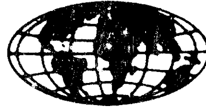

CAESARS WORLD, INC.

October 23, 1987

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Caesars World, Inc. (the "Company") scheduled to be held on Tuesday, November 24, 1987, at 10:00 A.M. local time, at the Century Plaza Hotel, 2025 Avenue of the Stars, Los Angeles, California. At this meeting you will be asked to vote upon (1) a proposal to elect directors on the basis of either the election of three Class I directors to serve for a three-year term and one Class II director to serve for a one-year term and until their successors are duly elected and qualified or the election of nine directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified, depending upon the outcome with respect to the succeeding proposals to rescind, among other things, the provisions of the Company's Articles of Incorporation providing for a classified Board of Directors, (2) proposals to rescind certain amendments to the Company's Articles of Incorporation (the "Recapitalization Amendments") which were approved by shareholders on July 8, 1987, at a Special Meeting of Shareholders in connection with the Company's previously proposed recapitalization plan, and (3) a proposal to adopt the Company's Non-Employee Directors' Stock Option Plan pursuant to which 100,000 shares of common stock will be reserved for the grant of nonqualified stock options to non-employee directors of the Company upon the terms and subject to the conditions of the Plan. Details of the proposals are set forth in the accompanying Proxy Statement.

As explained in the accompanying Proxy Statement, on August 12, 1987, the New Jersey Casino Control Commission rejected the Company's recapitalization plan. In the weeks following the Commission's decision, the Board reviewed a variety of alternatives with our legal and financial advisors to determine what, if anything, was the appropriate next step. Based on its judgment as to timing, uncertainty and other factors, the Board of Directors determined not to seek a reversal of the New Jersey Commission's decision and, therefore, the special cash dividend contemplated by the plan of recapitalization will not be paid.

The plan of recapitalization provided that in the event the payment of the dividend was approved by shareholders but was not paid, the Company would take a subsequent vote of shareholders with respect to the possible rescission of the Recapitalization Amendments. Accordingly, the Company is presenting shareholders with the opportunity to consider and act upon proposals to rescind the Recapitalization Amendments. Due to the proximity of the Annual Meeting and the expense associated with calling a special meeting, the Company has determined to present shareholders with an opportunity to vote on such proposals at the Annual Meeting rather than call a special meeting solely for that purpose.

Notwithstanding the fact that the recapitalization plan will not proceed and the dividend will not be paid, the Board of Directors believes that the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders and recommends that shareholders vote AGAINST the proposals to rescind the Recapitalization Amendments.

In an effort to enable the Company to continue to compete in attracting and retaining qualified directors, the Board of Directors is recommending that the shareholders approve the adoption of the Non-Employee Directors' Stock Option Plan, reserving 100,000 shares for the grant of nonqualified stock options to non-employee directors of the Company.

1801 Century Park East, Los Angeles, California 90067, Telephone (213) 552-2711

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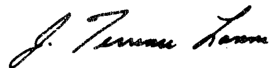
The accompanying Proxy Statement contains important information concerning the proposals to be presented at the Annual Meeting, including a description of the Recapitalization Amendments, the reasons for the Board's recommendation against rescission of the Recapitalization Amendments and certain possible anti-takeover effects of the Recapitalization Amendments. Please give this information your careful attention.

Whether or not you are personally able to attend the Annual Meeting, please complete, sign, date and return the enclosed WHITE proxy card as soon as possible. This action will not limit your right to vote in person if you wish to attend the Annual Meeting and vote personally.

Sincerely,

HENRY GLUCK
Chairman of the Board
and Chief Executive Officer



J. TERRENCE LANNI
President and
Chief Operating Officer

IMPORTANT

If your shares are registered in the name of a broker or bank, only your broker or bank can submit the WHITE Proxy Card on your behalf. Please contact the person responsible for your account and direct him or her to submit the WHITE Proxy Card on your behalf. If you have any questions about how to vote your shares, please call our proxy solicitor:

THE Carter ORGANIZATION, INC.

237 Park Avenue
New York, New York 10017
Toll-free 800-221-3343
or 212-619-1100 (collect)

CAESARS WORLD, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS SCHEDULED TO BE HELD NOVEMBER 24, 1987

TO THE SHAREHOLDERS OF CAESARS WORLD, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the "Annual Meeting") of Caesars World, Inc., a Florida corporation (the "Company"), is scheduled to be held on Tuesday, November 24, 1987, at 10:00 A.M. local time, at the Century Plaza Hotel, 2025 Avenue of the Stars, Los Angeles, California, for the following purposes:

1. (a) If Proposal (2)(a) below is not approved by shareholders, to elect three Class I directors to serve for a three-year term and one Class II director to serve for a one-year term and until their successors are duly elected and qualified; or

(b) If Proposal (2)(a) below is approved by shareholders, to elect nine directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified;

2. To consider and vote upon proposals:

(a) to amend the Company's Amended and Restated Articles of Incorporation (the "Existing Articles of Incorporation"), the full text of which, as proposed to be amended, including the Recapitalization Amendments (as defined below), is attached as Exhibit A to the accompanying proxy statement, to rescind the following provisions of the Existing Articles of Incorporation which were approved by shareholders on July 8, 1987 at a Special Meeting of Shareholders (the "Special Meeting") in connection with the Company's previously proposed Plan of Recapitalization, dated April 5, 1987, as subsequently amended (the "Plan of Recapitalization"): (i) Article VI which requires that action by shareholders be taken only at an annual or special meeting and not by written consent; (ii) Article VIII which provides for a classified Board of Directors divided into three classes of directors, with the term of office of one of the three classes of directors expiring each year and with each class being elected for a three-year term; (iii) Article IX which provides for the removal of directors by the shareholders only for cause and by an 80% vote of shareholders; (iv) Article X which provides that the By-laws of the Company may only be adopted, amended or repealed by the Board of Directors or by an 80% vote of shareholders; and (v) Article XII which requires an 80% vote of shareholders to amend or repeal the foregoing provisions (collectively, together with the Fair Price Provision and the Dividend Provision (as such terms are defined below), the "Recapitalization Amendments"); and

(b) to amend the Existing Articles of Incorporation to rescind the following provisions of the Existing Articles of Incorporation which were approved by shareholders on July 8, 1987 at the Special Meeting in connection with the Plan of Recapitalization: (i) Article XI which provides for a "fair price" provision requiring that certain transactions with interested 15% shareholders be approved by an 80% vote of shareholders (excluding shares held by such interested shareholder and certain related parties), unless the transaction is approved by a majority of the disinterested directors or certain procedural and fair price requirements are satisfied (the "Fair Price Provision"); and (ii) certain provisions of Article III which provide that dividends may be paid in accordance with the Florida General Corporation Act (the "Dividend Provision");

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3. To consider and vote upon a proposal to adopt the Company's Non-Employee Directors' Stock Option Plan (the "Non-Employee Directors' Plan"), the form of which is attached as Exhibit B to the accompanying proxy statement, pursuant to which 100,000 shares of common stock, par value $.10 per share (the "Shares"), will be reserved for the grant of nonqualified stock options to non-employee directors of the Company upon the terms and subject to the conditions of the Non-Employee Directors' Plan; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on October 20, 1987, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. A list of such shareholders will be available for examination at the offices of the Company located at 1801 Century Park East, Los Angeles, California 90067 at least ten days prior to the Annual Meeting.

To assure that your interests will be represented, whether or not you plan to attend the Annual Meeting in person, please complete, date and sign the enclosed WHITE proxy card and return it promptly in the enclosed envelope, which requires no postage if mailed in the United States.

By Order of the Board of Directors

PHILIP L. BALL
Secretary

October 23, 1987
Los Angeles, California

IMPORTANT

All shareholders are cordially invited to attend the Annual Meeting in person.

Whether or not you plan to attend the Annual Meeting in person please complete, date and sign the enclosed WHITE proxy card and return it in the enclosed envelope. The envelope requires no postage if mailed in the United States. It is important that your Shares be represented at the Annual Meeting. Any shareholder who signs and sends in a WHITE proxy card may revoke it at any time before it is voted.

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CAESARS WORLD, INC.
1801 Century Park East
Los Angeles, California 90067

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS SCHEDULED TO BE HELD NOVEMBER 24, 1987

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Caesars World, Inc., a Florida corporation (the "Company"), from holders of the Company's outstanding shares of Common Stock, par value $.10 per share (the "Shares"), for use at the Annual Meeting of Shareholders of the Company (the "Annual Meeting") scheduled to be held on Tuesday, November 24, 1987, at 10:00 A.M. local time, at the Century Plaza Hotel, 2025 Avenue of the Stars, Los Angeles, California, and at any adjournments or postponements thereof.

Purpose of the Annual Meeting

At the Annual Meeting, the shareholders of the Company are being asked to consider and to vote upon the following proposals:

1. (a) If Proposal (2)(a) below is not approved by shareholders, to elect three Class I directors to serve for a three-year term and one Class II director to serve for a one-year term and until their successors are duly elected and qualified; or

(b) If Proposal (2)(a) below is approved by shareholders, to elect nine directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified;

2. (a) To amend the Company's Amended and Restated Articles of Incorporation (the "Existing Articles of Incorporation"), the full text of which, as proposed to be amended, including the Recapitalization Amendments (as defined below), is attached as Exhibit A to this Proxy Statement, to rescind the following provisions of the Existing Articles of Incorporation which were approved by shareholders on July 8, 1987 at a Special Meeting of Shareholders (the "Special Meeting") in connection with the Company's previously proposed Plan of Recapitalization, dated April 5, 1987, as subsequently amended (the "Plan of Recapitalization"): (i) Article VI which requires that action by shareholders be taken only at an annual or special meeting and not by written consent; (ii) Article VIII which provides for a classified Board of Directors divided into three classes of directors, with the term of office of one of the three classes of directors expiring each year and with each class being elected for a three-year term; (iii) Article IX which provides for the removal of directors by the shareholders only for cause and by an 80% vote of shareholders; (iv) Article X which provides that the By-laws of the Company may only be adopted, amended or repealed by the Board of Directors or by an 80% vote of shareholders; and (v) Article XII which requires an 80% vote of shareholders to amend or repeal the foregoing provisions (collectively, together with the Fair Price Provision and the Dividend Provision (as such terms are defined below), the "Recapitalization Amendments");

(b) To amend the Existing Articles of Incorporation to rescind the following provisions of the Existing Articles of Incorporation which were approved by shareholders on July 8, 1987 at the Special Meeting in connection with the Plan of Recapitalization: (i) Article XI which provides for a "fair price" provision requiring that certain transactions with interested 15% shareholders be approved by an 80% vote of shareholders (excluding Shares held by such interested shareholder and certain related parties), unless the transaction is approved by a majority of the disinterested directors or

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This Proxy Statement is first being sent to shareholders on or about October 23, 1987.

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certain procedural and fair price requirements are satisfied (the "Fair Price Provision"); and (ii) certain provisions of Article III which provide that dividends may be paid in accordance with the Florida General Corporation Act (the "Dividend Provision"); and

3. To adopt the Company's Non-Employee Directors' Stock Option Plan (the "Non-Employee Directors' Plan"), the form of which is attached as Exhibit B to this Proxy Statement, pursuant to which 100,000 Shares will be reserved for the grant of nonqualified stock options to non-employee directors of the Company upon the terms and subject to the conditions of the Non-Employee Directors' Plan.

In accordance with the Plan of Recapitalization, the Recapitalization Amendments, as well as conforming changes to the Company's By-laws, were effected immediately after approval by shareholders at the Special Meeting on July 8, 1987 of the Plan of Recapitalization and the proposed payment of the special cash dividend of $26.25 per Share contemplated by the Plan of Recapitalization (the "Dividend"). The Plan of Recapitalization provided that if the Dividend is approved by shareholders but is not paid, the Company will call a special meeting of shareholders to take a subsequent vote with respect to the possible rescission of the Recapitalization Amendments. As more fully described under "THE RECAPITALIZATION AMENDMENTS—Background and Reasons for the Proposals," on August 12, 1987, the New Jersey Casino Control Commission (the "New Jersey Commission") rejected the Company's proposed Plan of Recapitalization. After reviewing the decision of the New Jersey Commission with the Company's legal and financial advisors, as well as, among other things, the advice of counsel that approval of the Plan of Recapitalization by the New Jersey Commission or the Nevada Gaming Commission was not likely, the delay, internal disruption and general uncertainty associated with the Company's chances of prevailing with the Plan of Recapitalization, and the volatility in the financial markets, the Board of Directors determined not to seek a reversal of the New Jersey Commission decision and, therefore, the Dividend will not be paid. Consequently, the Company is presenting shareholders with Proposals (2)(a) and (b) in order to give shareholders an opportunity to vote with respect to the Recapitalization Amendments.

In accordance with Florida law and the Existing Articles of Incorporation, the affirmative vote of the holders of at least 80% of the outstanding Shares is necessary to approve Proposal (2)(a) to rescind the Recapitalization Amendments other than the Fair Price Provision and the Dividend Provision, and the affirmative vote of the holders of a majority of the outstanding Shares is necessary to approve Proposal (2)(b) to rescind the Fair Price Provision and the Dividend Provision. If Proposals (2)(a) and (b) are approved by shareholders, the Existing Articles of Incorporation will be amended to rescind each of the Recapitalization Amendments in its entirety and, with respect to the Dividend Provision, to conform to the Company's Articles of Incorporation which existed prior to the adoption of the Recapitalization Amendments (the "Original Articles of Incorporation"). In addition, if Proposals (2)(a) and (b) are approved by shareholders, the Company's By-laws (the "Existing By-laws") will be amended by the Board of Directors to conform to the Company's By-laws which existed prior to the adoption of the Recapitalization Amendments (the "Original By-laws"). The full text of the Existing Articles of Incorporation, as proposed to be amended, including the Recapitalization Amendments, is attached as Exhibit A to this Proxy Statement. For the reasons described in this Proxy Statement, the Board of Directors of the Company believes that the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders and recommends that shareholders vote AGAINST Proposals (2)(a) and (b).

