

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

STATION CASINOS INC

CIK: **898660** | IRS No.: **880136443** | State of Incorporation: **NV** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **001-12037** | Film No.: **96663846**
SIC: **7990** Miscellaneous amusement & recreation

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1996.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to _____

Commission file number 000-21640

STATION CASINOS, INC.

(Exact name of registrant as specified in its charter)

Nevada

88-0136443

(State or other jurisdiction of
incorporation or organization)

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

2411 West Sahara Avenue, Las Vegas, Nevada 89102

(Address of principal executive offices - Zip code)

(702) 367-2411

Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
----- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at October 31, 1996 -----
Common stock, \$.01 par value	35,318,057

1

STATION CASINOS, INC.
INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Condensed Consolidated Balance Sheets (unaudited) - September 30, 1996 and March 31, 1996	3
Condensed Consolidated Statements of Operations (unaudited) - Three and Six Months Ended September 30, 1996 and 1995	4
Condensed Consolidated Statements of Cash Flows (unaudited) - Six Months Ended September 30, 1996 and 1995	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	21
Item 2. Changes in Securities	22
Item 3. Defaults Upon Senior Securities	22
Item 4. Submission of Matters to a Vote of Security Holders	22
Item 5. Other Information	22
Item 6. Exhibits and Reports on Form 8-K	22
Signature	23

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

STATION CASINOS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)
(unaudited)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	MARCH 31, 1996
	-----	-----
	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 30,624	\$ 114,868
Accounts and notes receivable, net.....	6,543	5,151
Inventories.....	2,195	2,299
Prepaid expenses and other.....	14,957	11,121
	-----	-----
TOTAL CURRENT ASSETS.....	54,319	133,439

Property and equipment, net.....	807,221	616,211
Land held for development.....	26,422	28,934
Other assets, net.....	65,111	48,730
	-----	-----
TOTAL ASSETS.....	\$ 953,073	\$ 827,314
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt.....	\$ 22,434	\$ 23,256
Accounts payable.....	17,572	11,091
Accrued payroll and related.....	10,015	11,519
Construction contracts payable.....	55,072	27,879
Accrued interest payable.....	7,676	6,875
Accrued expenses and other current liabilities.....	20,675	16,706
	-----	-----
TOTAL CURRENT LIABILITIES.....	133,444	97,326
Long-term debt, less current portion.....	496,831	441,742
Deferred income taxes, net.....	14,752	9,776
	-----	-----
TOTAL LIABILITIES.....	645,027	548,844
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTE 3)		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.01; authorized 5,000,000 shares; 2,070,000 and 1,800,000 convertible preferred shares issued and outstanding.....	103,500	90,000
Common stock, par value \$.01; authorized 90,000,000 shares; 35,318,057 and 35,303,346 shares issued and outstanding.....	353	353
Additional paid-in capital.....	167,451	167,623
Deferred compensation - restricted stock.....	(1,518)	(1,811)
Retained earnings.....	38,260	22,305
	-----	-----
TOTAL STOCKHOLDERS' EQUITY.....	308,046	278,470
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 953,073	\$ 827,314
	=====	=====

</TABLE>

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

3

STATION CASINOS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Casino.....	\$ 107,412	\$ 92,376	\$ 212,072	\$ 163,960
Food and beverage.....	21,460	18,268	42,626	31,573
Room.....	6,214	5,609	12,658	10,791
Other.....	11,451	10,210	22,752	19,446
	-----	-----	-----	-----
Gross revenues.....	146,537	126,463	290,108	225,770
Less promotional allowances.....	(8,503)	(6,630)	(16,634)	(11,801)
	-----	-----	-----	-----
Net revenues.....	138,034	119,833	273,474	213,969
	-----	-----	-----	-----

OPERATING COSTS AND EXPENSES:				
Casino.....	47,964	38,185	93,278	68,173
Food and beverage.....	16,190	14,864	32,275	25,192
Room.....	2,539	2,307	5,097	4,342
Other.....	5,465	7,003	11,260	13,460
Selling, general and administrative.....	27,084	25,778	55,606	46,088
Corporate expenses.....	4,429	3,909	8,642	7,434
Development expenses.....	285	843	602	1,824
Depreciation and amortization.....	10,269	8,397	20,092	15,875
Preopening expenses.....	-	898	-	898
	-----	-----	-----	-----
	114,225	102,184	226,852	183,286
	-----	-----	-----	-----
OPERATING INCOME.....	23,809	17,649	46,622	30,683
OTHER INCOME (EXPENSE):				
Interest expense, net.....	(7,967)	(7,394)	(16,260)	(14,830)
Other.....	5	1,204	66	1,136
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES.....	15,847	11,459	30,428	16,989
Income tax provision.....	(5,729)	(4,202)	(10,851)	(6,221)
	-----	-----	-----	-----
NET INCOME.....	10,118	7,257	19,577	10,768
PREFERRED STOCK DIVIDENDS.....	(1,811)	-	(3,622)	-
	-----	-----	-----	-----
NET INCOME APPLICABLE TO COMMON STOCK.....	\$ 8,307	\$ 7,257	\$ 15,955	\$ 10,768
	=====	=====	=====	=====
EARNINGS PER COMMON SHARE.....	\$ 0.24	\$ 0.21	\$ 0.45	\$ 0.33
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING.....	35,318	35,026	35,314	32,593
	=====	=====	=====	=====

</TABLE>

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

4

STATION CASINOS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

<TABLE>

<CAPTION>

	SIX MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 19,577	\$ 10,768
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	20,092	15,875
Preopening expenses.....	-	898
Increase in deferred income taxes.....	4,621	1,858
Changes in assets and liabilities:		
Increase in accounts and notes receivable, net.....	(1,392)	(170)
Increase in inventories and prepaid expenses and other.....	(3,377)	(4,967)
Increase in accounts payable.....	6,481	4,393

Increase in accrued expenses and other current liabilities..	3,006	4,904
Other, net.....	3,169	407
	-----	-----
Total adjustments.....	32,600	23,198
	-----	-----
Net cash provided by operating activities.....	52,177	33,966
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(218,436)	(126,762)
Increase (decrease) in construction contracts payable.....	27,193	(1,231)
Other, net.....	(4,610)	(37)
	-----	-----
Net cash used in investing activities.....	(195,853)	(128,030)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under bank facility, net.....	73,000	31,000
Proceeds from the issuance of notes payable.....	-	12,125
Principal payments on notes payable.....	(19,482)	(9,691)
Proceeds from the issuance of convertible preferred stock.....	13,095	-
Proceeds from the issuance of common stock.....	-	77,360
Dividends paid.....	(3,362)	-
Other, net.....	(3,819)	(6,570)
	-----	-----
Net cash provided by financing activities.....	59,432	104,224
	-----	-----
CASH AND CASH EQUIVALENTS:		
(Decrease) increase in cash and cash equivalents.....	(84,244)	10,160
Balance, beginning of period.....	114,868	16,961
	-----	-----
Balance, end of period.....	\$ 30,624	\$ 27,121
	-----	-----
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest, net of amounts capitalized.....	\$ 13,832	\$ 13,570
Cash paid for income taxes.....	\$ 4,450	\$ 5,168
Property and equipment purchases financed by debt.....	\$ 361	\$ 16,679

</TABLE>

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

5

STATION CASINOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Station Casinos, Inc. (the "Company"), a Nevada Corporation, is an established multi-jurisdictional gaming enterprise that currently owns and operates casino properties in Las Vegas, Nevada and St. Charles, Missouri. The Company also owns and provides slot route management services in Southern Nevada and Louisiana. Additionally, the Company is constructing two new casino properties, one in Las Vegas and one in Kansas City, Missouri.

The accompanying condensed consolidated financial statements include the accounts of Station Casinos, Inc. and its wholly-owned subsidiaries, Palace Station Hotel & Casino, Inc. ("Palace Station"), Boulder Station, Inc. ("Boulder Station"), St. Charles Riverfront Station, Inc. ("St. Charles Station"), Texas Station, Inc. ("Texas Station"), Kansas City Station Corporation ("Kansas City Station"), Sunset Station, Inc. ("Sunset Station") and the Southwest Companies. The Southwest Companies include Southwest Services, Inc., Southwest Gaming Services, Inc. ("SGSI"), Southwest Gaming of Louisiana and SGSI's

wholly-owned subsidiaries, Tropicana Caboose, Inc. and Nellis Caboose, Inc. Material intercompany accounts and transactions have been eliminated.

The accompanying condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods have been made. The results for the three and six months ended September 30, 1996 are not necessarily indicative of results to be expected for the full fiscal year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996.

RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for the three and six months ended September 30, 1995 to conform to the financial statement presentation for the three and six months ended September 30, 1996. These reclassifications had no effect on net income.

STATION CASINOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. LONG-TERM DEBT

Long-term debt consists of the following:

<TABLE>

<CAPTION>

	September 30, 1996	March 31, 1996
	-----	-----
	<C>	<C>
<S>		
Reducing revolving credit facility, secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, St. Charles Station and Kansas City Station, \$376 million limit at September 30, 1996, reducing quarterly by varying amounts until September 2000 when the remaining principal balance is due, interest at a margin above the bank's prime rate or the Eurodollar Rate (7.56% at September 30, 1996).....	\$ 73,000	\$ -
9 5/8% senior subordinated notes, payable interest only semi-annually, principal due June 1, 2003, net of unamortized discount of \$7.1 million at September 30, 1996.....	185,880	185,531
10 1/8% senior subordinated notes, payable interest only semiannually, principal due March 15, 2006, net of unamortized discount of \$1.2 million at September 30, 1996.....	196,777	196,737
\$110 million first mortgage construction/term loan agreement, secured by substantially all of the assets of Sunset Station, interest at a margin of 375 basis points above the Eurodollar Rate (9.38% at September 30, 1996), due September 30, 2000.....	-	-
Notes payable to banks and others, collateralized by slot machines and related equipment, monthly installments including interest ranging from 7.35% to 9.25%.....	19,838	24,726
Capital lease obligations, collateralized by furniture and equipment.....	10,330	12,171
Other long-term debt.....	33,440	45,833

Long-term debt.....	519,265	464,998
Current portion of long-term debt.....	(22,434)	(23,256)
Long-term debt, less current portion.....	\$ 496,831	\$ 441,742

</TABLE>

On September 25, 1996, Sunset Station, a wholly-owned subsidiary of the Company, entered into a Construction/Term Loan Agreement (the "Sunset Loan Agreement") with Bank of America National Trust and Savings Association, Bank of Scotland, Societe Generale and each of the other Lenders party to such agreement, pursuant to which Sunset Station has received a commitment for \$110 million to finance the remaining development and construction costs of Sunset Station Hotel & Casino. In connection with the Sunset Loan Agreement, the Company also entered into an operating lease for certain furniture, fixtures and equipment with a cost of \$40.0 million. (See Note 3)

The Sunset Loan Agreement includes a first mortgage term note in the amount of \$110 million (the "Note") which is nonrecourse to the Company, except as to certain construction matters pursuant to a completion guarantee dated as of September 25, 1996, executed by the Company on behalf of Sunset Station. The Note matures on September 30, 2000 and will reduce \$1.8 million for each fiscal quarter ending March 31, 1998 through December 31, 1998, \$2.3 million for each fiscal quarter ending March 31, 1999 through December 31, 1999, and \$2.0 million for the fiscal quarters ending March 31, 2000 and June 30, 2000. In addition, the Note is subject to prepayment subsequent to July 31, 1998 by an amount equal to a specified percentage of Excess Cash Flow, as defined. The Note carries an interest rate of

7

STATION CASINOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

2. LONG-TERM DEBT (CONTINUED)

375 basis points over the Eurodollar Rate (as defined in the Sunset Loan Agreement). The Note is secured by substantially all of the assets of Sunset Station, including a leasehold deed of trust with respect to a portion of the real property on which Sunset Station Hotel & Casino is being constructed, which portion is subject to a sublease from the Company to Sunset Station, a deed of trust with respect to the remainder of such property which is owned by Sunset Station and an assignment of an operating lease for certain furniture, fixtures and equipment to be used by Sunset Station.

The Sunset Loan Agreement contains certain customary financial and other covenants including a minimum fixed charge coverage ratio as of the last day of any quarter after the opening of Sunset Station Hotel & Casino of not less than 1.10 to 1.00, a maximum senior funded debt to earnings before interest, taxes, depreciation and amortization ratio after opening of 4.50 to 1.00 for the first quarter, reducing by varying amounts each quarter thereafter to 3.25 to 1.00 for the tenth quarter and each quarter thereafter, and a minimum net worth as of any quarter after opening of not less than \$52 million plus 80% of net income for each quarter after opening, plus 100% of any additional equity contributions by the Company and Supplemental Loans, as defined. In addition, the agreement places restrictions on indebtedness and guarantees, dividends, stock redemptions, sale of assets or sale of stock in subsidiaries and limitations on capital expenditures.

In addition, the Company has provided a funding commitment to Sunset Station of up to an additional \$25 million pursuant to a supplemental loan agreement (the "Supplemental Loan Agreement"). Sunset Station will be

required to draw amounts under the Supplemental Loan Agreement in the event of the failure of certain financial covenants under the Sunset Loan Agreement. The Supplemental Loan Agreement expires on September 30, 2000. Loans under this funding commitment may be drawn down beginning on the last day of the first full calendar quarter ending after Sunset Station opens for business in the amount of up to \$10 million during the first year after such date, up to \$10 million during the second year after such date and up to \$5 million during the third year after such date. Sunset Station will pay interest at a rate per annum equal to the three month Eurodollar Rate, the interest being payable solely in the form of commensurate additions to the principal of the Supplemental Loans. The funding commitments under the Supplemental Loan Agreement are subject to limitations imposed by the indentures governing the Company's existing senior subordinated notes and the Company's reducing revolving bank credit facility.

