Inc., pursuant to an unsecured demand loan. The outstanding balance of the loan including accrued interest was approximately \$636,000 as of September 30, 1996. The demand loan to LICO bears interest at 2% over the prime rate.

LICO provided entertainment services to the Company. Entertainment expense incurred for services provided by LICO was \$3.4 million and \$3.5 million for fiscal years 1995, and 1994, respectively. LICO did not provide services to the Company during the 1996 fiscal year.

In November 1993, Mr. Lowden and Bank of America entered into a personal loan agreement whereby the principal balance of the loan is amortized through quarterly principal payments through April 1998, with any remaining principal balance due July 31, 1998. The principal balance of the loan is approximately

December 27, 1996. The loan is secured by substantially all of the Company's common stock (the "Pledged Shares"), owned by Mr. Lowden. Mr. Lowden's loan agreement provides that in the event the market value of the Pledged Shares is less than three times the outstanding loan balance, the bank, at its sole option, may require either an immediate reduction in the outstanding balance or the pledging of additional collateral acceptable to the bank such that the value of the pledged collateral is at least three times the outstanding loan balance. If an event of default were to occur under his personal loan with the bank, and if the bank acquired the Pledged Shares upon foreclosure, Mr. Lowden's ownership of Santa Fe Gaming's outstanding common stock would be reduced to below 50%. If Mr. Lowden ceases to own more than 50% of the outstanding shares of Santa Fe Gaming's common stock, an event of default would be triggered under certain of Santa Fe Gaming's long-term indebtedness, which would result in cross-defaults under substantially all of Santa Fe Gaming's other long-term indebtedness, including the 13 1/2% Notes and 11% Notes.

18. INVESTMENTS

Biloxi, Mississippi - Treasure Bay

In April 1994, Santa Fe Inc. purchased from Treasure Bay Gaming & Resorts Inc. ("Treasure Bay") for \$10.0 million approximately 20% of Treasure Bay's common stock and 33 1/3% of Treasure Bay's preferred stock. The Company also unconditionally guaranteed the payment of \$4.5 million of the indebtedness of Treasure Bay incurred to finance working capital in connection with the opening of Treasure Bay's casinos in Biloxi, Mississippi in April 1994 and in Tunica, Mississippi in May 1994, which indebtedness the Company acquired in December 1994. In connection with its stock purchase, Santa Fe Inc. entered into an agreement with Treasure Bay to manage both properties. However, in December 1994, Treasure Bay notified the Company that Treasure Bay was assuming management control of Treasure Bay's properties and alleged that the Company was in default under the management agreement and had mismanaged the Treasure Bay properties. On January 10, 1995, Treasure Bay and its operating subsidiary, Treasure Bay Corp., filed for Chapter 11 relief in the United States Bankruptcy Court for the Southern District of Mississippi. On October 7, 1996, U.S. Bankruptcy Court denied confirmation of Treasure Bay management's confirmation plan. Subsequent to the denial of Treasure Bay's confirmation plan, the entire bankruptcy case was transferred to U.S. Bankruptcy Court of New Orleans, LA.

In light of Treasure Bay's financial condition, Santa Fe Gaming recorded a \$12.6 million writedown in fiscal 1994 and based on factors relative to the bankruptcy proceedings, the Company recorded a \$2.8 million pre-tax charge against income in the fourth quarter 1996, in connection with its investment in Treasure Bay, its guarantee related to the working capital loan and its management contract. See Note 19

Las Vegas, Nevada - Santa Fe Mining Company L.L.C.

In February 1996, the Company acquired a 50% equity interest for \$175,000 in a restaurant/tavern operation in northwest Las Vegas, Santa Fe Mining Company, L.L.C. ("Santa Fe Mining"). The Company and its partner have guaranteed a \$850,000 loan incurred to finance construction and equipment and a \$100,000 working capital line of credit. The restaurant/tavern opened July 1, 1996. In August 1996, the Company received final approval for a restricted gaming license for the Santa Fe Mining location. The Company records its investment in less than majority-owned companies in Other Assets on the Consolidated Balance Sheet and the Company's percentage of net income or loss in Other Revenue in the Consolidated Statement of Operations.

19. CONTINGENCIES

The Company and its predecessor, Sahara Casino Partners, L.P. are defendants in two class action lawsuits filed in the United States District Court of Florida, Orlando Division, entitled Poulos v. Caesar's World, Inc., et al. and Ahern v. Caesar's World, Inc., et al. which have been consolidated in a single action and a third class action lawsuit filed in the United States District Court of Nevada, entitled Schrier v. Caesar's World, Inc., et al. Also named as defendants in these actions are many, if not most, of the largest gaming companies in the United States and certain gaming equipment manufacturers. Each complaint is identical in its material allegations. The actions allege that the defendants have engaged in fraudulent and misleading conduct by inducing people to play video poker machines and electronic slot machines based on false beliefs concerning how the machines operate and the extent to which there is actually an opportunity to win on a given play. The complaints allege that the defendants' acts constitute violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO") and also give rise to

claims for common law fraud and unjust enrichment, and it seeks compensatory, special consequential, incidental and punitive damages of several billion dollars.

In response to the complaints, all of the defendants, including the Company and the Partnership, filed motions attacking the pleadings for failure to state a claim, seeking to dismiss the complaints for lack of personal jurisdiction and venue, and, in the case of the consolidated case, seeking to transfer venue of the actions to Las Vegas. The Court granted the defendants' motion to transfer venue of the Poulos action to Las Vegas. Plaintiffs have responded to all motions and have also propounded discovery with respect to each defendant on jurisdiction, venue and class issues. The Company expects that there will be further briefing on the motions, and the Court has not indicated when it will rule on these motions. Plaintiffs have also filed their motion to certify the class. A representative group of the defendants took the deposition of each plaintiff and also obtained documents from the plaintiffs. It is not known when the Court will rule on the class certification motions. The Court has required the Plaintiffs in the three consolidated cases to file a single consolidated amended complaint. All pending motions are deemed withdrawn without prejudice and may, if applicable, be filed again after plaintiffs file their amended complaint.

The Company, its predecessor, Sahara Casino Partners, L.P. and Pioneer Inc. are defendants in a class-action lawsuit filed in the United States District Court of New Jersey, Camden Division, entitled Hyland v. Griffin Investigations et al. Also named as defendants in this action are many, if not most, of the largest gaming companies in the United States. The action alleges violations of Federal anti-trust law, the Fair Credit Reporting Act and state trespass statutes stemming from plaintiffs' exclusion from various casinos on the basis that plaintiffs are card counters. The complaint seeks compensatory as well as punitive damages. Pioneer Inc. has already been dismissed, and the Company has filed a motion to dismiss for lack of personal jurisdiction and failure to state a claim upon which relief may be granted. This motion is presently pending before the Court.

On December 12, 1994, the Company and Santa Fe Inc. filed a lawsuit in the United States District Court, District of Nevada, naming Treasure Bay officers A. Clay Rankin III, Joe N. Hendrix and Bernie Burkholder, and former officer Francis L. Miller as defendants in matters involving violations of Section 10(b) and Rule 10(b)-5 of the Securities Exchange Act, violation of Nevada state securities laws, fraud and negligent misrepresentation in connection with the Company's investment of \$10 million in exchange for a 20% interest in Treasure Bay, and the Company's guarantee of \$4.5 million of Treasure Bay's indebtedness. The defendants have filed answers to the complaint and discovery is continuing.

On December 15, 1994, Francis L. Miller filed a lawsuit in the Mississippi Circuit Court, Second Judicial District, against the Company and Santa Fe Inc., as well as Paul W. Lowden and Suzanne Lowden, alleging, among other things, that the Company made certain misrepresentations which induced Francis Miller to entrust the management of his investments in Treasure Bay's two Mississippi casinos to the Company and Santa Fe Inc. and to sell the Company and Santa Fe Inc. a 20% ownership interest in Treasure Bay. The lawsuit was subsequently amended to remove Suzanne Lowden as a defendant. The Company and Santa Fe Inc. filed a successful motion to transfer this case to the United States District Court in Nevada.

On March 31, 1995, Treasure Bay Corp. commenced an adversary proceeding in its bankruptcy case by filing a complaint for a preliminary and permanent injunction pursuant to 11 U.S.C. Sec. 105 and Sec. 362 against the Company and Santa Fe Inc. The Complaint alleges that the filing of the action on December 12, 1994 against Bernie Burkholder, an officer of Treasure Bay Corp., in Nevada federal court violated the automatic stay imposed by 11 U.S.C. Sec. 362, or alternatively, that the Bankruptcy Court should issue an injunction pursuant to 11 U.S.C. Sec. 105 preventing Santa Fe Inc. from proceeding with its action as against Burkholder. In addition to an injunction, the complaint seeks actual and punitive damages and attorneys' fees. In a hearing on this complaint, Treasure Bay abandoned its claims for damages and violation of the stay. However, the bankruptcy court granted Treasure Bay's request for a stay of discovery against Bernie Burkholder that will expire after the confirmation hearing on Treasure Bay's bankruptcy plan. The Company has filed a motion for relief from the order granting a stay on discovery from Bernie Burkholder. The Court has scheduled a January 29, 1997 hearing on the motion. The Company is incurring and expects to continue to incur professional expenses and other expenses associated with legal proceedings involving Treasure Bay and the Company's investment in Treasure Bay.

In addition, the Company is subject to various lawsuits relating to routine matters incidental to its business. The Company does not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on the Company.

20. SUPPLEMENTAL STATEMENTS OF CASH FLOWS INFORMATION

Supplemental statement of cash flows information is presented below:

<TABLE> <CAPTION>	1996 ----- <C>	1995 ----- <C>	1994 ----- <C>
<S>			
Operating activities:			
Cash paid during the period for interest, net of amount capitalized of \$0, \$4,693,714 and \$1,764,186 for 1996, 1995, and 1994 respectively	\$25,675,648 =====	\$45,111,514 =====	\$38,610,465 =====
Investing and financing activities:			
Capital lease obligations incurred in connection with the acquisition of machinery and equipment	\$ 161,084 =====	\$ 77,682 =====	\$ 66,983 =====
Long-term debt incurred in connection with the acquisition of machinery and equipment	\$ 76,734 =====	\$ 2,533,436 =====	\$ 4,019,070 =====
Preferred stock dividends at liquidation value	\$ 1,431,848 =====	\$ 1,319,670 =====	\$ 1,221,715 =====
Adjustment to property, plant and equipment under adoption of SFAS No. 109			\$11,062,602 =====

</TABLE>

21. SUBSEQUENT EVENTS

In November 1996, the Company sold an option to acquire the 40 acre parcel located approximately eight miles south of the Hacienda on Las Vegas Boulevard South for \$2.8 million. Pursuant to the option agreement, the option holder is entitled to purchase the property at any time prior to May 15, 1997 for \$350,000 in additional net proceeds to the Company. In the event the option holder does not elect to purchase the property, the option payment will convert to a first mortgage note with a principal amount of \$2.8 million at 10% interest payable monthly with the entire principal balance due in one year.

In December 1996, the Company executed an operating lease for 180 slot machines at the Pioneer. The lease requires monthly payments of \$37,000 for a 36 month term.

In December 1996, the Company executed an operating lease for 229 slot machines at the Santa Fe. The lease requires monthly payments of \$46,000 for a 36 month term.

In December 1996, the Company borrowed approximately \$1.6 million pursuant to a first mortgage note secured by the 22 acre parcel of real property ("Land Note"). The Land Note requires interest only payments at a rate 12% interest for a three-year term. The Company utilized proceeds from the Land Note to satisfy an existing first mortgage note of \$850,000 and expenses of the transactions resulting in net proceeds of approximately \$650,000.

In December 1996, the Company and the holder of the 12% Notes amended the terms of the 12% Notes to (i) provide that a \$500,000 principal payment due on December 31, 1996 would be deferred until June 30, 1997 and (ii) revise a covenant requiring redemption of \$3.5 million principal amount of 12% Notes (or alternatively the redemption of \$3.5 million principal amount of 11% Notes of Santa Fe Inc.) in the event that, for any four-quarter period commencing with the four-quarter period ending December 31, 1996, the cash flow of the Santa Fe (as determined pursuant to the agreement under which the 12% Notes were issued) is less than \$13.5 million to require such redemption in the event cash flow at the Santa Fe is less than \$13.5 million for any four-quarter period commencing with the four-quarter period ending June 30, 1997.

22. Supplemental Statement of Subsidiary Information-
For The Twelve Months Ended September 30, 1996 and 1995

The Company's primary operations are in the hotel/casino industry and in fiscal year 1996 are conducted through PHI and SFHI, and in fiscal 1995 and 1994 were conducted through SNC, HHI, PHI and SFHI. The Company sold substantially all the assets of the Hacienda in August 1995 and the Sahara in October 1995. "Other" below includes financial information for SNC, HHI and the Company's other operations before eliminating entries. In addition to the financial information for the twelve months ended September 30, 1996 and 1995, as set forth in the table below (dollars in thousands), see notes 3, 8, 9, 11, 12 and 21 for additional discussion of subsidiary operations.

<TABLE>

<CAPTION>

	Year	PHI	SFHI	Other	Eliminations	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating revenues	1996	\$44,415	\$61,653	\$46,290	(\$3,926)	\$148,432
	1995	\$46,034	\$64,798	\$145,861	(\$5,584)	\$251,109
	1994	\$49,270	\$63,831	\$145,549	(\$4,932)	\$253,718
Operating Income (Loss)	1996	\$1,729	\$935	\$40,603	(\$2,117)	\$41,150
	1995	\$5,500	(\$6,458)	\$11,888	(\$319)	\$10,611
	1994	\$9,424	\$14,697	\$9,171	(\$319)	\$32,973
Interest Expense	1996	\$9,371	\$13,476	\$2,447	(\$872)	\$24,422
	1995	\$13,765	\$14,042	\$17,529	(\$319)	\$45,017
	1994	\$13,877	\$11,446	\$18,187	(\$319)	\$43,191
Depreciation and Amortization	1996	\$5,878	\$8,063	\$128		\$14,069
	1995	\$5,227	\$9,104	\$13,853		\$28,184
	1994	\$5,063	\$7,574	\$14,068		\$26,705
Capital Expenditures	1996	\$1,291	\$3,518	(\$2,802)		\$2,007
	1995	\$5,998	\$18,621	\$5,984		\$30,603
	1994	\$1,741	\$19,598	\$22,828		\$44,167
Identifiable Assets	1996	\$116,439	\$80,156	\$33,307	(\$1,245)	\$228,657
	1995	\$97,782	\$95,201	\$173,655		\$366,638
	1994	\$105,971	\$146,317	\$226,267		\$478,555

</TABLE>

23. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

For the Year Ended September 30,

<TABLE>

<CAPTION>

	1996	1995
<S>	<C>	<C>
Revenues		

First Quarter	\$ 68,819,729	\$ 61,639,914
Second Quarter	29,087,369	64,333,776
Third Quarter	25,950,026	63,540,828
Fourth Quarter	24,575,149	61,594,800
	-----	-----
	\$148,432,273	\$251,109,318
	=====	=====
Operating Income (Loss)		
First Quarter	\$ 42,675,303	\$ 7,873,994
Second Quarter	2,654,433	5,554,002
Third Quarter	(369,839)	(10,386,802)
Fourth Quarter	(3,809,431)	7,569,349
	-----	-----
	\$ 41,150,466	\$ 10,610,543
	=====	=====
Net Income (Loss)		
before extraordinary item		
First Quarter	\$ 23,634,041	\$ (2,268,474)
Second Quarter	(2,414,444)	(3,954,297)
Third Quarter	(4,171,089)	(14,501,556)
Fourth Quarter	(7,309,272)	(2,458,591)
	-----	-----
	\$ 9,739,236	\$ (23,182,918)
	=====	=====
Net Income (Loss)		
before extraordinary		
net per common share		
First Quarter	\$ 3.81	\$ (.37)
Second Quarter	(.39)	(.64)
Third Quarter	(.67)	(2.34)
Fourth Quarter	(1.18)	(.39)
	-----	-----
	\$ 1.57	\$ (3.74)
	=====	=====
Net Income (Loss)		
First Quarter	\$ 23,634,041	\$ (2,268,474)
Second Quarter	5,440,263	(3,954,297)
Third Quarter	(4,171,089)	(16,073,886)
Fourth Quarter	(7,309,272)	255,409
	-----	-----
	\$ 17,593,943	\$ (22,041,248)
	=====	=====
Net Income (Loss)		
per Common Share		
First Quarter	\$ 3.76	\$ (.42)
Second Quarter	.82	(.69)
Third Quarter	(.73)	(2.65)
Fourth Quarter	(1.24)	(.01)
	-----	-----
	\$ 2.61	\$ (3.77)
	=====	=====

</TABLE>

Item 9. Changes in and Disagreements with Accountants on

Accounting and Financial Disclosure

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The information regarding the directors and executive officers of the Company to be included in the Company's Proxy Statement for the 1997 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

Item 11. Executive Compensation

The information regarding Executive Compensation to be included in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information regarding Security Ownership to be included in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information regarding Certain Relationships and Related Transactions to be included in the Proxy Statement is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. Financial Statements and Schedules

The financial statements and schedules filed as part of this report are listed in the Index to Consolidated Financial Statements under Item 8.

(b) Reports on Form 8-K filed during the last quarter of 1996.