In assessing Proposals (2)(a) and (b), shareholders should be aware that the Recapitalization Amendments may have the effect of making more difficult or discouraging a proxy contest involving the Company, certain mergers, a tender offer, an open market purchase program, or other purchases of Shares in circumstances that could give shareholders the opportunity to sell their Shares at a premium over then prevailing market prices. See "THE RECAPITALIZATION AMENDMENTS."

Voting Rights and Proxy Information

The Board of Directors of the Company has fixed the close of business on October 20, 1987 as the record date (the "Record Date") for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only holders of record of Shares at the close of business on the Record Date will be entitled to notice of and to vote at the Annual Meeting. On the Record Date, 23,922,658 Shares were outstanding. Each shareholder is entitled to one vote per Share held of record on the Record Date on each matter that may properly come before the Annual Meeting.

With respect to the election of directors, a plurality of the votes cast at the Annual Meeting is necessary to elect one or more directors. The affirmative vote of the holders of at least 80% of the outstanding Shares is necessary to approve Proposal (2)(a) to rescind the Recapitalization Amendments other than the Fair Price Provision and the Dividend Provision, and the affirmative vote of the holders of a majority of the outstanding Shares is necessary to approve Proposal 2(b) to rescind the Fair Price Provision and the Dividend Provision. The affirmative vote of the holders of a majority of the Shares present in person or by proxy at the Annual Meeting is necessary to approve Proposal (3).

Shareholders of record on the Record Date are entitled to cast their votes in person or by properly executed proxy at the Annual Meeting. The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding Shares is necessary to constitute a quorum at the Annual Meeting.

All Shares represented at the Annual Meeting by properly executed proxies received prior to or at the Annual Meeting and not properly revoked will be voted at the Annual Meeting in accordance with the instructions indicated in such proxies. If no instructions are indicated, such proxies will be voted FOR the election of the Board's nominees as directors, AGAINST each of Proposals (2)(a) and (b), and FOR Proposal (3). The Board of Directors of the Company does not know of any matters, other than the matters described in the Notice of Meeting attached to this Proxy Statement, that will come before the Annual Meeting. If any business not described herein should come before the Annual Meeting, the persons named in the enclosed WHITE Proxy will vote on those matters in accordance with their best judgment.

If a quorum is not present at the time the Annual Meeting is convened, or if for any other reason the Company believes that additional time should be allowed for the solicitation of proxies, the Company may adjourn or postpone the Annual Meeting with or without a vote of the shareholders. In accordance with the Existing By-laws, the Chairman of the Board shall serve as Chairman of the Annual Meeting who shall have the absolute power in his sole discretion to adjourn the Annual Meeting. If the Company proposes to adjourn the Annual Meeting by a vote of the shareholders, the persons named in the enclosed WHITE proxy card will vote all Shares for which they have voting authority in favor of such adjournment.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company, at or before the Annual Meeting, a written notice of revocation bearing a date later than the date of the proxy, (ii) duly executing a subsequent proxy relating to the same Shares and delivering it to the Secretary of the Company at or before the Annual Meeting, or (iii) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy). Any written notice revoking a proxy should be sent to: Caesars World, Inc., 1801 Century Park East, Los Angeles, California 90067, Attention: Philip L. Ball, Secretary.

The date of this Proxy Statement is October 23, 1987.

ELECTION OF DIRECTORS
(Proposal 1)

Article VIII of the Existing Articles of Incorporation provides that the directors of the Company shall be divided into three classes, designated as Class I, Class II and Class III, and that at each annual meeting of shareholders of the Company successors of the class of directors whose term expires at that annual meeting will be elected for a three-year term. The number of directors constituting the entire Board of Directors is currently fixed at nine members. Pursuant to Article VIII of the Existing Articles of Incorporation and the vote of the shareholders at the Special Meeting, Messrs. Ball, Schweitzer and Yellen were designated as members of Class I and are scheduled to hold office until the Annual Meeting, Messrs. Echeverria, Lanni and Sprague were designated as members of Class II and, except for Mr. Sprague who has resigned, are scheduled to hold office until the 1988 annual meeting of shareholders, and Messrs. Bolsky, Chaikin and Gluck were designated as members of Class III and are scheduled to hold office until the 1989 annual meeting of shareholders.

Mr. Yellen is not standing for re-election. Due to the time commitments and demands of the last year, Mr. Sprague has recently resigned from the Board of Directors creating a vacancy in Class II.

Based upon the outcome of the vote of the shareholders with respect to Proposal (2)(a) to rescind the Recapitalization Amendments other than the Fair Price Provision and the Dividend Provision, including Article VIII providing for a classified Board of Directors, the shareholders will be asked either (i) to elect three Class I directors whose term will expire with the annual meeting of shareholders in 1990 and one Class II director whose term will expire with the 1988 annual meeting of shareholders or (ii) to elect nine directors to serve until the next annual meeting of shareholders. If Proposal (2)(a) is not approved by shareholders, Mr. M. Peter Schweitzer who is currently a Class I director has been nominated by the Board of Directors for election as a Class II director to fill the vacancy in that Class created by Mr. Sprague's resignation to hold office until the 1988 annual meeting of shareholders, and the following three persons have been nominated by the Board of Directors for election as Class I directors to hold office until the 1990 annual meeting of shareholders, in each case until their successors are duly elected and qualified:

PHILIP L. BALL, IRVING BUCHALTER AND TERRY BURMAN

If Proposal (2)(a) is approved by shareholders, the following nine persons have been nominated by the Board of Directors for election as directors of the Company, to hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified:

PHILIP L. BALL, ABRAHAM S. BOLSKY, WILLIAM E. CHAIKIN, PETER ECHEVERRIA, HENRY GLUCK, J. TERRENCE LANNI, M. PETER SCHWEITZER, IRVING BUCHALTER AND TERRY BURMAN

Under the present interpretation of New Jersey licensing requirements, a director may not assume office until at least temporarily qualified by the New Jersey Commission. All of the foregoing nominees, other than Messrs. Buchalter and Burman, are qualified under New Jersey licensing requirements. With respect to Messrs. Buchalter and Burman, temporary qualification can be obtained only upon petition to the New Jersey Commission, which petition may not be considered earlier than 30 days from the date an application for licensure is submitted by a newly elected director. Such temporary qualification is limited to 180 days or until such director is fully investigated and found qualified or until a license renewal hearing occurs, whichever is earlier. Both Mr. Buchalter and Mr. Burman have made application for temporary qualification and the Company presently anticipates that they will be so qualified by November 24, 1987. Each of Messrs. Buchalter and Burman, if elected, will only be able to serve upon temporary qualification by the New Jersey Commission and then only for a maximum of 180 days unless he is fully investigated and qualified in the interim. Once fully investigated and qualified, Messrs. Buchalter and Burman will be able to serve the full term for which they are elected.

Additional Information Concerning Nominees and Members of the Board of Directors

Set forth below are the names, ages, present principal occupations or employments, and business experience during the last five years of each director and each nominee for election as a director of the Company and the year in which each director first became a director of the Company. For information

regarding the ownership of Shares by the Company's directors and executive officers and each nominee for election as a director of the Company, see "Security Ownership of Management" below. Unless otherwise indicated, each person listed below has been employed at his or her present principal occupation since 1982 or prior thereto, and each position listed below is with the Company. Each individual listed below is a citizen of the United States. There are no family relationships among directors, nominees for election as directors, and executive officers of the Company.

All current directors of the Company also serve and, except for Mr. Yellen, are standing for election as directors of Caesars New Jersey, Inc. ("CNJ"), an 86.6% owned subsidiary of the Company. In addition, Messrs. Buchalter and Burman are also standing for election as directors of CNJ.

Philip L. Ball (age 53) is a Senior Vice President, the Secretary, the General Counsel and a director of the Company and CNJ and has held these positions since he joined the Company and CNJ in July 1983. From 1971 until he joined the Company he was Vice President, General Counsel and Secretary, and beginning in 1973 a director, of Monogram Industries, Inc., a diversified manufacturing company listed on the New York Stock Exchange, Inc. (the "NYSE"). Mr. Ball became a director of the Company and CNJ in July 1983.

Abraham S. Bolsky (age 65) has been President of Tishman Construction Corporation of California, a privately-owned general contractor and construction manager on major projects in the western United States, for more than the past five years. In addition, Mr. Bolsky has been a director (for more than five years) and Executive Vice President (for more than five years) of Tishman Realty and Construction Co., a privately-owned leading construction and development firm. Mr. Bolsky has been a director of the Company and CNJ since December 1983.

Irving Buchalter (age 63) has been Vice President Finance of S. Harris & Co., Inc., a privately held corporation engaged in the distribution of draperies and upholstery fabrics for about three years. Prior to that time, Mr. Buchalter was engaged in private practice as a Certified Public Accountant.

Terry Burman (age 42) has been President of Barry's Jewelers, Inc., a publicly held retail jewelry chain, since 1982.

William E. Chaikin (age 68) since 1983 has been a general partner in Fund of Feature Films, a limited partnership in the business of acquiring and distributing motion pictures. Mr. Chaikin served as Chairman of the Board of American Title Insurance Company between 1962 and 1972. From 1965 to 1972 he was Vice Chairman of Mariners Savings and Loan Association. He served as President of Avco Embassy Pictures Corporation, an international producer and distributor of motion pictures, from 1974 to 1979. Mr. Chaikin has been a director of the Company and CNJ since December 1984.

Peter Echeverria (age 69) retired in 1983 after having been engaged for more than thirty-five years in the practice of law as a member of Echeverria and Osborne, located in Reno, Nevada. He was a member of the Nevada Gaming Commission from April 1973 to April 1977 and was its Chairman from August 1973 to April 1977. Since July 1, 1983, he has conducted a consulting firm in Reno, Nevada. He has been a director of Desert Palace, Inc., a subsidiary of the Company, since November 1977 and a director of the Company and CNJ since May 1981.

Henry Gluck (age 59) has been Chief Executive Officer of the Company and CNJ since February 1983 and Chairman of the Board of these companies since June 1983. From 1973 to February 1983, he was President of Arluck International, a private management advisory firm. From February 1979 to April 1983, he served as Chairman of the Board of Standun, Inc., a major supplier of can making equipment. Mr. Gluck became a director of the Company and CNJ in October 1982.

J. Terrence Lanni (age 44) is the President and Chief Operating Officer of the Company and CNJ. He joined the Company in January 1977 and became Treasurer in February 1977, Senior Vice President in April 1978, Executive Vice President in December 1979 and President in April 1981. He became a director of the Company and CNJ in February 1982.

M. Peter Schweitzer (age 77) has been the Vice Chairman of the Boards of the Company and CNJ since December 1981 (having performed the function of Vice Chairman of these Boards for eight months prior to that). He has been a director of the Company since 1977 and of CNJ since 1978.

Security Ownership of Management

The following table sets forth certain information as of October 19. 1987 with respect to the Shares and the shares of Common Stock of CNJ beneficially owned by each of the named directors and nominees for election as directors and by the directors and officers of the Company as a group:

	Caesars World, Inc. Common Stock		Caesars New Jersey, Inc. Common Stock	
Name	Amount Beneficially Owned(1)(2)	Percent of Total Outstanding	Amount Beneficially Owned(3)	Percent of Total Outstanding
Philip L. Ball	45,100	*	0	*
Abraham S. Bolsky	2,000	*	0	*
Irving Buchalter	300	*	0	*
Terry Burman	0	*	0	*
William E. Chaikin	1,000	*	0	*
Peter Echeverria	28,500	*	0	*
Henry Gluck	125,000	*	0	*
J. Terrence Lanni	46,335	*	130	*
M. Peter Schweitzer	35,375	*	0	*
All Directors and Officers as a Group (15 persons)	337,360	*	130	*

* The asterisk in the columns captioned "Percent of Total Outstanding" for Caesars World, Inc. Common Stock and Caesars New Jersey, Inc. Common Stock indicates less than 1% of the outstanding Common Stock of the respective companies is beneficially owned as of October 19, 1987.

(1) The number of Shares listed as beneficially owned by the named directors and all directors and officers as a group includes the following number of Shares not presently owned but as to which such listed beneficial owner has the right to acquire beneficial ownership by exercise of options on or before December 19, 1987: Mr. Ball—27,500 Shares; Mr. Gluck—75,000 Shares; Mr. Lanni—25,710 Shares; Mr. Schweitzer—9,375 Shares; and all directors and officers as a group—161,460 Shares. Except for such Shares, each person listed in the table has sole voting and (except for the Shares described in note (2) below) sole investment power with respect to all Shares listed in the table opposite each person's name.

(2) The number of Shares listed as beneficially owned by the named directors and all directors and officers as a group includes the following number of unvested Shares issued under the Key Employee Stock Bonus Plan: Henry Gluck—37,500 Shares; J. Terrence Lanni—20,625 Shares; Philip L. Ball—17,500 Shares; and Roger Lee—17,500 Shares. One other executive officer not named in the Cash Compensation Table below received restricted stock in the amount of 5,000 Shares. See the description of this Plan under "Compensation of Executives Pursuant to Employee Plans."