3. COMMITMENTS AND CONTINGENCIES

EQUIPMENT LEASE

In connection with the Sunset Loan Agreement, the Company has entered into an operating lease for furniture, fixtures and equipment (the "Equipment") with a cost of \$40.0 million, dated as of September 25, 1996 (the "Operating Lease") between the Company and First Security Trust Company of Nevada. The Operating Lease expires on October 31, 2000 and carries a lease rate of 225 basis points over the Eurodollar Rate. The Company has entered into a sublease with Sunset Station for the Equipment pursuant to an operating lease with financial terms substantially similar to the Operating Lease. In the event that Sunset Station elects to purchase the Equipment, the Company has provided a funding commitment up to the amount necessary for such purchase pursuant to the Supplemental Loan Agreement.

In connection with the Operating Lease, the Company also entered into a participation agreement, dated as of September 25, 1996 (the "Participation Agreement") with the trustee, as lessor under the Operating Lease, and holders of beneficial interests in the Lessor Trust (the "Holders").

8

STATION CASINOS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

3. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Pursuant to the Participation Agreement, the Holders will advance funds to the trustee for the purchase by the trustee of, or to reimburse the Company for the purchase of the Equipment, which will then be leased to the Company, and in turn subleased to Sunset Station. Pursuant to the Participation Agreement, the Company also agreed to indemnify the Lessor and the Holders against certain liabilities.

LAND OPTIONS

The Company has entered into various option agreements whereby the Company has the option to acquire or lease land for the development of existing and potential new gaming projects with purchase prices totaling \$31.0 million. In consideration for these options, the Company has paid or placed in escrow \$3.9 million at September 30, 1996, all of which would be forfeited should the Company not exercise its options to acquire or lease the land.

9

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(amounts in thousands)
(unaudited)

1. OVERVIEW

The following table highlights the results of operations for the Company and its subsidiaries:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
NEVADA OPERATIONS:				

PALACE STATION				
Net revenues.....	\$ 34,180	\$ 32,025	\$ 68,500	\$ 65,460
Operating income.....	\$ 8,292	\$ 6,866	\$ 16,185	\$ 14,544
EBITDA (1).....	\$ 10,299	\$ 9,332	\$ 20,230	\$ 19,489
BOULDER STATION				
Net revenues.....	\$ 35,645	\$ 28,751	\$ 70,044	\$ 55,885
Operating income.....	\$ 9,390	\$ 6,146	\$ 18,213	\$ 12,405
EBITDA (1).....	\$ 12,053	\$ 7,652	\$ 23,467	\$ 15,398
TEXAS STATION				
Net revenues.....	\$ 20,016	\$ 18,227	\$ 39,804	\$ 18,227
Operating income.....	\$ 536	\$ 2,150	\$ 1,848	\$ 2,150
EBITDA (1).....	\$ 2,332	\$ 3,835	\$ 5,339	\$ 3,835
TOTAL NEVADA OPERATIONS:				
Net revenues.....	\$ 89,841	\$ 79,003	\$ 178,348	\$ 139,572
Operating income.....	\$ 18,218	\$ 15,162	\$ 36,246	\$ 29,099
EBITDA (1).....	\$ 24,684	\$ 20,819	\$ 49,036	\$ 38,722
MISSOURI OPERATIONS:				

ST. CHARLES STATION				
Net revenues.....	\$ 41,292	\$ 32,448	\$ 80,817	\$ 57,887
Operating income.....	\$ 9,690	\$ 7,121	\$ 18,230	\$ 10,545
EBITDA (1).....	\$ 12,762	\$ 9,891	\$ 24,082	\$ 16,063
STATION CASINOS, INC. AND OTHER				

Net revenues.....	\$ 6,901	\$ 8,382	\$ 14,309	\$ 16,510
Operating income.....	\$ (4,099)	\$ (4,634)	\$ (7,854)	\$ (8,961)
EBITDA (1).....	\$ (3,368)	\$ (3,766)	\$ (6,404)	\$ (7,329)

</TABLE>

(1) "EBITDA" consists of operating income plus depreciation and amortization, including preopening expenses. EBITDA should not be construed as an alternative to operating income as an indicator of the Company's operating performance, or as an alternative to cash provided by operating activities as a measure of liquidity. The Company has presented EBITDA solely as supplemental disclosure because the Company believes that certain investors consider this information useful in the evaluation of the financial performance of companies with substantial depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2. RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO THREE AND

Consolidated net revenues increased 15.2% to \$138.0 million for the three months ended September 30, 1996, from \$119.8 million in the prior year. This increase in net revenues is primarily due to strong results at Boulder Station and St. Charles Station, as well as increases at Palace Station and Texas Station. Nevada Operations contributed \$89.8 million of net revenues for the three months ended September 30, 1996, an increase of \$10.8 million over the prior year. St. Charles Station contributed \$41.3 million of net revenues, an increase of \$8.8 million over the prior year. For the six months ended September 30, 1996, consolidated net revenues increased 27.8% to \$273.5 million, as compared to \$214.0 million in the prior year. Nevada Operations contributed \$178.3 million of net revenues for the six months ended September 30, 1996, an increase of \$38.8 million over the prior year. This improvement is primarily due to the increased operations from the expansion project at Boulder Station which opened in late November 1995, and the operations of Texas Station which opened in July 1995. St. Charles Station contributed \$80.8 million of net revenues for the six months ended September 30, 1996, an increase of \$22.9 million over the prior year. For the six months ended September 30, 1995, net revenues and operating income at St. Charles Station were adversely impacted by flooding on the Missouri River, which closed operations for 16 days and disrupted operations through the balance of the quarter. During the six months ended September 30, 1996, the improved results at St. Charles Station were achieved despite disruption created from the construction of a new parking garage and elevated roadway, which opened in May 1996, and construction related to the further development of the property's master plan. Flooding on the Missouri River did occur again in May 1996, however the newly completed parking garage and elevated roadway served one of its intended purposes in minimizing business disruption caused by the flood. St. Charles Station did incur approximately \$0.7 million of expense related to preparation for the flood and resulting clean-up costs. In addition to minimizing disruptions caused by flooding, the parking garage and elevated roadway provide improved access to the gaming facility and are the foundation for future phases of the St. Charles Station master plan.

Operating income increased 34.9% to \$23.8 million for the three months ended September 30, 1996, from \$17.6 million in the prior year. For the six months ended September 30, 1996 operating income increased 51.9% to \$46.6 million, from \$30.7 million in the prior year. These improvements are due to the factors discussed above. The improvement in operating income, offset by an increase in net interest expense of \$0.6 million, an increase of \$1.5 million in the income tax provision and dividends of \$1.8 million on the convertible preferred stock issued in March 1996, resulted in net income applicable to common stock of \$8.3 million, or earnings per common share of \$0.24 for the three months ended September 30, 1996, compared to net income applicable to common stock of \$7.3 million, or earnings per common share of \$0.21 in the prior year. For the six months ended September 30, 1996, the improved results, partially offset by an increase in net interest expense of \$1.4 million, an increase in the income tax provision of \$4.6 million and dividends of \$3.6 million on the convertible preferred stock, resulted in net income applicable to common stock of \$16.0 million, or earnings per common share of \$0.45, compared to net income applicable to common stock of \$10.8 million or earnings per share of \$0.33 in the prior year.

CASINO. Casino revenues increased 16.3% to \$107.4 million for the three months ended September 30, 1996, from \$92.4 million in the prior year. This increase is directly related to the improved results at Boulder Station and St. Charles Station. Casino revenues increased \$5.6 million and \$6.7 million for Boulder Station and St. Charles Station, respectively, for the three months ended September 30, 1996. For the six months ended September 30, 1996, casino revenues increased 29.3% to \$212.1 million, from \$164.0 million in the prior year. This increase is due to a full six months of operations at

2. RESULTS OF OPERATIONS (CONTINUED)

Texas Station, as well as improved results at both Boulder Station and St. Charles Station. Casino revenues increased \$30.0 million and \$18.7 million for the Nevada Operations and St. Charles Station, respectively.

Casino expenses increased 25.6% to \$48.0 million for the three months ended September 30, 1996, from \$38.2 million in the prior year. For the six months ended September 30, 1996, casino expenses increased 36.8% to \$93.3 million, from \$68.2 million in the prior year. These increases in casino expenses are consistent with the increases in casino revenues discussed above.

FOOD AND BEVERAGE. Food and beverage revenues increased 17.5% to \$21.5 million for the three months ended September 30, 1996, from \$18.3 million in the prior year. Food and beverage revenues for the Nevada Operations increased \$1.2 million, while the results at St. Charles Station improved by \$2.0 million due to the addition of two full-service restaurants in October 1995. For the six months ended September 30, 1996, food and beverage revenues increased 35.0% to \$42.6 million, from \$31.6 million in the prior year. This improvement is primarily due to an increase in food and beverage revenues at St. Charles Station of \$3.8 million, resulting from the new restaurants, and an increase of \$5.2 million related to Texas Station which opened in July 1995.

Food and beverage net profit margins improved to 24.6% for the three months ended September 30, 1996, from 18.6% in the prior year. For the six months ended September 30, 1996, food and beverage net profit margin improved to 24.3%, from 20.2% in the prior year. These increases in net margin are primarily due to improvements at the Nevada Operations as a result of continued focus on cost control and strong margins at St. Charles Station with the addition of the two full-service restaurants.

ROOM. Room revenues increased 10.8% to \$6.2 million for the three months ended September 30, 1996, from \$5.6 million in the prior year. For the six months ended September 30, 1996, room revenues increased 17.3% to \$12.7 million, from \$10.8 million in the prior year. This increase is due primarily to the addition of Texas Station with a total of 200 rooms which contributed an increase of \$1.2 million of room revenues for the six months ended September 30, 1996. The Company-wide room occupancy increased to 97% from 95%, while the average daily room rate increased to \$45 from \$42 for the three months ended September 30, 1996. For the six months ended September 30, 1996, the Company-wide occupancy increased to 97% from 95%, while the average daily room rate increased to \$46 from \$43.

OTHER. Other revenues increased 12.2% to \$11.5 million for the three months ended September 30, 1996, from \$10.2 million in the prior year. This increase is due primarily to \$0.5 million for the Company's interest in the operating income of Barley's Casino & Brewing Company which opened in January 1996, \$0.9 million of lease income from the lease of a riverboat gaming facility and combined increases in other revenues at the Company's other operating properties of \$1.5 million, offset by lost revenues of \$1.5 million from the vending division of Southwest Services which was sold in September 1995.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses ("SG&A") increased 5.1% to \$27.1 million for the three months ended September 30, 1996, from \$25.8 million in the prior year. For the six months ended September 30, 1996, SG&A increased 20.7% to \$55.6 million from \$46.1 million in the prior year. This increase is primarily due to the addition of Texas Station in July 1995. SG&A as a percentage of net revenues decreased to 19.6% from 21.5% for the three months ended September 30, 1996. For the six months ended September 30, 1996, SG&A as a percentage of net revenues decreased to 20.3%, from 21.5% in the prior year.

2. RESULTS OF OPERATIONS (CONTINUED)

CORPORATE EXPENSES. Corporate expenses increased 13.3% to \$4.4 million for the three months ended September 30, 1996, from \$3.9 million for the same period of fiscal year 1996. For the six months ended September 30, 1996, corporate expenses increased 16.2% to \$8.6 million, from \$7.4 million in the prior year. These increases are attributable to increases in personnel infrastructure to manage the Company's new properties and development plans for the remainder of fiscal year 1997 and 1998. Corporate expenses decreased to 3.2% of net revenues for the three months ended September 30, 1996, from 3.3% in the prior year. For the six months ended September 30, 1996, corporate expenses decreased to 3.2% of net revenues, from 3.5% in the prior year.

DEVELOPMENT EXPENSES. Development expenses decreased significantly for the three months ended September 30, 1996 compared to the prior year. This decrease is the result of reduced efforts to identify potential gaming opportunities. Such costs are incurred by the Company in its efforts to identify and pursue potential gaming opportunities in selected jurisdictions, including those in which gaming has not been approved. The Company expenses development costs including lobbying, legal and consulting until such time as the jurisdiction has approved gaming and the Company has identified a specific site. Costs incurred subsequent to these criteria being met are capitalized.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization increased 22.3% to \$10.3 million for the three months ended September 30, 1996, from \$8.4 million in the same period of fiscal year 1996. For the six months ended September 30, 1996, depreciation and amortization increased 26.6% to \$20.1 million, from \$15.9 million in the prior year. Texas Station contributed \$2.7 million of this increase. Depreciation expense at Boulder Station increased \$1.1 million and \$2.2 million for the three and six months ended September 30, 1996, respectively, primarily as a result of the parking garage and entertainment facilities added during mid-fiscal year 1996. These increases were offset by decreases in depreciation expense of \$0.5 million and \$0.9 million at Palace Station for the three and six months ended September 30, 1996, respectively.

INTEREST EXPENSE, NET. Interest costs incurred (expensed and capitalized) increased 76.6% to \$13.1 million for the three months ended September 30, 1996. For the six months ended September 30, 1996, interest costs were \$26.1 million, a 66.9% increase over the prior year. This increase is primarily attributable to added interest costs associated with the 10 1/8% senior subordinated notes issued by the Company in March 1996. The Company recorded interest income of \$0.7 million for the three months ended June 30, 1996, from investments in tax free municipal securities purchased with the excess proceeds of the public offerings completed in March 1996. Capitalized interest is expected to continue to grow due to the construction of new casino facilities in Las Vegas and Missouri, as well as ongoing improvements at the Company's existing facilities (see "Liquidity and Capital Resources").

3. LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of capital consist of cash flows from operating activities, borrowings under bank credit facilities, proceeds from equity and debt offerings, and vendor and lease financing of equipment.

During the six months ended September 30, 1996, the Company's sources of capital included borrowings under the Company's reducing revolving bank credit facility of \$73.0 million, cash flows from operating activities of \$52.2 million, net proceeds from the exercise of the underwriters' over-allotment option to purchase an additional 270,000 shares of convertible preferred stock related to 1,800,000 shares of convertible preferred stock issued by the Company on March 29, 1996 of \$13.1 million and excess cash invested from the March 29, 1996 issuance of convertible preferred stock and senior

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

subordinated notes. At September 30, 1996, the Company had available borrowings of \$303.0 million under its reducing revolving credit facility and \$30.6 million in cash and cash equivalents.