None

(c) Exhibits required by Securities and Exchange Commission Regulation S-K:

Exhibit No. Description of Exhibits

- 3.1 Articles of Incorporation and Bylaws of the Company (Previously filed with the Securities and Exchange Commission as an exhibit to the Company's S-4 (No. 33-67864) Registration Statement on Form 10-K dated June 15, 1982 and incorporated herein by reference.)
- 3.2 Certificate of Designation for Exchangeable Redeemable Preferred Stock. (Previously filed with the Securities and Exchange Commission as an exhibit to the Company's Registration Statement on Form S-4 (No. 33-67864) and incorporated herein by reference.)
- 4.1 Indenture dated as of June 15, 1983 between Hacienda Resorts, Inc. and Valley Bank of Nevada, as Trustee, with respect to the Company's 10-1/4% Subordinated Sinking Fund Debentures due 1998. (Previously filed with the Securities and Exchange Commission as an exhibit to the Registration Statement of Hacienda Resorts, Inc. on Form S-1 (No. 2-82796) and incorporated herein by reference.)

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EXHIBIT NO. DESCRIPTION OF EXHIBIT

- 10.1 Form of Indenture (the "Pioneer Indenture") between Pioneer Finance, the Partnership and Security Pacific National Bank, as Trustee, relating to the 13-1/2% First Mortgage Bonds Due 1998 of Pioneer Finance (the "Bonds").(1)
- 10.2 Form of Bonds (included as an exhibit to the Pioneer Indenture).(1)
- 10.3 Form of Purchase Money Note relating to the acquisition of the Pioneer Hotel and Gambling Hall (the "Pioneer Acquisition") (included as an exhibit to the Pioneer Indenture).(1)
- 10.4 Form of Purchase Money Deed of Trust relating to the Bonds (included as an exhibit to the Pioneer Indenture).(1)
- 10.5 Form of Guaranty of the Partnership relating to the Bonds (included in the Pioneer Indenture).(1)
- 10.6 Form of Assignment Agreement from Pioneer Finance Corp. to the Trustee relating to the Bonds (included as an exhibit to the Pioneer Indenture).(1)
- 10.7 Form of Subordination Provision relating to the Bonds (included as an Exhibit to the Pioneer Indenture).(1)

- 10.8 Form of Pari Passu Certificate relating to the Bonds (included as an exhibit to the Pioneer Indenture). (1)
- 10.9 Acquisition Agreement relating to the Pioneer Acquisition. (1)
- 10.10 Pioneer Ground Lease, as amended. (1)
- 10.11 Conformed Lessor's Agreement dated as of November 16, 1988 among Lessor, Lessee and Pioneer Operating Partnership relating to the Pioneer Acquisition. (1)
- 10.12 Standard Form of Agreement between Owner and Contractor by and between Sahara Operating Partnership and Sierra Construction Corp. (3)
- 10.13 Notes secured by liens on office building in Las Vegas, Nevada in the original principal amounts of \$301,598.05, \$23,337.96 and \$649,063.99 bearing interest at 10%, 11% and 13.5% per annum, respectively. (3)
- 10.14 Promissory Note in the amount of \$4,500,000 dated September 1, 1987 from Sahara Las Vegas to the Partnership. (2)
- 10.15 Sahara Resorts Key Employee Stock Option Plan. (Previously filed with the Securities and Exchange Commission as an exhibit to the Registration Statement of Hacienda Resorts, Inc. on Form S-1 (No. 2-82796) and incorporated herein by reference.)
- 10.16 First Supplemental Indenture to Pioneer Indenture dated as of December 21, 1990 among Pioneer Finance, and Sahara Casino Partners, L.P. and Security Pacific National Bank. (4)
- 10.17 Promissory Note in the amount of \$2,760,079 dated October 10, 1990 executed by Santa Fe Operating Limited Partnership in favor of Deutsche Credit Corporation, collateralized by equipment. (5)
- 10.18 Lease agreement for signage dated April 29, 1991 between SNET as Lessor and Santa Fe Operating Limited Partnership as Lessee. (5)

EXHIBIT NO. DESCRIPTION OF EXHIBIT

- 10.19 Second Supplemental Indenture dated as of September 30, 1993 between Sahara Resorts, Sahara Gaming Corporation and Nevada State Bank, as Trustee, with respect to 10-1/4% Subordinated Sinking Fund Debentures. (7)
- 10.20 Sahara Gaming Corporation's 1993 Key Employee Stock Option Plan. (7)
- 10.21 Agreement Concerning Guaranty dated as of April 20, 1994, by and among Treasure Bay Corp., Treasure Bay Gaming and Resorts, Inc., and Sahara Gaming Corporation (8)
- 10.22 Form of Guaranty of Sahara Gaming Corporation of an aggregate of \$4.5 million of indebtedness of Treasure Bay Corp. (8)
- 10.23 Notice, Consent and Acknowledgment of Assignment (8)
- 10.24 Form of Credit Agreement by and between Treasure Bay Corp. and Progressive Distribution Systems, Inc. with respect to equipment financing indebtedness of Treasure Bay Corp. (the "Credit Agreements") (8)
- 10.25 Form of Commercial Security Agreement with respect to the Credit Agreements (8)
- 10.26 Form of Promissory Note with respect to the Credit Agreements (8)
- 10.27 Form of Subordination Agreement by and among Treasure Bay Gaming & Resorts, Inc., Santa Fe Hotel Inc., First Trust National Association, and PDS Financial Corporation with respect to the Credit Agreements (8)
- 10.28 Treasure Bay I, Biloxi Loan Purchase Agreement, dated December 7, 1994, by and between Santa Fe Hotel Inc. and Miller & Schroeder Investments Corporation (9)
- 10.29 Treasure Bay III, Tunica Loan Purchase Agreement, dated December 7, 1994 by and between Santa Fe Hotel Inc. and Miller & Schroeder Investments Corporation (9)
- 10.30 Lease Agreement, dated May 26, 1993, between City of Parkville, Missouri, and Sahara Casino Partners, L.P., was previously filed with the Commission as Exhibit 10.86 to the Company and Santa Fe Hotel

- 10.31 Amendment to Lease Agreement, made as of September 7, 1993, by Sahara Casino Partners, L.P., and the City of Parkville, Missouri(9)
- 10.32 Second Amendment to Lease Agreement, made as of December 27, 1993, by Sahara Parkville, Inc. and the City of Parkville, Missouri(9)
- 10.33 Landlord's Consent, Estoppel Certificate and Third Amendment to Lease Agreement, entered into on December 27, 1993, by and between the City of Parkville, Missouri, Sahara Parkville, Inc., IJB Schroeder Bank & Trust Company, and Santa Fe Hotel Inc.(9)
- 10.34 Fourth Amendment to Lease Agreement, made as of January 18, 1994 by Sahara Parkville, Inc and the City of Parkville, Missouri(9)
- 10.35 Fifth Amendment to Lease Agreement, made as of January 18,1994, by Sahara Parkville, Inc. and the City of Parkville, Missouri(9)
- 10.36 Development Agreement by Sahara Parkville, Inc. and the City of Parkville, Missouri(9)

EXHIBIT NO. DESCRIPTION OF EXHIBIT

- 10.37 Amendment to Development Agreement, dated January 18, 1994, by Sahara Parkville, Inc. and the City of Parkville, Missouri(9)
- 10.38 Second Amendment to Development Agreement, dated October 28, 1994, by Sahara Parkville, Inc. and the City of Parkville, Missouri(9)
- 10.39 Bill of Sale dated as of December 28, 1994 from PDS Financial Corporation to Pioneer Hotel Inc. with respect to the sale of certain gaming equipment.(10)
- 10.40 Credit Agreement dated as of December 28, 1994 by and between Pioneer Hotel Inc. and PDS Financial Corporation.(10)
- 10.41 Promissory Note dated as of December 28, 1994 in the amount of \$627,800 by Pioneer Hotel Inc. to the order of PDS Financial Corporation.(10)
- 10.42 Security Agreement dated as of December 28, 1994 by Pioneer Hotel Inc. in favor of PDS Financial Corporation.(10)
- 10.43 Subordination Agreement dated as of December 28, 1994 by and between PDS Financial Corporation and Pioneer Hotel Inc.(10)
- 10.44 Agreement for Purchase and Sale dated as of January 10, 1995 by and among Hacienda Hotel Inc., Sahara Gaming Corporation, as Guarantor, and William G. Bennett.(10)
- 10.45 Letter of Modification and Clarification by and between Hacienda Hotel Inc., Sahara Gaming Corporation, as Guarantor, and William G. Bennett dated March 3, 1995.(11)
- 10.46 Assignment and Consent to Assignment of Agreement for Purchase and Sale dated January 10, 1995 by and among Hacienda Hotel Inc., Sahara Gaming Corporation, as Guarantor, and William G. Gennett to Circus Circus Enterprises, Inc. dated March 5, 1995.(11)
- 10.47 Third Amendment to Development Agreements dated June 30, 1995 by Sahara Parkville, Inc. and the City of Parkville, Missouri.(12)
- 10.48 Sixth Amendment to Lease Agreement dated June 30, 1995 by Sahara Parkville, Inc., and the City of Parkville, Missouri.(12)
- 10.49 Sale and Purchase Contract dated November 7, 1995 by and between Sahara Gaming Corporation and Argasy Gaming Company.(13)
- 10.50 Promissory Note dated June 14, 1995 issued by Santa Fe Hotel, Inc. in favor of Sahara Nevada Corp.(13)
- 10.51 Hacienda Adventure Club Acquisition and Assignment Agreement dated September 29, 1995 by and between Hacienda Hotel, Inc. and Resort Marketing International and Brett Torino.(13)
- 10.52 Camperland Responsibility Agreement dated August 31, 1995 by and among Hacienda Hotel, Inc., Sahara Gaming Corporation and Pinkless, Inc.(13)
- 10.53 Assignment Agreement dated October 2, 1995 by and between Howard Hughes Properties, Limited Partnership and Sahara Las Vegas Corp. and

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
-----	-----
10.54	Lease Modification Letter dated August 24, 1995 by and between Wet N' Wild Nevada, Inc. and Sahara Corporation.(13)
10.55	Note Purchase Agreement, dated as of January 16, 1996, by and among Sahara Gaming Corporation, Sahara Las Vegas Corp. and SunAmerica Life Insurance Company(14)
10.56	Deed of Trust, Fixture Filing and Financing Statement and Security Agreement with Assignment of Rents, dated as of January 16, 1996, by and among Sahara Las Vegas Corp., as trustor, Stewart Title of Nevada, as trustee, and SunAmerica Life Insurance Company, as beneficiary.(14)
10.57	Security Agreement, dated as of January 16, 1996, by and between Sahara Las Vegas Corp. and SunAmerica Life Insurance Company.(14)
10.58	Guaranty, dated as of January 16, 1996, made by Sahara Gaming Corporation in favor of SunAmerica Life Insurance Company.(14)
10.59	Master lease agreement by and between Videotronics, Inc. and Santa Fe Hotel Inc. dated January 31, 1996.(15)
10.60	Guaranty of lease by Sahara Gaming Corporation dated January 31, 1996.(15)
10.61	Notice, Consent and Acknowledgment of Assignment by and between Videotronics, Inc. (Lessor), Santa Fe Hotel, Inc. (Lessee), Sahara Gaming Corporation (Guarantor), PDS Financial Corporation (Assignee) and Miller & Schroeder Investments Corporation dated January 31, 1996.(15)
10.62	Master lease agreement by and between Videotronics, Inc. and Santa Fe Hotel, Inc. dated April 15, 1996.(15)
10.63	Guaranty of lease by Santa Fe Gaming Corporation dated April 15, 1996.(15)
10.64	Notice, Consent and Acknowledgment of Assignment by and between Videotronics, Inc. (Lessor), Santa Fe Hotel, Inc. (Lessee), PDS Financial Corporation and the Buyers dated May 9, 1996.(15)
10.65	Master lease agreement by and between PDS Financial Corporation and Santa Fe Hotel, Inc. dated May 30, 1996.(16)
10.66	Lease schedule No. 1 by and between PDS Financial Corporation and Santa Fe Hotel, Inc. dated May 30, 1996.(16)
10.67	Purchase/Renewal option by and between PDS Financial Corporation and Santa Fe Hotel, Inc. dated May 30, 1996.(16)
10.68	Amended and Restated Hacienda Adventure Club Acquisition and Assignment Agreement by and among Hacienda Hotel Inc., Resorts Marketing International Alpine-Oasis Membership, L.L.C. and Brett Torino dated July 18, 1996.(16)
10.69	Guaranty of Payment and Performance (Sahara Gaming Corporation) dated July 18, 1996.(16)
10.70	Guaranty of Payment and Performance (Oasis Las Vegas Motor Coach Park, L.P.) dated July 24, 1996.(16)
10.71	Master lease agreement by and between CJ's Classics, Inc. and Santa Fe Hotel, Inc. dated August 15, 1996.(17)

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
-----	-----
10.72	Lease schedule No. 1 by and between CJ's Classics, Inc. and Santa Fe Hotel, Inc. dated August 15, 1996.(17)
10.73	Purchase/Renewal option by and between CJ's Classics, Inc. and Santa Fe Hotel, Inc. dated August 15, 1996.(17)
10.74	Master lease agreement by and between CJ's Classics, Inc. and Pioneer

- Hotel, Inc. dated August 15, 1996.(17)
- 10.75 Lease schedule No. 1 by and between CJ's Classics, Inc. and Pioneer Hotel, Inc. dated August 15, 1996.(17)
- 10.76 Purchase/Renewal option by and between CJ's Classics, Inc. and Pioneer Hotel, Inc. dated August 15, 1996.(17)
- 10.77 Option Agreement by and between Santa Fe Gaming Corporation and Pat Clark dated November 13, 1996.(17)
- 10.78 Master lease agreement by and between Videotronics, Inc. and Santa Fe Hotel Inc. dated September 16, 1996(17)
- 10.79 Lease Schedule No 1 by and between Videotronics, Inc. and Santa Fe Hotel Inc. dated September 16, 1996(17)
- 10.80 Purchase/renewal option by and between Videotronics, Inc. and Santa Fe Hotel Inc. dated September 16, 1996.(17)
- 10.81 Guaranty of Lease (Santa Fe Gaming Corporation) dated September 16, 1996.(17)
- 10.82 Notice, Consent and Acknowledgment of Assignment by and between Videotronics, Inc. (Lessor), Santa Fe Hotel, Inc. (Lessee) and PDS Financial Corporation (Assignee) dated September 16, 1996.(17)
- 10.83 Amendment to Note Purchase Agreement by and among Santa Fe Gaming Corporation, Sahara Las Vegas Corp. and SunAmerica Life Insurance Company dated as of December 27, 1996.(17)
22. Subsidiaries of the Company.(6)
- 23.1 Consent of Deloitte & Touche LLP.
27. Financial Data Schedule

FOOTNOTES TO EXHIBIT INDEX

- (1) Previously filed with the Securities and Exchange Commission as an exhibit to the Registration Statement on Form S-1 (No. 33-24589) of Pioneer Finance Corp., the Partnership and Pioneer Operating Partnership and incorporated herein by reference.
- (2) Previously filed with the Securities and Exchange Commission as an exhibit to the Partnership's Annual Report on Form 10-K for the year ended September 30, 1987 and incorporated herein by reference.
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- (3) Previously filed with the Securities and Exchange Commission as an exhibit to the Partnership's Registration Statement on Form S-1 (No. 33-13214) and incorporated herein by reference.
- (4) Previously filed with the Securities and Exchange Commission as an exhibit to post effective Amendment No. 5 to the Registration Statement on Form S-1 (No. 33-33031) of Sahara Finance Corp., Sahara Casino Partners, L.P., Sahara Operating Limited Partnership, Hacienda Operating Limited Partnership, Santa Fe Operating Limited Partnership, as filed on April 15, 1991 and incorporated herein by reference.
- (5) Previously filed with the Securities and Exchange Commission as an exhibit to post effective Amendment No. 8 to the Registration Statement on Form S-1 (No. 33-33031) of Sahara Finance Corp., Sahara Casino Partners, L.P., Sahara Operating Limited Partnership, Hacienda Operating Limited Partnership, Santa Fe Operating Limited Partnership, as filed December 30, 1991.
- (6) Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 4 to the Registration Statement on Form S-1 (No. 33-70268) of Sahara Gaming Corporation.
- (7) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Annual Report on Form 10-K for the year ended September 30, 1993.
- (8) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Report on Form 10-Q for the quarter ended June 30, 1994.
- (9) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Annual Report on Form 10-K for the year

ended September 30, 1994.