(3) The number of shares of Common Stock of CNJ beneficially owned by each of the named directors and by all directors and officers as a group does not include any shares as to which such beneficial owner has a right to acquire since no such rights are known to exist.

Compensation of Directors

Non-employee directors of the Company receive $2,000 per month for serving as directors of the Company and $1,000 per month for serving on the CNJ Board. Also, Peter Echeverria receives $1,000 per month for serving as a director of Desert Palace, Inc., a subsidiary of the Company. In addition to the foregoing, if Proposal (3) is approved by shareholders and the Non-Employee Directors' Plan is adopted, non-employee directors of the Company will be eligible to receive grants of nonqualified stock options pursuant to the terms and conditions of such Plan. See "NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN."

Audit and Compensation Committee

The Boards of Directors of the Company and CNJ each have Audit and Compensation Committees with identical composition currently consisting of Messrs. Echeverria (Chairman), Bolsky and Chaikin. Members of the Audit and Compensation Committees, except the Chairman, receive $750 for each Committee meeting of the Company and $750 for each meeting of CNJ's Audit and Compensation Committee. The Chairman receives a fee of $1,250 per month from the Company and a fee of $833 per month from CNJ for serving as Chairman of the respective Audit and Compensation Committees. The functions of the Audit and Compensation Committees are making recommendations regarding the engagement of the Company's and CNJ's independent auditors after consultation with management, reviewing the arrangements for and scope of the engagement of the independent auditors, approving compensation of certain senior officers of the Company and CNJ and reviewing transactions in which officers, directors or control persons of the Company and CNJ may have potential conflicts of interest. As officers and full-time employees of the Company, Messrs. Gluck, Lanni, Schweitzer and Ball receive no separate compensation for services as directors. See "Cash Compensation of Executive Officers" and "Compensation of Executives Pursuant to Employee Plans" below for a description of the compensation of these persons.

The Company's Board of Directors held twelve regular meetings and five telephonic meetings during fiscal 1987. As the members of the Board also serve as the Board of Directors of CNJ, six of the regular meetings were joint meetings. All directors were present at all meetings except Mr. Sprague who missed two regular meetings, Mr. Schweitzer who missed one regular meeting, and Mr. Yellen who, due to an extended illness, missed five regular meetings and five telephonic meetings. During the fiscal year ended July 31, 1987, the Audit and Compensation Committees of the Company and CNJ held thirteen meetings (including four telephonic meetings), six of which were in joint session. Neither the Company nor CNJ has a nominating committee.

Cash Compensation of Executive Officers

The following table sets forth the cash compensation paid and accrued by the Company and its subsidiaries during the fiscal year ended July 31, 1987 to each of the five most highly compensated executive officers of the Company and to all executive officers as a group:

Cash Compensation Table

Name of individual or number in group	Capacities in which served	Cash Compensation
Henry Gluck	Chairman of the Board and Chief Executive Officer	$ 992,331
J. Terrence Lanni	President and Chief Operating Officer	$ 572,430
Philip L. Ball	Senior Vice President, Secretary and General Counsel	$ 284,797
Roger Lee	Senior Vice President—Finance and Administration	$ 281,216
M. Peter Schweitzer	Vice Chairman of the Board	$ 204,650
Executive Officers as a Group (8 persons)		$2,810,661

For a discussion of the cash compensation of the directors of the Company, see "Compensation of Directors" and "Audit and Compensation Committee" above.

Compensation of Executives Pursuant to Employee Plans

Executive Security Plan

The Company has an unfunded Executive Security Plan for full time salaried officers and other key employees of the Company and its subsidiaries. This Plan became effective on August 1, 1981. Participation in the Plan is generally dependent on the person's position and requires a recommendation by the President of the Company or the respective subsidiary and approval of the Administrative Committee of the Plan. Participation of certain senior officers would also require approval of the Audit and Compensation Committee of the Board of Directors. Under the Plan, each participant may become entitled to receive, beginning at age 65, an annual retirement benefit equal to 2% multiplied by the participant's average earned base compensation (average of highest five years of base compensation earned during the participant's last ten years of employment with the Company) multiplied by the number of years of credited service, but not more than 65% of the average base compensation. Base compensation includes salaries, exclusive of bonuses (except for Messrs. Gluck and Lanni), and is not the same as cash compensation shown in the Cash Compensation Table above which includes incentive compensation and other payments. Beginning August 1, 1985, Mr. Gluck's and Mr. Lanni's incentive compensation is included in base compensation pursuant to their respective employment agreements. The average incentive compensation for Messrs. Gluck and Lanni for the two years ended July 31, 1987 was $454,572 and $174,135, respectively. Deferred salary is included in base salary. An additional 5% benefit is awarded after the first ten years of credited service. If a participant terminates employment with the Company before reaching age 65, he may choose to receive a lump sum benefit or a reduced retirement benefit according to formulas set forth in the Plan. The benefits under the Plan vest after five years of credited service with the Company. The following table illustrates the annual retirement benefits payable by the Company stated as a straight life annuity for specified compensation levels and years of service classifications. The Plan also offers the option of a joint or survivor annuity at a reduced rate or a lump sum benefit settlement and provides for ten years of guaranteed payments if the employee does not survive that long. The Plan also provides for death benefits equal to the greater of the amount of the participant's annual base compensation rate in effect at the date of death or the present value of a guaranteed 120 payment retirement benefit. The death benefit is substantially covered by insurance. Pursuant to employment contracts, Messrs. Gluck and Lanni have the option to require the Company to partially secure its obligations (subject to the claim of creditors) by deposits in a trust fund.

Pension Plan Table

Average Compensation for highest 5 of last 10 Years	Estimated Annual Benefits at Age 65 For Representative Years of Service				
	15	20	25	30	35
$ 100,000	$ 35,000	$ 45,000	$ 55,000	$ 65,000	$ 65,000
200,000	70,000	90,000	110,000	130,000	130,000
300,000	105,000	135,000	165,000	195,000	195,000
400,000	140,000	180,000	220,000	260,000	260,000
500,000	175,000	225,000	275,000	325,000	325,000
600,000	210,000	270,000	330,000	390,000	390,000
800,000	280,000	360,000	440,000	520,000	520,000
1,000,000	350,000	450,000	550,000	650,000	650,000
1,200,000	420,000	540,000	660,000	780,000	780,000

Benefits shown on the table are not subject to reduction for social security benefits or other offset amounts.

As of July 31, 1987, the five officers listed below plus 95 other current and former officers and employees of the Company and its subsidiaries were participating in the Executive Security Plan. As to the employment contract pension rights based on incentive compensation for Messrs. Gluck and Lanni, their

average compensation for the two years since August 1, 1985 was $454,572 and $174,135, respectively, and each has two years of credited prior service as to the pension measured by incentive compensation. As of October 19, 1987, the full years of credited service for the Plan (measured by base compensation) and current base compensation of Messrs. Gluck, Lanni, Ball, Lee and Schweitzer are as follows:

	Years of Credited Service	Current Base Compensation
Henry Gluck	5	$492,480
J. Terrence Lanni	10	369,360
Philip L. Ball	4	180,000
Roger Lee	2	180,000
M. Peter Schweitzer	5	150,000

As of July 31, 1987, the Company and its subsidiaries had accrued $6,466,565 for the payment of benefits under the Executive Security Plan.

During the fiscal year ended July 31, 1987, the Company and its subsidiaries made employer contributions to the Caesars World, Inc. Individual Retirement Account Plan in connection with the Executive Security Plan on behalf of the eligible executive officers of the Company, which contributions are reflected in the Cash Compensation Table above.

Incentive Compensation Plan

The Company has adopted Incentive Compensation Plans for fiscal 1988 with respect to certain officers of the Company. Basically, the Plans provide for incentive compensation for each officer designated to participate based on a designated percentage of corporate pre-tax income (before extraordinary and certain unusual items, accrued incentive compensation and minority interest) in excess of 12% of shareholders' equity as of July 31, 1987 (adjusted if certain stock sales or repurchases occur during fiscal 1988). The applicable percentage for each participant is determined by the Audit and Compensation Committee for persons named in the Cash Compensation Table and by Messrs. Gluck and Lanni for other participants. The fiscal 1988 incentive compensation percentages of each of the officers covered by the Plans separately listed in the Cash Compensation Table are as follows: Philip L. Ball—0.165%; and Roger Lee—0.165%. Pursuant to similar provisions of their employment contracts, the percentage for Henry Gluck is 0.8% and for J. Terrence Lanni is 0.48%. The total incentive compensation percentage for all executive officers to be covered under the Plans (including Messrs. Gluck and Lanni) is 1.817%. The total incentive compensation percentage for all participants in the Plans is 1.932%. No officer can receive incentive compensation in excess of a maximum of 50% of such person's salary, except Mr. Gluck as to whom the maximum is 100%. Subject to the foregoing overall maximums, participating officers are also eligible for a discretionary bonus not to exceed 12.5% of their salary. There are a total of nine participants in the Plans. Incentive compensation accrued for the fiscal year ended July 31, 1987 is included in the Cash Compensation Table.

During the period August 1, 1984 through July 31, 1987 aggregate payments under these Incentive Compensation Plans were as follows: Henry Gluck—$1,291,696; J. Terrence Lanni—$498,269; Philip L. Ball—$249,134; Roger Lee—$174,134; the current executive officers covered under the Plans as a group (7)—$2,522,036; and all current employees covered under the Plans as a group (9)—$2,699,409.

Stock Options Under the Company's 1983 Stock Incentive Program

The Company's 1983 Long-Term Stock Incentive Program (the "1983 Stock Incentive Program") was adopted by the Company and approved by the shareholders on December 15, 1983. It is administered by the Audit and Compensation Committee which is empowered to grant awards under the Program to key employees of the Company or any subsidiary. Under the 1983 Stock Incentive Program, 1,250,000 Shares were originally available for award.

As of October 19, 1987, there were 446,625 Shares remaining unused under the 1983 Stock Incentive Program and there were outstanding options to purchase 363,875 Shares pursuant to such Program.

The Program continues until December 31, 1993. Awards under the Program may include performance shares, performance bonuses, stock grants, stock options (including incentive stock options), stock appreciation rights, cash payments, or any combination thereof as the Audit and Compensation Committee may determine in its sole discretion. To date the only awards under this Program have been stock options (including incentive stock options), limited stock appreciation rights, stock appreciation rights and restricted stock grants.

With approval of the Board of Directors of the Company, the Audit and Compensation Committee may at any time terminate or from time to time amend the 1983 Stock Incentive Program in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any awards theretofore made under the 1983 Stock Incentive Program except as otherwise provided in the 1983 Stock Incentive Program or such award. No such amendment by the Audit and Compensation Committe shall be effective without approval by the shareholders of the Company to increase the maximum number of Shares which may be delivered under the 1983 Stock Incentive Program, or to extend the maximum period during which awards may be granted or exercised under the 1983 Stock Incentive Program.

The following table contains information about stock options granted or exercised during the three fiscal years ended July 31, 1987 under the Company's 1983 Stock Incentive Program with regard to each of the five most highly compensated executive officers of the Company and all current executive officers as a group. Each option exercise price was at least equal to the market value of the Shares on the date the option was granted.

Caesars World, Inc.
1983 Long-Term Stock Incentive Program
Stock Options
and Stock Appreciation Rights

	Henry Gluck	J. Terrence Lanni	Philip L. Ball	Roger Lee	M. Peter Schweitzer	All Current Executive Officers as a Group(8)	All Employees as a Group
Granted—August 1, 1984 to July 31, 1987							
Number of Shares without tandem rights	—	—	—	—	—	10,000	306,500
Number of Shares with limited tandem rights	—	—	—	20,000	—	22,500	32,500
Number of Shares with unlimited tandem rights	100,000	50,000	—	—	—	150,000	150,000
Average per Share exercise price	$14.88	$14.88	—	$13.69	—	$14.72	$14.24

The net value of Shares or cash realized from the exercise of stock options and stock appreciation rights during the three year period ended July 31, 1987 were as follows: Henry Gluck—$1,837,000; J. Terrence Lanni—$681,000; all current executive officers as a group (8)—$2,518,000; and all employees as a group—$3,967,452.

As of October 19, 1987, the number of Shares under option not vested for persons named in the Cash Compensation Table are as follows: Henry Gluck—25,000 Shares; J. Terrence Lanni—6,250 Shares; Philip L. Ball—2,500 Shares; Roger Lee—10,000 Shares; and M. Peter Schweitzer—3,125 Shares. All such unvested Shares may become fully vested under the terms of the options in the event of a change of control as defined in the option agreements.

Under the 1983 Stock Incentive Program, the Company has granted limited stock appreciation rights to certain of its officers in tandem with existing stock options such officers presently hold (including options under the 1978 Stock Option Plan described below). All such limited rights are exercisable in the event of

the completion of an offer for at least 20% of the Shares and the exercise of such rights is in the alternative to the exercise of the stock options. Upon exercise, the holder is entitled to receive the excess over the option price of the highest price paid in any such tender or exchange offer during the tender offer period. In such case, assuming full exercise, the amounts payable in lieu of unvested options under both the 1983 Stock Incentive Program and the 1978 Stock Option Plan, assuming a value of $14.00 per Share (the closing price on October 19, 1987), for persons listed in the Cash Compensation Table based on the unrealized value for unvested Shares as of October 19, 1987 would be as follows: Henry Gluck $59,250; J. Terrence Lanni—$14,812; Philip L. Ball—$5,925; Roger Lee—$3,100; and M. Peter Schweitzer $7,406.