During the six months ended September 30, 1996, total capital expenditures were approximately \$218.8 million, of which approximately (i) \$124.7 million was associated with the development and construction of Kansas City Station, (ii) \$26.5 million was associated with the development and construction of Sunset Station, (iii) \$14.7 million was associated with the construction of a 4,000 space parking structure and elevated roadway at St. Charles Station, which opened in May 1996, (iv) \$27.6 million was associated with the construction of the next phase of the St. Charles Station master plan and (v) \$25.3 million was associated with various other projects and maintenance capital expenditures.

The Company's primary requirements during the remainder of fiscal year 1997 are expected to include the following:

- . Station Casino Kansas City - The Company anticipates that the project will cost approximately \$255.0 million (excluding net construction period interest and preopening expenses), of which approximately \$184.9 million had been incurred as of September 30, 1996. Station Casino Kansas City is being constructed on 171 acres, and will feature a casino, hotel, and dining and entertainment facilities. The property is expected to open in the last quarter of calendar year 1996.
- . Sunset Station - The Company anticipates that the project will cost approximately \$160.0 million (excluding net construction period interest and preopening expenses), of which approximately \$55.5 million had been incurred as of September 30, 1996. Sunset Station is being constructed on approximately 100 acres in the Henderson/Green Valley area of Las Vegas and will feature a casino, hotel, and dining and entertainment facilities. The project is expected to be completed in mid-calendar year 1997.
- . Texas Station Parking Garage - The Company anticipates that the 1,044-space parking garage, which will be located on the south side of the facility, will cost approximately \$6.7 million (excluding net construction period interest), of which approximately \$3.2 million had been incurred as of September 30, 1996. This project is expected to be completed during the fourth quarter of calendar year 1996.
- . Boulder Station Hotel Expansion - The Company anticipates that the 507-room, 18-story hotel project will cost approximately \$34.0 million (excluding net construction period interest and preopening expenses), of which approximately \$1.2 million in design costs had been incurred as of September 30, 1996. The project is expected to be completed within 10 to 12 months from the commencement of construction, which is expected to begin in the first quarter of calendar year 1997.
- . Station Casino St. Charles Master Plan - The Company is currently evaluating the timing and scope of the next phase of the master plan and had incurred approximately \$42.4 million (excluding net construction period interest and preopening expenses) as of September 30, 1996, related to this project. The completed master plan includes a new gaming and entertainment complex comprised of a two-story land-based restaurant and entertainment facility with gaming space on the first level of each of two adjoining gaming facilities. The gaming facilities will be docked in a man-made backwater basin adjacent to the Missouri River.

Other planned uses of capital include (i) the payment of construction contracts payable of approximately \$55.1 million as of September 30, 1996, (ii) maintenance capital expenditures at Palace

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Station, Boulder Station, Texas Station, St. Charles Station and the Southwest Companies, (iii) principal and interest payments indebtedness, (iv) dividend payments on convertible preferred stock, and (v) general corporate purposes, including certain elements of other planned improvements and expansion at the Company's existing facilities. The Sunset Loan Agreement requires the Company to contribute \$52.0 million of equity to the Sunset Station project, which was met as of September 30, 1996. The Company is considering an expansion at Texas Station that would include 50,000 square feet of additional casino, restaurant entertainment space and a 2,200-space parking structure on the north side of the facility. This expansion would provide improved access and interaction between the existing movie theater complex, casino, restaurants and other entertainment venues at Texas Station, similar to that which exists at Boulder Station. The Company will capitalize significant preopening expenses associated with its construction projects, which amounts will be expensed upon the opening of the related project and could have a material adverse impact on the Company's earnings. As of September 30, 1996, the Company had incurred \$7.7 million of preopening expenses related to Kansas City Station and will continue to incur a significant amount of such costs through the date of opening. The Company believes that cash flows from operations, borrowings under the reducing revolving bank credit facility, borrowings under the Sunset Loan Agreement, vendor and lease financing of equipment and existing cash balances will be adequate to satisfy the Company's anticipated uses of capital during the remainder of fiscal year 1997. The Company, however, continually is evaluating the financing needs of its current and planned projects. If more attractive financing alternatives become available to the Company, the Company may amend its financing plans with respect to such projects, assuming such financing would be permitted under its debt agreements (see "Description of Certain Indebtedness and Capital Stock") and other applicable agreements.

The Company's plans for the development of additional new gaming opportunities, as well as further expansion of the existing operations, may require substantial amounts of additional capital. The Company has entered into various options agreements to acquire or lease land for the development of existing and potential new gaming projects with purchase prices totaling \$31.0 million as of September 30, 1996. In consideration for these options, the Company had paid or placed in escrow \$3.9 million as of September 30, 1996, all of which would be forfeited should the Company not exercise its option to acquire or lease the land. To develop all of these projects, together with any new commitments the Company may enter into, the Company will be required to obtain additional capital through debt or equity financings. There can be no assurance that any such financing would be available to the Company or, if available, that any such financing would be available on favorable terms. As discussed below, the reducing revolving bank credit facility, and the indentures governing the Company's 9 5/8% and 10 1/8% senior subordinated notes limit the incurrence of additional indebtedness by the Company and its subsidiaries and contain various financial and other covenants. In addition, the Sunset Loan Agreement contains similar restrictions related to Sunset Station.

DESCRIPTION OF CERTAIN INDEBTEDNESS AND CAPITAL STOCK

BANK FACILITY

On July 5, 1995, the Company obtained a \$275 million reducing revolving credit facility, a portion of which was used to refinance

borrowings under a previously existing facility. On March 25, 1996, the Company amended and restated this bank facility, providing for borrowings up to an aggregate principal amount of \$400 million, reduced to \$376 million as of September 30, 1996 (the "Bank Facility"). As of September 30, 1996, the Company had borrowed \$73.0 million under the Bank Facility. The Bank Facility is secured by substantially all of the assets of Palace Station, Boulder Station, Texas Station, St. Charles Station and Kansas City Station (collectively, the "Borrowers"). The Company and the Southwest Companies guarantee the borrowings under the Bank Facility (collectively the "Guarantors"). The Bank

15

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Facility matures on September 30, 2000 and reduces quarterly by varying amounts (including approximately \$4.0 million for each quarter ending December 31, 1996 and March 31, 1997). Borrowings under the Bank Facility bear interest at a margin above the bank's prime rate or the Eurodollar Rate, as selected by the Company. The margin above such rates, and the fee on the unfunded portions of the Bank Facility, will vary quarterly based on the combined Borrower's and the Company's consolidated ratio of funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA").

The Bank Facility contains certain financial and other covenants. These include a maximum funded debt to EBITDA ratio for the Borrowers combined of 3.00 to 1.00 for each fiscal quarter through June 30, 1997, 2.75 to 1.00 for each fiscal quarter through June 30, 1998, and 2.50 to 1.00 for each fiscal quarter thereafter, a minimum fixed charge coverage ratio for the preceding four quarters for the Borrowers combined of 1.35 to 1.00 for periods March 31, 1996 through June 30, 1997, and 1.50 to 1.00 for periods thereafter, a limitation on indebtedness, and limitations on capital expenditures. As of September 30, 1996, the Borrowers funded debt to EBITDA ratio was 0.77 to 1.00 and the fixed charge coverage ratio for the proceeding four quarters ended September 30, 1996, was 2.64 to 1.00. A tranche of the Bank Facility contains a Minimum Tangible Net Worth requirement for Palace Station (\$10 million plus 95% of net income determined as of the end of each fiscal quarter with no reduction for net losses) and certain restrictions on distributions of cash from Palace Station to the Company. As of September 30, 1996, Palace Station's Tangible Net Worth exceeded the requirement by approximately \$7.0 million. These covenants limit Palace Station's ability to make payments to the Company, a significant source of anticipated cash for the Company.

In addition, the Bank Facility has financial covenants relating to the Company. These include prohibitions on dividends on or redemptions of the Company's common stock, restrictions on repayment of any subordinated debt, limitations on indebtedness beyond existing indebtedness, the Company's senior subordinated notes and up to \$25 million of purchase money indebtedness, minimum consolidated net worth requirements for the Company of \$165 million plus post October 1, 1995 preopening expenses, 95% of post October 1, 1995 net income (not reduced by net losses) and 100% of net equity offering proceeds, and limitations on capital expenditures. As of September 30, 1996, the Company's consolidated net worth exceeded the requirement by approximately \$13.0 million. The Bank Facility also includes a maximum funded debt to EBITDA ratio for the Company on a consolidated basis of 4.75 to 1.00 for each fiscal quarter through September 30, 1997, 4.50 to 1.00 for the quarter ending December 31, 1997, 4.25 to 1.00 for the quarter ending March 31, 1998, 4.00 to 1.00 for each fiscal quarter through September 30, 1998 and 3.75 to 1.00 thereafter. As of September 30, 1996, the Company's funded debt to EBITDA ratio was 3.81 to 1.00. In addition, the Bank Facility prohibits the Company from holding cash and cash equivalents in excess of the sum of the amounts necessary to make the next scheduled interest or dividend payments on the Company's senior subordinated notes and preferred stock, the amounts

necessary to fund casino bankroll in the ordinary course of business and \$2.0 million. The Guarantors waive certain defenses and rights including rights of subrogation and reimbursement. The Bank Facility contains customary events of default and remedies and is cross-defaulted to the Company's senior subordinated notes and the Change of Control Triggering Event as defined in the indentures.

SENIOR SUBORDINATED NOTES

The Company has \$382.7 million, net of unamortized discount of \$8.3 million, of senior subordinated notes outstanding as of September 30, 1996. \$185.9 million of these notes bear interest, payable semi-annually, at a rate of 9 5/8% per year and \$196.8 million of these notes bear interest, payable semi-

16

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

annually, at a rate of 10 1/8% per year (collectively, the "Notes"). The indentures governing the Notes contain certain customary financial and other covenants which prohibit the Company and its subsidiaries from incurring indebtedness (including capital leases) other than (a) non-recourse debt for certain specified subsidiaries, (b) certain equipment financings, (c) the Notes, (d) up to \$15 million of additional indebtedness, (e) additional indebtedness if, after giving effect thereto, a 2.00 to 1.00 pro forma Consolidated Coverage Ratio (as defined) has been met, (f) Permitted Refinancing Indebtedness (as defined), (g) borrowings of up to \$72 million under the Bank Facility and (h) certain other indebtedness. As of September 30, 1996 the Company's Consolidated Coverage Ratio was 3.04 to 1.00. In addition, the indentures prohibit the Company from paying dividends on any of its capital stock unless at the time of and after giving effect to such dividend, among other things, the aggregate amount of all Restricted Payments and Restricted Investments (as defined in the indentures, and which include any dividends on any capital stock of the Company) do not exceed the sum of (i) 50% of Cumulative Consolidated Net Income (as defined) of the Company (less 100% of any consolidated net losses), (ii) certain net proceeds from the sale of equity securities of the Company, and (iii) \$15 million. The limitation on the incurrence of additional indebtedness and dividend restrictions in the indentures may significantly affect the Company's ability to pay dividends on its capital stock. The Notes also give the holders of the Notes the right to require the Company to purchase the Notes at 101% of the principal amount of the Notes plus accrued interest thereon upon a Change of Control and Rating Decline (each as defined in the indentures) of the Company.

SUNSET STATION CONSTRUCTION/TERM LOAN AGREEMENT

On September 25, 1996, Sunset Station, a wholly-owned subsidiary of the Company, entered into a Construction/Term Loan Agreement (the "Sunset Loan Agreement") with Bank of America National Trust and Savings Association, Bank of Scotland, Societe Generale and each of the other Lenders party to such agreement, pursuant to which Sunset Station has received a commitment for \$110 million to finance the remaining development and construction costs of Sunset Station Hotel & Casino. In connection with the Sunset Loan Agreement, the Company entered into an operating lease for certain furniture, fixtures and equipment with a cost of \$40.0 million.

The loan under the Sunset Loan Agreement is evidenced by a first mortgage term note in the amount of \$110 million (the "Note") which is nonrecourse to the Company, except as to certain construction matters pursuant to a completion guarantee dated as of September 25, 1996, executed by the Company on behalf of Sunset Station. The Note matures on September 30, 2000 and will reduce \$1.8 million for each fiscal quarter ending March 31, 1998 through December 31, 1998, \$2.3

million for each fiscal quarter ending March 31, 1999 through December 31, 1999, and \$2.0 million for the fiscal quarters ending March 31, 2000 and June 30, 2000. In addition, the Note is subject to prepayment subsequent to July 31, 1998 by an amount equal to a specified percentage of Excess Cash Flow, as defined. The Note carries an interest rate of 375 basis points over the Eurodollar Rate (as defined in the Sunset Loan Agreement). The Note is secured by substantially all of the assets of Sunset Station, including a leasehold deed of trust with respect to a portion of the real property on which Sunset Station Hotel & Casino is being constructed, which portion is subject to a sublease from the Company to Sunset Station, a deed of trust with respect to the remainder of such property which is owned by Sunset Station and an assignment of an operating lease agreement for certain furniture, fixtures and equipment to be used by Sunset Station.

The Sunset Loan Agreement contains certain customary financial and other covenants including a minimum fixed charge coverage ratio as of the last day of any quarter after the opening of Sunset Station Hotel & Casino of not less than 1.10 to 1.00, a maximum senior funded debt to EBITDA ratio after opening of 4.50 to 1.00 for the first quarter reducing by varying amounts each quarter thereafter to

17

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

3.25 to 1.00 for the tenth quarter and each quarter thereafter, and a minimum net worth as of any quarter after opening of not less than \$52.0 million plus 80% of net income for each quarter after opening, plus 100% of any additional equity contributions by the Company and Supplemental Loans, as defined. In addition, the agreement places restrictions on indebtedness and guarantees, dividends, stock redemptions, sale of assets or sale of stock in subsidiaries and limitations on capital expenditures.