- (10) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Report on Form 10-Q for the quarter ended December 31, 1994.
- (11) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Report on Form 10-Q for the quarter ended March 30, 1995.
- (12) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Report on Form 10-Q for the quarter ended June 30, 1995.
- (13) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Annual Report on Form 10-K for the year ended September 30, 1995.
- (14) Previously filed with the Securities and Exchange Commission as an exhibit to Sahara Gaming Corporation's Report on Form 10-Q for the quarter ended December 31, 1995.
- (15) Previously filed with the Securities and Exchange Commission as an exhibit to Santa Fe Gaming Corporation's Report on Form 10-Q for the quarter ended March 30, 1996.
- (16) Previously filed with the Securities and Exchange Commission as an exhibit to Santa Fe Gaming Corporation's Report on Form 10-Q for the quarter ended June 30, 1996.
- (17) Filed herewith with the Securities and Exchange Commission as an exhibit to Santa Fe Gaming Corporation's Annual Report on Form 10-K for the year ended September 30, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SANTA FE GAMING CORPORATION

December 30, 1996 By: /s/ Paul W. Lowden

 Paul W. Lowden, President

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<TABLE>		
<CAPTION>		
Signature	Title	Date
-----	-----	----
<S>	<C>	<C>
/s/ Paul W. Lowden ----- Paul W. Lowden	Chairman of the Board and President (Principal Executive Officer)	December 30, 1996
/s/ William J. Raggio ----- William J. Raggio	Director	December 30, 1996
/s/ James W. Lewis ----- James W. Lewis	Director	December 30, 1996
/s/ Suzanne Lowden ----- Suzanne Lowden	Director	December 30, 1996
/s/ Thomas K. Land ----- Thomas K. Land	Director and Chief Financial Officer (Principal Financial and Accounting Officer)	December 30, 1996

</TABLE>

MASTER LEASE AGREEMENT

THIS MASTER LEASE AGREEMENT ("Lease") is made and entered into this 15 --
day of August, by and between C J Classics, Inc. dba C J's Slot Connection,

a Nevada corporation ("Lessor"), whose address is 4625 Wynn Road, Suite 21A, Las Vegas, NV 89103 and Santa Fe Hotel, Inc, a Nevada corporation ("Lessee"), whose address is 4949 North Rancho Drive, Las Vegas, Nevada 89130.

Lessor desires to lease to Lessee, and Lessee desires to lease from Lessor in accordance with the terms and conditions contained herein, certain equipment more fully described in the Lease Schedule or Schedules, referred to herein as a "Lease Schedule," as may from time to time be executed by Lessee. All equipment described in such Lease Schedules shall be collectively referred to as the "Equipment" and individually referred to as a "Unit" and is to be installed in and to be used in connection with the business location described in a particular Lease Schedule ("Premises").

NOW THEREFORE, Lessor and Lessee agree as follows:

1. LEASE. This Lease establishes the general terms and conditions by which

Lessor shall lease the Equipment to Lessee. Each Lease Schedule shall be in the form provided by Lessor and shall incorporate by reference the terms of this Lease.

2. TERM: RENT AND PAYMENT; RENEWAL.

2.1 TERM. The term of this Lease shall commence on the date set forth in each Lease Schedule (the "Commencement Date") and continue as specified in such Lease Schedule ("Term").

2.2 RENT AND PAYMENT. Lessee's obligation to pay rent for the Equipment shall commence on the Commencement Date and continue for the Term. The Basic Rent set forth on the Lease Schedule shall be payable on the Commencement Date and on the same day of each month thereafter ("Rent Date"). Any amounts payable by Lessee, other than Basic Rent, shall be deemed Additional Charges and shall be payable on the Rent Date next following the date upon which they accrue or the last day of the Term, whichever is earlier. Lessee shall make all payments at the address of Lessor set forth above or at such other address as Lessor may designate in writing. As used herein, the term "Rent" shall mean all Basic Rent and Additional Charges.

2.3 LATE CHARGE. If any Rent is not received by Lessor or its assignees within ten (10) days of when due, a late charge on such Rent shall be due and payable with such Rent in an amount equal to four percent (4%) of the amount past due or any part thereof, as reimbursement for administrative costs and not as a penalty.

2.4 LESSOR'S PERFORMANCE OF LESSEE'S OBLIGATIONS. If Lessee fails to comply with any of its covenants or obligations herein, Lessor may, at its option, perform such covenants or obligations on Lessee's behalf without thereby waiving such conditions or obligations or the failure to comply therewith and all sums advanced by Lessor in connection therewith shall be repayable by Lessee as Additional Charges. No such performance shall be deemed to relieve Lessee of its obligations herein.

3. CERTIFICATE OF ACCEPTANCE. Lessee shall deliver to Lessor a certificate of -----
delivery, installation and acceptance ("Certificate of Acceptance") in the form provided by the Lessor.

4. NET LEASE. This Lease including each Lease Schedule is a net lease and -----
Lessee's obligation to pay all Rent due and the rights of Lessor or its assignees in, and to, such Rent shall be absolute and unconditional under all circumstances, notwithstanding: (i) any setoff, abatement, reduction, counterclaim, recoupment, defense or other right which Lessee may have against Lessor, its assignees, the manufacturer or seller of any Unit, or any other person for any reason whatsoever, including, without limitation, any breach by Lessor of this Lease; (ii) any defect in title, condition, operation, fitness for use, or any damage to or destruction of, the Equipment; (iii) any interruption or cessation of use or possession of the Equipment for any reason whatsoever; or (iv) any insolvency, bankruptcy, reorganization or similar proceedings instituted by or against Lessee.

5. LOCATION: USE: MAINTENANCE; IDENTIFICATION AND INSPECTION.

5.1 LOCATION, USE, MAINTENANCE AND REPAIRS. (a) Lessee shall keep and use the Equipment on the Premises and shall not relocate or remove any Unit unless Lessor consents, in writing, prior to its relocation or removal. (b) Lessee shall at all times and, at its sole cost and expense, properly use and maintain the Equipment in good operating condition, other than the normal wear and tear, and make all necessary repairs, alterations and replacements thereto (collectively, "Repairs"), all of which shall immediately become the property of Lessor and subject to this Lease. Lessee shall comply with manufacturer instructions relating to the Equipment, and any applicable laws and governmental regulations. (c) Lessee shall pay all costs and expenses associated with removal and return of the Equipment.

5.2 IDENTIFICATION AND INSPECTION. Upon request by Lessor, Lessee shall mark each Unit conspicuously with appropriate labels or tags furnished by

Lessor and maintain such markings through the Term to clearly disclose that said Unit is being leased from Lessor. Subject to Lessee's reasonable security requirements, Lessee shall permit Lessor's representatives to enter the Premises where any Unit is located to inspect such Unit.

6. LOCATION: LIENS AND ENCUMBRANCES.

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6.1 PERSONAL PROPERTY. Each Unit is personal property and Lessee shall not affix any Unit to realty so as to change its nature to a fixture or real property and agrees that each Unit shall remain personal property during the Term. Lessor expressly retains ownership and title to the Equipment. LESSEE HEREBY AGREES THAT IT SHALL BE RESPONSIBLE FOR ALL OF LESSORS OBLIGATIONS AS REQUIRED BY THE STATE GAMING LAWS AND REGULATIONS REGARDING MAINTENANCE, USE, POSSESSION AND OPERATION OF THE EQUIPMENT. Lessee hereby authorizes, empowers, and grants a limited power of attorney to Lessor to record and/or execute and file, on Lessee's behalf, any certificates, memorandums, statements, refiling, and continuations thereof as Lessor deems reasonably necessary or advisable to preserve and protect its interest hereunder. The parties intend to create a lease agreement and the relationship of lessor and lessee between themselves. Nothing in this Lease shall be construed or interpreted to create or imply the existence of a finance lease or installment lease contract. Lessor makes no representation regarding the treatment of this Lease, the Equipment or the payment of obligations under this Lease for financial statement reporting or tax purposes.

6.2 LIENS AND ENCUMBRANCES. Unless otherwise provided herein, Lessee shall not directly or indirectly create, incur or suffer a mortgage, claim, lien, charge, encumbrance or the legal process of a creditor of Lessee of any kind upon or against this Lease or any Unit. Lessee shall at all times protect and defend, at its own cost and expense, the title of Lessor from and against such mortgages, claims, liens, charges, encumbrances and legal processes of creditors of Lessee and shall keep all the Equipment free and clear from all such claims, liens and legal processes. If any such lien or encumbrance is incurred, Lessee shall immediately notify Lessor and shall take all actions required by Lessor to remove the same.

7. RETURN OF EQUIPMENT.

7.1 DUTY OF RETURN. At the expiration of the Term or upon termination of the Lease, Lessee at its expense shall return each Unit to Lessor or its designee at the destination specified by Lessor, in accordance with appropriate gaming laws and regulations. Each Unit shall conform to all of the manufacturer's specifications and gaming laws and regulations with respect to normal function, capability, design and condition (less normal wear and tear).

7.2 FAILURE TO RETURN. If Lessee fails to return the Equipment or any

portion thereof, as provided above, within fourteen (14) days following expiration of the term or termination of the Lease, then Lessee shall pay to Lessor an additional month's Rent for each month, or any portion thereof, that Lessee fails to comply with the terms of this return provision, until all of the Equipment is returned, as provided herein.

8. RISK OF LOSS: INSURANCE.

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8.1 RISK OF LOSS. Lessee shall bear the risk of all loss or damage to any Unit or caused by any Unit during the period from the time the Unit is shipped by its vendor until the time it is returned as provided herein.

8.2 UNIT REPLACEMENT. If any Unit is lost, stolen, destroyed, seized by governmental action or, in Lessee's opinion or Lessor's opinion, damaged ("Event of Loss"), this Lease shall remain in full force and effect without abatement of Rent and Lessee shall promptly replace such Unit at its sole expense with a Unit of equivalent value and utility, and similar kind and in substantially the same condition as the replaced Unit immediately prior to the Event of Loss. Title to such replacement unit immediately shall vest and remain in Lessor, and such unit shall be deemed a Unit under this Lease. Upon such vesting of title and provided Lessee is not in default under this Lease, Lessor shall cause to be paid to Lessee or the vendor of the replacement unit any insurance proceeds actually received by Lessor for the replacement Unit. Lessee shall promptly notify Lessor of any Event of Loss and shall provide Lessor with and shall enter into, execute and deliver such documentation as Lessor shall request with respect to the replacement of any such Unit.

8.3 INSURANCE. Lessee shall obtain and maintain in full force and effect all risk, full replacement cost property damage insurance on the Premises: (i) comprehensive personal liability, (ii) all risk property damage on the Equipment in amounts reasonably acceptable to Lessor, and (iii) workers compensation insurance. Such insurance shall: (i) name Lessor and its Assignees, if any, as additional insureds and first loss payees as their interests may appear; and (ii) provide that the policy may not be canceled or materially altered without thirty (30) days prior written notice to Lessor and its Assignees. All such insurance shall be placed with companies having a rating of at least A, Class XII or better by Best's rating service. Lessee shall furnish to Lessor, upon request and throughout the Term, insurance certificates of a kind satisfactory to Lessor and its Assignees showing the existence of the insurance required hereunder and premium paid.

9. LESSOR'S PURCHASE AND PERFORMANCE. Upon receipt of a Lease Schedule

executed and delivered by Lessee, Lessee shall bear all responsibilities and perform all obligations of Lessor thereunder other than payment of the purchase price.

10. TAXES.

10.1 TAXES. Lessee agrees to report, file, pay promptly when due to the appropriate taxing authority and indemnify, defend, and hold Lessor harmless from and against any and all taxes (including gross receipts), assessments, license fees and other federal, state or local governmental charges of any kind or nature, together with any penalties, interest or fines related thereto (collectively, "Taxes") that pertain to the Equipment, its purchase, or this Lease, except such Taxes based solely upon the net income of Lessor.

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10.2 LESSOR'S FILING OF TAXES. Notwithstanding the foregoing, Lessor at its election may report and file sales and/or use taxes which are filed and paid periodically through the Term, and the amounts so due may be invoiced to Lessee and payable as specified therein.

11. INDEMNIFICATION. Except for the negligence of Lessor, its employees, or

agents and assignees, Lessee hereby assumes liability for and agrees to indemnify, defend, protect, save and hold harmless the Lessor, its agents, employees, directors and assignees from and against any and all losses, damages, injuries, claims, penalties, demands and all expenses, legal or otherwise (including reasonable attorneys' fees) of whatever kind and nature arising from the purchase, ownership, use, condition, operation or maintenance of the Equipment, until the Equipment is returned to Lessor. Any claim, defense, setoff, or other right of Lessee against any such indemnified party shall not in any way affect, limit, or diminish Lessee's indemnity obligations hereunder. Lessee shall notify Lessor immediately as to any claim, suit, action, damage, or injury related to the Equipment of which Lessee has actual or other notice and shall, at its own cost and expense, defend any and all suits which may be brought against Lessor, shall satisfy, pay and discharge any and all judgments and fines that may be recovered against Lessor in any such action or actions, provided, however, that Lessor shall give Lessee written notice of any such claim or demand. Lessee agrees that its obligations under this Section 11 shall survive the expiration or termination of this Lease.

12. REPRESENTATIONS AND WARRANTIES. Lessee represents and warrants to Lessor

that: i) the making of this Lease and any Lease Schedule executed by Lessee is duly authorized on the part of Lessee and that upon due execution thereof by Lessee and Lessor they shall constitute valid obligations binding upon, and enforceable against, Lessee in accordance with their terms; ii) neither the making of this Lease or such Lease Schedule, nor the due performance by Lessee, including the commitment and payment of the Rent, shall result in any breach of, or constitute a default under, or violation of, Lessee's articles of incorporation, by-laws, or any agreement to which Lessee is a party or by which Lessee is bound; iii) no approval or consent not already obtained or withholding of objection is required from any governmental authority with respect to the

entering into, or performance of this Lease or any Lease Schedule by Lessee; iv) Lessee has obtained all licenses and permits required under applicable laws or regulations (the "Gaming Laws") for the operation of its business.

13. DISCLAIMERS; MANUFACTURERS WARRANTIES. LESSEE ACKNOWLEDGES THAT EACH UNIT

IS OF THE DESIGN, CAPACITY AND MANUFACTURE SPECIFIED FOR AND BY THE LESSEE AND THAT LESSEE IS SATISFIED THAT THE SAME IS SUITABLE FOR LESSEE'S PURPOSES. LESSEE AGREES, REGARDLESS OF CAUSE, NOT TO ASSERT ANY CLAIM WHATSOEVER AGAINST LESSOR FOR LOSS OF ANTICIPATORY PROFITS OR CONSEQUENTIAL DAMAGES. LESSOR EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE EQUIPMENT WHETHER EXPRESSED OR IMPLIED. Without limiting the generality of the foregoing

it is intended by the parties to exclude any and all implied warranties of merchantability and fitness for particular purposes. NO SALESMAN OR AGENT OF LESSOR IS AUTHORIZED TO WAIVE OR ALTER ANY TERM OF THIS LEASE OR MAKE ANY REPRESENTATION REGARDING THE EQUIPMENT.

14. ASSIGNMENT OF LEASE.

14.1 ASSIGNMENT BY LESSOR. Lessee acknowledges and agrees that Lessor may assign, mortgage, or otherwise transfer its interest thereunder and/or in the Equipment to others ("Assignees") without consent of Lessee, provided however that Lessee and the Nevada Gaming Control Board ("Control Board") shall be notified of any assignment. Accordingly, Lessee and Lessor agree that upon such assignment, Lessee (i) shall acknowledge such assignment in writing by executing a Notice, Consent and Acknowledgment of Assignment furnished by Lessor; (ii) shall promptly pay all Rent when due to the designated Assignees, notwithstanding any defense, setoff, abatement, recoupment, reduction or counterclaim whatsoever that Lessee may have against Lessor; (iii) shall not permit the Lease or Lease Schedule so assigned to be amended or the terms thereof waived without the prior written consent of the Assignees; (iv) shall not require the Assignees to perform any obligations of Lessor under such Lease Schedule; (v) shall not terminate or attempt to terminate the Lease or Lease Schedule on account of any default by Lessor; and (vi) acknowledges that any Assignee may reassign its rights and interest with the same force and effect as the assignment described herein.

14.2 ASSIGNMENT OR SUBLEASE BY LESSEE. Lessee shall not assign this Lease or any Lease Schedule or assign its rights in or sublet the Equipment, or any interest therein without Lessor's and its Assignee's prior written consent, which consent shall not be unreasonably withheld.

15. FINANCIAL INFORMATION; FURTHER ASSURANCES.

15.1 FINANCIAL INFORMATION. Throughout the Term, Lessee shall deliver to

Lessor copies of all current financial information of Santa Fe Gaming Corporation (Lessee's parent corporation) which will reflect the financial condition and operations of Lessee as well as such other information regarding Lessee reasonably requested by Lessor or its Assignees.

15.2 FURTHER ASSURANCES. Lessee shall execute and deliver to Lessor, such other documents, and take such further action as Lessor may request, in order to effectively carry out the intent and purposes of this Lease and the Lease Schedules. All documentation shall be in a form acceptable to Lessor and its Assignees. Lessee shall provide all necessary notices to the Control Board.

15.3 LEASE AGREEMENT. If any court of competent jurisdiction should

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determine that this Lease constitutes a security arrangement as opposed to a true lease, the parties then agree that this Lease shall constitute a security agreement within the meaning of the Uniform Commercial Code and that the Lessor shall be considered a secured party under the provisions thereof and shall be entitled to all the rights and remedies of a secured party and Lessee, as debtor, grants to Lessor, as secured party, a security interest in the Equipment; provided nothing herein shall be construed nor shall the inclusion of this paragraph be interpreted as derogating from the stated intent and contractual understanding of the parties that this is a true lease.