As part of the Plan of Recapitalization, the 1983 Stock Incentive Program was amended: (i) to permit the Audit and Compensation Committee to grant 1.5 million restricted Shares to officers and key employees of the Company; (ii) to reserve an additional 1.5 million Shares for issuance to key employees; and (iii) to reserve an additional two million Shares to provide equitable adjustments to outstanding stock options and stock appreciation rights to reflect the payment of the Dividend. The Plan of Recapitalization provided that if the Dividend is not paid, none of the foregoing Shares would be granted and the equitable adjustments to stock options and stock appreciation rights would not be made. As a result of the New Jersey Commission's decision, the Dividend will not be paid and the 1983 Stock Incentive Program has been amended to delete the three million Shares reserved for issuance and the two million Shares reserved for equitable adjustments to stock options and stock appreciation rights pursuant to the Plan of Recapitalization.

Stock Options Under the Company's 1978 Stock Option Plan

The 1978 Stock Option Plan provided for the grant of options to certain key personnel of the Company and its subsidiaries. The plan initially was administered by the Board of Directors of the Company and all grants were to be made by that body. During fiscal 1984, the Board delegated these powers to the Audit and Compensation Committee of the Company. Options were granted from time to time to eligible persons based on Board determination. Effective December 15, 1983, upon approval of the 1983 Stock Incentive Program, the 1978 Stock Option Plan was closed for future issuances of stock options and has continued only for administrative purposes.

The following table contains information about stock options granted or exercised during the three fiscal years ended July 31, 1987 under the Company's 1978 Stock Option Plan with regard to each of the five most highly compensated executive officers of the Company and all current executive officers as a group.

Caesars World, Inc.
1978 Stock Option Plan
Stock Options and
Stock Appreciation Rights

	Henry Gluck	J. Terrence Lanni	Philip L. Ball	Roger Lee	M. Peter Schweitzer	All Current Executive Officers as a Group(8)	All Employees as a Group
Granted—August 1, 1984 to July 31, 1987:							
No options were granted during this period. As to options previously held:							
Limited tandem rights	—	6,960	20,000	—	25,000	65,960	65,960
Unlimited tandem rights	100,000	50,000	—	—	—	150,000	150,000

The net value of Shares or cash realized from the exercise of stock options and stock appreciation rights during the three year period ended July 31, 1987 were as follows: Henry Gluck—$2,500,000; J. Terrence Lanni—$515,264; M. Peter Schweitzer—$556,000; all current executive officers as a group (8)—$3,644,784; and all employees as a group—$6,565,824.

As of October 19, 1987, there were fully vested outstanding options to purchase 28,750 Shares pursuant to the 1978 Stock Option Plan.

Other Compensation Plans, Change of Control Arrangements and Termination Arrangements

The Company has entered into a renewable five year employment agreement with Mr. Gluck and a renewable three year employment agreement with Mr. Lanni, providing, among other things for employment at current annual base salaries at not less than $492,480 for Mr. Gluck and $369,360 for Mr. Lanni, subject to annual cost of living increases equivalent to two-thirds of the increase in the consumer price index during the life of the contract. Both employment agreements automatically extend on a daily basis so that the outstanding term is always five years or three years, as the case may be, subject to the continuing option by the Company to terminate the automatic extension provision at any time. In the event of a wrongful termination by the Company which includes a breach by the Company of any of its obligations under the agreements, either Mr. Gluck or Mr. Lanni shall have the option of terminating his respective agreement and obtaining benefits equal to at least the present value at that time (using a rate based on five year treasury notes) of unpaid salary and incentive compensation for the then remaining term and shall continue to receive all other benefits for the remaining term. Unless Mr. Gluck or Mr. Lanni agrees to a 10% reduction in such payment, such person would have a mitigation obligation to the extent such obligation is provided under California law. If the wrongful termination by the Company follows a "Change of Control" (as defined in the employment agreements), there is neither a reduction to present value nor a mitigation obligation and furthermore additional payments would be due to compensate Mr. Gluck or Mr. Lanni for any tax penalty (as described below) for such payment. The agreements also provide for incentive compensation for their term based on the Incentive Compensation Plan provisions described in this Proxy Statement. See "Compensation of Executives Pursuant to Employee Plans—Incentive Compensation Plan." The agreements further provide for the extension of the Executive Security Plan provisions (see "Compensation of Executives Pursuant to Employee Plans—*Executive Security Plan*") bonus amounts earned beginning August 1, 1985. Such provisions have been taken into account in the table or otherwise described in the Executive Security Plan section of this Proxy Statement referenced above. The agreements further provide for indemnity by the Company in the case of claims related to such person's employment to the maximum extent allowed under the Florida General Corporation Act (the "Florida GCA"). The agreements cancel prior severance agreements and employment agreements for both Mr. Gluck and Mr. Lanni. In the event of a Change of Control, Mr. Gluck and Mr. Lanni each have the option of terminating his respective agreement and collecting the same payment applicable in the event of a wrongful termination as described above subject to the safe harbor limitation of 2.99 times the base amount established by the Deficit Reduction Act of 1984 ("DEFRA") applicable to therein defined "parachute payments." Under the wrongful termination provisions, there could be payments in excess of the safe harbor allowed under DEFRA which could expose all or a substantial part of any payment to a 20% penalty which could require additional reimbursement payments by the Company and cost the Company its tax deduction.

In addition, the Company has severance agreements with most of its other executive officers (and Mr. Yellen) which provide that if (i) a change of control (as defined therein) occurs, and (ii) within two years after the change in control the executive officer is discharged, other than for cause, or resigns because of several stated reasons including but not limited to, a reduction in compensation or responsibilities or because the Company's principal offices are moved out of Los Angeles County, California, the executive officer will be entitled to receive a lump sum payment equivalent to the amount of salary that the covered person would have received (without considering reductions after the change of control) during a period ending upon the later of two years after the change of control or one year after the termination of such person's employment and the incentive compensation that would have been earned in the same period computed by projecting and prorating the incentive compensation amount actually payable for the full fiscal year preceding the year in which the change of control takes place. All employment benefits will also

continue during such period. The severance agreements also provide for pension benefits to be computed assuming that the termination of employment occurred at the end of the two year/one year period described above and that the five year vesting period is not applicable. Recently, the definition of change of control in such agreements has been expanded to include, among other transactions, the acquisition of 50% or more of the stock of the Company. A recently adopted severance plan covers two officers not covered under the aforesaid agreements (and other corporate employees) and guarantees one year salary and bonus for the covered officers as severance pay in the event of severance following a change of control.

Assuming that a change of control as defined in the above-described agreements were to occur on October 19, 1987 and all officers of the Company are immediately discharged, the amount distributable in lieu of salary and incentive compensation to persons named in the Cash Compensation Table under the above-described agreements or as to Messrs. Gluck and Lanni under their employment agreements, in the event of an election to terminate such agreements, is estimated to be as follows: Henry Gluck—$2,003,729; J. Terrence Lanni—$1,559,333; Philip L Ball—$540,000; Roger Lee—$540,000; and M. Peter Schweitzer—$380,000.

Mr. Yellen received $25,000 during the last fiscal year for consulting services to the Company and is currently employed as a consultant at the rate of $4,166 per month. During the three fiscal years ended July 31, 1987, two directors exercised stock options under a prior plan with total appreciation at exercise of $518,812.

The Company's 86.6% owned subsidiary CNJ has a stock option plan which it adopted on October 22, 1979 and which was approved by the shareholders of CNJ at its annual meeting held on June 16, 1980. This plan is named the Caesars New Jersey, Inc. 1979 Stock Option Plan. All directors, officers, employees and salaried personnel of the Company, CNJ or any of CNJ's subsidiaries are eligible for participation in the Plan. No options under this Plan have been granted to any current director or executive officer of the Company or CNJ. Two employees were previously granted options for 5,458 shares at an average per share exercise price of $8.69. As of October 19, 1987, such employees had exercised options for 4,734 shares and one had terminated employment resulting in the termination of such person's options as to 724 shares. This Plan expires on October 22, 1989.

The Company has adopted a Stock Bonus Plan and a Deferred Compensation Plan. Each of these Plans is to be administered by the Audit and Compensation Committee of the Board. Under the Stock Bonus Plan, awards of Shares may be made in the discretion of the Committee to key employees which contribute in a substantial degree to the success of the Company. The Committee has the discretion to determine the terms of any such award. Under the Deferred Compensation Plan, subject to the approval of the Committee, key employees may defer compensation under agreement with the Company and have the deferred compensation measured by the value of the Company's stock or by an interest bearing account. Both Plans' use of Shares for this purpose is pursuant to the authority of the 1983 Stock Incentive Program approved by the shareholders and any Shares so used would reduce the amount made available for other awards under this Plan.

During fiscal 1986, a deferral was approved under the Deferred Compensation Plan as to Mr. Ball as to compensation in the amount of $75,462. As to one other executive officer not named in the Cash Compensation Table, a deferral was approved under the Plan for compensation in the amount of $15,385. All such deferrals are until January 2, 1988 and will bear interest at the prime interest rate. Aggregate deferrals for Mr. Ball during the two fiscal years ended July 31, 1987 were $165,462. Aggregate deferrals for the other executive officers were $65,385 during the same period. All deferred amounts were included in the Cash Compensation Table for the year earned.

During the fiscal year ended July 31, 1986 there were awards of restricted stock under the Stock Bonus Plan as follows: Henry Gluck—50,000 Shares; J. Terrence Lanni—27,500 Shares; Philip L. Ball—17,500 Shares; and Roger Lee—17,500 Shares. One other executive officer not named in the Cash Compensation Table received restricted stock in the amount of 5,000 Shares. Under the terms of such grants the Shares will be forfeited if the employee leaves the employ of the Company prior to January 1, 1990, except that in the event of death or disability there is a pro-rata vesting. As to Messrs. Gluck and Lanni, the grants vest on each January 1 at the rate of 25% per year beginning January 1, 1987. Accordingly, 12,500 Shares with

a value of $231,625 vested for Mr. Gluck and 6,875 Shares with a value of $127,394 vested for Mr. Lanni on January 1, 1987. In the event of an actual or constructive termination following a Change of Control (as defined in the Plan as recently expanded by amendment) other than for cause, there will be a full vesting of all such Shares under the Plan subject to certain conditions intended to limit negative tax effects with respect to the employee and the Company. If there had been a Change of Control as of October 19, 1987, the maximum value of Shares which would have then vested on such date for persons named in the Cash Compensation Table using stock prices as of October 19, 1987 would be as follows: Henry Gluck—$525,000; J. Terrence Lanni—$288,750; Philip L. Ball—$245,000; and Roger Lee—$245,000; provided, however, that such amounts may be reduced under some circumstances to the extent that other severance payments are made to such persons.

Security Ownership of a Certain Beneficial Owner

The following table sets forth information concerning the only person who, to the knowledge of the Company, owns beneficially more than 5% of the outstanding Shares:

	Common Stock Owned as of October 16, 1987	
Name and Address of Beneficial Owner	No. of Shares	Percent of Class
Martin T. Sosnoff(1) 499 Park Avenue New York, NY 10022	3,878,700	16.21%

(1) Mr. Sosnoff has filed Amendment No. 25 to Statement on Schedule 13D with the Securities and Exchange Commission reporting that he has sole dispositive power with respect to all of these Shares.

THE RECAPITALIZATION AMENDMENTS

(Proposals 2(a) and (b))

The Recapitalization Amendments were included as part of the Plan of Recapitalization because, notwithstanding the fact that the Recapitalization Amendments could have the effect of making more difficult or discouraging a proxy contest involving the Company, certain mergers, a tender offer, an open market purchase program, or other purchases of Shares in circumstances that could give shareholders the opportunity to sell their Shares at a premium over then prevailing market prices, the Board of Directors viewed the Recapitalization Amendments as being necessary to protect the Plan of Recapitalization from an unsolicited takeover attempt or other action by a third party designed to thwart the mandate of shareholders upon their approval of the Plan of Recapitalization. In addition, the Board of Directors viewed the Recapitalization Amendments as advantageous in that the Company would be able to operate its business with a reduced likelihood of disruption caused by the effect of a takeover not deemed to be in the best interests of the Company at a time when the Company might be potentially vulnerable to an unsolicited takeover attempt because of its reduced capitalization and financial flexibility after the payment of the Dividend and prior to the proposed reincorporation of the Company from Florida to Delaware. Consequently, upon approval of the Plan of Recapitalization by shareholders at the Special Meeting, the Original Articles of Incorporation were amended to add the Recapitalization Amendments.

As more fully discussed below, the Board of Directors believes that the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders, notwithstanding the fact that the Plan of Recapitalization will not proceed and the Dividend will not be paid. The Board believes that the Recapitalization Amendments strengthen the Board's ability to manage the Company on behalf of all shareholders, to respond to unsolicited takeover proposals and to negotiate effectively with persons who may acquire substantial blocks of Shares. The Board is also aware that numerous other companies have adopted charter amendments similar to some or all of the Recapitalization Amendments. The Board also believes that the Dividend Provision provides increased flexibility in planning future corporate action and enhances the ability of the Company to pay dividends by allowing the Company to take full advantage of the provisions of the Florida GCA relating to the payment of dividends. The Board of Directors believes that the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders and recommends that shareholders vote AGAINST Proposals (2)(a) and (b).