In addition, the Company has provided a funding commitment to Sunset Station of up to an additional \$25 million pursuant to a supplemental loan agreement (the "Supplemental Loan Agreement"). Sunset Station will be required to draw amounts under the Supplemental Loan Agreement in the event of the failure of certain financial covenants under the Sunset Loan Agreement. The Supplemental Loan Agreement expires on September 30, 2000. Loans under this funding commitment may be drawn down beginning on the last day of the first full calendar quarter ending after Sunset Station opens for business in the amount of up to \$10 million during the first year after such date, up to \$10 million during the second year after such date and up to \$5 million during the third year after such date. Sunset Station will pay interest at a rate per annum equal to the three month Eurodollar Rate, the interest being payable solely in the form of commensurate additions to the principal of the Supplemental Loans. The funding commitments under the Supplemental Loan Agreement are subject to limitations imposed by the indentures governing the Notes and the Bank Facility.

The Company has also entered into an operating lease for furniture, fixtures and equipment (the "Equipment") with a cost of \$40.0 million, dated as of September 25, 1996 (the "Operating Lease") between the Company and First Security Trust Company of Nevada. The Operating Lease expires on October 31, 2000 and carries a lease rate of 225 basis points over the Eurodollar Rate. The Company has entered into a sublease with Sunset Station for the Equipment pursuant to an operating lease with financial terms substantially similar to the Operating Lease. In the event that Sunset Station elects to purchase the Equipment, the Company has provided a funding commitment up to the amount necessary for such purchase pursuant to the Supplemental Loan Agreement.

In connection with the Operating Lease, the Company also entered into a participation agreement, dated as of September 25, 1996 (the "Participation Agreement") with the trustee, as lessor under the Operating Lease, and holders of beneficial interests in the Lessor Trust (the

"Holders"). Pursuant to the Participation Agreement, the Holders will advance funds to the trustee for the purchase by the trustee of, or to reimburse the Company for the purchase of the Equipment, which will then be leased to the Company, and in turn subleased to Sunset Station. Pursuant to the Participation Agreement, the Company also agreed to indemnify the Lessor and the Holders against certain liabilities.

COMMON STOCK

The Company is authorized to issue up to 90,000,000 shares of its common stock, \$.01 par value per share, 35,318,057 shares of which were issued and outstanding as of September 30, 1996. Each holder of the Company's common stock (the "Common Stock") is entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of the Common Stock have no cumulative voting, conversion, redemption or preemptive rights or other rights to subscribe for additional shares. Subject to any preferences that may be granted to the holders of the Company's preferred stock, each holder of Common Stock is entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor as well as any distributions to the stockholders and, in the event of liquidation, dissolution or winding up of the Company, is entitled to share ratably in all assets of the Company remaining after payment of liabilities.

18

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

PREFERRED STOCK

The Company is authorized to issue up to 5,000,000 shares of its preferred stock, \$.01 par value per share ("Preferred Stock"). In March 1996, the Company completed an offering of 1,800,000 shares of \$3.50 Convertible Preferred Stock (the "Convertible Preferred Stock"). In April 1996, the underwriters exercised the over allotment of an additional 270,000 shares of the Convertible Preferred Stock. The Board of Directors, without further action by the holders of Common Stock or the Convertible Preferred Stock, may issue shares of Preferred Stock in one or more series and may fix or alter the rights, preferences, privileges and restrictions, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of Preferred Stock. Except as described above, the Board of Directors, without further stockholder approval, may issue shares of Preferred Stock with rights that could adversely affect the rights of the holders of Common Stock or the Convertible Preferred Stock. The issuance of shares of Preferred Stock under certain circumstances could have the effect of delaying or preventing a change of control of the Company or other corporate action.

CONVERTIBLE PREFERRED STOCK

As of September 30, 1996, the Company has 2,070,000 shares of Convertible Preferred Stock outstanding, each with a liquidation preference of \$50.00 per share plus an amount equal to any accumulated and unpaid dividends at the annual rate of \$3.50 per share, or 7.0% of such liquidation preference. Such dividends accrue and are cumulative from the date of issuance and are payable quarterly. The Convertible Preferred Stock is convertible at the option of the holder thereof at any time, unless previously redeemed, into shares of Common Stock at an initial conversion rate of 3.2573 shares of Common Stock for each share of Convertible Preferred Stock (equivalent to a 24.0% conversion premium per share of Common Stock), subject to adjustment in certain circumstances. The Company may reduce the conversion price of the Convertible Preferred Stock by any amount for any period of at least 20 days, so long as the decrease is irrevocable during such period. The Convertible Preferred Stock is redeemable, at the option of the Company, in whole or in part, for shares of Common Stock, at any time after March 15, 1999, initially at

a price of \$52.45 per share of Convertible Preferred Stock, and thereafter at prices decreasing annually to \$50.00 per share of Convertible Preferred Stock on and after March 15, 2006, plus accrued and unpaid dividends. The Common Stock to be issued is determined by dividing the redemption price by the lower of the average daily closing price for the Company's Common Stock for the preceding 20 trading days or the closing price of the Company's Common Stock on the first business day preceding the date of the redemption notice. Any fractional shares would be paid in cash. There is no mandatory sinking fund obligation with respect to the Convertible Preferred Stock. The holders of the Convertible Preferred Stock do not have any voting rights, except as required by applicable law and except that, among other things, whenever accrued and unpaid dividends on the Convertible Preferred Stock are equal to or exceed the equivalent of six quarterly dividends payable on the Convertible Preferred Stock, the holders of the Convertible Preferred Stock, voting separately as a class with the holders of any other series of parity stock upon which like voting rights have been conferred and are exercisable, will be entitled to elect two directors to the Board of Directors until dividend arrearage has been paid or amounts have been set apart for such payment. The Convertible Preferred Stock is senior to the Common Stock with respect to dividends and upon liquidation, dissolution or winding up.

19

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Section 21E. All forwardlooking statements involve risks and uncertainties. Although the Company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not materially differ from its expectations. Factors that could cause actual results to differ materially from expectations include, among other things, the Company's competition, the limitations on capital resources imposed by the Company's bank facility and the terms of the indentures governing the Company's senior subordinated debt, the Company's ability to meet its interest expense and principal repayment obligations, the Company's ability to obtain licenses for its new projects, loss of the Company's riverboat and dockside facilities from service, construction risks, the Company's dependence on key gaming markets, the Company's ability to take advantage of new gaming development opportunities and gaming regulations. For other factors that may cause actual results to materially differ from expectations and underlying assumptions, refer to the Registration Statement on Form S-3 (File No. 333-1102) (and particularly the section labeled "Risk Factors" therein) and periodic reports, including the Annual Report on Form 10-K for the year ended March 31, 1996, filed by the Company with the Securities and Exchange Commission (and particularly the section labeled "Management's Discussion and Analysis of Financial Condition and Results of Operations" therein). Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date thereof. The Company undertakes no obligation to publicly release any revisions to such forward-looking statements to reflect events or circumstances after the date hereof.

20

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS --

The Company and its subsidiaries are defendants in various lawsuits relating to routine matters incidental to their business. Management does

not believe that the outcome of such litigation, in the aggregate, will have a material adverse effect on the Company.

A suit seeking status as a class action lawsuit was filed by plaintiff, William H. Poulos, et. al, as class representative, on April 26, 1994, in the United States District Court, Middle District of Florida, naming 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including the Company. On May 10, 1994, a lawsuit alleging substantially identical claims was filed by another plaintiff, William Ahearn, et. al, as class representative, in the United States District Court, Middle District of Florida, against 48 manufacturers, distributors and casino operators of video poker and electronic slot machines, including the Company and most of the other major hotel-casino companies. The lawsuits allege that the defendants have engaged in a course of fraudulent and misleading conduct intended to induce persons to play such games based on a false belief concerning how the gaming machines operate, as well as the extent to which there is an opportunity to win. The two lawsuits have been consolidated into a single action, and have been transferred to the United States District Court, for the State of Nevada. On September 26, 1995, a lawsuit alleging substantially identical claims was filed by plaintiff, Larry Schreier, et. al, as class representative, in the United States District court for the District of Nevada, naming 45 manufacturers, distributors, and casino operators of video poker and electronic slot machines, including the Company.

Motions to Dismiss the Poulos/Ahearn and Schreier cases were filed by Defendants. On April 17, 1996, the Poulos/Ahearn lawsuits were dismissed, but plaintiffs were given leave to file Amended Complaints on or before May 31, 1996. On May 31, 1996, an Amended Complaint was filed, naming William H. Poulos, et. al, as plaintiff. Motions to Dismiss are before the Court. On August 15, 1996, the Schreier lawsuit was dismissed with leave to amend. On September 27, 1996, Schreier filed an Amended Complaint. Defendants filed motions to Dismiss the Amended Complaint, which are pending before the Court. The Ahearn case was not refiled. Management believes that the claims are wholly without merit and does not expect that the lawsuits will have a material adverse effect on the Company's financial position or results of operations.

A suit seeking status as a class action lawsuit was filed by plaintiffs, Thomas Hyland and Zelijko Ranogajel, et. al, as class representative, on May 25, 1995, in the United States District Court, District of New Jersey, Camden Division, naming 80 credit reporting agencies and casino operators, including the Company. The lawsuit alleges that the exclusion of blackjack players who "count cards" from casinos and the sharing of information about them violates certain state and federal antitrust, consumer protection, and credit reporting statutes. On May 30, 1996, the Court dismissed this case.

A suit seeking status as a class action was filed by Paul Winkleman et. al, as class representative, on February 26, 1996, in the Circuit Court of the City of St. Louis, Missouri, naming St. Charles Station and one other casino operator in Missouri as defendants. The lawsuit seeks to recover losses that occurred within three months of the filing of the suit under a 1939 Missouri statute that purports to permit recovery of gaming losses. Based on the advice of counsel, management believes the statute has been superseded by an amendment to the constitution of the State of Missouri that was passed on November 9, 1994, and by the Missouri Gaming Law promulgated subsequent to a statewide referendum in November 1992 and further clarified subsequent to the constitutional amendment, each of which permit riverboat gaming. On May 13, 1996, St. Charles Station filed a motion to dismiss on this basis. On August 5, 1996, the Court dismissed this case.

21

ITEM 2.CHANGES IN SECURITIES - None.

ITEM 3.DEFAULTS UPON SENIOR SECURITIES - None.

ITEM 4.SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held August 20, 1996. At the meeting Frank J. Fertitta III, Chairman of the Board, Chief Executive Officer and President, Lorenzo J. Fertitta and Delise F. Sartini were re-elected to the Board of Directors to serve for a term of three years until the 1999 Annual Meeting of Stockholders. The result of the stockholder vote for each nominee was as follows:

	In Favor	Withheld
	-----	-----
Frank J. Fertitta III	33,732,882	176,714
Lorenzo J. Fertitta	33,727,538	182,058
Delise F. Sartini	33,732,740	176,856

The Stockholders also approved an amendment to the Company's Stock Compensation Program, increasing the maximum aggregate number of shares of the Company's common stock subject to the Stock Compensation Program and qualifying the Stock Compensation Program for certain tax benefits. The amendment was approved by the stockholders by a vote of 22,013,980 shares in favor, 7,064,496 shares opposed and 4,831,120 shares abstained or were broker nonvotes. Further, the Stockholders ratified the appointment of Arthur Andersen LLP as the Company's independent public accountants for the 1997 fiscal year with 33,814,394 shares in favor, 70,201 shares opposed and 25,001 shares abstained.

ITEM 5. OTHER INFORMATION - None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits -

Exhibit
Number

10 Standard Form of Agreement and General Conditions between owner and contractor, dated as of August 9, 1996, between Kansas City Station Corporation and Walton/Diggs Joint Venture.

27 Financial Data Schedule

(b) Reports on Form 8-K - The registrant filed no reports on Form 8-K during the three month period ended September 30, 1996.

22

SIGNATURE

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

Station Casinos, Inc.,
Registrant

DATE: November 14, 1996

/s/ Glenn C. Christenson

Glenn C. Christenson,
Executive Vice President and Chief Financial
Officer (Principal Accounting Officer)

STANDARD FORM
OF
AGREEMENT
AND
GENERAL CONDITIONS
BETWEEN
OWNER AND CONTRACTOR

(WHERE THE BASIS OF PAYMENT IS THE
COST OF THE WORK PLUS A FIXED FEE)

TABLE OF CONTENTS

ARTICLE 1	
AGREEMENT	1
ARTICLE 2	
GENERAL PROVISIONS	2
ARTICLE 3	
CONTRACTOR'S RESPONSIBILITIES	3
ARTICLE 4	
OWNER'S RESPONSIBILITIES	9
ARTICLE 5	
SUBCONTRACTS	10
ARTICLE 6	
CONTRACT TIME	10
ARTICLE 7	
COMPENSATION	11
ARTICLE 8	
COST OF THE WORK	12
ARTICLE 9	

CHANGES IN THE WORK 14

ARTICLE 10

PAYMENT FOR CONSTRUCTION PHASE SERVICES 15

ARTICLE 11

INDEMNITY, INSURANCE AND WAIVER OF SUBROGATION 16

ARTICLE 12

TERMINATION OF THE AGREEMENT AND OWNER'S RIGHT TO PERFORM CONTRACTOR'S RESPONSIBILITIES 19

ARTICLE 13

DISPUTE RESOLUTION 22

ARTICLE 14

MISCELLANEOUS PROVISIONS 22

ARTICLE 15

CONFIDENTIALITY 23

ARTICLE 16

EXISTING CONTRACT DOCUMENTS 23

ARTICLE 1

AGREEMENT

This Agreement is made this 9th day of August, in the year 1996, by and between the

OWNER

KANSAS CITY STATION CORPORATION
 8201 N.E. Birmingham Road
 Kansas City, Missouri 64161

and the

CONTRACTOR

WALTON/DIGGS JOINT VENTURE and	WALTON/DIGGS JOINT VENTURE
Birmingham Road	8201 N.E. 3252 Roanoke Road
Kansas City, Missouri 64161	Kansas City, MO 64111

for services in connection with the following

PROJECT

The Contractor shall furnish all labor, equipment, material, and shop drawings for all or any portion of the following scope of work as directed and at the sole discretion of the Owner:

ALL intended buildings and site improvements as developed by Architects, Engineers and Designers employed by Owner for the

referenced project. There will be excluded that portion of work included in the Massman Construction Scope of Work and any portion of the Work not authorized by the Owner through a written Directive or written Change Order.