16. DEFAULT BY LESSEE; REMEDIES.

16.1 DEFAULT BY LESSEE. Lessee shall be in default upon the occurrence of any one of the following events ("Event of Default"): (a) failure to pay Rent when due; (b) failure to perform any other term, condition or covenant of this Lease or any Lease Schedule; (c) Lessee ceases or is enjoined, restrained or in any way prevented from conducting business as a going concern; (d) if any proceeding is filed by or against the Lessee for an assignment for the benefit of creditors, a voluntary or involuntary petition in bankruptcy, or if Lessee is adjudicated a bankrupt or an insolvent; (e) Lessee attempts to remove, sell, transfer, encumber, part with possession or sublet the Equipment or any Unit thereof; (f) any Unit is attached, levied upon, encumbered, pledged, or seized under any judicial process; (g) any warranty or representation made or furnished to the Lessor by or on behalf of the Lessee is false in any material respect when made or furnished; (h) failure to maintain in full force and effect the licenses and permits required under the Gaming Laws for the operation of Lessee's business; (i) failure to comply with all gaming regulations; or (j) any change in control of the Lessee or its business.

16.2 LESSOR REMEDIES. Lessee acknowledges that the enforcement of this Lease requires approval of the Control Board and/or the Nevada Gaming Commission ("the Commission") and that copies of all Default Notices, legal proceedings, etc. will be forwarded to the appropriate agency as required by state law, regulation or upon request of the Control Board or the Commission. Lessee

further acknowledges that upon any Event of Default, and at any time thereafter, Lessor, may in addition to any and all rights and remedies it may have at law or in equity, without notice to or demand upon Lessee at its sole option: (i) declare the aggregate Rent then accrued and unpaid together with the balance of any Rent to be immediately due and payable; (ii) proceed by appropriate court action or other proceeding, either at law or in equity to enforce performance by Lessee of any and all covenants of this Lease; (iii) on written notice to Lessee, terminate any of Lessee's rights under this Lease or Schedule in which event Lessee shall immediately surrender and return the Equipment to Lessor pursuant to the provisions hereof; and (iv) subject to appropriate gaming laws and regulations, and required approvals, take possession, sell and/or re-lease any Unit as Lessor may desire, in its sole discretion. Lessor's rights and remedies herein are cumulative and in addition

to any rights or remedies available at law or in equity including the Uniform Commercial Code, and may be exercised concurrently or separately. Lessee shall pay all costs, expenses, losses, damages and legal costs (including reasonable attorneys' fees) incurred by Lessor and its Assignees as a result of enforcing any terms or conditions of the Lease or any Schedules. A termination hereunder shall occur only upon written notice by Lessor to Lessee and no repossession or other act by Lessor after default shall relieve Lessee from any of its obligations to Lessor hereunder unless Lessor so notifies Lessee in writing.

17. MISCELLANEOUS.

17.1 NOTICES. Except as otherwise required by law, all notices required herein shall be in writing and sent by prepaid certified mail or by courier, addressed to the party at the address of the party specified herein or such other address designated in writing. Notice shall be effective upon the earlier of its receipt or four (4) days after it is sent.

17.2 SURVIVAL OF INDEMNITIES. All indemnities of Lessee shall survive and continue in full force and effect for events occurring prior to the return of the Equipment to the Lessor, notwithstanding the expiration or termination of the Term.

17.3 COUNTERPARTS. Each Lease and any Lease Schedule may be executed in counterparts.

17.4 MULTIPLE LESSEES. If more than one Lessee is named in this Lease or a Lease Schedule the liability of each shall be joint and several.

17.5 TITLES. Section titles are not intended to have legal effect or limit or otherwise affect the interpretation of this Lease or any Lease Schedule.

17.6 WAIVER. No delay or omission in the exercise of any right or remedy herein provided or otherwise available to Lessor, or prior course of conduct,

shall impair or diminish Lessor's rights to exercise the same or any other right of Lessor; nor shall any obligation of Lessee hereunder be deemed waived. The acceptance of rent by Lessor after it is due shall not be deemed to be a waiver of any breach by Lessee of its obligations under this Lease or any Lease Schedule.

17.7 SUCCESSORS. This Lease and each Lease Schedule shall inure to the benefit of and be binding upon Lessor and Lessee and their respective successors in interest.

17.8 NOT AN OFFER. Neither this Lease nor any Lease Schedule shall be deemed to constitute an offer or be binding upon Lessor until executed by Lessor's authorized officer.

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17.9 SEVERABILITY. If any provisions of this Lease or any Lease Schedule shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provision thereof shall not be affected or impaired in any way.

17.10 MODIFICATION. Lessor and Lessee agree that any modifications to this Lease or any Lease Schedule shall be in writing and shall be signed by both parties and their last known assignees, if any.

17.11 LEASE IRREVOCABLE. This Lease is irrevocable for the full Term hereof and the Rent shall not abate by reason of termination of Lessee's right of possession and/or the taking of possession by the Lessor or for any other reason.

17.12 GOVERNING LAW. This Lease and each Lease Schedule are entered into under and shall be construed in accordance with, and governed by the laws of the State of Nevada.

17.13 RIDERS. In the event that any riders are attached hereto and made a part hereof and if there is a conflict between the terms and provisions of any rider, including any Lease Schedule and the terms and provisions herein, the terms and provisions of the rider or Lease Schedule shall control to the extent of such conflict.

17.14 ENTIRE AGREEMENT. LESSEE REPRESENTS THAT IT HAS READ, RECEIVED, RETAINED A COPY OF AND UNDERSTANDS THIS LEASE, AND AGREES TO BE BOUND BY ITS TERMS AND CONDITIONS. LESSOR AND LESSEE AGREE THAT THIS LEASE, ALL RIDERS, LEASE SCHEDULES, OR EXHIBITS HERETO, AND THE LEASE SCHEDULES SHALL CONSTITUTE THE ENTIRE AGREEMENT AND SUPERSEDE ALL PROPOSALS, ORAL OR WRITTEN, ALL PRIOR NEGOTIATIONS AND ALL OTHER COMMUNICATIONS BETWEEN LESSOR AND LESSEE WITH RESPECT TO ANY UNIT.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be duly executed on the date set forth by their authorized representatives.

LESSEE:

SANTA FE HOTEL, INC.,
a Nevada corporation

By: Thomas K. Land

Its: SVP and CFO

LESSOR:

C J CLASSICS, INC. dba C J's SLOT
CONNECTIONS, a Nevada corporation

By: Carl Fredericksen

Its: President

LEASE SCHEDULE NO. 1
TO MASTER LEASE AGREEMENT

This Lease Schedule No. 1 is attached to and made a part of the Master Lease Agreement ("Lease") between C J CLASSICS, INC. DBA C J'S SLOT CONNECTIONS, a Nevada corporation ("Lessor"), and SANTA FE HOTEL, INC., a Nevada corporation ("Lessee"), dated August 15, 1996.

1. Description of Equipment: The Equipment listed on Attachment "A" to this Lease Schedule is added to the Equipment leased under the Lease and made subject to the provisions of the Lease.
2. Commencement Date: The Commencement Date for the Equipment leased under this Schedule will be the date the Equipment is delivered and accepted by the Lessee.
3. Term: The Term shall commence on the Commencement Date and shall continue for 36 consecutive months.
4. The Basic Rent due each month during the Term for the Equipment described herein is as follows:
 - a. The first payment under this Lease Schedule in an amount equal to \$1,434.44 times the number of days ("Interim Rent") from the Commencement Date to the first of the month following the Commencement Date (the "First Month") shall be due and payable upon delivery and acceptance of the Equipment.
 - b. Payment of the Basic Rent in the amount of \$43,033.18 shall be due on the first day of the First Month and on the first day of each month thereafter for 35 consecutive months.
 - c. In addition to the monthly Basic Rent and Interim Rent due as set forth above, Lessee shall pay Lessor an amount equal to all taxes which may be imposed by any Federal, State or local authority from time to time.
5. Security Deposit: Lessee shall pay to Lessor, due upon execution of this Schedule, a Security Deposit in the amount of \$43,033.18. The Security Deposit will be held by the Lessor for the Term of the Lease and will be returned to Lessee upon satisfactory completion of the terms and conditions of the Lease.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

6. All of the provisions of the above-mentioned Lease are incorporated by reference herein as if set forth fully herein.

Dated: August 15, 1996

LESSEE:

SANTA FE HOTEL, INC.,
A NEVADA CORPORATION

BY: THOMAS K. LAND

ITS: SVP AND CFO

LESSOR:

C J CLASSICS, INC. dba C J'S SLOT
CONNECTIONS, A NEVADA CORPORATION

BY: CARL FREDERICKSEN

ITS: PRESIDENT

PURCHASE/RENEWAL OPTION
TO LEASE SCHEDULE NO. 1

THIS PURCHASE/RENEWAL OPTION IS ATTACHED TO AND MADE A PART OF LEASE SCHEDULE NO. 1 AND THE MASTER LEASE AGREEMENT ("LEASE") BETWEEN C J CLASSICS, INC. DBA C J'S SLOT CONNECTION, A NEVADA CORPORATION ("LESSOR"), AND SANTA FE HOTEL, INC., A NEVADA CORPORATION ("LESSEE") EACH DATED AUGUST 15, 1996.

If Lessee has not been in default under the terms of the Lease, at the expiration of the Term, Lessor grants Lessee an option to (a) purchase (the "Purchase Option") all but not less than all of the Equipment described on the above Lease Schedule for the sum equal to the fair market value of the Equipment as of the date of expiration of the Term as determined by an independent appraiser mutually selected by Lessor and Lessee (the "Exercise Price") or (b) renew the Lease Term for a period of one year (the "Renewal Option"). A written notice of exercise of the Purchase Option or the Renewal Option must be given by Lessee 120 days prior to the expiration of the Term or any renewal term. Upon timely receipt of such notice of exercise, receipt of the payment of all Rent due under the Lease and/or payment of the Exercise Price, Lessor will, with exercise of the purchase option, execute and deliver to Lessee a Bill of Sale for the Equipment described in the Lease Schedule. Upon failure of the Lessor to so deliver a Bill of Sale, this Purchase/Renewal Option to Lease Schedule No. 1 shall then constitute a conveyance of the Equipment in accordance herewith. Payment in full of the Exercise Price shall be due and payable on or before the expiration of the Term. If Lessee fails to exercise the Purchase Option or the Renewal Option, Lessee shall, at Lessor's expense, return the Equipment to Lessor at a facility designated by Lessor, according to the terms of the Lease. Lessee shall in all respects remain obligated under the Lease for payment of Rent, care, maintenance, delivery, use and insurance of the Equipment until Lessor inspects and accepts the Equipment. In the event it shall at any time be determined that by reason of the options hereby given or otherwise that the lease of the Equipment to which the Purchase Option or the Renewal Option applies was in fact a sale to the Lessee of the Equipment, the Lessee agrees that neither it nor its successors or assigns has or will have any claim or cause of action against Lessor, its successors or assigns, for any reason for loss sustained by virtue of such determination.

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LESSEE ACKNOWLEDGES THAT THE EQUIPMENT SOLD BY LESSOR UNDER THE PURCHASE OPTION IS BEING SOLD IN AN "AS IS, WHERE IS" CONDITION. LESSOR MAKES, AND WILL MAKE, NO REPRESENTATIONS OR WARRANTIES REGARDING THE EQUIPMENT, ITS SUITABILITY FOR

LESSEE'S PURPOSE, OR ITS COMPLIANCE WITH ANY LAWS. LESSEE HEREBY ASSUMES ALL LIABILITY FOR THE EQUIPMENT AND AGREES TO INDEMNIFY LESSOR PER THE TERMS OF THE LEASE FOR ANY CLAIMS ARISING OUT OF THE PURCHASE OF THE EQUIPMENT.

LESSEE:

SANTA FE HOTEL INC.,
a Nevada corporation

BY: THOMAS K. LAND

ITS: SVP AND CFO

LESSOR:

C J CLASSICS, INC. dba C J'S SLOT
CONNECTIONS, a Nevada corporation

BY: CARL FREDERICKSEN

ITS: PRESIDENT

MASTER LEASE AGREEMENT

THIS MASTER LEASE AGREEMENT ("Lease") is made and entered into this 15 --
day of August, by and between C J Classics, Inc. dba C J's Slot Connection,

a Nevada corporation ("Lessor"), whose address is 4625 Wynn Road, Suite 21A, Las Vegas, NV 89103 and Pioneer Hotel, Inc, a Nevada corporation ("Lessee"), whose address is 2200 South Casino Drive, Laughlin, NV 89029.

Lessor desires to lease to Lessee, and Lessee desires to lease from Lessor in accordance with the terms and conditions contained herein, certain equipment more fully described in the Lease Schedule or Schedules, referred to herein as a "Lease Schedule," as may from time to time be executed by Lessee. All equipment described in such Lease Schedules shall be collectively referred to as the "Equipment" and individually referred to as a "Unit" and is to be installed in and to be used in connection with the business location described in a particular Lease Schedule ("Premises").

NOW THEREFORE, Lessor and Lessee agree as follows:

1. LEASE. This Lease establishes the general terms and conditions by which

Lessor shall lease the Equipment to Lessee. Each Lease Schedule shall be in the form provided by Lessor and shall incorporate by reference the terms of this Lease.

2. TERM: RENT AND PAYMENT; RENEWAL.

2.1 TERM. The term of this Lease shall commence on the date set forth in each Lease Schedule (the "Commencement Date") and continue as specified in such Lease Schedule ("Term").

2.2 RENT AND PAYMENT. Lessee's obligation to pay rent for the Equipment shall commence on the Commencement Date and continue for the Term. The Basic Rent set forth on the Lease Schedule shall be payable on the Commencement Date and on the same day of each month thereafter ("Rent Date"). Any amounts payable by Lessee, other than Basic Rent, shall be deemed Additional Charges and shall be payable on the Rent Date next following the date upon which they accrue or the last day of the Term, whichever is earlier. Lessee shall make all payments at the address of Lessor set forth above or at such other address as Lessor may designate in writing. As used herein, the term "Rent" shall mean all Basic Rent and Additional Charges.

2.3 LATE CHARGE. If any Rent is not received by Lessor or its assignees within ten (10) days of when due, a late charge on such Rent shall be due and payable with such Rent in an amount equal to four percent (4%) of the amount past due or any part thereof, as reimbursement for administrative costs and not as a penalty.

2.4 LESSOR'S PERFORMANCE OF LESSEE'S OBLIGATIONS. If Lessee fails to comply with any of its covenants or obligations herein, Lessor may, at its option, perform such covenants or obligations on Lessee's behalf without thereby waiving such conditions or obligations or the failure to comply therewith and all sums advanced by Lessor in connection therewith shall be repayable by Lessee as Additional Charges. No such performance shall be deemed to relieve Lessee of its obligations herein.

3. CERTIFICATE OF ACCEPTANCE. Lessee shall deliver to Lessor a certificate of -----
delivery, installation and acceptance ("Certificate of Acceptance") in the form provided by the Lessor.

4. NET LEASE. This Lease including each Lease Schedule is a net lease and -----
Lessee's obligation to pay all Rent due and the rights of Lessor or its assignees in, and to, such Rent shall be absolute and unconditional under all circumstances, notwithstanding: (i) any setoff, abatement, reduction, counterclaim, recoupment, defense or other right which Lessee may have against Lessor, its assignees, the manufacturer or seller of any Unit, or any other person for any reason whatsoever, including, without limitation, any breach by Lessor of this Lease; (ii) any defect in title, condition, operation, fitness for use, or any damage to or destruction of, the Equipment; (iii) any interruption or cessation of use or possession of the Equipment for any reason whatsoever; or (iv) any insolvency, bankruptcy, reorganization or similar proceedings instituted by or against Lessee.

5. LOCATION: USE: MAINTENANCE; IDENTIFICATION AND INSPECTION.

5.1 LOCATION, USE, MAINTENANCE AND REPAIRS. (a) Lessee shall keep and use the Equipment on the Premises and shall not relocate or remove any Unit unless Lessor consents, in writing, prior to its relocation or removal. (b) Lessee shall at all times and, at its sole cost and expense, properly use and maintain the Equipment in good operating condition, other than the normal wear and tear, and make all necessary repairs, alterations and replacements thereto (collectively, "Repairs"), all of which shall immediately become the property of Lessor and subject to this Lease. Lessee shall comply with manufacturer instructions relating to the Equipment, and any applicable laws and governmental regulations. (c) Lessee shall pay all costs and expenses associated with removal and return of the Equipment.

5.2 IDENTIFICATION AND INSPECTION. Upon request by Lessor, Lessee shall mark each Unit conspicuously with appropriate labels or tags furnished by

Lessor and maintain such markings through the Term to clearly disclose that said Unit is being leased from Lessor. Subject to Lessee's reasonable security requirements, Lessee shall permit Lessor's representatives to enter the Premises where any Unit is located to inspect such Unit.

6. LOCATION: LIENS AND ENCUMBRANCES.

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6.1 PERSONAL PROPERTY. Each Unit is personal property and Lessee shall not affix any Unit to realty so as to change its nature to a fixture or real property and agrees that each Unit shall remain personal property during the Term. Lessor expressly retains ownership and title to the Equipment. LESSEE HEREBY AGREES THAT IT SHALL BE RESPONSIBLE FOR ALL OF LESSORS OBLIGATIONS AS REQUIRED BY THE STATE GAMING LAWS AND REGULATIONS REGARDING MAINTENANCE, USE, POSSESSION AND OPERATION OF THE EQUIPMENT. Lessee hereby authorizes, empowers, and grants a limited power of attorney to Lessor to record and/or execute and file, on Lessee's behalf, any certificates, memorandums, statements, refiling, and continuations thereof as Lessor deems reasonably necessary or advisable to preserve and protect its interest hereunder. The parties intend to create a lease agreement and the relationship of lessor and lessee between themselves. Nothing in this Lease shall be construed or interpreted to create or imply the existence of a finance lease or installment lease contract. Lessor makes no representation regarding the treatment of this Lease, the Equipment or the payment of obligations under this Lease for financial statement reporting or tax purposes.