Background and Reasons for the Proposals

The Sosnoff Offer and Recapitalization

On March 9, 1987, MTS Acquisition Corp., a Delaware corporation formed and controlled by Martin T. Sosnoff, the beneficial owner at the time of approximately 11.7% of the Shares on a fully diluted basis, commenced a tender offer for all outstanding Shares at $28 per Share in cash (the "Sosnoff Offer"). On March 13, 1987, the Company announced that its Board of Directors (with one director absent due to illness) had unanimously determined at a meeting held on March 12, 1987 that the Sosnoff Offer was inadequate and not in the best interests of the Company and its shareholders and recommended that the Company's shareholders reject the Sosnoff Offer and not tender any of their Shares pursuant to the Sosnoff Offer. It was also announced that the Board of Directors determined to explore and investigate, with the advice and assistance of its financial advisor, Drexel Burnham Lambert Incorporated ("Drexel Burnham"), a variety of alternative transactions.

On the same day the Sosnoff Offer was commenced, Mr. Sosnoff and MTS Acquisition Corp. also brought an action in the United States District Court for the Southern District of Florida (the "Florida District Court") against the Company and the directors of the Company alleging violations of the defendants' fiduciary duties, state law and the federal securities laws, and seeking declaratory and injunctive relief. On March 16, 1987, the Company brought an action (the "Company Action") in the United States District Court for the Central District of California (the "California District Court") against Mr. Sosnoff and MTS Acquisition Corp. alleging that the Sosnoff Offer was in violation of Sections 14(d) and 14(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the federal margin rules, and seeking injunctive relief against the defendants. On March 18, 1987, the Florida District Court issued an order transferring the former action to the California District Court. See "LEGAL PROCEEDINGS."

At a special meeting of the Board of Directors held on April 5, 1987, the Company's management, assisted by Drexel Burnham and the Company's legal advisors, presented the Plan of Recapitalization to the Board of Directors as an alternative that, in the opinion of the Company's management, would be superior to the Sosnoff Offer from the financial point of view of the public shareholders. The Plan of Recapitalization provided for, among other things, (a) the distribution of a Dividend of $25 per Share, (b) the Recapitalization Amendments, (c) increased employment and performance incentives for management through amendment of the 1983 Stock Incentive Program, (d) a change in the state of incorporation of the Company from Florida to Delaware, and (e) a proposed form of indemnification agreement to be entered into between the Company and its directors, officers and key employees (collectively, the "Recapitalization"). A complete description of the Plan of Recapitalization and the transactions contemplated thereby, as well as other relevant information, is contained in the Proxy Statement, dated May 18, 1987 (the "Recapitalization Proxy Statement"), as supplemented by the Supplement to Proxy Statement dated June 5, 1987 and the Supplement to Proxy Statement dated June 15, 1987 previously sent to shareholders of the Company.

At the April 5 meeting, the Board of Directors received the oral advice of Drexel Burnham that, based upon and subject to the considerations set forth in such opinion, including the various assumptions and limitations set forth therein, the consideration to be received by the shareholders in the Recapitalization was fair to such shareholders from a financial point of view and that after the Recapitalization, the Company should have the financial flexibility and resources necessary to finance its current and projected operating and capital requirements. The Board also received the oral advice of Bear, Stearns & Co. Inc. ("Bear Stearns") that, based upon and subject to the considerations set forth in such opinion, including the various assumptions and limitations set forth therein, the Plan of Recapitalization was fair, from a financial point of view, to the shareholders of the Company, other than the management group of the Company and that, as of the implementation of the Plan of Recapitalization, the Company would be financially viable in that it should be able to finance its projected operating and capital requirements.

On April 13, 1987, MTS Acquisition Corp. amended the Sosnoff Offer to provide that MTS Acquisition Corp. was offering to purchase up to 29,100,000 Shares at $32 per Share in cash and that it was intended that Shares not acquired in the Sosnoff Offer would be converted in a merger or similar business combination into the right to receive junior preferred stock of an indirect parent of MTS Acquisition Corp. ("MTS Holding") having a value of not less than $32 per Share. The Sosnoff Offer, as amended, was scheduled to expire on June 19, 1987. On April 14, 1987, after reviewing the terms of the Sosnoff Offer, as amended, as well as other developments, the Board of Directors unanimously (with one director absent due to illness) recommended that shareholders not tender their Shares in the amended Sosnoff Offer.

At a meeting of the Board of Directors commenced on May 12, 1987 and completed on May 18, 1987, the Board reviewed the Plan of Recapitalization, as well as other developments which had occurred since the adoption of the Plan of Recapitalization on April 5, 1987. After extensive discussion, the Company's management, assisted by the Company's financial and legal advisors, presented a revised structure for the Plan of Recapitalization to the Board of Directors that would, among other things, increase the Dividend from $25 to $26.25 per Share. At the meeting, the Board of Directors reviewed the revised Plan of Recapitalization in detail and received the updated oral advice of both Drexel Burnham and Bear Stearns. After lengthy discussion, the Board unanimously (with one director absent due to illness) approved the revised Plan of Recapitalization. The Board also called a special meeting of shareholders to be held on June 12, 1987, at which shareholders of record as of the close of business on May 6, 1987 could consider and vote upon the Plan of Recapitalization and payment of the Dividend.

It was anticipated that the approximately $960 million required to fund the payment of the Dividend and pay fees and expenses incurred in connection with the Plan of Recapitalization would be obtained through borrowings from a syndicate of banks and from the sale of senior notes and subordinated debentures. The payment of the Dividend was subject to a number of conditions, including, but not limited to, (i) separate approvals of the Plan of Recapitalization and the payment of the Dividend by the holders of a majority of the outstanding Shares, and (ii) the receipt by the Company of all required consents and approvals, including approvals from state gaming regulatory authorities.

The Plan of Recapitalization was intended to allow shareholders to realize a significant portion of the value of their Shares in cash, while retaining their equity interest in the Company's future growth. The Board of Directors believed that the Plan of Recapitalization was fair to and in the best interests of the Company's shareholders. Consequently, the Board of Directors recommended that shareholders vote for the approval of the Plan of Recapitalization and for approval of the payment of the Dividend.

On June 3, 1987, MTS Acquisition Corp. again amended the Sosnoff Offer to provide that MTS Acquisition Corp. was offering to purchase up to 26,500,000 Shares at $35 per Share in cash and that it was intended that up to 5,163,995 Shares not acquired in the Sosnoff Offer would be converted in a merger or similar business combination into the right to receive (i) junior preferred stock of MTS Holding having an aggregate value of not less than $87.8 million, or approximately $17 per Share, (ii) an aggregate of 30% of the outstanding shares of common stock of MTS Holding, and (iii) approximately $10 million in cash. The Sosnoff Offer, as amended, was scheduled to expire on June 19, 1987. On June 5, 1987, the Board of Directors unanimously (with one director absent due to illness) determined that the Plan of Recapitalization continued to be fair to shareholders of the Company from a financial point of view and continued to recommend that shareholders not tender their Shares in the Sosnoff Offer, as amended.

On June 8, 1987, the California District Court issued an order preliminarily enjoining the Company and its directors and issued another order preliminarily enjoining Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding. On June 12, 1987, the California District Court issued an order clarifying and modifying the June 8 orders. As modified by the June 12 order, the June 8 order enjoining the Company and its directors provided that they could not convene a shareholders' meeting for the purpose of approving the Plan of Recapitalization until fifteen business days after circulation to shareholders of a supplement to the Recapitalization Proxy Statement containing:

"(1) A disclaimer acknowledging that the statement in the Letter to Shareholders from Henry Gluck, Chairman of the Board and Chief Executive Officer that the 'plan of recapitalization does not preclude a third party, including Mr. Sosnoff, from making a more attractive offer to the Company's

shareholders, either before or after the recapitalization is effected' is misleading. The disclaimer should acknowledge that approval of the Plan of Recapitalization, as a practical matter, will preclude Mr. Sosnoff or another third party from offering to purchase shares at a premium over then prevailing market prices pursuant to a bid to gain control of the company;

(2) Copies of the March 23, 1987 Drexel Burnham Lambert Memorandum (Defendant and Counterclaimant's Exhibit 1030) and the March 24, 1987 Drexel Burnham Lambert Memorandum (Counterclaimant's Exhibit 1046)."

As modified by the California District Court's June 12 order, the order enjoining Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding barred the defendants from offering to purchase Shares so long as they proposed to finance the purchase through their existing financial plan or any other financial plan which violated Federal Reserve Board Regulations G and U. The order also provided that if the defendants undertook the financing of a tender offer for Shares in a manner that did not violate Regulations G and U and disclosed such new financial plan, along with a number of additional disclosures which were not disclosed in the defendants' existing tender offer materials, in an amended offer to purchase, they could proceed with the Sosnoff Offer. Under the terms of the order, however, the defendants were enjoined from purchasing Shares until twenty business days after publication of the new financial plan and the required additional disclosures.

On June 15, 1987, the Company disseminated a supplement to the Recapitalization Proxy Statement complying with the California District Court's order and rescheduled the Special Meeting for July 8, 1987. Also on June 15, 1987, MTS Acquisition Corp. terminated the Sosnoff Offer.

At the Special Meeting, the holders of a total of 17,535,948 Shares (approximately 57.1% of the then outstanding Shares) voted to approve the Plan of Recapitalization, the holders of 4,654,480 Shares (approximately 15.2% of the then outstanding Shares) voted against the Plan of Recapitalization and the holders of 80,614 Shares (approximately 0.3% of the then outstanding Shares) voted to abstain with respect to the Plan of Recapitalization. In accordance with the Plan of Recapitalization, immediately following such approval the Company effected the Recapitalization Amendments.

Casino Regulatory Hearings

On July 1, 1987, following a hearing, the Nevada State Gaming Control Board voted two-to-one to recommend approval of certain requested aspects of the Plan of Recapitalization to the Nevada Gaming Commission. The Nevada Gaming Commission held hearings on the Company's petition on July 16, 29, 30 and 31, 1987. The New Jersey Commission held hearings on the Company's petition for certain declaratory rulings with respect to the Plan of Recapitalization on July 13, 14, 17 and 20, 1987.

On August 12, 1987, the New Jersey Commission voted four-to-one to deny the Company's petition. In remarks by the Chairman of the New Jersey Commission in advance of a written decision (which has not yet been rendered) the Chairman stated that the Company failed to meet its burden of proving by clear and convincing evidence that it would continue to possess financial stability and responsibility if it incurred the debt necessary to implement the Plan of Recapitalization. In so concluding, the Chairman rejected the reliability of the Company's projections as being too optimistic in that, in his opinion, they did not adequately take into account the effects of increased competition in the industry or a general economic downturn. The Chairman of the New Jersey Commission also stated that, in his opinion, the Plan of Recapitalization lacked any clear business purpose and would entrench management. Findings of financial stability and responsibility from the New Jersey Commission are necessary in order to operate a casino in that state. On August 13, 1987, the Company announced that it was exploring a variety of alternatives, including, but not limited to, an appeal or a rehearing before the New Jersey Commission. Pending a determination by the Company's Board of Directors as to the appropriate next step, on August 24, 1987, the Company filed a motion with the New Jersey Commission for a rehearing within the required time limits.

In view of the decision by the New Jersey Commission and upon the request of the Company, the Nevada Gaming Commission, which had been expected to render a decision on August 20, 1987, granted an open continuance with respect to the Plan of Recapitalization. The Nevada Gaming Commission also scheduled November 19, 1987 for a status review with respect to the Plan of Recapitalization.

The Company Self-Tender Offer

On August 25, 1987, the Company's Board of Directors met with its legal and financial advisors and explored the Company's alternatives, including, among other things, the possibility of pursuing a rehearing or an appeal from the vote of the New Jersey Commission not to approve the Plan of Recapitalization. The Board of Directors reviewed the four-to-one vote of the New Jersey Commission against the Plan of Recapitalization, the remarks of the Chairman of the New Jersey Commission, the requirement that the Plan of Recapitalization be approved by four of the New Jersey Commission's five commissioners, the broad discretion of the New Jersey Commission, the burden of proof on the Company at a rehearing of establishing financial stability, integrity and responsibility in connection with the Plan of Recapitalization by clear and convincing evidence and the difficulty of prevailing on appeal. The Board was also aware of statements made or questions posed by some commissioners in both Nevada and New Jersey regarding leveraged recapitalizations. The Board also reviewed generally the uncertainty of the timing and ultimate outcome associated with an appeal or rehearing.

In analyzing its alternatives, including the possibility of taking no present action, the Board recognized that in connection with the Plan of Recapitalization the Company effected the redemption or defeasance of most of its long-term debt, reducing such debt (including the current portion) from approximately $280 million at April 30, 1987 to approximately $52 million at July 31, 1987. In addition, in June and July of 1987, most of the holders of the Company's 6⅞% Convertible Subordinated Debentures due 2006 had converted their debentures into Shares; primarily as a result of these conversions, the Company's outstanding Shares increased from 30,495,615 at April 30, 1987 to 35,176,122 at July 31, 1987. From a balance sheet perspective, although the Company had less excess cash, the Board believed the Company was now stronger financially than prior to the announcement of the proposed Recapitalization, with shareholders' equity having increased by approximately $110 million.

The Board also was advised that since the commencement of the Sosnoff Offer in March 1987 and the announcement of the Plan of Recapitalization in response thereto, the Company's shareholder base had changed drastically. The Board understood that approximately one-half of its outstanding Shares were then held by shareholders who purchased or who continued to hold their Shares in anticipation of the payment of the Dividend. On August 13, 1987, the day after announcement of the vote of the New Jersey Commission, the closing sales price on the NYSE Composite Tape of the Shares was $30½, down $4⅜ from the closing sales price immediately prior to the announcement of the vote. The Board was advised that many holders continued to retain their Shares after the New Jersey Commission decision principally either in anticipation of an announcement by the Company as to its future course of action or because of their inability to sell large blocs on the market at satisfactory price levels. Although the Board was primarily concerned with the long-term stability of the Company and its future direction, it was also sympathetic with the possible losses to be suffered by some of its shareholders. Moreover, the Board believed that any proposal which failed to recognize the desire of these shareholders to realize near-term value for their Shares was not likely to help return the Company to a position of stability and steady growth. In addition, given the vote of the New Jersey Commission and the statements made or questions posed by some commissioners in both Nevada and New Jersey regarding high leverage, the Board decided that any alternative involving leverage would have to be far more limited than contemplated under the Plan of Recapitalization.