The Project Scope of Work is divided into the following sub-projects:

Site Improvements - Primarily mass excavating and land balance, curbs, asphalt, site lighting, water, sanitary and sewer utilities

Off-Site Improvements - Primarily improvements to Eldon Road and Route 210. Also, includes minor improvements along Birmingham Road.

Low Rise Shell and Central Plant Primarily the land based support facility containing ticketing, restaurants, hotel lobby and retail along with the Central Power/Utility support facility.

Low Rise Tenant Improvements Primarily the theme restaurants in the land based facility.

Porte Cochere Primarily the main grand entrance tower and porte cochere to the Low Rise building.

Casino I and Casino II Primarily the gaming facilities constructed on floating platforms provided by others.

General Conditions Primarily the general direct costs incurred by the General Contractor incidental to the execution of the entire project.

NOTICE TO THE PARTIES SHALL BE GIVEN AT THE ABOVE ADDRESSES. NOTICE TO WALTON/DIGGS MUST BE AT BOTH ADDRESSES LISTED ABOVE.

ARTICLE 2

GENERAL PROVISIONS

2.1 ARCHITECT/ENGINEER Architectural and engineering services shall be procured from licensed, independent design professionals retained by the Owner. The persons or entities providing architectural and engineering services shall be referred to as the Architect/Engineer.

2.2 GENERAL Having carefully examined all the provisions hereof, the site and all conditions affecting the Work, the Contractor undertakes to perform the Work herein described.

2.3 TEAM RELATIONSHIP The Owner, the Owner's Representatives, and the Contractor shall take all actions reasonably necessary to perform this Agreement in an economical and timely manner, including consideration of design modifications and alternative materials or equipment that will

permit the Work to be constructed by the dates of Substantial Completion, as established in Exhibit A attached hereto and incorporated herein by reference.

2.4 PARTIAL CONTRACTS The Owner may, at its sole discretion, convert any portion of the Project to Lump Sum or GMP, with new and separate contracts with Contractor; provided, however, if the parties cannot agree on a new contract, then the Work will be performed under this Agreement.

2.5 EXTENT OF AGREEMENT This Agreement is solely for the benefit of the parties, represents the entire and integrated agreement between the parties, and supersedes all prior negotiations, representations or agreements, either written or oral.

2.6 DEFINITIONS

2.6.1 The Contract Documents consist of:

2.6.1.1 this Agreement;

2.6.1.2 Change Orders and written amendments to this Agreement signed by both the Owner and Contractor.

2.6.1.3 the most current Documents approved by the Owner pursuant to Subparagraph 3.1.6;

2.6.1.4 the information provided by the Owner pursuant to Subparagraph 4.1.2.1;

2.6.1.5 the Contract Documents in existence at the time of execution of this Agreement which have been submitted to the City of Kansas City, Missouri for review and permitting purposes and are set forth in Article 16;

2.6.1.6 the Owner's Program provided pursuant to Subparagraph 4.1.1.

2.6.2 The Work is the Construction Phase Services provided in accordance with Paragraph 3.3, any Additional Services that may be provided in accordance with Paragraph 3.8 and other services which are necessary to complete the Project.

2.6.3 The term Day shall mean calendar day.

2.6.4 A Subcontractor is a person or entity who has an agreement with the Contractor to perform any portion of the Work. The term Subcontractor does not include the Architect/Engineer or any separate contractor employed by the Owner or any separate contractor's subcontractors.

2.6.5 A Subsubcontractor is a person or entity who has an agreement with a Subcontractor to perform any portion of the Subcontractor's work.

2.6.6 Substantial Completion of the Work, or of a designated portion, occurs on the date when construction is sufficiently complete in accordance with the Contract Documents so that the Owner can occupy or utilize the Project, or a designated portion, for the use for which is it intended unless substantial completion cannot be achieved due to design code issues or owner related issues that are not caused by Contractor. This date shall be confirmed by a certificate of Substantial Completion signed by the Owner and Contractor. The certificate shall state the respective responsibilities of the Owner and Contractor for security, maintenance, heat, utilities, damage to the Work, and insurance. The certificate shall also list the items to be completed or corrected, and establish the time for their completion and correction. A certificate of substantial completion shall be issued for each portion of the work as it is occupied by the Owner.

2.6.7 INTENTIONALLY OMITTED.

ARTICLE 3

CONTRACTOR'S RESPONSIBILITIES

The Contractor shall be responsible for the construction of the Work. The Contractor shall exercise reasonable skill and judgment in the performance of its services.

3.1 INTENTIONALLY OMITTED.

3.1.1 INTENTIONALLY OMITTED.

3.1.2 INTENTIONALLY OMITTED.

3.1.3 INTENTIONALLY OMITTED.

3.1.4 INTENTIONALLY OMITTED.

3.1.5 INTENTIONALLY OMITTED.

3.1.6 CONSTRUCTION DOCUMENTS The Construction Documents prepared by the Architect/Engineer shall set forth in detail the requirements for construction of the Work, and shall consist of drawings and specifications based upon codes, laws or regulations enacted at the time of their preparation. Construction shall be in strict accordance with these approved Construction Documents.

3.1.7 OWNERSHIP OF DOCUMENTS All Documents shall be the property of the Owner, and all thereof shall be forthwith delivered to Owner upon completion of the Project.

3.2 BASIS OF THE FEE

- 3.2.1 INTENTIONALLY OMITTED.
- 3.2.2 INTENTIONALLY OMITTED.
- 3.2.3 The basis of payment is the Cost of the Work plus a Fixed Fee, all as more specifically set forth in Exhibit A attached hereto and incorporated herein by reference.

- 3.2.4 INTENTIONALLY OMITTED.
 - 3.2.4.1 INTENTIONALLY OMITTED.
 - 3.2.4.2 INTENTIONALLY OMITTED.
 - 3.2.4.3 INTENTIONALLY OMITTED.
 - 3.2.4.4 INTENTIONALLY OMITTED.
 - 3.2.4.5 INTENTIONALLY OMITTED.
 - 3.2.4.6 INTENTIONALLY OMITTED.
 - 3.2.4.7 INTENTIONALLY OMITTED.
 - 3.2.4.8 INTENTIONALLY OMITTED.

- 3.2.5 INTENTIONALLY OMITTED.
- 3.2.6 INTENTIONALLY OMITTED.
- 3.2.7 INTENTIONALLY OMITTED.
- 3.2.8 INTENTIONALLY OMITTED.
- 3.2.9 INTENTIONALLY OMITTED.

3.2.10 Although the Contractor is not responsible for identifying any such errors, omissions or failures in the Contract Documents, if the Contractor becomes aware of any error, omission or failure to meet the requirements of the Contract Documents or any fault or defect in the Work; the Contractor shall give written notice to the Owner within five (5) days. If the Contractor is delayed due to any such errors, omissions or failures in the Contract Documents, the Contractor shall be entitled to a time extension to the date of the Substantial Completion and additional compensation as provided in paragraph 6.3.1.

3.3 CONSTRUCTION PHASE SERVICES

3.3.1 The Construction Phase will commence upon the issuance by the Owner of a written directive to proceed with construction. The Owner's written notice to proceed shall list the documents that are applicable to the part of the Work which the Owner has authorized.

3.3.2 In order to complete the Work, the Contractor shall provide all necessary construction supervision, inspection, construction equipment, labor, materials, tools, and subcontracted

items.

- 3.3.3 The Contractor shall give all notices and comply with all laws, ordinances and building codes legally enacted at the date of execution of the Agreement which govern the proper performance of the Work.
- 3.3.4 The Contractor shall prepare and submit reliable cost estimates and a Schedule of Work for the Owner's review. These estimates shall be based on competitive pricing, and will form the basis for the construction budget for the Project. The Schedule shall indicate the dates for the start and completion of the various stages of the construction including the dates when information and approvals are required from the Owner, and shall be coordinated with Owner's Master Schedule. It shall be revised as required by the conditions of the Work, but not less often than monthly. Contractor shall cooperate with its Subcontractors in preparing and revising schedules.
- 3.3.5 The Contractor shall obtain and pay for the building permits necessary for the construction of the Project.
- 3.3.6 The Contractor shall take necessary precautions for the safety of its employees on the Project, and shall comply with all applicable provisions of federal, state and municipal safety laws to prevent accidents or injury to persons on, about or adjacent to the Project site. The Contractor, directly or through its Subcontractors, shall erect and properly maintain at all times, as required by the conditions and progress of the Work, necessary safeguards for the protection of workers and the public. The Contractor, however, shall not be responsible for the elimination or abatement of safety hazards created or otherwise resulting from work at the Project site carried on by the Owner or its employees, agents, separate contractors or tenants. The Owner agrees to cause its employees, agents, separate contractors and tenants to abide by and fully adhere to all applicable provisions of federal, state and municipal safety laws and regulations.
- 3.3.7 The Contractor shall prepare and keep such full and detailed accounts as may be necessary for proper financial management under this Agreement. Upon reasonable notice, which at a minimum shall be three (3) business days, the Owner shall be afforded access to all the Contractor's records, books, correspondence, instructions, drawings, receipts, vouchers, memoranda and similar data Contractor shall preserve all such records for a period of three Contractor shall make available those records kept at the project site at its earliest possible convenience.

- 3.3.8 The Contractor shall provide written reports, not less often than monthly, to the Owner on the progress of the Work.
- 3.3.9 The Contractor shall develop an accurate system of cost reporting for the Work, including regular monitoring of actual costs for activities in progress and estimates for uncompleted tasks and proposed or directed changes in the Work. The reports shall be presented to the Owner at mutually agreeable intervals, but not less often than monthly.
- 3.3.10 At all times the Contractor shall maintain the site of the Work free from debris and waste materials resulting from the Work. At the completion of the Work, the Contractor shall remove from the premises all construction equipment, tools, surplus materials, waste materials and debris, and leave the premises in a "final clean" condition.
- 3.3.11 The Contractor shall assist the Owner in securing design information and issues resolution necessary to facilitate construction progress.
- 3.3.12 The Contractor is aware of, and shall assist the Owner in that portion pertaining to the Contractor in the fulfillment of, Owner's Development Agreement with the Kansas City Port Authority. The Owner also certifies that he has provided the Contractor with all of the Agreements that pertain to the commitments to the Kansas City Port Authority. The Contractor shall endeavor to secure certified MBE/WBE companies as subcontractors, with targets of 25% MBE and 10% WBE participation based on the total Cost of the Work. The Contractor shall exceed these percentage goals whenever practical, to assist Owner's overall percentages of MBE/WBE participation in the development of the Project.
- 3.3.13 Other than the dates of Substantial Completion set forth in Exhibit A hereto, any and all estimates, of either cost or time, required of the Contractor herein shall be done to best of the Contractor's reasonable and good faith abilities, but the Contractor shall not be bound by such estimates so long as the estimates are reasonable and are made in good faith. The dates of Substantial Completion are contingent upon the Owner timely and fully performing all of its obligations and the Contractor not encountering conditions or events beyond its control.

3.4 HAZARDOUS MATERIAL

- 3.4.1 A Hazardous Material is any substance or material identified now or in the future as hazardous under any federal, state or local law or regulation, or any other substance or

material which may be considered hazardous or otherwise subject to statutory or regulatory requirements governing handling, disposal and/or cleanup. The Contractor shall not be obligated to commence or continue Work until any known or suspected Hazardous Material discovered at the Project site has been removed, rendered or determined to be harmless by the Owner as certified by an independent testing laboratory.

- 3.4.2 If after the commencement of the Work, known or suspected Hazardous Material is discovered at the Project site, the Contractor shall be entitled to immediately stop Work in the affected area, and the Contractor shall report the condition to the Owner and, if required, by law, the government agency with jurisdiction.
- 3.4.3 The Contractor shall not be required to perform any Work relating to or in the area of known or suspected Hazardous Material without written mutual agreement.
- 3.4.4 The Owner shall be responsible for retaining an independent testing laboratory to determine the nature of the material encountered and whether it is a Hazardous Material requiring corrective measures and/or remedial action. Such measures shall be the sole responsibility of the Owner, and shall be performed in a manner minimizing any adverse effect upon the Work of the Contractor. The Contractor shall resume Work in the area affected by any Hazardous Material only when the Hazardous Material has been removed or rendered harmless.
- 3.4.5 If the Contractor is delayed due to the presence of known or suspected Hazardous Material, the Contractor shall be entitled to a time extension to the date of Substantial Completion and additional compensation as provided in paragraph 6.3.1, unless caused solely by the Contractor.

3.5 ROYALTIES, PATENTS AND COPYRIGHTS The Contractor shall pay all royalties and license fees which may be due on the inclusion of any patented or copyrighted materials, methods or systems selected by the Contractor and incorporated in the Work. The Contractor shall defend, indemnify and hold the Owner harmless from all suits or claims for infringement of any patent rights or copyrights arising out of such selection, including, without limitation, losses, costs, expenses, damages, attorney's fees, whether direct, indirect or consequential. The Owner agrees to defend, indemnify and hold the Contractor harmless from any suits or claims or infringement of any patent rights or copyrights arising out of any patented or copyrighted materials, methods or systems specified by the Owner.

3.6 TAX EXEMPTION If in accordance with the Owner's direction an exemption is claimed for taxes, the Owner agrees to defend, indemnify and hold the Contractor harmless from any liability, penalty, interest,

fine, tax assessment, attorneys fees or other expense or cost incurred by the Contractor as a result of any action taken by the Contractor in accordance with the Owner's direction.