6.2 LIENS AND ENCUMBRANCES. Unless otherwise provided herein, Lessee shall not directly or indirectly create, incur or suffer a mortgage, claim, lien, charge, encumbrance or the legal process of a creditor of Lessee of any kind upon or against this Lease or any Unit. Lessee shall at all times protect and defend, at its own cost and expense, the title of Lessor from and against such mortgages, claims, liens, charges, encumbrances and legal processes of creditors of Lessee and shall keep all the Equipment free and clear from all such claims, liens and legal processes. If any such lien or encumbrance is incurred, Lessee shall immediately notify Lessor and shall take all actions required by Lessor to remove the same.

7. RETURN OF EQUIPMENT.

7.1 DUTY OF RETURN. At the expiration of the Term or upon termination of the Lease, Lessee at its expense shall return each Unit to Lessor or its designee at the destination specified by Lessor, in accordance with appropriate gaming laws and regulations. Each Unit shall conform to all of the manufacturer's specifications and gaming laws and regulations with respect to normal function, capability, design and condition (less normal wear and tear).

7.2 FAILURE TO RETURN. If Lessee fails to return the Equipment or any

portion thereof, as provided above, within fourteen (14) days following expiration of the term or termination of the Lease, then Lessee shall pay to Lessor an additional month's Rent for each month, or any portion thereof, that Lessee fails to comply with the terms of this return provision, until all of the Equipment is returned, as provided herein.

8. RISK OF LOSS: INSURANCE.

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8.1 RISK OF LOSS. Lessee shall bear the risk of all loss or damage to any Unit or caused by any Unit during the period from the time the Unit is shipped by its vendor until the time it is returned as provided herein.

8.2 UNIT REPLACEMENT. If any Unit is lost, stolen, destroyed, seized by governmental action or, in Lessee's opinion or Lessor's opinion, damaged ("Event of Loss"), this Lease shall remain in full force and effect without abatement of Rent and Lessee shall promptly replace such Unit at its sole expense with a Unit of equivalent value and utility, and similar kind and in substantially the same condition as the replaced Unit immediately prior to the Event of Loss. Title to such replacement unit immediately shall vest and remain in Lessor, and such unit shall be deemed a Unit under this Lease. Upon such vesting of title and provided Lessee is not in default under this Lease, Lessor shall cause to be paid to Lessee or the vendor of the replacement unit any insurance proceeds actually received by Lessor for the replacement Unit. Lessee shall promptly notify Lessor of any Event of Loss and shall provide Lessor with and shall enter into, execute and deliver such documentation as Lessor shall request with respect to the replacement of any such Unit.

8.3 INSURANCE. Lessee shall obtain and maintain in full force and effect all risk, full replacement cost property damage insurance on the Premises: (i) comprehensive personal liability, (ii) all risk property damage on the Equipment in amounts reasonably acceptable to Lessor, and (iii) workers compensation insurance. Such insurance shall: (i) name Lessor and its Assignees, if any, as additional insureds and first loss payees as their interests may appear; and (ii) provide that the policy may not be canceled or materially altered without thirty (30) days prior written notice to Lessor and its Assignees. All such insurance shall be placed with companies having a rating of at least A, Class XII or better by Best's rating service. Lessee shall furnish to Lessor, upon request and throughout the Term, insurance certificates of a kind satisfactory to Lessor and its Assignees showing the existence of the insurance required hereunder and premium paid.

9. LESSOR'S PURCHASE AND PERFORMANCE. Upon receipt of a Lease Schedule

executed and delivered by Lessee, Lessee shall bear all responsibilities and perform all obligations of Lessor thereunder other than payment of the purchase price.

10. TAXES.

10.1 TAXES. Lessee agrees to report, file, pay promptly when due to the appropriate taxing authority and indemnify, defend, and hold Lessor harmless from and against any and all taxes (including gross receipts), assessments, license fees and other federal, state or local governmental charges of any kind or nature, together with any penalties, interest or fines related thereto (collectively, "Taxes") that pertain to the Equipment, its purchase, or this Lease, except such Taxes based solely upon the net income of Lessor.

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10.2 LESSOR'S FILING OF TAXES. Notwithstanding the foregoing, Lessor at its election may report and file sales and/or use taxes which are filed and paid periodically through the Term, and the amounts so due may be invoiced to Lessee and payable as specified therein.

11. INDEMNIFICATION. Except for the negligence of Lessor, its employees, or

agents and assignees, Lessee hereby assumes liability for and agrees to indemnify, defend, protect, save and hold harmless the Lessor, its agents, employees, directors and assignees from and against any and all losses, damages, injuries, claims, penalties, demands and all expenses, legal or otherwise (including reasonable attorneys' fees) of whatever kind and nature arising from the purchase, ownership, use, condition, operation or maintenance of the Equipment, until the Equipment is returned to Lessor. Any claim, defense, setoff, or other right of Lessee against any such indemnified party shall not in any way affect, limit, or diminish Lessee's indemnity obligations hereunder. Lessee shall notify Lessor immediately as to any claim, suit, action, damage, or injury related to the Equipment of which Lessee has actual or other notice and shall, at its own cost and expense, defend any and all suits which may be brought against Lessor, shall satisfy, pay and discharge any and all judgments and fines that may be recovered against Lessor in any such action or actions, provided, however, that Lessor shall give Lessee written notice of any such claim or demand. Lessee agrees that its obligations under this Section 11 shall survive the expiration or termination of this Lease.

12. REPRESENTATIONS AND WARRANTIES. Lessee represents and warrants to Lessor

that: i) the making of this Lease and any Lease Schedule executed by Lessee is duly authorized on the part of Lessee and that upon due execution thereof by Lessee and Lessor they shall constitute valid obligations binding upon, and enforceable against, Lessee in accordance with their terms; ii) neither the making of this Lease or such Lease Schedule, nor the due performance by Lessee, including the commitment and payment of the Rent, shall result in any breach of, or constitute a default under, or violation of, Lessee's articles of incorporation, by-laws, or any agreement to which Lessee is a party or by which Lessee is bound; iii) no approval or consent not already obtained or withholding of objection is required from any governmental authority with respect to the

entering into, or performance of this Lease or any Lease Schedule by Lessee; iv) Lessee has obtained all licenses and permits required under applicable laws or regulations (the "Gaming Laws") for the operation of its business.

13. DISCLAIMERS; MANUFACTURERS WARRANTIES. LESSEE ACKNOWLEDGES THAT EACH UNIT

IS OF THE DESIGN, CAPACITY AND MANUFACTURE SPECIFIED FOR AND BY THE LESSEE AND THAT LESSEE IS SATISFIED THAT THE SAME IS SUITABLE FOR LESSEE'S PURPOSES. LESSEE AGREES, REGARDLESS OF CAUSE, NOT TO ASSERT ANY CLAIM WHATSOEVER AGAINST LESSOR FOR LOSS OF ANTICIPATORY PROFITS OR CONSEQUENTIAL DAMAGES. LESSOR EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE EQUIPMENT WHETHER EXPRESSED OR IMPLIED. Without limiting the generality of the foregoing

it is intended by the parties to exclude any and all implied warranties of merchantability and fitness for particular purposes. NO SALESMAN OR AGENT OF LESSOR IS AUTHORIZED TO WAIVE OR ALTER ANY TERM OF THIS LEASE OR MAKE ANY REPRESENTATION REGARDING THE EQUIPMENT.

14. ASSIGNMENT OF LEASE.

14.1 ASSIGNMENT BY LESSOR. Lessee acknowledges and agrees that Lessor may assign, mortgage, or otherwise transfer its interest thereunder and/or in the Equipment to others ("Assignees") without consent of Lessee, provided however that Lessee and the Nevada Gaming Control Board ("Control Board") shall be notified of any assignment. Accordingly, Lessee and Lessor agree that upon such assignment, Lessee (i) shall acknowledge such assignment in writing by executing a Notice, Consent and Acknowledgment of Assignment furnished by Lessor; (ii) shall promptly pay all Rent when due to the designated Assignees, notwithstanding any defense, setoff, abatement, recoupment, reduction or counterclaim whatsoever that Lessee may have against Lessor; (iii) shall not permit the Lease or Lease Schedule so assigned to be amended or the terms thereof waived without the prior written consent of the Assignees; (iv) shall not require the Assignees to perform any obligations of Lessor under such Lease Schedule; (v) shall not terminate or attempt to terminate the Lease or Lease Schedule on account of any default by Lessor; and (vi) acknowledges that any Assignee may reassign its rights and interest with the same force and effect as the assignment described herein.

14.2 ASSIGNMENT OR SUBLEASE BY LESSEE. Lessee shall not assign this Lease or any Lease Schedule or assign its rights in or sublet the Equipment, or any interest therein without Lessor's and its Assignee's prior written consent, which consent shall not be unreasonably withheld.

15. FINANCIAL INFORMATION; FURTHER ASSURANCES.

15.1 FINANCIAL INFORMATION. Throughout the Term, Lessee shall deliver to

Lessor copies of all current financial information of Santa Fe Gaming Corporation (Lessee's parent corporation) which will reflect the financial condition and operations of Lessee as well as such other information regarding Lessee reasonably requested by Lessor or its Assignees.

15.2 FURTHER ASSURANCES. Lessee shall execute and deliver to Lessor, such other documents, and take such further action as Lessor may request, in order to effectively carry out the intent and purposes of this Lease and the Lease Schedules. All documentation shall be in a form acceptable to Lessor and its Assignees. Lessee shall provide all necessary notices to the Control Board.

15.3 LEASE AGREEMENT. If any court of competent jurisdiction should

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determine that this Lease constitutes a security arrangement as opposed to a true lease, the parties then agree that this Lease shall constitute a security agreement within the meaning of the Uniform Commercial Code and that the Lessor shall be considered a secured party under the provisions thereof and shall be entitled to all the rights and remedies of a secured party and Lessee, as debtor, grants to Lessor, as secured party, a security interest in the Equipment; provided nothing herein shall be construed nor shall the inclusion of this paragraph be interpreted as derogating from the stated intent and contractual understanding of the parties that this is a true lease.

16. DEFAULT BY LESSEE; REMEDIES.

16.1 DEFAULT BY LESSEE. Lessee shall be in default upon the occurrence of any one of the following events ("Event of Default"): (a) failure to pay Rent when due; (b) failure to perform any other term, condition or covenant of this Lease or any Lease Schedule; (c) Lessee ceases or is enjoined, restrained or in any way prevented from conducting business as a going concern; (d) if any proceeding is filed by or against the Lessee for an assignment for the benefit of creditors, a voluntary or involuntary petition in bankruptcy, or if Lessee is adjudicated a bankrupt or an insolvent; (e) Lessee attempts to remove, sell, transfer, encumber, part with possession or sublet the Equipment or any Unit thereof; (f) any Unit is attached, levied upon, encumbered, pledged, or seized under any judicial process; (g) any warranty or representation made or furnished to the Lessor by or on behalf of the Lessee is false in any material respect when made or furnished; (h) failure to maintain in full force and effect the licenses and permits required under the Gaming Laws for the operation of Lessee's business; (i) failure to comply with all gaming regulations; or (j) any change in control of the Lessee or its business.

16.2 LESSOR REMEDIES. Lessee acknowledges that the enforcement of this Lease requires approval of the Control Board and/or the Nevada Gaming Commission ("the Commission") and that copies of all Default Notices, legal proceedings, etc. will be forwarded to the appropriate agency as required by state law, regulation or upon request of the Control Board or the Commission. Lessee

further acknowledges that upon any Event of Default, and at any time thereafter, Lessor, may in addition to any and all rights and remedies it may have at law or in equity, without notice to or demand upon Lessee at its sole option: (i) declare the aggregate Rent then accrued and unpaid together with the balance of any Rent to be immediately due and payable; (ii) proceed by appropriate court action or other proceeding, either at law or in equity to enforce performance by Lessee of any and all covenants of this Lease; (iii) on written notice to Lessee, terminate any of Lessee's rights under this Lease or Schedule in which event Lessee shall immediately surrender and return the Equipment to Lessor pursuant to the provisions hereof; and (iv) subject to appropriate gaming laws and regulations, and required approvals, take possession, sell and/or re-lease any Unit as Lessor may desire, in its sole discretion. Lessor's rights and remedies herein are cumulative and in addition

to any rights or remedies available at law or in equity including the Uniform Commercial Code, and may be exercised concurrently or separately. Lessee shall pay all costs, expenses, losses, damages and legal costs (including reasonable attorneys' fees) incurred by Lessor and its Assignees as a result of enforcing any terms or conditions of the Lease or any Schedules. A termination hereunder shall occur only upon written notice by Lessor to Lessee and no repossession or other act by Lessor after default shall relieve Lessee from any of its obligations to Lessor hereunder unless Lessor so notifies Lessee in writing.

17. MISCELLANEOUS.

17.1 NOTICES. Except as otherwise required by law, all notices required herein shall be in writing and sent by prepaid certified mail or by courier, addressed to the party at the address of the party specified herein or such other address designated in writing. Notice shall be effective upon the earlier of its receipt or four (4) days after it is sent.

17.2 SURVIVAL OF INDEMNITIES. All indemnities of Lessee shall survive and continue in full force and effect for events occurring prior to the return of the Equipment to the Lessor, notwithstanding the expiration or termination of the Term.

17.3 COUNTERPARTS. Each Lease and any Lease Schedule may be executed in counterparts.

17.4 MULTIPLE LESSEES. If more than one Lessee is named in this Lease or a Lease Schedule the liability of each shall be joint and several.

17.5 TITLES. Section titles are not intended to have legal effect or limit or otherwise affect the interpretation of this Lease or any Lease Schedule.

17.6 WAIVER. No delay or omission in the exercise of any right or remedy herein provided or otherwise available to Lessor, or prior course of conduct,

shall impair or diminish Lessor's rights to exercise the same or any other right of Lessor; nor shall any obligation of Lessee hereunder be deemed waived. The acceptance of rent by Lessor after it is due shall not be deemed to be a waiver of any breach by Lessee of its obligations under this Lease or any Lease Schedule.

17.7 SUCCESSORS. This Lease and each Lease Schedule shall inure to the benefit of and be binding upon Lessor and Lessee and their respective successors in interest.

17.8 NOT AN OFFER. Neither this Lease nor any Lease Schedule shall be deemed to constitute an offer or be binding upon Lessor until executed by Lessor's authorized officer.

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17.9 SEVERABILITY. If any provisions of this Lease or any Lease Schedule shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provision thereof shall not be affected or impaired in any way.

17.10 MODIFICATION. Lessor and Lessee agree that any modifications to this Lease or any Lease Schedule shall be in writing and shall be signed by both parties and their last known assignees, if any.

17.11 LEASE IRREVOCABLE. This Lease is irrevocable for the full Term hereof and the Rent shall not abate by reason of termination of Lessee's right of possession and/or the taking of possession by the Lessor or for any other reason.

17.12 GOVERNING LAW. This Lease and each Lease Schedule are entered into under and shall be construed in accordance with, and governed by the laws of the State of Nevada.

17.13 RIDERS. In the event that any riders are attached hereto and made a part hereof and if there is a conflict between the terms and provisions of any rider, including any Lease Schedule and the terms and provisions herein, the terms and provisions of the rider or Lease Schedule shall control to the extent of such conflict.

17.14 ENTIRE AGREEMENT. LESSEE REPRESENTS THAT IT HAS READ, RECEIVED, RETAINED A COPY OF AND UNDERSTANDS THIS LEASE, AND AGREES TO BE BOUND BY ITS TERMS AND CONDITIONS. LESSOR AND LESSEE AGREE THAT THIS LEASE, ALL RIDERS, LEASE SCHEDULES, OR EXHIBITS HERETO, AND THE LEASE SCHEDULES SHALL CONSTITUTE THE ENTIRE AGREEMENT AND SUPERSEDE ALL PROPOSALS, ORAL OR WRITTEN, ALL PRIOR NEGOTIATIONS AND ALL OTHER COMMUNICATIONS BETWEEN LESSOR AND LESSEE WITH RESPECT TO ANY UNIT.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be duly executed on the date set forth by their authorized representatives.

LESSEE:

PIONEER HOTEL, INC.,
a Nevada corporation

By: Thomas K. Land

Its: SVP and CFO

LESSOR:

C J CLASSICS, INC. dba C J's SLOT
CONNECTIONS, a Nevada corporation

By: Carl Fredericksen

Its: President

LEASE SCHEDULE NO. 1
TO MASTER LEASE AGREEMENT

This Lease Schedule No. 1 is attached to and made a part of the Master Lease Agreement ("Lease") between C J CLASSICS, INC. DBA C J'S SLOT CONNECTIONS, a Nevada corporation ("Lessor"), and PIONEER HOTEL, INC., a Nevada corporation ("Lessee"), August 15, 1996.