Among the alternatives reviewed by the Board on August 25 was the concept of a "Dutch-auction" self-tender offer by the Company along the lines outlined in the Offer to Purchase dated September 8, 1987 and the related Letter of Transmittal (the "Self-Tender Offer"), although a price range and number of Shares to be purchased were only discussed in general. The Board members directed management and their advisors to explore the proposal further. The Board was advised by Drexel Burnham, the Company's financial advisor, that Shares constituted an attractive investment for the Company and, therefore, in

Drexel Burnham's judgment, an appropriate use of the Company's financial resources. The Board also took into account the Company's debt capacity resulting from the conversion, redemption or defeasance of approximately $228 million of debt in its most recent fiscal quarter, prices paid in acquisitions of gaming and other companies and gaming company market valuations. In addition, the Board believed that the repurchase proposal would help restore stability in the marketplace by providing every shareholder with a means of selling part and possibly all of his Shares without causing the downward pressure on the market for Shares which might otherwise result from open market sales of such Shares. The Board was also advised that neither the purchase of Shares pursuant to the proposed Self-Tender Offer nor the financing necessary to consummate the Self-Tender Offer should require prior approval by the gaming regulatory authorities. Finally, the Board considered the possible effect of the proposed Self-Tender Offer on the Company's continuing shareholders. Shareholders who did not tender Shares in the Self-Tender Offer would enjoy a proportionate increase in their share of the Company's future earnings, subject to generally increased risks arising from the higher leverage resulting from the financing.

The Board met again on September 4, 1987 with the Company's legal and financial advisors. The Board was advised by its New Jersey gaming counsel, Horn, Kaplan, Goldberg, Gorny & Daniels, that although the Company had a reasonable chance of being granted a rehearing before the New Jersey Commission, given (i) the burden of showing by "clear and convincing evidence" the financial stability, integrity and responsibility of the Company under the Plan of Recapitalization, (ii) the four-to-one vote of the New Jersey Commission, (iii) the broad discretion of the New Jersey Commission, (iv) the need for at least four favorable votes to approve the Plan of Recapitalization, (v) the nature of the remarks of the Chairman and (vi) the statements made or questions posed by some commissioners in New Jersey regarding leveraged recapitalizations, in the opinion of such counsel, approval of the Plan of Recapitalization was not likely in a rehearing. Further, it was the opinion of such counsel that given the legal standards of appellate review, the Company's chance of reversal on appeal was even less likely. The Board was also advised by counsel that the rehearing and appellate process could be lengthy. Even if the Company were successful before the New Jersey Commission, the Plan of Recapitalization also required the approval of the Nevada Gaming Commission. The Board was advised by its Nevada gaming counsel, Lionel, Sawyer & Collins, that, while no decision has as yet been reached by the Nevada Gaming Commission, given the decision of the New Jersey Commission and the statements made or questions posed by some commissioners in Nevada regarding leveraged recapitalizations, in the opinion of such counsel, approval of the Plan of Recapitalization was not likely. The Board was aware that the Chairman of the Nevada Gaming Commission had indicated that no inferences should be drawn from questions or remarks of the Nevada commissioners. The Board was also concerned with the expense, internal disruption and general uncertainty associated with a continued attempt to have the Plan of Recapitalization approved. Based on the opinions of its gaming counsel and the Board's own judgment as to timing, uncertainty and other factors, including increased interest rates since the adoption of the Plan of Recapitalization on April 5, 1987, the Board of Directors determined not to seek a reversal of the decision of the New Jersey Commission. As a result of their determination, the Board concluded that the Dividend would not be paid.

The Board then re-examined the Company's situation in light of the decision of the New Jersey Commission and its various alternatives. The primary objective of the Board was to create a stable environment in order to enable the Company to pursue new projects and growth for the enhancement of shareholder value. The Board believed that if it chose to take no action, the anticipated selling pressure created by the increase of short-term shareholders in the Company's shareholder base could likely lead to a lower Share price and a possible loss of confidence in the Company by the marketplace and could also possibly limit the Company's ability to access the capital markets in the future. The Board was of the opinion that such a result would not be in the best interests of the Company or its shareholders.

The Board also reviewed in detail the terms of the Self-Tender Offer, including the proposed price range per Share, the fact that the Self-Tender Offer would be for 11,000,000 Shares, and the financing required to consummate the Self-Tender Offer. The Board noted that if 11,000,000 Shares are purchased in the Self-Tender Offer at the maximum price of $34 per Share, the Company will incur approximately $400 million in debt under the financing for the Self-Tender Offer, thereby increasing its long-term debt to approximately $452 million. This compares to $280 million outstanding at April 30, 1987 and approximately $1.0 billion which would have been outstanding after the Recapitalization. The Board

believed that the amount of debt to be outstanding after the Self-Tender Offer would be reasonable in relation to that of other companies in the Company's industry and consistent with the concerns expressed at the hearings in both New Jersey and Nevada and in the remarks of the Chairman of the New Jersey Commission. The Board was advised by Drexel Burnham that the purchase of Shares pursuant to the Self-Tender Offer was, in Drexel Burnham's judgment, an appropriate use of the Company's financial resources, taking into account the recent prices of the Shares, the Company's reduced level of long-term debt and the Company's business, financial condition and prospects. The Board considered these same factors and also took into account prices paid in acquisitions of gaming and other companies and gaming company market valuations. The Board believed that the Self-Tender Offer, including the financing thereof, would provide the Company with an opportunity to create a more balanced capital structure, which, considering the Company's size and the industry in which it operates, the Board felt should include a greater amount of long-term debt. The Board also believed that, by addressing the problems created by the increase of short-term shareholders in the Company's shareholder base and providing all shareholders with a means of selling some or all of their Shares at a higher price than that available on the open market, the Self-Tender Offer would help restore a stable environment in which the Company could pursue future growth.

After further discussion and based on the foregoing considerations, as well as the opinions of Drexel Burnham and Bear Stearns as to the fairness, from a financial point of view, of the Self-Tender Offer to the continuing shareholders of the Company and as to the financial viability of the Company upon completion of the Self-Tender Offer, the Board voted unanimously to authorize the making of the Self-Tender Offer by the Company for 11,000,000 Shares at a per Share price not in excess of $34.00 nor less than $29.50, specified by tendering shareholders, upon the terms and subject to the conditions set forth in the Self-Tender Offer. Neither the Company nor the Board of Directors, however, made any recommendation to any shareholder as to whether to tender or refrain from tendering Shares and no director or executive officer of the Company tendered any of his Shares pursuant to the Self-Tender Offer. On October 7, 1987, the Company purchased 11,000,000 Shares pursuant to the Self-Tender Offer at a per Share price of $29.50, net to the seller in cash. Financing for the purchase of the 11,000,000 Shares pursuant to the Self-Tender Offer was obtained through the public offering of $265 million principal amount of the Company's Subordinated Notes due 1997 and through $100 million of bank borrowings.

The Rescission Proposals

The Plan of Recapitalization provided that if the Dividend is approved by shareholders but is not paid, the Company will call a special meeting of shareholders to take a subsequent vote with respect to the possible rescission of the Recapitalization Amendments. As a result of the Company's decision not to seek a reversal of the New Jersey Commission's decision, the Dividend will not be paid and, in accordance with the Plan of Recapitalization, the Company is presenting shareholders with the opportunity to consider and vote upon Proposals (2)(a) and (b) in order to give shareholders an opportunity to vote with respect to the Recapitalization Amendments. Due to the proximity of the Annual Meeting and the expense associated with calling a special meeting of shareholders, the Company determined to present shareholders with an opportunity to consider and vote upon Proposals (2)(a) and (b) at the Annual Meeting rather than call a special meeting of shareholders solely for such purpose. If Proposals (2)(a) and (b) are approved by shareholders, such approval will not effect any change in a technical amendment to the Original Articles of Incorporation relating to the Company's principal place of business which was effected at the same time that the Recapitalization Amendments were effected since the technical amendment was merely designed to delete an obsolete provision in the Original Articles of Incorporation.

In accordance with Florida law and the Existing Articles of Incorporation, the affirmative vote of the holders of at least 80% of the outstanding Shares is necessary to approve Proposal (2)(a) to rescind the Recapitalization Amendments other than the Fair Price Provision and the Dividend Provision, and the affirmative vote of the holders of a majority of the outstanding Shares is necessary to approve Proposal (2)(b) to rescind the Fair Price Provision and the Dividend Provision. If Proposals (2)(a) and (b) are approved by shareholders, the Existing Articles of Incorporation will be amended to rescind each of the Recapitalization Amendments in its entirety and, with respect to the Dividend Provision, to conform to the Original Articles of Incorporation. In addition, if Proposals 2(a) and (b) are approved by shareholders, the Existing By-Laws will be amended to conform to the Original By-laws. Except as noted below, if Proposals (2)(a) and (b) are approved by shareholders and the Recapitalization Amendments are

rescinded and the Existing By-laws are amended to conform to the Original By-laws and, with respect to the Dividend Provision, the Existing Articles of Incorporation are amended to conform to the Original Articles of Incorporation, the other provisions of the Existing Articles of Incorporation and the Existing By-laws will remain identical to those prior to approval of Proposals (2)(a) and (b). The full text of the Existing Articles of Incorporation, as proposed to be amended, including the Recapitalization Amendments, is attached as Exhibit A to this Proxy Statement.

For the reasons described below, the Board of Directors believes that, notwithstanding the fact that the Plan of Recapitalization will not proceed and the Dividend will not be paid, the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders and recommends that shareholders vote AGAINST Proposals (2)(a) and (b). See "Description of the Recapitalization Amendments," "Reasons for the Board's Recommendation" and "Possible Negative Considerations" below.

In assessing Proposals (2)(a) and (b), shareholders should be aware that the Recapitalization Amendments may have the effect of inhibiting changes in control of the Company even if a change in control is desired by the holders of a majority of the Shares. However, as described above and more fully discussed below, the Board believes that these provisions strengthen the Board's ability to manage the Company on behalf of all shareholders, to respond to unsolicited takeover proposals and to negotiate effectively with persons who may acquire substantial blocks of Shares. See "Description of the Recapitalization Amendments," "Reasons for the Board's Recommendation" and "Possible Negative Considerations" below.

If Proposals (2)(a) and (b) are approved by shareholders, the Recapitalization Amendments will be rescinded effective upon the filing of Articles of Amendment with the Department of State of the State of Florida. If Proposals (2)(a) and (b) are approved by shareholders, it is currently expected that such Articles of Amendment will be filed and any conforming changes to the Existing By-laws will be effected as soon as practicable after the Annual Meeting.

Description of the Recapitalization Amendments

The following discussion summarizes the Recapitalization Amendments. This summary is not intended to be complete and is qualified in its entirety by reference to the full text of the Existing Articles of Incorporation, as proposed to be amended, including the Recapitalization Amendments, attached as Exhibit A to this Proxy Statement.

Classified Board

As a result of the Recapitalization Amendments, Article VIII of the Existing Articles of Incorporation provides that the directors of the Company shall be divided into three classes designated Class I, Class II and Class III. Pursuant to Article VIII of the Existing Articles of Incorporation and the vote of the shareholders at the Special Meeting, Messrs. Ball, Schweitzer and Yellen were designated as members of Class I and are scheduled to hold office until the Annual Meeting, Messrs. Echeverria, Lanni and Sprague were designated as members of Class II and, except for Mr. Sprague who has resigned, are scheduled to hold office until the 1988 annual meeting, and Messrs. Bolsky, Chaikin and Gluck were designated as members of Class III and are scheduled to hold office until the 1989 annual meeting. Under Article VIII of the Existing Articles of Incorporation, at each annual meeting of shareholders of the Company, commencing at the Annual Meeting, successors of the class of directors whose term expires at that annual meeting will be elected for a three-year term. If the number of directors is changed (other than as discussed in the next paragraph with respect to directors elected by the holders of any then outstanding preferred stock), any increase or decrease is to be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible. Any director elected to fill a vacancy or a newly created directorship resulting from an increase in the authorized number of directors shall hold office only until the next election of directors by shareholders. In no case will a decrease in the number of directors shorten the term of any incumbent director.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the Company have the right, voting separately by class or series, to elect one or more directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies

and other features of such directorships shall be governed by the terms of such preferred stock, and such directors so elected shall not be divided into classes unless expressly provided by such terms.

Prior to the adoption of Article VIII of the Existing Articles of Incorporation, directors were elected to the Board annually for a term of one year.

Following the approval of the Plan of Recapitalization by the shareholders of the Company at the Special Meeting, the appropriate sections of the Original By-laws were amended by the Board to conform to Article VIII of the Existing Articles of Incorporation.

If Proposal (2)(a) is approved by shareholders, Article VIII of the Existing Articles of Incorporation will be rescinded and the Existing By-laws will be amended to make any necessary conforming changes. In addition, if Proposal (2)(a) is approved by shareholders, each of the nine members of the current Board of Directors will stand for election at the Annual Meeting. See "ELECTION OF DIRECTORS."