3.7 WARRANTIES AND COMPLETION

- 3.7.1 The Contractor warrants that all materials and equipment furnished under the Construction Phase of this Agreement will be new unless otherwise specified, of the best quality, in conformance with the Contract Documents, and free from defective workmanship and materials. Warranties shall commence on the date of Substantial Completion of the Work or of a designated portion. The Contractor agrees to correct all construction performed under this Agreement which proves to be defective in workmanship and materials within a period of one year from the date of Substantial Completion of each designated portion of the work, or for such longer periods of time as may be set forth with respect to specific warranties required by the Contract Documents, provided that payment for original work performed has been made unless such failure to pay is a result of a material bona-fide dispute.
- 3.7.2 Those products, equipment, systems or materials incorporated in the Work at the direction of or upon the specific request of the Owner shall be covered exclusively by the warranty of the manufacturer. There are no warranties which extend beyond the description of the face thereof.
- 3.7.3 The Contractor shall secure required certificates of inspection, testing or approval and deliver them to the Owner.
- 3.7.4 The Contractor shall collect all written warranties and equipment manuals and deliver them to the Owner.
- 3.7.5 With the assistance of the Owner's maintenance personnel, the Contractor shall direct the check-out of utilities and operations of systems and equipment for readiness, and assist in their initial start-up and testing.
- 3.7.6 The Contractor shall maintain at the site of the Work, and cause its subcontractors to maintain, complete and accurate as-built drawings of the Work as it is performed. As-built drawings will be delivered to the Owner upon completion of the Project, and shall be one of the precedents to final payment to the Contractor.

3.8 ADDITIONAL SERVICES The Contractor shall provide or procure the following Additional Services upon the request of the Owner. A separate written agreement between the Owner and Contractor shall define the extent

of such Additional Services.

- 3.8.1 Documentation of the Owner's Program, investigating sources of financing, general business planning and other information and documentation as may be required to the feasibility of the Project.
- 3.8.2 Consultations, negotiations, and documentation supporting the procurement of Project financing.
- 3.8.3 INTENTIONALLY OMITTED.
- 3.8.4 Appraisals of existing equipment, existing properties, new equipment and developed properties.
- 3.8.5 Soils, subsurface and environmental studies, reports and investigations required for submission to governmental authorities or others having jurisdiction over the Project.
- 3.8.6 Consultations and representations other than normal assistance in securing building permits, before governmental authorities or others having jurisdiction over the Project.
- 3.8.7 INTENTIONALLY OMITTED.
- 3.8.8 Artistic renderings or models of the Project. Mockups of the Project do not constitute Additional Services under this Agreement.
- 3.8.9 Inventories of existing furniture, fixtures, furnishings and equipment which might be under consideration for incorporation into the Work.
- 3.8.10 Interior design and related services, excluding procurement and placement of furniture, furnishings, art work and decorations.
- 3.8.11 INTENTIONALLY OMITTED.
- 3.8.12 INTENTIONALLY OMITTED.
- 3.8.13 Estimates, proposals, appraisals, consultations, negotiations and services in connection with the repair or replacement of an insured loss.
- 3.8.14 The premium portion of overtime work ordered by the Owner that is necessitated by the fault of the Owner.
- 3.8.15 INTENTIONALLY OMITTED.

- 3.8.16 INTENTIONALLY OMITTED.
- 3.8.17 Services for tenant or rental spaces not a part of this Agreement.
- 3.8.18 Services requested by the Owner which are not specified in the Contract Documents and which are not normally part of generally accepted construction practice.
- 3.8.19 Serving or preparing to serve as an expert witness in connection with any proceeding, legal or otherwise, regarding the Project.
- 3.8.20 Preparing reproducible record drawings from marked-up prints, drawings or other documents that incorporate significant changes in the Work made during the Construction Phase.

ARTICLE 4

OWNER'S RESPONSIBILITIES

4.1 INFORMATION AND SERVICES PROVIDED BY OWNER

- 4.1.1 The Owner shall provide full information in a timely manner regarding requirements for the Project, including the Construction Documents and other relevant information.
- 4.1.2 The Owner shall also provide:
 - 4.1.2.1 inspection and testing services during construction as required by law or as mutually agreed; and
 - 4.1.2.2 unless otherwise provided in the Contract Documents, necessary approvals, site plan review, rezoning, easements and assessments, necessary permits, fees and charges required for the construction, use, occupancy or renovation of permanent structures, including legal and other required services.
- 4.1.3 The Contractor shall be entitled to rely on the completeness and accuracy of the information and services required by this Paragraph 4.1.

4.2 INTENTIONALLY OMITTED.

- 4.2.1 INTENTIONALLY OMITTED.

4.3 OWNER'S RESPONSIBILITIES DURING CONSTRUCTION PHASE

- 4.3.1 The Owner shall review and timely approve or reject the cost estimates and Schedule of the Work as set forth in Subparagraph 3.3.4.
- 4.3.2 If the Owner becomes aware of any error, omission or failure to meet the requirements of the Contract Documents or any fault or defect in the Work, the Owner shall give written notice to the Contractor within a reasonable time, not to exceed five (5) days.
- 4.3.3 The Owner shall communicate with the Contractor's Subcontractors and suppliers only through the Contractor. The Owner shall have no contractual obligations to Subcontractors and suppliers of the Contractor.
- 4.3.4 The Owner shall provide insurance for the Project as provided in Article 11.

4.4 OWNER'S REPRESENTATIVE The Owner's Representative is Norman Nelms, who is agreed to by the Contractor. The representative:

- 4.4.1 shall be fully acquainted with the Project;
- 4.4.2 agrees to furnish the information and services required of the Owner pursuant to Paragraph 4.1;
- 4.4.3 shall have authority to bind the Owner in all matters requiring the Owner's approval, authorization or written notice. If the Owner changes its representative or the representative's authority as listed above, the Owner shall notify the Contractor in advance in writing; and
- 4.4.4 shall be assisted by an on-site staff of Owner's employees and/or consultants who will facilitate design and construction of the Project.

ARTICLE 5

SUBCONTRACTS

Work not performed by the Contractor with its own forces shall be performed by licensed Subcontractors.

5.1 RETAINING SUBCONTRACTORS The Contractor shall not retain any Subcontractor to whom the Owner has a reasonable and timely objection. The Contractor shall not be required to retain any

Subcontractor to whom the Contractor has a reasonable objection. Contractor agrees to utilize reasonable practices and solicit a sufficient number of bidders to assure to Owner the lowest cost.

5.2 MANAGEMENT OF SUBCONTRACTORS The Contractor shall be responsible for the management of the Subcontractors in the performance of their work which includes, without limitation, the obligation to obtain input from Subcontractors and coordinate their work to assure the timely completion of the Project within the budgets established for the Project.

5.3 ASSIGNMENT OF SUBCONTRACT AGREEMENTS The Contractor shall provide for assignment of subcontract agreements in the event this Agreement is terminated as provided in this Agreement. Following such termination, the Owner shall notify in writing those subcontractors whose assignments will be accepted, subject to the rights of sureties.

ARTICLE 6

CONTRACT TIME

6.1 COMMENCEMENT OF THE WORK The Work commenced on or about August 1, 1995, and shall proceed in general accordance with the schedule of work as such schedule may be amended from time to time, subject, however, to the provisions of Paragraph 3.4.

6.2 SUBSTANTIAL COMPLETION The dates for Substantial Completion of all Work are set forth in Exhibit A attached hereto and incorporated herein by reference. Time shall be of the essence of this Agreement.

6.3 DELAYS IN THE WORK

6.3.1 If causes beyond the Contractor's control delay the progress of the Work, then the date of Substantial Completion and Cost of the Work shall be modified by Change Order as appropriate. Causes beyond Contractor's control shall include but not be limited to: changes ordered in the Work, acts or omissions of the Owner or separate contractors employed by the Owner, the Owner preventing the Contractor from performing the Work pending dispute resolution, Hazardous Materials, adverse weather conditions not reasonably anticipated, fire, unusual transportation delays, labor disputes, or unavoidable accidents or circumstances. Delays by Subcontractors are not delays beyond Contractor's control. The Contractor's remedy shall be limited to an extension of time and reimbursement of those compensable costs set forth in paragraph 8.2. plus Contractor's fee.

6.3.2 Notwithstanding anything herein or elsewhere contained to the contrary, this Project is a "fast track" construction

project, and Contractor acknowledges that the Contract Documents do not include 100% complete Contract Drawings, it being understood that plans are being drawn and developed during the Construction Phase.

The Contractor is not responsible for any delays caused by incomplete Contract Drawing or Documents. If the Contractor is delayed due to the Contract Drawings or Documents, the Contractor shall be entitled to a time extension to the date of substantial completion and additional compensation as provided in paragraph 6.3.1.

- 6.3.3 In the event delays to the Project are encountered for any reason, the parties agree to undertake reasonable steps to mitigate the effect of such delays.

ARTICLE 7

COMPENSATION

7.1 INTENTIONALLY OMITTED.

7.2 INTENTIONALLY OMITTED.

7.2.1 INTENTIONALLY OMITTED.

7.2.2 INTENTIONALLY OMITTED.

7.2.3 INTENTIONALLY OMITTED.

7.2.4 INTENTIONALLY OMITTED.

7.3 CONSTRUCTION PHASE COMPENSATION

7.3.1 In addition to the cost of the work, the Owner shall compensate the Contractor a fixed fee for Work performed following the commencement of Construction on the basis described in Exhibit A attached hereto and incorporated herein by reference (the "Contractor's Fee").

7.3.1.1 INTENTIONALLY OMITTED.

7.3.1.2 The Contractor's Fee shall be paid proportionately to the ratio that the monthly Cost of the Work bears to the total estimated Cost of the Work.

7.3.2 INTENTIONALLY OMITTED.

7.3.3 Payment for Construction Phase Services shall be as set forth in Article 10.

7.4 INTENTIONALLY OMITTED.

7.4.1 INTENTIONALLY OMITTED.

7.4.2 INTENTIONALLY OMITTED.

7.4.3 INTENTIONALLY OMITTED.

7.5 ADJUSTMENTS IN THE CONTRACTOR'S FEE Adjustment in the Contractor's Fee shall be made as follows:

7.5.1 for Changes in the Work as provided in Article 9, the Contractor's Fee shall be adjusted as agreed and presented in the Fee Schedule attached hereto as Exhibit A and incorporated herein by reference, or by Change Order or as determined by the dispute resolution procedures set forth herein; and

7.5.2 INTENTIONALLY OMITTED.

7.6 RETAINAGE To insure the proper performance of this Agreement, and except for payment of Contractor's Fee and general conditions, the Owner shall retain five percent (5%) of each payment hereunder until the date of Substantial Completion of each phased portion of the work, at which time the retainage for that portion of the work shall be released and the pro rata portion of the retention related to the occupied portion shall be released; provided, however, even after Substantial Completion Owner may withhold a reasonable amount pending completion of any "punch list" or similar work but not to exceed 150% of the value of such work as estimated by the Architect/Engineer.

7.7 EFFECT OF PAYMENT Payments made hereunder are made provisionally and do not constitute acceptance of work not in accordance with the Contract Documents.

ARTICLE 8

COST OF THE WORK

The Owner agrees to pay the Contractor for the Cost of the Work as defined herein. This payment shall be in addition to the Contractor's Fee.

8.1 INTENTIONALLY OMITTED.

8.1.1 INTENTIONALLY OMITTED.

8.2 COST ITEMS FOR CONSTRUCTION PHASE SERVICES

- 8.2.1 Wages paid for field labor in the direct employ of the Contractor in the performance of the Work.
- 8.2.2 Salaries of Contractor's employees who are permanently stationed at the field office, in whatever capacity employed, including Brian Rayburn, MIS Director and Lotus Lietzke, EEOP Director when providing services directly related to the project.
- 8.2.3 Cost of all employee benefits and taxes including but not limited to workers' compensation, unemployment compensation, Social Security, health, welfare, retirement and other fringe benefits as required by law, labor agreements, or paid under the Contractor's standard personnel policy, insofar as such costs are paid to employees of the Contractor who are included in the Cost of the Work under Subparagraphs 8.2.1 and 8.2.2.
- 8.2.4 Reasonable transportation, travel, hotel and moving expenses of the Contractor's personnel incurred in connection with the Work.
- 8.2.5 Cost of all materials, supplies and equipment incorporated in the Work, including costs of inspection, testing, transportation, storage and handling.
- 8.2.6 Payments made by the Contractor to Subcontractors for work performed under this agreement.
- 8.2.7 Fees and expenses for design services procured by the Contractor.
- 8.2.8 The reasonable cost, including transportation and maintenance of all materials, supplies, equipment, temporary facilities and hand tools not owned by the workers that are used or consumed in the performance of the Work, less salvage value.
- 8.2.9 The reasonable rental charges of all necessary machinery and equipment, exclusive of hand tools owned by workers, used at the site of the Work, whether rented from the Contractor or others, including installation, repair and replacement, dismantling, removal, maintenance, transportation and delivery costs at rental charges consistent with those prevailing in the area.
- 8.2.10 Cost of the premiums for all insurance and surety bonds which the Contractor is required to procure or deems necessary.
- 8.2.11 Sales, use, gross receipts or other taxes, tariffs

or duties related to the Work for which the Contractor is liable.

- 8.2.12 Permits, fees, licenses, tests, royalties, costs of defending suits for which the Contractor is not responsible as set forth in Paragraph 3.5, and deposits lost for causes other than the Contractor's fault or negligence.
- 8.2.13 All costs associated with establishing, equipping, operating, maintaining and demobilizing the field office.
- 8.2.14 Reproduction costs, photographs, cost of telegrams, facsimile transmissions, long distance telephone calls, data processing services, postage, express delivery charges, telephone service at the site and reasonable petty cash expenses at the field office.
- 8.2.15 All water, power and fuel costs necessary for the Work.
- 8.2.16 Cost of removal of all nonhazardous substances, debris and waste materials.
- 8.2.17 Costs incurred due to an emergency affecting the safety of persons and/or property.

8.3 DISCOUNTS AND SAVINGS All trade discounts, savings, rebates and refunds, and all returns from sale of surplus materials and equipment shall, regardless of by whom paid, be credited to the Cost of the Work.

ARTICLE 9 CHANGES IN THE WORK

Changes in the Work which are within the general scope of this Agreement may be accomplished by directive or Change Order without invalidating this Agreement.

9.1 CHANGE ORDERS A Change Order is an instrument, issued after execution of this Agreement, signed by the Owner and Contractor stating their agreement upon a change in the scope of the Project which necessitates an adjustment in the dates of Substantial Completion and/or Contractor's Fee.