1. Description of Equipment: The Equipment listed on Attachment "A" to this Lease Schedule is added to the Equipment leased under the Lease and made subject to the provisions of the Lease.
2. Commencement Date: The Commencement Date for the Equipment leased under this Schedule will be the date the Equipment is delivered and accepted by the Lessee.
3. Term: The Term shall commence on the Commencement Date and shall continue for 36 consecutive months.
4. The Basic Rent due each month during the Term for the Equipment described herein is as follows:
 - a. The first payment under this Lease Schedule in an amount equal to \$1,154.53 times the number of days ("Interim Rent") from the Commencement Date to the first of the month following the Commencement Date (the "First Month") shall be due and payable upon delivery and acceptance of the Equipment.
 - b. Payment of the Basic Rent in the amount of \$34,635.87 shall be due on the first day of the First Month and on the first day of each month thereafter for 35 consecutive months.
 - c. In addition to the monthly Basic Rent and Interim Rent due as set forth above, Lessee shall pay Lessor an amount equal to all taxes which may be imposed by any Federal, State or local authority from time to time.
5. Security Deposit: Lessee shall pay to Lessor, due upon execution of this Schedule, a Security Deposit in the amount of \$34,635.87. The Security Deposit will be held by the Lessor for the Term of the Lease and will be returned to Lessee upon satisfactory completion of the terms and conditions of the Lease.

6. All of the provisions of the above-mentioned Lease are incorporated by reference herein as if set forth fully herein.

Dated: August 15, 1996

LESSEE:

PIONEER HOTEL, INC.,
A NEVADA CORPORATION

BY: THOMAS K. LAND

ITS: SVP AND CFO

LESSOR:

C J CLASSICS, INC. dba C J'S SLOT
CONNECTIONS, A NEVADA CORPORATION

BY: CARL FREDERICKSEN

ITS: PRESIDENT

PURCHASE/RENEWAL OPTION
TO LEASE SCHEDULE NO. 1

THIS PURCHASE/RENEWAL OPTION IS ATTACHED TO AND MADE A PART OF LEASE SCHEDULE NO. 1 AND THE MASTER LEASE AGREEMENT ("LEASE") BETWEEN C J CLASSICS, INC. DBA C J'S SLOT CONNECTION, A NEVADA CORPORATION ("LESSOR"), AND PIONEER HOTEL, INC., A NEVADA CORPORATION ("LESSEE") EACH AUGUST 15, 1996.

If Lessee has not been in default under the terms of the Lease, at the expiration of the Term, Lessor grants Lessee an option to (a) purchase (the "Purchase Option") all but not less than all of the Equipment described on the above Lease Schedule for the sum equal to the fair market value of the Equipment as of the date of expiration of the Term as determined by an independent appraiser mutually selected by Lessor and Lessee (the "Exercise Price") or (b) renew the Lease Term for a period of one year (the "Renewal Option"). A written notice of exercise of the Purchase Option or the Renewal Option must be given by Lessee 120 days prior to the expiration of the Term or any renewal term. Upon timely receipt of such notice of exercise, receipt of the payment of all Rent due under the Lease and/or payment of the Exercise Price, Lessor will, with exercise of the purchase option, execute and deliver to Lessee a Bill of Sale for the Equipment described in the Lease Schedule. Upon failure of the Lessor to so deliver a Bill of Sale, this Purchase/Renewal Option to Lease Schedule No. 1 shall then constitute a conveyance of the Equipment in accordance herewith. Payment in full of the Exercise Price shall be due and payable on or before the expiration of the Term. If Lessee fails to exercise the Purchase Option or the Renewal Option, Lessee shall, at Lessor's expense, return the Equipment to Lessor at a facility designated by Lessor, according to the terms of the Lease. Lessee shall in all respects remain obligated under the Lease for payment of Rent, care, maintenance, delivery, use and insurance of the Equipment until Lessor inspects and accepts the Equipment. In the event it shall at any time be determined that by reason of the options hereby given or otherwise that the lease of the Equipment to which the Purchase Option or the Renewal Option applies was in fact a sale to the Lessee of the Equipment, the Lessee agrees that neither it nor its successors or assigns has or will have any claim or cause of action against Lessor, its successors or assigns, for any reason for loss sustained by virtue of such determination.

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REPRESENTATIONS OR WARRANTIES REGARDING THE EQUIPMENT, ITS SUITABILITY FOR LESSEE'S PURPOSE, OR ITS COMPLIANCE WITH ANY LAWS. LESSEE HEREBY ASSUMES ALL LIABILITY FOR THE EQUIPMENT AND AGREES TO INDEMNIFY LESSOR PER THE TERMS OF THE LEASE FOR ANY CLAIMS ARISING OUT OF THE PURCHASE OF THE EQUIPMENT.

LESSEE:

PIONEER HOTEL, INC.,
A NEVADA CORPORATION

LESSOR:

C J CLASSICS, INC. dba C J'S SLOT
CONNECTIONS, A NEVADA CORPORATION

BY: THOMAS K. LAND

ITS: SVP AND CFO

BY: CARL FREDERICKSEN

ITS: PRESIDENT

OPTION AGREEMENT

THIS AGREEMENT is made this 13th day of November, 1996, in the City of Las Vegas, County of Clark, State of Nevada, by and between SANTA FE GAMING CORPORATION ("SFG" and/or "Optionors"), and PAT CLARK and assignees ("Clark" and/or "Optionees").

WHEREAS, Optionors are owners of certain real property situated in Las Vegas, Clark County, Nevada, located on the East side of Las Vegas Blvd., North of Barbara Lane. (See, Exhibit "A" attached hereto).

WHEREAS, Optionees desire to acquire the exclusive right to purchase the subject property at the agreed upon price, and upon the specified terms and conditions as herein set forth.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Optionors hereby grant Optionees the exclusive right to purchase the property at a price and under the terms and conditions as set forth herein. The option shall commence on the day and year first above written, and until six (6) months from the date that the Optionee delivers payment of the Option Price as stated hereinbelow. This option is granted in consideration of Optionees payment to Optionors of the sum of TWO MILLION EIGHT HUNDRED THOUSAND DOLLARS (\$2,800,000), on or before November 19, 1996.

2. If this option or any extension thereof is exercised in accordance with its terms and consideration paid to Optionors by Optionees, such sums shall be applied to the purchase price.

3. In the event this option or any extension thereof is not exercised, all sums paid and services rendered to Optionors by Optionees shall be converted to a loan secured by a first deed of trust on the real property and the Optionors shall execute a promissory note reflecting the principal balance of \$2,800,000 with interest at the rate of ten percent (10%) per annum (accruing from the date of payment by Optionees of the Option Price to Optionors) and a loan origination fee in the amount of \$50,000 to be paid to Optionee. The term of the loan shall be for a period of Twelve (12) months, commencing upon the date that the Optionee provides written notice to the Optionor that the Optionee shall not exercise the option. During the term of the option, the Optionor shall cooperate and shall assist the Optionee in the Optionee's due diligence reviewing the matters directly and indirectly affecting the title of the real property and any other contingency and/or condition that the Optionee requests of the Optionor. Further, the Optionor shall cooperate with the Optionee to make application for change of zoning on the property and any other actions necessary for the Optionee to effect the purchase of the real property. The

Optionor shall grant the Optionee access to the property during the option period for the purpose of performing any inspections or tests that the Optionee deems necessary, provided the property is left or returned to the Optionor in substantially the same condition as found.

4. The Optionee agrees that the Optionee, if the Optionee exercises the option, shall pay the Optionor the net sum of THREE MILLION ONE HUNDRED FIFTY THOUSAND DOLLARS (\$3,150,000) for the purchase of said property. The Optionee shall receive a credit for the option price of TWO MILLION EIGHT HUNDRED

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THOUSAND DOLLARS (\$2,800,000). Optionee shall pay the commission of ONE HUNDRED THOUSAND DOLLARS (\$100,000) to the listing agent, MARTEC REALTY, at such time as escrow is closed for the purchase of said property. The Optionor certifies and warrants that the sum of ONE HUNDRED THOUSAND DOLLARS (\$100,000) is the full sum due the listing agent, and no other sums are due and owing to any other agent and/or broker except for Optionees' broker, REALTY 500/REISS CORPORATION, which sums shall be paid by Optionee. Further, Optionee shall pay all commissions, fees, costs of escrow, or any other expenses necessary to complete and close the transaction contemplated herein.

The Optionee may assign this Agreement to an entity that the Optionee designates. The Optionor shall not withhold their written consent to the assignment of this Agreement to an entity.

5. Unless otherwise provided herein, any notice, tender or delivery to be given hereunder by either party to the other may be effected by personal delivery in writing or by registered or certified mail, postage prepaid, return receipt requested, and shall be deemed communicated as of three (3) days from date of mailing. Mailed notices shall be addressed as set forth below, but each party may change his address by written notice in accordance with this paragraph.

To Optionors : SANTA FE GAMING CORPORATION
ATTN: David Lowden
4949 North Rancho Drive
Las Vegas, Nevada 89130

To Optionees : PAT CLARK
600 So. Eighth Street
Las Vegas, Nevada 89101

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This instrument contains the entire agreement between the parties relating to the Option herein granted. Any oral representation or modifications concerning this instrument shall be of no force and effect except in a subsequent modification, in writing, signed by the party to be charged.

In the event of any controversy, claim or dispute between the parties hereto arising out of, or relating to, this Agreement or the breach thereof, the prevailing party shall be entitled, in addition to such other relief as may be granted to a reasonable sum as and for attorneys' fees and such litigation, which shall be determined by the court in such litigation or in a separate action brought for this purpose.

This Agreement shall bind and inure to the benefit of respective heirs, personal representatives, successors and assigns of the parties.

IN WITNESS WHEREOF, the parties have hereunto executed this Option Agreement the day and year first written above.

SANTA FE GAMING CORPORATION

By: /s/ David Lowden

/s/ Pat Clark

DAVID LOWDEN
Its Authorized Representative

PAT CLARK

By: /s/ Paul W. Lowden

PAUL W. LOWDEN, CHAIRMAN

MASTER LEASE AGREEMENT

THIS MASTER LEASE AGREEMENT ("Lease") is made and entered into this 16th day of September, 1996, by and between VIDEOTRONICS, INC., a Nevada corporation ("Lessor"), whose address is 1315 Greg Street, Suite 108, Sparks, Nevada 89431 and SANTA FE HOTEL, INC., a Nevada corporation ("Lessee"), whose address is 4949 North Rancho Drive, Las Vegas, NV 89130.

Lessor desires to lease to Lessee, and Lessee desires to lease from Lessor in accordance with the terms and conditions contained herein, certain equipment more fully described in the Lease Schedule or Schedules, referred to herein as a "Lease Schedule," as may from time to time be executed by Lessee. All equipment described in such Lease Schedules shall be collectively referred to as the "Equipment" and individually referred to as a "Unit" and is to be installed in and to be used in connection with the business location described in a particular Lease Schedule ("Premises").

NOW THEREFORE, Lessor and Lessee agree as follows:

1. LEASE. This Lease establishes the general terms and conditions by which

Lessor shall lease the Equipment to Lessee. Each Lease Schedule shall be in the form provided by Lessor and shall incorporate by reference the terms of this Lease.

2. TERM: RENT AND PAYMENT.

2.1 TERM. The term of this Lease shall commence on the date set forth in each Lease Schedule (the "Commencement Date") and continue as specified in such Lease Schedule ("Term").

2.2 RENT AND PAYMENT. Lessee's obligation to pay rent for the Equipment shall commence on the Commencement Date and continue for the Term. The Basic Rent set forth on the Lease Schedule shall be payable on the Commencement Date and on the same day of each month thereafter ("Rent Date"). Any amounts payable by Lessee, other than Basic Rent, shall be deemed Additional Charges and shall be payable on the Rent Date next following the date upon which they accrue or the last day of the Term, whichever is earlier. Lessee shall make all payments at the address of Lessor set forth above or at such other address as Lessor may designate in writing. As used herein, the term "Rent" shall mean all Basic Rent and Additional Charges.

2.3 LATE CHARGE. If any Rent is not received by Lessor or its assignees within ten (10) days of when due, a late charge on such Rent shall be due and payable with such Rent in an amount equal to four percent (4%) of the amount

past due or any part thereof, as reimbursement for administrative costs and not as a penalty.

2.4 LESSOR'S PERFORMANCE OF LESSEE'S OBLIGATIONS. If Lessee fails to comply with any of its covenants or obligations herein, Lessor may, at its option, perform such covenants or obligations on Lessee's behalf without thereby waiving such conditions or obligations or the failure to comply therewith and all sums advanced by Lessor in connection therewith shall be repayable by Lessee as Additional Charges. No such performance shall be deemed to relieve Lessee of its obligations herein.

3. CERTIFICATE OF ACCEPTANCE. Lessee shall deliver to Lessor a certificate of

delivery, installation and acceptance ("Certificate of Acceptance") in the form provided by the Lessor.

4. NET LEASE. This Lease including each Lease Schedule is a net lease and

Lessee's obligation to pay all Rent due and the rights of Lessor or its assignees in, and to, such Rent shall be absolute and unconditional under all circumstances, notwithstanding: (i) any setoff, abatement, reduction, counterclaim, recoupment, defense or other right which Lessee may have against Lessor, its assignees, the manufacturer or seller of any Unit, or any other person for any reason whatsoever, including, without limitation, any breach by Lessor of this Lease; (ii) any defect in title, condition, operation, fitness for use, or any damage to or destruction of, the Equipment; (iii) any interruption or cessation of use or possession of the Equipment for any reason whatsoever; or (iv) any insolvency, bankruptcy, reorganization or similar proceedings instituted by or against Lessee.

5. LOCATION: USE: MAINTENANCE; IDENTIFICATION AND INSPECTION.

5.1 LOCATION, USE, MAINTENANCE AND REPAIRS. (a) Lessee shall keep and use the Equipment on the Premises and shall not relocate or remove any Unit unless Lessor consents, in writing, prior to its relocation or removal. (b) Lessee shall at all times and, at its sole cost and expense, properly use and maintain the Equipment in good operating condition, other than the normal wear and tear, and make all necessary repairs, alterations and replacements thereto (collectively, "Repairs"), all of which shall immediately become the property of Lessor and subject to this Lease. Lessee shall comply with manufacturer instructions relating to the Equipment, and any applicable laws and

governmental regulations. (c) Lessee shall pay all costs and expenses associated with removal and return of the Equipment.

5.2 IDENTIFICATION AND INSPECTION. Upon request by Lessor, Lessee shall mark each Unit conspicuously with appropriate labels or tags furnished by Lessor and maintain such markings through the Term to clearly disclose that said

Unit is being leased from Lessor. Subject to Lessee's reasonable security requirements, Lessee shall permit Lessor's representatives to enter the Premises where any Unit is located to inspect such Unit.

6. LOCATION: LIENS AND ENCUMBRANCES.

6.1 PERSONAL PROPERTY. Each Unit is personal property and Lessee shall not affix any Unit to realty so as to change its nature to a fixture or real property and agrees that each Unit shall remain personal property during the Term. LESSOR EXPRESSLY RETAINS OWNERSHIP AND TITLE TO THE EQUIPMENT. LESSEE HEREBY AGREES THAT IT SHALL BE RESPONSIBLE FOR ALL OF LESSORS OBLIGATIONS AS REQUIRED BY THE STATE GAMING LAWS AND REGULATIONS REGARDING MAINTENANCE, USE, POSSESSION AND OPERATION OF THE EQUIPMENT. Lessee hereby authorizes, empowers, and grants a limited power of attorney to Lessor to record and/or execute and file, on Lessee's behalf, any certificates, memorandums, statements, refiling, and continuations thereof as Lessor deems reasonably necessary or advisable to preserve and protect its interest hereunder. The parties intend to create a lease agreement and the relationship of lessor and lessee between themselves. Nothing in this Lease shall be construed or interpreted to create or imply the existence of a finance lease or installment lease contract. Lessor makes no representation regarding the treatment of this Lease, the Equipment or the payment of obligations under this Lease for financial statement reporting or tax purposes.

6.2 LIENS AND ENCUMBRANCES. Unless otherwise provided herein, Lessee shall not directly or indirectly create, incur or suffer a mortgage, claim, lien, charge, encumbrance or the legal process of a creditor of Lessee of any kind upon or against this Lease or any Unit. Lessee shall at all times protect and defend, at its own cost and expense, the title of Lessor from and against such mortgages, claims, liens, charges, encumbrances and legal processes of creditors of Lessee and shall keep all the Equipment free and clear from all such claims, liens and legal processes. If any such lien or encumbrance is incurred, Lessee shall immediately notify Lessor and shall take all actions required by Lessor to remove the same.

7. RETURN OF EQUIPMENT.

7.1 DUTY OF RETURN. At the expiration of the Term or upon termination of the Lease, Lessee at its expense shall return each Unit to Lessor or its designee at the destination specified by Lessor, in accordance with appropriate gaming laws and regulations. Each Unit shall conform to all of the manufacturer's specifications and gaming laws and regulations with respect to normal function, capability, design and condition (less normal wear and tear).

7.2 FAILURE TO RETURN. If Lessee fails to return the Equipment or any portion thereof, as provided above, within fourteen (14) days following expiration of the term or termination of the Lease, then Lessee shall pay to Lessor an additional month's Rent for each month, or any portion thereof, that Lessee fails to comply with the terms of this return provision, until all of the

Equipment is returned, as provided herein.

8. RISK OF LOSS: INSURANCE.

8.1 RISK OF LOSS. Lessee shall bear the risk of all loss or damage to any Unit or caused by any Unit during the period from the time the Unit is shipped by its vendor until the time it is returned as provided herein.