The Board of Directors believes that retaining a classified Board provision in the Existing Articles of Incorporation is in the best interests of the Company and its shareholders because, by providing that directors will serve three-year terms rather than one-year terms, it will enhance the likelihood of continuity and stability in the composition of the Company's Board of Directors and in the policies formulated by its Board of Directors. The Board of Directors believes that this, in turn, will permit the Board more effectively to represent the interests of all shareholders.

Recently, there have been an increasing number of attempts by various individuals and entities to acquire significant minority positions in certain companies with the intent of obtaining actual control of the companies by electing their own slate of directors or of achieving some other goal by threatening to obtain such control. These insurgents often can elect a company's entire Board of Directors through a proxy contest or otherwise, even though they do not own a majority of the company's outstanding shares entitled to vote. A classified Board may discourage such purchases because its provisions would operate to delay the purchaser's ability to obtain control of the Board in a relatively short period of time. The delay arises because with a classified Board of Directors, it will generally take a majority shareholder two annual meetings of shareholders to elect a majority of the Board of Directors. As a result, a classified board may discourage proxy contests for the election of directors or purchases of substantial blocks of stock because its provisions could operate to prevent obtaining control of the Board in a relatively short period of time. In addition, because under the Existing Articles of Incorporation directors may be removed by shareholders only for cause and by an 80% vote of shareholders, a classified Board would delay shareholders who do not agree with the policies of the Board of Directors from replacing a majority of the Board of Directors for at least two annual meetings unless they can demonstrate that the directors should be removed for cause and obtain the requisite 80% vote. On the other hand, since the Company's governing instruments do not presently permit cumulative voting, if Proposal (2)(a) is approved by shareholders, a majority shareholder would be able to fill all nine seats on the Board of Directors in only one election of directors.

Particularly in view of the now terminated Sosnoff Offer and the Company's view, as reflected in allegations made by it in certain litigation between the Company and Mr. Sosnoff, that Mr. Sosnoff has maintained his intention to seek control of the Company (see "LEGAL PROCEEDINGS"), as well as Mr. Sosnoff's consent solicitation and proxy contest which were opposed by the Board of Directors earlier this year, and the current environment of increasing stock accumulations and proxy contests facing public companies, the Board believes that it is prudent and in the interests of shareholders generally to retain the greater assurance of continuity of Board composition and policies which will result from a classified Board. Except as set forth above, the Board has no knowledge of any present effort to gain control of the Company or to organize a proxy contest.

Amendment of By-laws

Pursuant to the Recapitalization Amendments, Article X of the Existing Articles of Incorporation confers the power to adopt, amend or repeal the Existing By-laws upon both the Board of Directors and the shareholders. In addition, Article X provides that the Existing By-laws may be adopted, amended or repealed by shareholders only by the affirmative vote of 80 percent of the outstanding stock of the Company entitled to vote thereon.

Under the Florida GCA, the power to adopt, alter, amend or repeal by-laws is vested in the Board of Directors unless reserved to the shareholders by the articles of incorporation. By-laws adopted by the Board of Directors or by the shareholders may be repealed or changed, new by-laws may be adopted by the shareholders, and the shareholders may prescribe in any by-law made by them that such company's by-law shall not be altered, amended or repealed by the Board of Directors. The Original Articles of Incorporation did not reserve such power to the shareholders of the Company. The Original By-laws provided that such By-laws may be adopted, amended and repealed by a majority of the entire Board of Directors.

Following the approval of the Plan of Recapitalization by the shareholders of the Company at the Special Meeting, the Original By-laws were amended by the Board to conform to Article X of the Existing Articles of Incorporation.

If Proposal (2)(a) is approved by shareholders, Article X of the Existing Articles of Incorporation will be rescinded and the Existing By-laws will be amended to conform to the Original By-laws to provide that the Company's By-laws may be adopted, amended or repealed by a majority of the entire Board of Directors.

The Florida GCA does not require the imposition of an 80 percent shareholder vote for amendment of the by-laws of a corporation. Article X of the Existing Articles of Incorporation is intended to discourage and, in certain instances, to prevent shareholders controlling less than 80 percent of the total voting power of all outstanding voting securities of the Company from making changes in the Company's By-laws which may (i) interfere with or frustrate the power of the then incumbent Board of Directors to manage the business and affairs of the Company, or (ii) increase the number of directors or reduce the authority of the Board of Directors thereby undercutting the effect of the provisions for a classified Board of Directors and the other provisions described herein. However, Article X would enable the holders of more than 20 percent of the total voting power of all outstanding voting securities of the Company to prevent an amendment to the Company's By-laws even if such change were desired by the holders of a majority of the outstanding voting securities of the Company.

Removal of Directors

Pursuant to the Recapitalization Amendments, Article IX of the Existing Articles of Incorporation provides that, subject to the rights of the holders of shares of preferred stock, if any, then outstanding. directors may be removed only for cause and only by the affirmative vote of the holders of 80 percent of the outstanding stock of the Company then entitled to vote generally in the election of directors.

The Original By-laws provided that any director or the entire Board of Directors of the Company can be removed, with or without cause, at an annual or special meeting called expressly for that purpose by the vote of the holders of a majority of the Shares then entitled to vote in an election of directors or by their written consent.

Following the approval of the Plan of Recapitalization by the shareholders of the Company at the Special Meeting, the Original By-laws were amended by the Board to conform to Article IX of the Existing Articles of Incorporation.

If Proposal (2)(a) is approved by shareholders, Article IX will be rescinded and the Company's Existing By-laws will be amended to conform to the Original By-laws to provide that any director or the entire Board of Directors can be removed, with or without cause, at an annual or special meeting called expressly for that purpose by the vote of the holders of a majority of the Shares then entitled to vote in an election of directors or by their written consent.

Article IX of the Existing Articles of Incorporation relating to the removal of directors and the filling of vacancies on the Board will preclude a third party from removing incumbent directors without cause and simultaneously gaining control of the Board by filling, with its own nominees, the vacancies created by such removal. These provisions also limit the power of shareholders generally, even those with a majority interest in the Company, to change the composition of the Board of Directors of the Company and remove existing management in circumstances where a majority of the shareholders may be dissatisfied with the performance of the incumbent directors or otherwise desire to make changes on the Board without the support of the incumbent directors.

Action by Written Consent

Pursuant to the Recapitalization Amendments, Article VI of the Existing Articles of Incorporation provides that any action required or permitted to be taken by shareholders must be taken at an annual or special meeting and may not be effected by written consent, except that, as provided by the Florida GCA, all of the directors and all of the shareholders of the Company may, by written statement, unanimously adopt amendments to the Existing Articles of Incorporation.

Under the Florida GCA, unless the articles of incorporation provide otherwise, any action required or permitted to be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice and without a vote, upon the consent in writing of the holders of not less than the minimum number of votes necessary to authorize such action. The Original By-laws permitted action by written consent as provided by the Florida GCA.

Following the approval of the Plan of Recapitalization by the shareholders of the Company at the Special Meeting, the Original By-laws were amended by the Board of Directors to conform to Article VI of the Existing Articles of Incorporation.

If Proposal (2)(a) is approved by shareholders, Article VI will be rescinded and the Existing By-laws will be amended to permit action by written consent by shareholders.

Action by written consent may, in some circumstances, permit the taking of shareholder action opposed by the Board of Directors more rapidly than would be possible if a meeting of shareholders were required. The elimination of action by written consent removes the ability of any shareholder to take such action immediately and without prior notice to the Board of Directors. The elimination of action by written consent allows shareholders to act only at an annual or special meeting. By eliminating action by written consent, Article VI ensures that all shareholders will have the opportunity to consider any matter that could affect their rights. The Board of Directors believes that it is appropriate and important for a shareholder of a publicly held company to be afforded the protection of a shareholders' meeting. The Board of Directors believes that it is important that it be able to give advance notice of and consideration to any such shareholder action, and that shareholders be able to discuss at a meeting matters which may affect their rights. Under the Florida GCA, the holders of not less than ten percent of the shares entitled to vote at a meeting always have the power to call a special meeting of shareholders.

Supermajority Provision

Pursuant to the Recapitalization Amendments, Article XII of the Existing Articles of Incorporation provides that the provisions of the Existing Articles of Incorporation (i) providing for a classified Board of Directors (Article VIII), (ii) eliminating the ability of shareholders to act by written consent, except with respect to amendments to the Existing Articles of Incorporation (Article VI), (iii) providing for removal of directors only for cause and by an 80 percent vote of shareholders (Article IX), and (iv) providing for amendment of the Existing By-laws by the Board or by the holders of 80 percent of the outstanding stock of the Company entitled to vote thereon, may be altered, amended or repealed only upon the affirmative vote of 80 percent of the shares entitled to vote generally for the election of directors; a similar vote is required to alter, amend or repeal the provision of the Existing Articles of Incorporation requiring such supermajority vote. In addition, the Fair Price Provision may not be amended, altered or repealed in certain circumstances except by the affirmative vote of 80 percent or more of the Voting Stock, excluding Voting Stock beneficially owned by an Interested Stockholder (and certain related parties). See "*Fair Price Provision*" below.

The Florida GCA provides that amendments to a corporation's articles of incorporation must be approved by the holders of a majority of the shares entitled to vote thereon, except that if any class of shares is entitled to vote thereon as a class, the proposed amendment must be approved by the affirmative vote of the holders of a majority of the class entitled to vote thereon as a class and by a majority of the shares entitled to vote thereon. Although the Florida GCA permits a corporation to require a greater vote in its articles of incorporation, the Original Articles of Incorporation did not so provide. In addition, the Florida GCA permits the shareholders of a corporation to amend the articles of incorporation without an act of the directors.

The requirement of an increased shareholder vote is designed to prevent a shareholder with a majority but less than 80% of the voting power of the Company from avoiding the requirements of certain provisions of the Existing Articles of Incorporation by simply amending or repealing them.

If Proposal (2)(a) is approved by shareholders, Article XII of the Existing Articles of Incorporation will be rescinded and, consequently, amendments to the Company's Articles of Incorporation would require a vote of the holders of a majority of the outstanding Shares.

Fair Price Provision

Pursuant to the Recapitalization Amendments, Article XI of the Existing Articles of Incorporation, the Fair Price Provision, requires the approval by the holders of 80 percent of the voting power of the outstanding capital stock of the Company entitled to vote on all matters submitted to shareholders generally (the "Voting Stock"), excluding Shares held by a holder (other than the Company, certain of its subsidiaries and employee benefit plans of the Company) of more than 15% of such voting power (an "Interested Stockholder," as further defined below) and certain related parties, for mergers, certain business combinations and certain other transactions (a "Business Combination," as further defined below) involving the Company and an Interested Stockholder unless the transaction is approved by a majority of the members of the Board of Directors who are unaffiliated with the Interested Stockholder (the "Continuing Directors," as further defined below) or unless certain procedural and "fair price" provisions are satisfied.

EIGHTY PERCENT VOTE REQUIRED FOR CERTAIN BUSINESS COMBINATIONS: The Fair Price Provision requires the approval of 80% of the Voting Stock, voting as a single class, excluding Voting Stock held by the Interested Stockholder and certain related parties, if the Business Combination under consideration is with or proposed by or on behalf of any of them, in addition to any class vote required by law or otherwise, as a condition of specified transactions with or for the benefit of an Interested Stockholder, except in cases in which either certain fair price criteria and procedural requirements are satisfied or the transaction is approved by a majority of the Continuing Directors. If the fair price criteria and procedural requirements are met or the requisite approval of the Continuing Directors is given with respect to a particular Business Combination, the voting requirements otherwise provided for under the Florida GCA would apply.

An "Interested Stockholder" is defined in the Fair Price Provision as any person (other than the Company, certain of its subsidiaries and employee benefit plans) who is, or has announced or publicly disclosed a plan or intention to become, the beneficial owner of more than 15% of the Voting Stock. The term "beneficial owner" includes persons and certain related parties, directly and indirectly owning or having the right to acquire or vote the Voting Stock. As of October 16, 1987, the date of Amendment No. 25 to Schedule 13D filed by Mr. Sosnoff with the Securities and Exchange Commission, Mr. Sosnoff would be deemed to be an "Interested Stockholder" of the Company.

A "Business Combination" includes, among other things, (a) a merger or consolidation of the Company or any subsidiary with an Interested Stockholder, (b) any sale, lease, mortgage, pledge or other disposition or security arrangement, investment, loan, guarantee, extension of credit, joint venture participation or other arrangement with or for the benefit of any Interested Stockholder involving any assets, securities, obligations or commitments of the Company or any Interested Stockholder which involve or have an aggregate fair market value of $2,500,000 or more or constitute more than 5% of the book value of the total assets (in the case of transactions involving assets or commitments other than capital stock) or 5% of the shareholders' equity (in the case of transactions in capital stock) of the entity in question on a consolidated basis, provided that any arrangement whether as employee, consultant or otherwise, other than as a director, pursuant to which any Interested Stockholder will have any control over the business or affairs of the Company, shall be deemed to be a "Business Combination" irrespective of the value test set forth above, (c) the adoption of any plan or proposal for the liquidation or dissolution of the Company or for an amendment to the Existing By-laws, and (d) any reclassification of securities, recapitalization, merger of the Company with a subsidiary or other transaction which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding capital stock (or securities convertible into stock) of any class of the Company, or any subsidiary, that is beneficially owned by an Interested Stockholder.

A "Continuing Director" is any member of the Board of Directors of the Company who is not affiliated with an Interested Stockholder and who was a director of the Company prior to the time the Interested Stockholder became an Interested Stockholder or whose nomination for election or election to the Board was recommended or approved by a majority of the Continuing Directors then in office.