9.2 DETERMINATION OF COST A change in the Cost of the Work shall be determined by one or more of the following methods:

- 9.2.1 unit prices set forth in this Agreement or as subsequently agreed;

- 9.2.2 a mutually accepted, itemized lump sum;
- 9.2.3 costs determined as defined in Article 8 and a mutually acceptable Contractor's Fee as determined in Subparagraph 7.5.1; or
- 9.2.4 if an increase or decrease cannot be agreed to as set forth in Subparagraphs 9.2.1 through 9.2.3 and the Owner issues a written order for the Contractor to proceed with the change, the cost of the change in the Work shall be determined by the reasonable expense and savings of the performance of the Work resulting from the change. The Contractor shall maintain a documented, itemized accounting evidencing the expenses and savings.

9.3 OBLIGATION TO PERFORM Effective upon the date of the execution of this Agreement, upon notice or directive by Owner, Contractor shall be obligated to perform changed Work even if a Change Order has not been executed by the Owner and Contractor, in which event the provisions of Article 13 shall apply. Owner shall use its best efforts to provide written direction in a timely manner.

9.4 ADJUSTMENT OF UNIT PRICES If a proposed Change Order alters original quantities to a degree that application of previously agreed to unit prices would be inequitable to either the Owner or the Contractor, the unit prices and the Cost of the Work shall be equitably adjusted.

9.5 UNKNOWN CONDITIONS If in the performance of the Work the Contractor finds latent, concealed physical conditions which differ from the conditions the Contractor reasonably anticipated, then the date of Substantial Completion shall be equitably adjusted by Change Order within a reasonable time after the conditions are first observed and any additional compensation as provided in Paragraph 6.3.1.

9.6 CLAIMS FOR ADDITIONAL COST OR TIME For any claim for an increase in the Cost of the Work and/or an extension in the date of Substantial Completion, the Contractor shall give the Owner notice of the claim within five (5) days after the Contractor first recognizes, or ought to recognize, the condition giving rise to the claim. Except in an emergency, notice shall be given before proceeding with the Work. Any change in the Cost of the Work and/or date of Substantial Completion resulting from such claim shall be authorized by Change Order or Directive, as appropriate.

9.7 EMERGENCIES In any emergency affecting the safety of persons and/or property, the Contractor shall act, at its discretion, to prevent threatened damage, injury or loss. Any change in the Cost of the Work and/or extension of the date of Substantial Completion on account of emergency work shall be determined as provided in this Article.

ARTICLE 10
PAYMENT FOR CONSTRUCTION PHASE SERVICES

10.1 PROGRESS PAYMENTS

- 10.1.1 On or before the last day of each month after the Construction Phase has commenced, the Contractor shall submit to the Owner an Application for Payment consisting of the Cost of the Work performed up to the 20th day of that same month, including the cost of material stored on the site or at other locations approved by the Owner, along with a proportionate share of the Contractor's Fee. Prior to submission of the next Application for Payment, the Contractor shall furnish to the Owner a statement accounting for the disbursement of funds received under the previous Application. The extent of such statement shall be as agreed upon between the Owner and Contractor.
- 10.1.2 Within twenty-five (25) days after receipt of each monthly Application for Payment, or by the 25th of the following month, whichever is later, the Owner shall pay directly to the Contractor the appropriate amount for which Application for Payment is made, less amounts previously paid by the Owner.
- 10.1.3 If the Owner fails to pay the Contractor at the time payment of any amount becomes due, then the Contractor may, at any time thereafter, upon serving written notice that the Work will be stopped within five (5) days after receipt of the notice by the Owner and after such five (5) day period, stop the Work until payment of the amount owing has been received.
- 10.1.4 Payments due but not paid shall bear interest at the current prime rate of Boatmen's Bank as of the date of default.
- 10.1.5 The Contractor warrants and guarantees that title to all Work, materials and equipment covered by an Application for Payment, whether incorporated in the Project or not, will pass to the Owner upon receipt of such payment by the Contractor free and clear of all liens, claims, security interests or encumbrances, hereinafter referred to as "liens".
- 10.1.6 The Owner's progress payment, occupancy or use of the Project, whether in whole or in part, shall not be deemed an acceptance of any Work not conforming to the requirements of the Contract Documents.

10.2 FINAL PAYMENT

10.2.1 Final payment, consisting of the unpaid balance of the incurred Cost of the Work and the Contractor's fee, shall be due and payable not later than thirty (30) days after the Work is fully completed. However, if application for final payment is not made within one hundred seventy-nine (179) days after the Work is fully completed, Contractor's right to receive such final payment shall be deemed conclusively waived. Before issuance of final payment, the Owner may request satisfactory evidence that all payrolls, materials bills and other indebtedness connected with the Work have been paid or otherwise satisfied.

10.2.2 In accepting final payment, the Contractor waives all claims. In the event of any claims by the Contractor, the Owner shall timely pay all sums that are not in dispute.

10.3 LIEN WAIVER AND INDEMNITY Any and all application(s) for a progress or final payment shall be accompanied by a lien waiver and indemnity form furnished by Owner.

ARTICLE 11

INDEMNITY, INSURANCE AND WAIVER OF SUBROGATION

11.1 INDEMNITY

11.1.1 To the fullest extent permitted by law, the Contractor shall defend, indemnify and hold the Owner harmless from any and all claims, including but not limited to, claims for bodily injury, property damage (other than to the Work itself and other property insured under Paragraph 11.5) and the resulting loss of use that may arise from the performance of the Work. Such indemnity shall include payment to Owner of its reasonable attorney's fees and expenses paid or incurred.

The above-mentioned indemnification shall extend to any and all such claims which result from the negligent acts or omissions or willfull misconduct of the Contractor, Subcontractors or anyone employed or retained directly or indirectly by any of them or any party that the Contractor or Subcontractor may be liable. The Contractor shall not be required to defend, indemnify or hold harmless the Owner for any negligent acts, or omissions or willful misconduct of the Owner, Owner's employees, agents or separate contractors.

11.1.2 To the fullest extent permitted by law, the Owner shall defend, indemnify and hold the Contractor harmless from any and all claims, including but not limited

to, claims for bodily injury and property damage (and the resulting loss of use of any such property) that arises out of or during the performance of the Work. Such indemnity shall include payment to the Contractor of its reasonable attorney's fees and expenses paid or incurred. The above-mentioned indemnification shall extend to any and all such claims which result from the negligent acts or omissions or willful misconduct of the Owner, the Owner's agents, and to anyone employed or retained directly or indirectly by the Owner. The Owner shall not be required to defend, indemnify or hold harmless the Contractor for any negligent acts or omissions or willful misconduct of the Contractor, Contractor's employees, agents or separate contractors.

11.2 CONTRACTOR'S LIABILITY INSURANCE

- 11.2.1 The Contractor shall obtain and maintain projectspecific insurance coverage for the following claims which may arise out of the performance of this Agreement, whether resulting from the Contractor's operations or by the operations of any Subcontractor, anyone in the employ of any of them, or by an individual or entity for whose acts they may be liable:
- 11.2.1.1 workers' compensation, disability and other employee benefit claims under acts applicable to the Work;
 - 11.2.1.2 under applicable employers liability law, bodily injury, occupational sickness, disease or death claims of the Contractor's employees;
 - 11.2.1.3 bodily injury, sickness, disease or death claims for damages to persons not employed by the Contractor;
 - 11.2.1.4 usual personal injury liability claims for damages directly or indirectly related to the person's employment by the Contractor or for damages to any other person;
 - 11.2.1.5 damage to or destruction of tangible property, including resulting loss of use, claims for property other than the Work itself and other property insured under Paragraph 11.5;
 - 11.2.1.6 bodily injury, death or property damage claims resulting from motor vehicle liability in the use, maintenance or ownership of any motor vehicle; and
 - 11.2.1.7 contractual liability claims involving the Contractor's obligations under Subparagraph 11.1.1.

11.2.2 The Contractor's Commercial General and Automobile Liability Insurance as required by Subparagraph 11.2.1 shall be written for not less than the following limits of liability:

11.2.2.1 Commercial General Liability Insurance

11.2.2.1.1	Each Occurrence Limit	\$1,000,000
11.2.2.1.2	General Aggregate	\$2,000,000
11.2.2.1.3	Products/Completed Operations Aggregate	\$2,000,000
11.2.2.1.4	Personal and Advertising Injury Limit	\$1,000,000

11.2.2.2 Comprehensive Automobile Liability Insurance

11.2.2.2.1	Combined Single Limit Bodily Injury and Property Damage	\$1,000,000 Each Occurrence
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or

11.2.2.2.2	Bodily Injury	-Not Applicable- Each Person
		-Not Applicable- Each Occurrence
11.2.2.2.3	Property Damage	-Not Applicable- Each Occurrence

11.2.3 Commercial General Liability Insurance may be arranged under a single policy for the full limits required or by a combination of underlying policies and an excess or Umbrella Liability policy.

11.2.4 The policies shall contain a provision that coverage will not be canceled or not renewed until at least thirty (30) days' prior written notice has been given to the Owner. Certificates of Insurance showing required coverage to be in force shall be filed with the Owner prior to commencement of the Work.

11.2.5 Products and Completed Operations insurance shall be maintained for a minimum period of at least three (3) years after either ninety (90) days following the date of Substantial Completion or final payment, whichever is earlier.

11.2.6 A copy of Contractor's current Certificate of Insurance

is attached hereto as Exhibit B and incorporated herein by reference. Where inconsistent with this Agreement, the attached Certificate shall control.

11.3 INTENTIONALLY OMITTED.

11.4 NOTICE All insurance furnished by Contractor and its Subcontractors located on the site shall include Owner and Station Casinos, Inc. as additional insureds or named insureds, and a Certificate of Insurance shall be furnished to Owner prior to commencement of the Work. Contractor shall procure and furnish Owner the agreement of each insurance company to give Owner not less than thirty (30) days' notice of cancellation, nonrenewal or any endorsement eliminating or reducing coverage.

11.5 INSURANCE TO PROTECT PROJECT

11.5.1 The Owner shall obtain and maintain property insurance upon the entire Project for the full cost of replacement at the time of any loss. This insurance shall insure against loss from the perils of fire and extended coverage, and shall include "all risk" insurance for physical loss or damage including without duplication of coverage at least: theft, vandalism, malicious mischief, transit, collapse, falsework, temporary buildings, debris removal, flood and earthquake. The Owner shall increase limits of coverage, if necessary, to reflect estimated replacement cost. The Owner shall be responsible for any coinsurance penalties or deductibles.

11.5.2 If the Owner occupies or uses a portion of the Project prior to its Substantial Completion, such occupancy or use shall not commence prior to a time mutually agreed to by the Owner and the Contractor and to which the insurance company or companies providing the property insurance have consented by endorsing the policy or policies. This insurance shall not be canceled or lapsed on account of partial occupancy. Consent of the Contractor to such early occupancy or use shall not be unreasonably withheld.

11.5.3 The Owner shall obtain and maintain boiler and machinery insurance as necessary.

11.5.4 The Owner shall purchase and maintain insurance to protect against loss of use of Owner's property due to those perils insured pursuant to Paragraph 11.5.

11.5.5 The Contractor shall be given thirty (30) days' notice of cancellation, non-renewal, or any endorsements restricting or reducing coverage. The Owner shall give written notice to the Contractor before commencement of the Work if the Owner will not be obtaining property insurance. In that case, the Contractor may obtain insurance in order to protect its interest

in the Work as well as the interest of Architect/Engineer, Subcontractors and Subsubcontractors in the Work. The cost of this insurance shall be a Cost of the Work pursuant to Article 8. If the Contractor is damaged by failure of the Owner to purchase or maintain property insurance or to so notify the Contractor, the Owner shall bear all reasonable costs incurred by the Contractor arising from the damage.

11.6 PROPERTY INSURANCE LOSS ADJUSTMENT

- 11.6.1 Any insured loss shall be adjusted with the Owner and the Contractor and made payable to the Owner and Contractor as trustees for the insureds, as their interests may appear, subject to any applicable mortgagee clause.
- 11.6.2 Upon the occurrence of an insured loss, monies received will be deposited in a separate account and the trustees shall make distribution in accordance with the agreement of the parties in interest, or in the absence of such agreement, in accordance with Article 13. If the trustees are unable to agree between themselves on the settlement of the loss, such dispute shall also be submitted for resolution pursuant to Article 13.

11.7 WAIVER OF SUBROGATION

- 11.7.1 The Owner and Contractor waive all rights against each other, the Architect/Engineer, and any of their respective employees, agents, consultants, subcontractors and subsubcontractors for damages caused by risks covered by insurance provided in Paragraph 11.5 to the extent they are covered by that insurance, except such rights as they may have to the proceeds of such insurance held by the Owner and Contractor as trustees. The Contractor shall require similar waivers from the Architect/Engineer and all Subcontractors, and shall require each of them to include similar waivers in their subsubcontracts and consulting agreements.
- 11.7.2 The Owner waives subrogation against the Contractor, Architect/Engineer, Subcontractors and Subsubcontractors on all property and consequential loss policies carried by the Owner on adjacent properties and under property and consequential loss policies purchased for the Project after its completion.
- 11.7.3 If the policies of insurance referred to in this Paragraph require an endorsement to provide for continued coverage where there is a waiver of subrogation, the owners of such policies will cause them to be so endorsed.

11.8 PRIORITY OF INSURANCE Any insurance policy obtained by the

Contractor or its Subcontractors to fulfill the insurance requirements of this Agreement or any subcontract agreement shall be deemed primary insurance to any similar insurance the Owner may obtain for its own benefit, which shall be excess or secondary but not contributing insurance. Each such policy obtained by the Contractor or its Subcontractors shall provide that the insurer shall defend any suit against the Owner, its parent company, subsidiaries, operating divisions, partners, officers, agents or employees, even if such suits are frivolous or fraudulent. Such insurance shall provide the Owner and Contractor the right to engage counsel who is mutually acceptable for the purpose of defending any legal action against the Owner. The Contractor and its Subcontractors shall indemnify the Owner for costs and expenses, including but not limited to, attorney's fees, Owner's staff/labor costs and travel costs incurred in support of or in anticipation of such litigation, arising out of or incurred in the defense of actions against the Owner arising from the Project.