8.2 UNIT REPLACEMENT. If any Unit is lost, stolen, destroyed, seized by governmental action or, in Lessee's opinion or Lessor's opinion, damaged ("Event of Loss"), this Lease shall remain in full force and effect without abatement of Rent and Lessee shall promptly replace such Unit at its sole expense with a Unit of equivalent value and utility, and similar kind and in substantially the same condition as the replaced Unit immediately prior to the Event of Loss. Title to such replacement unit immediately shall vest and remain in Lessor, and such unit shall be deemed a Unit under this Lease. Upon such vesting of title and provided Lessee is not in default under this Lease, Lessor shall cause to be paid to Lessee or the vendor of the replacement unit any insurance proceeds actually received by Lessor for the replacement Unit. Lessee shall promptly notify Lessor of any Event of Loss and shall provide Lessor with and shall enter into, execute and deliver such documentation as Lessor shall request with respect to the replacement of any such Unit.

8.3 INSURANCE. Lessee shall obtain and maintain in full force and effect all risk, full replacement cost property damage insurance on the Premises: (i) comprehensive personal liability, (ii) all risk property damage on the Equipment in amounts reasonably acceptable to Lessor, and (iii) workers compensation insurance. Such insurance shall: (i) name Lessor and its Assignees, if any, as additional insureds and first loss payees as their interests may

appear; and (ii) provide that the policy may not be canceled or materially altered without thirty (30) days prior written notice to Lessor and its Assignees. All such insurance shall be placed with companies having a rating of at least A, Class XII or better by Best's rating service. Lessee shall furnish to Lessor, upon request and throughout the Term, insurance certificates of a kind satisfactory to Lessor and its Assignees showing the existence of the insurance required hereunder and premium paid.

9. LESSOR'S PURCHASE AND PERFORMANCE. Upon receipt of a Lease Schedule executed

and delivered by Lessee, Lessee shall bear all responsibilities and perform all obligations of Lessor thereunder other than payment of the purchase price.

10. TAXES.

10.1 TAXES. Lessee agrees to report, file, pay promptly when due to the

appropriate taxing authority and indemnify, defend, and hold Lessor harmless from and against any and all taxes (including gross receipts), assessments, license fees and other federal, state or local governmental charges of any kind or nature, together with any penalties, interest or fines related thereto (collectively, "Taxes") that pertain to the Equipment, its purchase, or this Lease, except such Taxes based solely upon the net income of Lessor.

10.2 LESSOR'S FILING OF TAXES. Notwithstanding the foregoing, Lessor at its election may report and file sales and/or use taxes which are filed and paid periodically through the Term, and the amounts so due may be invoiced to Lessee and payable as specified therein.

11. INDEMNIFICATION. Except for the negligence of Lessor, its employees or ----- agents and assigns, Lessee hereby assumes liability for and agrees to indemnify, defend, protect, save and hold harmless the Lessor, its agents, employees, directors and assignees from and against any and all losses, damages, injuries, claims, penalties, demands and all expenses, legal or otherwise (including reasonable attorneys' fees) of whatever kind and nature arising from the purchase, ownership, use, condition, operation or maintenance of the Equipment, until the Equipment is returned to Lessor. Any claim, defense, setoff, or other right of Lessee against any such indemnified party shall not in any way affect, limit, or diminish Lessee's indemnity obligations hereunder. Lessee shall notify Lessor immediately as to any claim, suit, action, damage, or injury related to the Equipment of which Lessee has actual or other notice and shall, at its own cost and expense, defend any and all suits which may be brought against Lessor, shall satisfy, pay and discharge any and all judgments and fines that may be recovered against Lessor in any such action or actions, provided, however, that Lessor shall give Lessee written notice of any such claim or demand. Lessee agrees that its obligations under this Section 11 shall survive the expiration or termination of this Lease.

12. REPRESENTATIONS AND WARRANTIES. Lessee represents and warrants to Lessor ----- that: i) the making of this Lease and any Lease Schedule executed by Lessee is duly authorized on the part of Lessee and that upon due execution thereof by Lessee and Lessor they shall constitute valid obligations binding upon, and enforceable against, Lessee in accordance with their terms; ii) neither the making of this Lease or such Lease Schedule, nor the due performance by Lessee, including the commitment and payment of the Rent, shall result in any breach of, or constitute a default under, or violation of, Lessee's articles of incorporation, by-laws, or any agreement to which Lessee is a party or by which Lessee is bound; iii) no approval or consent not already obtained or withholding of objection is required from any governmental authority with respect to the entering into, or performance of this Lease or any Lease Schedule by Lessee; iv) Lessee has obtained all licenses and permits required applicable laws or regulations (the "Gaming Laws") for the operation of its business.

13. DISCLAIMERS; MANUFACTURERS WARRANTIES. LESSEE ACKNOWLEDGES THAT EACH UNIT ----- IS OF THE DESIGN, CAPACITY AND MANUFACTURE SPECIFIED FOR AND BY THE LESSEE AND

THAT LESSEE IS SATISFIED THAT THE SAME IS SUITABLE FOR LESSEE'S PURPOSES. LESSEE AGREES, REGARDLESS OF CAUSE, NOT TO ASSERT ANY CLAIM WHATSOEVER AGAINST LESSOR FOR LOSS OF ANTICIPATORY PROFITS OR CONSEQUENTIAL DAMAGES. LESSOR EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE EQUIPMENT WHETHER EXPRESSED OR IMPLIED. Without limiting the generality of the foregoing it is intended by the parties to exclude any and all implied warranties of merchantability and fitness for particular purposes. NO SALESMAN OR AGENT OF LESSOR IS AUTHORIZED TO WAIVE OR ALTER ANY TERM OF THIS LEASE OR MAKE ANY REPRESENTATION REGARDING THE EQUIPMENT.

14. ASSIGNMENT OF LEASE.

14.1 ASSIGNMENT BY LESSOR. Lessee acknowledges and agrees that Lessor may assign, mortgage, or otherwise transfer its interest thereunder and/or in the Equipment to others ("Assignees") without consent of Lessee,

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provided however that Lessee and the Nevada Gaming Control Board ("Control Board") shall be notified of any assignment. Accordingly, Lessee and Lessor agree that upon such assignment, Lessee (i) shall acknowledge such assignment in writing by executing a Notice, Consent and Acknowledgment of Assignment furnished by Lessor; (ii) shall promptly pay all Rent when due to the designated Assignees, notwithstanding any defense, setoff, abatement, recoupment, reduction or counterclaim whatsoever that Lessee may have against Lessor; (iii) shall not permit the Lease or Lease Schedule so assigned to be amended or the terms thereof waived without the prior written consent of the Assignees; (iv) shall not require the Assignees to perform any obligations of Lessor under such Lease Schedule; (v) shall not terminate or attempt to terminate the Lease or Lease Schedule on account of any default by Lessor; and (vi) acknowledges that any Assignee may reassign its rights and interest with the same force and effect as the assignment described herein.

14.2 ASSIGNMENT OR SUBLEASE BY LESSEE. Lessee shall not assign this Lease or any Lease Schedule or assign its rights in or sublet the Equipment, or any interest therein without Lessor's and its Assignee's prior written consent, which consent shall not be unreasonably withheld.

15. FINANCIAL INFORMATION; FURTHER ASSURANCES.

15.1 FINANCIAL INFORMATION. Throughout the Term, Lessee shall deliver to Lessor copies of all current financial information of Santa Fe Gaming Corporation (Lessee's parent corporation) which will reflect the financial condition and operations of Lessee as well as such other information regarding Lessee reasonably requested by Lessor or its Assignees.

15.2 FURTHER ASSURANCES. Lessee shall execute and deliver to Lessor, such other documents, and take such further action as Lessor may request, in order to

effectively carry out the intent and purposes of this Lease and the Lease Schedules. All documentation shall be in a form acceptable to Lessor and its Assignees. Lessee shall provide all necessary notices to the Control Board.

15.3 LEASE AGREEMENT. If any court of competent jurisdiction should determine that this Lease constitutes a security arrangement as opposed to a true lease, the parties then agree that this Lease shall constitute a security agreement within the meaning of the Uniform Commercial Code and that the Lessor shall be considered a secured party under the provisions thereof and shall be entitled to all the rights and remedies of a secured party and Lessee, as debtor, grants to Lessor, as secured party, a security interest in the Equipment; provided nothing herein shall be construed nor shall the inclusion of this paragraph be interpreted as derogating from the stated intent and contractual understanding of the parties that this is a true lease.

16. DEFAULT BY LESSEE; REMEDIES.

16.1 DEFAULT BY LESSEE. Lessee shall be in default upon the occurrence of any one of the following events ("Event of Default"): (a) failure to pay Rent when due; (b) failure to perform any other term, condition or covenant of this Lease or any Lease Schedule; (c) Lessee ceases or is enjoined, restrained or in any way prevented from conducting business as a going concern; (d) if any proceeding is filed by or against the Lessee for an assignment for the benefit of creditors, a voluntary or involuntary petition in bankruptcy, or if Lessee is adjudicated a bankrupt or an insolvent; (e) Lessee attempts to remove, sell, transfer, encumber, part with possession or sublet the Equipment or any Unit thereof; (f) any Unit is attached, levied upon, encumbered, pledged, or seized under any judicial process; (g) any warranty or representation made or furnished to the Lessor by or on behalf of the Lessee is false in any material respect when made or furnished; (h) failure to maintain in full force and effect the licenses and permits required under the Gaming Laws for the operation of Lessee's business; (i) failure to comply with all gaming regulations; or (j) any change in control of the Lessee or its business.

16.2 LESSOR REMEDIES. Lessee acknowledges that the enforcement of this Lease requires approval of the Control Board and/or the Nevada Gaming Commission ("the Commission") and that copies of all Default Notices, legal proceedings, etc. will be forwarded to the appropriate agency as required by state law, regulation or upon request of the Control Board or the Commission. Lessee further acknowledges that upon any Event of Default, and at any time thereafter, Lessor, may in addition to any and all rights and remedies it may have at law or in equity, without notice to or demand upon Lessee at its sole option: (i) declare the aggregate Rent then accrued and unpaid together with the balance of any Rent to be immediately due and payable; (ii) proceed by appropriate court action or other proceeding, either at law or in equity to enforce performance by Lessee of any and all covenants of this Lease; (iii) on written notice to Lessee, terminate any of Lessee's rights under this Lease or Schedule in which event Lessee shall immediately surrender and return the Equipment to Lessor pursuant to the provisions hereof; and (iv) subject to appropriate Gaming Laws, rules, laws and regulations, and required approvals, take possession, sell

re-lease any Unit as Lessor may desire, in its sole discretion.

Lessor's rights and remedies herein are cumulative and in addition to any rights or remedies available at law or in equity including the Uniform Commercial Code, and may be exercised concurrently or separately. Lessee shall pay all costs, expenses, losses, damages and legal costs (including reasonable attorneys' fees) incurred by Lessor and its Assignees as a result of enforcing any terms or conditions of the Lease or any Schedules. A termination hereunder shall occur only upon written notice by Lessor to Lessee and no repossession or other act by Lessor after default shall relieve Lessee from any of its obligations to Lessor hereunder unless Lessor so notifies Lessee in writing.

17. MISCELLANEOUS.

17.1 NOTICES. Except as otherwise required by law, all notices required herein shall be in writing and sent by prepaid certified mail or by courier, addressed to the party at the address of the party specified herein or such other address designated in writing. Notice shall be effective upon the earlier of its receipt or four (4) days after it is sent.

17.2 SURVIVAL OF INDEMNITIES. All indemnities of Lessee shall survive and continue in full force and effect for events occurring prior to the return of the Equipment to the Lessor, notwithstanding the expiration or termination of the Term.

17.3 COUNTERPARTS. Each Lease and any Lease Schedule may be executed in counterparts.

17.4 MULTIPLE LESSEES. If more than one Lessee is named in this Lease or a Lease Schedule the liability of each shall be joint and several.

17.5 TITLES. Section titles are not intended to have legal effect or limit or otherwise affect the interpretation of this Lease or any Lease Schedule.

17.6 WAIVER. No delay or omission in the exercise of any right or remedy herein provided or otherwise available to Lessor, or prior course of conduct, shall impair or diminish Lessor's rights to exercise the same or any other right of Lessor; nor shall any obligation of Lessee hereunder be deemed waived. The acceptance of rent by Lessor after it is due shall not be deemed to be a waiver of any breach by Lessee of its obligations under this Lease or any Lease Schedule.

17.7 SUCCESSORS. This Lease and each Lease Schedule shall inure to the benefit of and be binding upon Lessor and Lessee and their respective successors in interest.

17.8 NOT AN OFFER. Neither this Lease nor any Lease Schedule shall be deemed to constitute an offer or be binding upon Lessor until executed by Lessor's authorized officer.

17.9 SEVERABILITY. If any provisions of this Lease or any Lease Schedule shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provision thereof shall not be affected or impaired in any way.

17.10 MODIFICATION. Lessor and Lessee agree that any modifications to this Lease or any Lease Schedule shall be in writing and shall be signed by both parties and their last known assignees, if any.

17.11 LEASE IRREVOCABLE. This Lease is irrevocable for the full Term hereof and the Rent shall not abate by reason of termination of Lessee's right of possession and/or the taking of possession by the Lessor or for any other reason.

17.12 GOVERNING LAW. This Lease and each Lease Schedule are entered into under and shall be construed in accordance with, and governed by the laws of the State of Nevada.

17.13 RIDERS. In the event that any riders are attached hereto and made a part hereof and if there is a conflict between the terms and provisions of any rider, including any Lease Schedule and the terms and provisions herein, the terms and provisions of the rider or Lease Schedule shall control to the extent of such conflict.

17.14 ENTIRE AGREEMENT. LESSEE REPRESENTS THAT IT HAS READ, RECEIVED, RETAINED A COPY OF AND UNDERSTANDS THIS LEASE, AND AGREES TO BE BOUND BY ITS TERMS AND CONDITIONS. LESSOR AND LESSEE AGREE THAT THIS LEASE, ALL RIDERS, LEASE SCHEDULES, OR EXHIBITS HERETO, AND THE LEASE SCHEDULES SHALL CONSTITUTE THE ENTIRE AGREEMENT AND SUPERSEDE ALL PROPOSALS, ORAL OR WRITTEN, ALL PRIOR NEGOTIATIONS AND ALL OTHER COMMUNICATIONS BETWEEN LESSOR AND LESSEE WITH RESPECT TO ANY UNIT.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be duly executed on the date set forth by their authorized representatives.

LESSEE:

SANTA FE HOTEL, INC.,
a Nevada corporation

By: /s/ Thomas K. Land

LESSOR:

VIDEOTRONICS, INC.,
a Nevada corporation

By: /s/ Neil Netley

Its: Senior Vice President and CFO

Its: President

LEASE SCHEDULE NO. 1 TO MASTER LEASE AGREEMENT

This Lease Schedule No. 1 is attached to and made a part of the Master Lease Agreement ("Lease") between VIDEOTRONICS, INC., a Nevada corporation ("Lessor"), and SANTA FE HOTEL, INC., a Nevada corporation ("Lessee"), dated September 16, 1996.

1. Description of Equipment: The Equipment listed on Attachment "A" to this Lease Schedule is added to the Equipment leased under the Lease and made subject to the provisions of the Lease.
2. Commencement Date: The Commencement Date for the Equipment leased under this Schedule will be the date the Equipment is delivered and accepted by the Lessee.
3. Term: The Term shall commence on the Commencement Date and shall continue for 36 consecutive months.
4. The Basic Rent due each month during the Term for the Equipment described herein is as follows:
 - a. The first payment under this Lease Schedule in an amount equal to \$42,268.02 shall be due and payable on November 1, 1996.
 - b. Payment of the Basic Rent in the amount of \$42,268.02 shall be due on December 1, 1996 and on the first day of each month thereafter through and including October 1, 1999.
 - c. In addition to the monthly Basic Rent due as set forth above, Lessee shall pay Lessor an amount equal to all taxes which may be imposed by any Federal, State or local authority from time to time.
5. Security Deposit: Lessee shall pay to Lessor, due upon execution of this Schedule, a Security Deposit in the amount of \$84,536.04. The Security Deposit will be held by the Lessor for the Term of the Lease and will be returned to Lessee upon satisfactory completion of the terms and conditions of the Lease.
6. All of the provisions of the Lease are incorporated by reference herein as if set forth fully herein.

Dated: September 16, 1996

LESSEE:

LESSOR:

SANTA FE HOTEL, INC.,
a Nevada corporation

By: /s/ Thomas K. Land

Its: Senior Vice President and CFO

VIDEOTRONICS, INC.,
a Nevada corporation

By: /s/ Neil Netley

Its: President

PURCHASE/RENEWAL OPTION
TO LEASE SCHEDULE NO. 1

This Purchase/Renewal Option is attached to and made a part of the Master Lease Agreement ("Lease") between VIDEOTRONICS, INC., a Nevada corporation ("Lessor"), and SANTA FE HOTEL, INC., a Nevada corporation ("Lessee") and Lease Schedule No. 1 to Master Lease Agreement ("Schedule No. 1"), each dated September 16, 1996.

If Lessee has not been in default under the terms of the Lease, at the expiration of the Term, Lessor grants Lessee an option to (a) purchase (the "Purchase Option") all but not less than all of the Equipment described on the above Lease Schedule for the sum equal to the fair market value of the Equipment as of the date of expiration of the Term as determined by an independent appraiser mutually selected by Lessor and Lessee (the "Exercise Price") or (b) renew the Lease Term for a period of one year (the "Renewal Option"). A written notice of exercise of the Purchase Option or the Renewal Option must be given by Lessee 120 days prior to the expiration of the Term or any renewal term ("Notification Period"). If written notice is not received within the Notification Period, the Lease will be automatically renewed for an additional 180 days at the Basic Rent as set forth under Schedule No. 1. Upon timely receipt of such notice of exercise, receipt of the payment of all Rent due under the Lease and/or payment of the Exercise Price, Lessor will, with exercise of the purchase option, execute and deliver to Lessee a Bill of Sale for the Equipment described in the Lease Schedule. Upon failure of the Lessor to so deliver a Bill of Sale, this Purchase/Renewal Option to Lease Schedule No. 1 shall then constitute a conveyance of the Equipment in accordance herewith. Payment in full of the Exercise Price shall be due and payable on or before the expiration of the Term. If Lessee fails to exercise the Purchase Option or the Renewal Option, Lessee shall, at Lessor's expense, return the Equipment to Lessor at a facility designated by Lessor, according to the terms of the Lease. Lessee shall in all respects remain obligated under the Lease for payment of Rent, care, maintenance, delivery, use and insurance of the Equipment until Lessor inspects and accepts the Equipment. In the event it shall at any time be determined that by reason of the options hereby given or otherwise that the lease of the Equipment to which the Purchase Option or the Renewal Option applies was in fact a sale to the Lessee of the Equipment, the Lessee agrees that neither it nor its successors or assigns has or will have any claim or cause of action against Lessor, its successors or assigns, for any reason for loss sustained by virtue of such determination.

LESSEE ACKNOWLEDGES THAT THE EQUIPMENT SOLD BY LESSOR UNDER THE PURCHASE OPTION IS BEING SOLD IN AN "AS IS, WHERE IS" CONDITION. LESSOR MAKES, AND WILL MAKE, NO REPRESENTATIONS OR WARRANTIES REGARDING THE EQUIPMENT, ITS SUITABILITY FOR LESSEE'S PURPOSE, OR ITS COMPLIANCE WITH ANY LAWS. LESSEE HEREBY ASSUMES ALL LIABILITY FOR THE EQUIPMENT AND AGREES TO INDEMNIFY LESSOR PER THE TERMS OF THE

LEASE FOR ANY CLAIMS ARISING OUT OF THE PURCHASE OF THE EQUIPMENT.

LESSEE:

SANTA FE HOTEL, INC.,
a Nevada corporation

By: /s/ Thomas K. Land

Its: Senior Vice President and CFO

LESSOR:

VIDEOTRONICS, INC.,
a Nevada corporation

By: /s/ Neil Netley

Its: President

GUARANTY OF LEASE

September 16, 1996

FOR VALUE RECEIVED, and in order to induce Videotronics, Inc., a Nevada corporation ("Lessor"), to enter into, execute and deliver that certain Master Lease Agreement and Lease Schedule No. 1 to Master Lease Agreement, each dated September 16, 1996 (hereinafter collectively referred to as the "Lease") between Lessor and Santa Fe Hotel, Inc., a Nevada corporation ("Lessee"), the undersigned ("Guarantor", whether one or more) hereby absolutely and unconditionally guarantees to said Lessor, its successors and assigns, the due and prompt performance and observance of all of the obligations of said Lease to be met by Lessee, including but not limited to the payment of rent and other payments to be made under the Lease. The undersigned agrees that no act or thing, except for payment in full or written release of this Guaranty by Lessor, which but for this provision might or could at law or in equity act as a release of the liability of the undersigned hereunder, shall in any way affect or impair the absolute and unconditional obligation of the undersigned. This Guaranty shall be a continuing, absolute and unconditional Guaranty and shall be in full force and effect until all amounts due and owing under the Lease are paid in full, notwithstanding the expiration or sooner termination of the Lease or for the term of the Lease and any renewals thereof or until this Guaranty has been released in writing by Lessor, whichever occurs first. The undersigned hereby waives all notices and protests, as well as all defenses and offsets which could or may in any way be asserted against said Lessor, either on the part of Lessee or by the Guarantor itself. This Guaranty shall inure to the benefit of the successors and assigns of said Lessor, including any subsequent holder of Lessor's interest in the Lease. The undersigned hereby waives notice of the execution of the Lease; waives notice of the date of commencement of said Lease and of any assignment or transfer of Lessor's interest in the Lease and agrees to be bound by the terms of this Guaranty to any subsequent transferee or assignee of Lessor without further notice or acceptance by such transferee or assignee. Additionally, the undersigned Guarantor agrees to reimburse Lessor for any and all costs or expenses, including legal fees, incurred by Lessor in enforcing the terms and conditions of the Lease or this Guaranty.

The undersigned hereby agrees that the Lessor may from time to time without notice to or consent of the undersigned and upon such terms and conditions as the Lessor may deem advisable without affecting this Guaranty (a) release any maker, surety or other person liable for payment of all or any part of the obligations under the Lease; (b) make any agreement extending or otherwise altering the time for or the terms of payment of rent and/or fulfillment of the obligations of Lessee under the Lease; (c) modify, waive, compromise, release, subordinate, resort to, exercise or refrain from exercising

any right the Lessor may have hereunder, under the Lease or any other security given for payment of rent and/or fulfillment of other obligations of Lessee under the Lease; (d) accept additional security or guarantees of any kind; (e) transfer or assign the Lease to any other party; (f) accept from Lessee or any other party partial payment or payments on account of the Lease; (g) release, settle or compromise any claim of the Lessor against the Lessee, or against any other person, firm or corporation whose obligation is held by the Lessor as security for the payment of rent and/or the fulfillment of other obligations of Lessee under the Lease.

The undersigned hereby unconditionally and absolutely waives (a) any obligation on the part of the Lessor to protect, secure or insure any of the Leased Premises; (b) the invalidity or unenforceability of the Lease; (c) notice of acceptance of this Guaranty by the Lessor; (d) notice of presentment, demand for payment, notice of non-performance, protest, notices of protest and notices of dishonor, notice of non-payment or partial payment; (e) notice of any defaults under the Lease or in the performance of any of the covenants and agreements contained therein or in any instrument given as security for the Lease; (f) any defense, offset or claim the Lessee or the undersigned may have against the Lessor; (g) any limitation or exculpation of liability on the part of the Lessee whether contained in the Lease or otherwise; (h) any transfer by the Lessee; (i) any failure, neglect or omission on the part of Lessor to realize or protect the equipment leased pursuant to the Lease (the "Leased Equipment") or any security given therefor; (j) any right to insist that the Lessor proceed against the Lessee or against any other Guarantor or surety prior to enforcing this Guaranty; provided, however, at its sole discretion the Lessor may either in a separate action or an action pursuant to this Guaranty pursue its remedies against the Lessee or any other Guarantor or surety,

without affecting its rights under this Guaranty; or (k) any order, method or manner of application of any payments on the Lease.

Without limiting the generality of the foregoing, the undersigned will not assert against the Lessor any defense of waiver, release, discharge in bankruptcy, statute of limitations, res judicata, statute of frauds, anti-deficiency statute, fraud, ultra vires acts, usury, illegality or unenforceability which may be available to the Lessee in respect of the Lease, or any setoff available against the Lessor to the Lessee whether or not on account of a related transaction.

The undersigned further agrees that no act or thing which, but for this provision, might or could at law or in equity act as a release of the liabilities of the undersigned hereunder, shall in any way affect or impair this Guaranty and the undersigned agrees that this shall be a continuing, absolute and unconditional Guaranty and shall be in full force and effect until the indebtedness Guaranty has been paid in full.

The undersigned agrees this Guaranty is executed in order to induce the Lessor to lease the Leased Equipment to Lessee with the intent that it be relied

upon by the Lessor. This Guaranty shall run with the Leased Equipment and without the need for any further assignment of this Guaranty to any subsequent owner of the Leased Equipment or the need for any notice to the undersigned thereof. Upon assignment of the Lease to any subsequent party, said subsequent party may enforce this Guaranty as if said party had been originally named as Lessor hereunder.

No right or remedy herein conferred upon or reserved to the Lessor is intended to be exclusive of any other available remedy or remedies but each and every remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty or now or hereafter existing at law or in equity. No waiver, amendment, release or modification of this Guaranty shall be established by conduct, custom or course of dealing, but only by an instrument in writing duly executed by Lessor.

This Guaranty and each and every part hereof, shall be binding upon the undersigned and upon its heirs, administrators, representatives, executors, successors and assigns and shall inure to the pro rata benefit of each and every future Lessor under the Lease, including the heirs, administrators, representatives, executors, successors and assigns of the Lessor.

The undersigned expressly agrees that the liability and obligations under this Guaranty shall not in any way be affected by the institution by or against the Lessee of any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or any other similar proceedings for relief under any bankruptcy law or similar law for relief of debtors and that upon the institutions of any of the above actions, at Lessor's sole discretion and without any notice thereof or demand therefor, the entire unpaid rent and other payments due under the Lease shall become immediately due and payable and enforceable against the Guarantor.

This Guaranty is executed under and intended to be construed by the laws of the State of Nevada. The undersigned consents to be sued in the jurisdiction and venue of any District Court in the State of Nevada, such jurisdiction and venue to be determined at the sole option and election of Lessor.

IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be executed as of the 16th day of September, 1996.

GUARANTOR:

SANTA FE GAMING CORPORATION,
A NEVADA CORPORATION

By: Thomas K. Land

Its: Senior Vice President and CFO

NOTICE, CONSENT AND ACKNOWLEDGMENT OF ASSIGNMENT

THIS NOTICE, CONSENT AND ACKNOWLEDGMENT OF ASSIGNMENT is made and entered into as of the 16th day of September, 1996, by and between VIDEOTRONICS, INC., a Nevada corporation, ("Lessor"), SANTA FE HOTEL, INC., a Nevada corporation ("Lessee") and PDS FINANCIAL CORPORATION, a Minnesota corporation ("Assignee").

PRELIMINARY RECITALS:

A. Lessor is leasing to Lessee certain equipment and personal property (the "Equipment") pursuant to a Master Lease Agreement dated September 16, 1996 and Lease Schedule No. 1 thereto, dated of even date therewith, entered into by and between Lessor and Lessee (collectively the "Lease").

B. The Lessor has assigned to Assignee, all of its right, title and interest in and to all payments due and to become due under the Lease, including but not limited to all payments of Rent, Additional Rent and any and all payments related to the purchase, sale, release or other disposition of the Equipment under the Lease and to the Sale Proceeds as such term is defined in that certain Repossession Agreement dated September 16, 1996 by and between Videotronics and PDS, as well as a security interest in the Equipment.

NOW THEREFORE, in consideration of the sum of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Lessor, Lessee, and Assignee agree as follows:

- 1. Notice of Assignment. Lessor hereby gives notice to Lessee that -----
Lessor has assigned the rental payments payable under the Lease, and has granted a security interest in the Equipment leased thereunder, to Assignee. Such assignment of the rental payments is effective with the rental payment due on October 15, 1996, from which time all monthly rental payments owing by Lessee to Lessor under the Lease are to be made directly to PDS at the following address:

PDS Financial Corporation
6442 City West Parkway, Suite 300
Eden Prairie, MN 55346

This Assignment is irrevocable on the part of the Lessor and may not be amended, withdrawn, rescinded or cancelled without the written consent of Assignee.

- 2. Consent and Acknowledgment. Lessee acknowledges receipt of notice of, -----
and consent to, such assignment and agrees as follows: (a) Lessee's

obligation to pay rent and all other sums under the Lease are absolute and unconditional, and Lessee shall pay to PDS all rent and other sums under the Lease directly to PDS, without abatement, reduction, set-off, counterclaim, recoupment, defense, deferment or interruption for any reason whatever, and said obligations shall continue in all events and shall not be terminated or affected in any regard as a result of any

reason, cause or event whatever; (b) the Lease is in full force and effect and a true and correct copy of the Lease is attached hereto as Exhibit "A"; (c) no default exists on the part of Lessee or Lessor in the performance of its obligations under the Lease; (d) the Assignee shall not be chargeable with any obligations or liabilities under the Lease; (e) the Equipment has been delivered to the location set forth in the Lease, found to be in good working order and accepted as the Equipment under the Lease; (f) Lessee will send copies of all notices which are required to be sent to Lessor under the Lease to Assignee; and (g) Lessee will not permit the Lease or any of its provisions to be amended or waived and Lessee will not rely on any consents given by Lessor, without the prior written consent of Assignee.

3. Reaffirmation of Lease. Lessee hereby affirms the Lease and this

Notice, Consent and Acknowledgment of Assignment. There have been no prepayments of rent or other payments due under the Lease.
4. Assignee's Rights. This instrument is executed to induce Assignee to

advance funds to Lessor, and Assignee shall be entitled to rely on the terms contained herein and to enforce this instrument.
5. Successors and Assigns. This Agreement shall be binding upon and

inure to the benefit of each of the parties hereto, and their respective successors and assigns.

Executed as of the date first above-written.

VIDEOTRONICS, INC.,
A NEVADA CORPORATION

By: /s/ Neil Netley

Its: President

SANTA FE HOTEL, INC.,
A NEVADA CORPORATION

By: /s/ Thomas K. Land

Its: Senior Vice President and CFO

PDS FINANCIAL CORPORATION,
A MINNESOTA CORPORATION

By: /s/ David R. Mylrea

Its: COO

AMENDMENT TO NOTE PURCHASE AGREEMENT

This Amendment to Note Purchase Agreement is made as of this 27 day of December, 1996 by and among Santa Fe Gaming Corporation, a Nevada corporation formerly known as Sahara Gaming Corporation ("SFG"), Sahara Las Vegas Corp., a Nevada corporation ("Company"), and SunAmerica Life Insurance Company, an Arizona corporation ("SunAmerica"), and any other person or persons party hereto from time to time after the date hereof as a holder (individually, including SunAmerica, a "Holder" and collectively, "Holders"). Capitalized terms not otherwise defined herein shall have the meanings specified in the Note Purchase Agreement (as defined below).

RECITALS

SFG, Company and Holders are parties to that certain Note Purchase Agreement dated as of January 16, 1996 (the "Note Purchase Agreement") pursuant to which Company issued and sold to SunAmerica \$20 million in principal amount of Company's 12% Notes due December 15, 1999 (the "Notes"), SFG guaranteed the Notes and the other Obligations and Company granted to Collateral Agent on behalf of the Holders a first priority security interest in certain of Company's properties to secure its Obligations.

Company, SFG and Holders desire to amend the Note Purchase Agreement as set forth below.

Accordingly, in consideration of the premises and the agreements, provisions and covenants contained herein and in the Note Purchase Agreement, SFG, Company and Holders agree as follows:

1. Amendment of Section 2.5C(i). Section 2.5C(i) is hereby amended to

read in full as follows:

"(i) Scheduled Redemption. Company will redeem \$500,000 in principal

amount of Notes on June 30, 1997, \$500,000 in principal amount of Notes on December 31, 1997 and \$500,000 in principal amount of Notes on December 31, 1998, together in each case with accrued interest thereon to such date, at a redemption price equal to 100% of the principal amount so redeemed, plus accrued and unpaid interest thereon to the redemption date."

2. Amendment to Section 2.5C(v). The phrase "the fiscal quarter ending on

December 31, 1996" in the second line of Section 2.5C(v) is hereby deleted and replaced with the phrase "the fiscal quarter ending on June 30, 1997."

3. Representation. SFG and Company represent and warrant that no Event of

Default or Potential Event of Default has occurred and is continuing under the Note Purchase Agreement or any other Basic Document; provided, however, that neither SFG nor Company

makes any representation or warranty with respect to any Event of Default or Potential Event of Default arising under Section 7.11 of the Note Purchase Agreement.

4. Counterparts. This Amendment may be executed in any number of

counterparts and by different parties hereto and separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages maybe detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

5. Applicable Laws. THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE

CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEVADA, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

6. Effectiveness. This Amendment shall become effective upon the

execution of a counterpart hereof by each of the parties hereto. Except as amended hereby, the Note Purchase Agreement shall remain in full force and effect, and nothing herein shall constitute a waiver of any provision of, or operate as a waiver of, any right, power or remedy of Collateral Agent or any Holder under the Note Purchase Agreement or any other Basic Document.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to Note Purchase Agreement as of the date first above written.

SANTA FE GAMING CORPORATION, a
Nevada corporation

By: /s/ THOMAS K. LAND

Its: SVP & CFO

SAHARA LAS VEGAS CORP., a Nevada
corporation

By: /s/ THOMAS K. LAND

Its: SVP & CFO

2

SUNAMERICA LIFE INSURANCE
COMPANY, an Arizona corporation

By: /s/ PETER MCMILLIAN

Its: Director

3

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in post-effective Amendment No. 1 to Registration Statement No. 33-7053 on Form S-8 and in Registration Statement No. 33-44700 on Form S-8 of our report dated December 20, 1996 appearing in the Annual Report on Form 10-K of Santa Fe Gaming Corporation for the year ended September 30, 1996.

Deloitte & Touche LLP
Las Vegas, Nevada
December 30, 1996

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