ARTICLE 12

TERMINATION OF THE AGREEMENT AND OWNER'S RIGHT TO PERFORM CONTRACTOR'S RESPONSIBILITIES PERFORM CONTRACTOR'S RESPONSIBILITIES;

12.1 TERMINATION BY THE CONTRACTOR

12.1.1 Upon twenty (20) days' written notice to the Owner, the Contractor may terminate this Agreement for any of the following reasons:

- 12.1.1.1 if the Work has been stopped for a consecutive fifteen (15) day period
 - 12.1.1.1.1 under court order or order of other governmental authorities having jurisdiction;
 - 12.1.1.1.2 as a result of the declaration of a national emergency or other governmental act during which, through no act or fault of the Contractor, materials are not available; or
 - 12.1.1.1.3 because of the Owner's failure to pay the Contractor in accordance with this Agreement;
- 12.1.1.2 if the Work is suspended by the Owner for fifteen (15) days;
- 12.1.1.3 if the Owner materially delays the Contractor in

the performance of the Work; or

12.1.1.4 if the Owner otherwise materially breaches this Agreement, provided, however that the notice period for termination due to Owner's failure to pay shall be governed by 10.1.3.

12.1.2 Upon termination by the Contractor in accordance with Subparagraph 12.1.1, the Contractor shall be entitled to recover from the Owner payment for the cost of the work as defined in Article 8 plus the prorata Contractor's fee for such work, plus all demobilization costs. In addition, the Contractor shall be paid an amount calculated as set forth in Subparagraph 12.3.

12.2 OWNER'S RIGHT TO PERFORM CONTRACTOR'S OBLIGATIONS AND TERMINATION BY THE OWNER FOR CAUSE

12.2.1 If the Owner determines that the Contractor is adjudged as bankrupt, or if it makes a general assignment for the benefit of its creditors, or if a receiver is appointed on account of its insolvency, or if it persistently or repeatedly refuses or fails, except in cases for which extension of time is provided, to supply enough properly skilled workmen or proper materials, pay its Subcontractors or suppliers, or if it persistently performs substandard work, or persistently disregards laws, ordinances, rules, regulations or orders of any public authority having jurisdiction, or otherwise is guilty of a substantial violation of a provision of the Contract Documents, or fails to so prosecute the Work as to insure its completion, within the time, or any extension thereof, specified in this Agreement, then the Owner may, without prejudice to any right or remedy and after giving the Contractor and its surety, if any, ten (10) days' written notice, terminate the employment of the Contractor and take possession of the site and of all materials, equipment, tools, construction equipment and machinery thereon owned by the Contractor. Should the surety fail to respond within fifteen (15) days following such notice and pursue completion of the work with diligence acceptable to the Owner, the Owner may arrange for completion of the Work and deduct the cost thereof from the unpaid fees or costs incurred by Contractor, including the cost of additional Architect/Engineer services and of Owner contract administration costs made necessary by such default or neglect, in which event no further payment shall then be made by the Owner until all costs of completing the Work shall have been paid. If the unpaid balance of the fees and costs incurred by the Contractor exceeds the costs of finishing the Work, including compensation for the Architect/Engineer's and Owner's additional services made necessary thereby, such excess shall be paid to the Contractor or its surety as applicable.

If such costs exceed the unpaid balance, the Contractor or its surety shall pay the difference to the Owner.

- 12.2.2 In the event the Owner exercises its rights under Subparagraph 12.2.1, upon the request of the Contractor the Owner shall provide a detailed accounting of the cost incurred by the Owner.
- 12.2.3 Contractor acknowledges that Owner's parent corporation, Station Casinos, Inc. (STCI) is a publicly traded company, that STCI's wholly-owned subsidiaries hold gaming licenses in various jurisdictions, and that STCI's NASDAQ membership and its subsidiaries' gaming licenses are of vital importance to its business. In this regard, Contractor agrees to comply with all reasonable requests made by Owner for information concerning Contractor's background, which may include, without limitation, completion by Contractor of STCI's standard form of Corporate Background Questionnaire and/or Personal Background Questionnaire, as appropriate. Owner may terminate this Agreement immediately upon written notice to the Contractor in the event that:
- 12.2.3.1 Contractor fails to comply with information requests as set forth in the foregoing sentence; or
 - 12.2.3.2 Owner makes a reasonable determination that continued association with Contractor would jeopardize STCI's NASDAQ membership or the status of any gaming license of any of STCI's subsidiaries.

12.3 TERMINATION BY OWNER WITHOUT CAUSE If the Owner terminates this Agreement other than as set forth in Paragraph 12.2, the Owner shall pay the Contractor for all Work executed plus the prorata Contractor's fee for such work, as well as and for any proven loss, cost or expense in connection with the Work, plus all demobilization costs. In addition, the Contractor shall be paid an amount calculated as set forth below:

- 12.3.1 INTENTIONALLY OMITTED.
- 12.3.2 If the Owner terminates this Agreement after commencement of the Construction Phase, the Contractor shall be paid the cost of the work as defined in this article and Article 8, the Contractor's Costs and the prorata portion of the Contractor's Fee.
- 12.3.3 INTENTIONALLY OMITTED.
- 12.3.4 The Owner shall also pay to the Contractor fair compensation, either by purchase or rental at the election of the Owner, for any equipment retained. The Owner shall assume and become liable for obligations, commitments

and unsettled claims that the Contractor has previously undertaken or incurred in good faith in connection with the Work or as a result of the termination of this Agreement. As a condition of receiving the payments provided under this Article 12, the Contractor shall cooperate with the Owner by taking all steps necessary to accomplish the legal assignment of the Contractor's rights and benefits to the Owner, including the execution and delivery of required papers.

12.4 TERMINATION FOR CONVENIENCE OF OWNER Prior to or during the performance of the Work, the Owner reserves the right to terminate this Agreement for unforeseen causes not limited to court orders, loss of funding, acts of the federal government to discontinue the Work, etc., that may occur. Upon such an occurrence, the following procedures will be adhered to:

- 12.4.1 The Owner will immediately notify the Contractor in writing, specifying the effective termination date of the Contract.
- 12.4.2 After receipt of the notice of termination, the Contractor shall immediately proceed with the following obligations, regardless of any delay in determining or adjusting any amounts due at that point in the Contract.
 - 12.4.2.1 Stop all work.
 - 12.4.2.2 Place no further subcontracts or orders for materials or services.
 - 12.4.2.3 Terminate all subcontracts.
 - 12.4.2.4 Cancel all material and equipment orders as applicable.
 - 12.4.2.5 Take action that is necessary to protect and preserve all property related to this Agreement which is in the possession of the Contractor.
- 12.4.3 Within sixty (60) days of the date of the notice of termination, the Contractor shall submit a final termination settlement proposal to the Owner based upon costs up to the date of termination, reasonable demobilization costs and a reasonable portion of Contractor's Fee. If the Contractor fails to submit the proposal within the time allowed, the Owner may determine the amount due to the Contractor because of the termination and shall pay the determined amount to the Contractor.
- 12.4.4 If the Contractor and the Owner fail to agree on the settlement amount, the matter will be handled as a dispute

in accordance with the procedure described in Article 13.

12.5 ASSIGNMENT In the event of termination by Owner, with or without cause, Owner may, at its option, obtain the assignment of any or all subcontracts. The Contractor shall not allow language in its Subcontracts which prevents assignment of Subcontracts to Owner.

ARTICLE 13

DISPUTE RESOLUTION

13.1 INITIAL DISPUTE RESOLUTION If a dispute arises out of or relates to this Agreement or its breach, before either party commences litigation the parties shall endeavor to settle the dispute first through direct discussions.

13.2 WORK CONTINUANCE AND PAYMENT Unless otherwise agreed in writing, the Contractor shall continue the Work and maintain the approved schedules during any discussions or legal proceedings. The Owner shall continue to make payments in accordance with this Agreement, including timely payments of all sums not in dispute.

13.3 ATTORNEYS FEES AND COSTS If any legal action or other proceeding is brought by any party to this Agreement against any other party to this Agreement for the enforcement or the interpretation of any of the rights or provisions of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover its reasonable attorneys fees and all other costs and expenses incurred in that action or proceeding, in addition to any other relief to which it may be entitled.

ARTICLE 14

MISCELLANEOUS PROVISIONS

14.1 ASSIGNMENT The Contractor shall not assign its interest in this Agreement without the written consent of the Owner.

14.2 GOVERNING LAW This Agreement shall be governed and construed in accordance with the laws of the State of Missouri.

14.3 SEVERABILITY The partial or complete invalidity of any one or more provisions of this Agreement shall not affect the validity or continuing force and effect of any other provision.

14.4 AMENDMENTS AND MODIFICATIONS No modifications or alterations of this Agreement shall be effective unless made in writing and signed by both parties hereto.

14.5 NEGOTIATED TRANSACTION The provisions of this Agreement were

negotiated by the parties hereto and said Agreement shall be deemed to have been drafted by both parties hereto.

14.6 NO WAIVER OF PERFORMANCE The failure of either party to insist, in any one or more instances, on the performance of any of the terms, covenants or conditions of this Agreement, or to exercise any of its rights, shall not be construed as a waiver or relinquishment of such term, covenant, condition or right with respect to further performance.

14.7 TITLES The title given to the Articles of this Agreement are for ease of reference only and shall not be relied upon or cited for any other purpose.

14.8 OTHER PROVISIONS

14.8.1 VENUE The venue for any lawsuit or deposition in connection with any dispute arising out of or related to this Agreement or the work called for in this Agreement shall be Kansas City, Missouri.

ARTICLE 15

CONFIDENTIALITY

Contractor hereby agrees that during the term of this Agreement and indefinitely thereafter, Contractor shall not directly or indirectly disclose, publish or use for the benefit of Contractor or any party, except in carrying out its duties for Owner, any "Confidential Information" (as defined below), without the prior written consent of Owner. For the purposes of this Agreement, Confidential Information shall include, but is not limited to, all information, data, contracts, agreements (including, but not limited to, this Agreement), files, records, documents, specifications, accounts, candidate lists, ideas, forms, procedures, techniques, expertise, attorney work-product, resumes, referral slips, phone records, correspondence, memoranda, names, addresses, sites, identities or telephone numbers of any contacts, payments, fees and other similar items relating to the matters that are the subject of the activities of Owner, or matters that are the subject of the activities of Owner, or the Services to be performed hereunder. Contractor acknowledges and agrees that the Confidential Information provided by Owner is unique to Owner's business and that monetary damages for a violation of this Agreement may not be an adequate remedy at law. Contractor agrees that should it violate any terms or provisions of this Agreement, in addition to monetary damages, injunctive relief in any court of competent jurisdiction is an appropriate remedy to protect Owner's interests.

ARTICLE 16

EXISTING CONTRACT DOCUMENTS

The Contract Documents in existence at the time of execution of this Agreement are those documents listed in Exhibit "C" attached hereto and incorporated herein by reference.

EXHIBIT "A"

PROJECTED COSTS

1)	Contract "A" - Scope of Work	
	Sitework	12,850,000
	Offsite	4,150,000
	Lowrise Building	62,000,000
	Casino #1	20,700,000
	Casino #2	18,850,000
	General Conditions	7,392,000

	Total Projected Cost of Base Project	125,942,000
2)	A fixed fee of \$4,650,000 is established for a projected cost range of \$121,000,000 to \$131,000,000. The Owner may elect to change the scope of Contract "A" within this range, without a change to the Contractor's fixed fee. The Contractor is not authorized to exceed the line item projected costs above, without written approval from the Owner.	
	In the event that the final cost of the work exceeds or falls below the cost range limits, then the fixed fee will be increased or reduced by change order the exact amount of the variance outside of the cost range x 4%.	
3)	Contract "B" - Lowrise Line 5 to 0.3 (with Boardwalk)	3,000,000
	Projected Cost of Work	120,000

	Fixed Fee - For cost of work range of +/- 10%	3,120,000
4)	Contract "C" - Casino #1/2nd Floor	
	Projected Cost of Work	4,000,000
	Fixed Fee - For cost of work range of +/- 10%	160,000

	Total	4,160,000
5)	Contract "D" - Casino #2/2nd Floor	
	Projected Cost of Work	4,250,000
	Fixed Fee - For cost of work range of +/- 10%	170,000

		4,420,000
6)	Contract "E" - Theater Connector Pad	

Projected Cost of Work	580,000
Fixed Fee - For cost of work range of +/- 10%	23,200

Total	603,200

7) Contract "F" - Theater Connector Building

Projected Cost of Work	TBD
Fixed Fee - For cost of work range of +/- 10%	TBD

Total	TBD

8) If for any reason including scope change, the cost of the work for contracts "B", "C", "D", "E" or "F" exceed or fall below their individual cost ranges, then the respective fee will be adjusted by the exact amount of the variance outside of the cost range x 4%.

9) Nothing herein precludes the parties from negotiating GMPs or lump sums for any portion of this work, which are then performed and paid as such based on any new agreement or change order to this contract.

10) Schedule - The approved baseline schedule for this project is ST 22 dated March 2, 1996. The following are major substantial completion dates:

Major Division of Work	Substantial Completion

Sitework	01-Nov-96
Offsites	01-Nov-96
Lowrise Building to Line 7 & Lowrise Shell Building to Line 0.3: Contracts A & B	15-Nov-96
Lowrise Central Plant/Loading Dock/HR	15-Jun-96
Casino #1/ - Contracts A & C	01-Oct-96
Casino #2/ - Contracts A & D	15-Oct-96

11) The parties understand and agree that all budgets are estimates only and are not to be construed as guaranteed maximum prices. The substantial completion dates set forth above are based and contingent upon the Owner's timely and fully performing all of its obligations, including, but not limited to, providing to the Contractor in a timely manner those items requested in the Contractor's letters to Owner dated July 10 and 11, 1996 (copies of which are attached to the Agreement as Exhibit "D" and incorporated herein by reference) and the Contractor not encountering conditions or events beyond its control. To the extent that the substantial completion dates set forth above conflict with any substantial completion dates contained in ST 22 dated March 2, 1996, the substantial completion dates set forth above shall control.

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This schedule contains summary financial information extracted from the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations found on pages 3 and 4 of the Company's Form 10-Q for the Six months ended September 30, 1996, and is qualified in its entirety by reference to such financial statements.

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<CIK> 0000898660

<NAME> STATION CASINOS, INC.

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