EXCEPTION TO HIGHER VOTE REQUIREMENTS: The 80% affirmative vote by shareholders, excluding any Interested Stockholder (and certain related parties), would not be required if either (i) the transaction is approved by a majority of the Continuing Directors or (ii) all of the minimum price criteria and procedural requirements described below are satisfied.

(a) *Minimum Price Criteria.* In a Business Combination in which consideration is to be paid to the Company's shareholders, the consideration required to be paid must be either cash or the same type of consideration used by the Interested Stockholder in acquiring beneficial ownership of the largest portion of its Voting Stock. In the case of payments to holders of Shares, the fair market value per Share of such payments would have to be at least equal to the highest value determined under the following four alternatives: (i) the highest price per Share paid by or on behalf of the Interested Stockholder during the two years prior to the public announcement of the proposed Business Combination (the "Announcement Date") or in the transaction in which it became an Interested Stockholder, whichever is higher, for any Shares beneficially owned by the Interested Stockholder; (ii) the fair market value per Share on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (the "Determination Date"), whichever is higher, (iii) a price per Share equal to the fair market value per Share determined under clause (ii) above multiplied by the ratio calculated by dividing the highest price per Share paid by or on behalf of the Interested Stockholder for any Shares beneficially owned by it during the two-year period prior to the Announcement Date by the fair market value per Share on the day before the first date during such period that the Interested Stockholder acquired beneficial ownership of any Shares; and (iv) the earnings per Share for the four full consecutive fiscal quarters immediately preceding the Announcement Date, multiplied by the higher of the highest price/earnings multiple of the Company during the two years prior to the Announcement Date or the then price/earnings multiple (if any) of such Interested Stockholder. "Fair market value" is defined in the Fair Price Provision to mean, in the case of exchanged-listed or National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") quoted stock, the highest closing price or closing bid in the 30 days preceding the date in question, and if the stock is not listed or quoted, then the fair market value as determined in good faith by a majority of the Continuing Directors.

In the case of payments to holders of any class of the Company's capital stock other than Shares at the time outstanding, the fair market value per share of such payments would have to be at least equal to the higher of (a) the highest per share price determined with respect to such class of stock in the same manner as described in clauses (i), (ii) and (iii) above, or (b) the highest preferential amount per share to which the holders of such class of capital stock would be entitled in the event of a voluntary or involuntary liquidation of the Company. The Interested Stockholder would be required to meet the minimum price criteria with respect to each class of capital stock, whether or not the Interested Stockholder beneficially owned shares of that class prior to proposing the Business Combination. If the minimum price criteria and the procedural requirements (discussed below) were not met with respect to each class of capital stock, then an 80% vote by shareholders, excluding any Interested Stockholder (and certain related parties), would be required to approve the Business Combination unless the transaction were approved by a majority of the Continuing Directors.

If the Business Combination did not involve any cash or other property being received by any of the other shareholders, such as a sale of assets or an issuance of the Company's securities to an Interested Stockholder, then the minimum price criteria discussed above would not apply and an 80% vote by shareholders, excluding any Interested Stockholder (and certain related parties), would be required, unless the transaction were approved by a majority of the Continuing Directors.

(b) *Procedural Requirements.* Under the Fair Price Provision, in order to avoid the 80% shareholder vote requirement, an Interested Stockholder would have to comply with all of the procedural requirements described below, as well as the minimum price criteria described above, unless the Business Combination were approved by a majority of the Continuing Directors.

(i) The Company must not have failed to pay full quarterly dividends or have reduced the rate of regular dividends, if any, paid on the Shares after the Determination Date, unless such failure or reduction was approved by a majority of the Continuing Directors. This provision is designed to prevent an Interested Stockholder from attempting to depress the market price of the Shares prior to proposing a Business Combination, thereby possibly reducing the consideration required to be paid pursuant to the minimum price provisions of the Fair Price Provision.

(ii) The Interested Stockholder must not have acquired any additional shares of the Company's capital stock, directly from the Company or otherwise, in any transaction subsequent to the transaction pursuant to which it became an Interested Stockholder, unless after giving effect to such acquisition there would be no increase in the Interested Stockholder's percentage beneficial ownership of any class of the Company's capital stock. This provision is intended to prevent an Interested Stockholder from purchasing additional shares of the Company's capital stock at prices which are lower than those set by the minimum price criteria of the Fair Price Provision.

(iii) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the rules promulgated under the Exchange Act must be prepared and mailed by the Company to all shareholders of the Company at least 30 days prior to the consummation of the Business Combination. This provision is intended to ensure that the Company's shareholders would be fully informed of the terms and conditions of the proposed Business Combination prior to its completion even if the Interested Stockholder were not otherwise legally required to disclose such information to shareholders.

(iv) The Interested Stockholder must not have made any change in the Company's business or equity capital structure without the approval of a majority of the Continuing Directors. This provision is intended to prevent the Interested Stockholder from attempting to depress the market price of the Company's stock prior to proposing a Business Combination or to otherwise take advantage of its equity position in the Company to the detriment of all other shareholders.

A majority of the Continuing Directors has the power to determine all questions arising under the Fair Price Provision, including, but not limited to, the extent to which an adjustment is appropriate as a result of a merger, consolidation, stock split, stock dividend, extraordinary cash dividend, subdivision, reclassification, recapitalization or similar transaction. For purpose of the Fair Price Provision, references to the Company, its capital stock and the prices and holders of such stock are deemed to refer to any predecessor corporation, its capital stock and the holders and prices of such stock.

EIGHTY PERCENT VOTE REQUIRED TO AMEND OR REPEAL: The Fair Price Provision provides that a vote of the holders of 80% or more of the voting power of the Voting Stock, excluding Voting Stock beneficially owned by an Interested Stockholder, would be required in order to amend, alter or repeal, or adopt any provisions inconsistent with, the Fair Price Provision if proposed by or on behalf of an Interested Stockholder.

CERTAIN DETRIMENTS OF THE FAIR PRICE PROVISION: Tender offers or other non-open market acquisitions of stock are usually made at prices above the prevailing market price of a company's stock. In addition, acquisitions of stock by persons attempting to acquire control through market purchases may cause the market price of the stock to reach levels which are higher than would otherwise be the case. The Fair Price Provision may discourage such purchases, particularly those of less than all the Company's stock, and thereby deprive holders of the Company's stock of an opportunity to sell their stock at a temporarily higher market price. Because of the higher percentage requirements for shareholder approval of any subsequent Business Combination and the possibility of having to pay a higher price to other shareholders in such a Business Combination, it may become more costly for a purchaser to acquire control of the Company. Accordingly, the Fair Price Provision may make more difficult or discourage a merger or takeover of the Company or the acquisition of control of the Company by a principal shareholder and thus the removal of incumbent management. Also, the Fair Price Provision would discourage some takeover attempts by persons intending to acquire the Company in two steps, the second step of which would eliminate remaining shareholder interests by means of a Business Combination involving less consideration

per share than the acquiring person paid for its initial interest in the Company. The Fair Price Provision by requiring an 80% vote by shareholders other than the Interested Stockholder (and certain related parties) to approve a Business Combination, would, absent approval by the Continuing Directors or satisfaction of the fair price and procedural criteria described above, enable a minority of such shareholders to prevent consummation of a Business Combination, notwithstanding the fact that a majority of such shareholders voted in favor of it. Some shareholders may find the Fair Price Provision disadvantageous to the extent that it discourages takeovers which are not approved by a majority of the Continuing Directors but in which shareholders might receive, for at least some of their Shares, a substantial premium above the market price at the time a tender offer or other acquisition transaction is made. Thus, shareholders who might desire to participate in a tender offer may not be afforded the opportunity to do so. To the extent that the Fair Price Provision discourages tender offers or accumulations of the Company's stock, shareholders may be deprived of higher market prices for their stock which often prevail as a result of such events. To the extent that the Fair Price Provision discourages takeovers that would result in a change of management, such changes would be less likely to occur as a result of the Recapitalization Amendments. However, the Fair Price Provision should not, in the opinion of the Board of Directors, prevent or discourage tender offers or other acquisition transactions in which the acquiring person or persons are prepared to pay the same fair price to all shareholders of each class of capital stock of the Company.

CERTAIN BENEFITS OF THE FAIR PRICE AMENDMENT: As discussed above, a number of companies have recently been the subject of tender offers for, or other acquisitions of, more than 15% but less than all of their outstanding stock. In many cases, such purchases have been followed by Business Combinations in which the tender offeror or other purchaser has paid a lower price for the remaining outstanding shares than the price it paid in acquiring its original interest in the company or has paid a less desirable form of consideration. Federal securities laws and regulations govern the disclosure required to be made to minority shareholders in such transactions but do not assure the fairness to shareholders of the terms of the Business Combination. Moreover, the statutory right of the remaining shareholders of the company to dissent in connection with certain Business Combinations and receive the "fair value" of their shares in cash may involve significant expense, delay and uncertainty to dissenting stockholders.

The Fair Price Provision is intended to meet partially these gaps in the Federal and state laws and to prevent certain of the potential inequities of Business Combinations which involve two or more steps by requiring that, in order to complete a Business Combination which is not approved by a majority of the Continuing Directors, such Interested Stockholder must comply with certain procedural and fair price provisions as described above. In the absence of the Fair Price Provision, an Interested Stockholder who acquires control of the Company could subsequently, by virtue of such control, force minority shareholders to sell or exchange their Shares at a price which would not reflect any premium such purchaser may have paid in order to acquire its controlling interest but would instead effectively be set by such Interested Stockholder. Such a price might very well be lower than the price paid by such purchaser in acquiring control and may also be in a less desirable form of consideration (*e.g.*, equity or debt securities of the purchaser instead of cash).

Although not all significant acquisitions of a company's stock are made with the objective of acquiring control of the company through a subsequent transaction which would constitute a Business Combination under the Fair Price Provision, in most cases a purchaser desires to have the option to consummate such a transaction. Assuming that to be the case, the Fair Price Provision would tend to discourage purchasers whose objective is to seek control of the Company at a relatively low price, because acquiring the remaining equity interest would not be assured unless a majority of the Continuing Directors were to approve the transaction or the above-mentioned procedural and fair price provisions were satisfied. The Fair Price Provision would also discourage the accumulation of large blocks of the Company's stock, which the Board believes would be disruptive to the stability of the Company's vitally important relationships with its employees, customers and major lenders, and which could precipitate a change of control of the Company on terms unfavorable to the Company's other shareholders.

Under the Original Articles of Incorporation and the Florida GCA, only a majority vote was required on all mergers and other significant transactions. However, the Florida legislature has amended the Florida GCA effective as of July 2, 1987, to include a provision similar to the Fair Price Provision contained in Article XI of the Existing Articles of Incorporation (the "Florida GCA Fair Price Provision"). The Florida GCA Fair Price Provision is applicable to all corporations incorporated under the laws of the State of Florida, unless the corporation, by amendment of its Articles of Incorporation, elects to not have such provision apply. The Board of Directors has no current intention of recommending any such election. Although the Florida GCA Fair Price Provision is similar to the Fair Price Provision contained in Article XI of the Existing Articles of Incorporation, the Florida GCA Fair Price Provision differs in a number of respects. These differences include the definition of an Interested Stockholder (defined as a 10% beneficial owner of a company's voting securities), a 66⅔% vote on Business Combinations (unless the procedural and fair price requirements are met or the transaction is approved by a majority of the disinterested directors), and various other provisions relating to the definition of a Business Combination, the fair price criteria, the procedural requirements and other matters. As of October 16, 1987, the date of Amendment No. 25 to Schedule 13D filed by Mr. Sosnoff with the Securities and Exchange Commission, Mr. Sosnoff would be deemed to be an "Interested Stockholder" for purposes of the Florida GCA Fair Price Provision.

If Proposal (2)(b) is approved by shareholders, Article XI of the Existing Articles of Incorporation will be rescinded in its entirety. However, the Florida GCA Fair Price Provision would remain applicable to the Company.

The Dividend Provision

Pursuant to the Recapitalization Amendments, Article III of the Existing Articles of Incorporation includes the Dividend Provision which provides that dividends on the Company's capital stock may be declared and paid in accordance with the Florida GCA. The Original Articles of Incorporation provided that dividends on the Company's capital stock may be declared and paid from the net earnings or from the surplus of the assets over the liabilities including the capital of the Company.

If Proposal 2(b) is approved by shareholders, the Dividend Provision will be rescinded and the Existing Articles of Incorporation will be amended to conform to the provisions of Article III of the Original Articles of Incorporation regarding the payment of dividends on the Company's capital stock.

The Board of Directors believes that the Dividend Provision allows the Company to take full advantage of the provisions of the Florida GCA regarding the payment of dividends, including Section 607.137 of the Florida GCA which permits dividends to be paid out of the current value of the net assets of a corporation as determined by resolution of its Board of Directors based upon a current fair valuation or other method reasonable in the circumstances. Although the Company has not historically paid any dividends on the Shares and is restricted in its ability to pay dividends pursuant to certain of its debt instruments, the Board believes that the Dividend Provision provides increased flexibility in planning future corporate action and enhances the ability of the Company to pay dividends and should be retained.

Reasons for the Board's Recommendation

The Board of Directors believes that the Recapitalization Amendments constitute desirable measures to protect the Company and its shareholders from certain non-negotiated takeover attempts, particularly in light of the recent Sosnoff Offer. Takeover attempts have become increasingly common in recent years. Takeover attempts which have not been negotiated with and approved by the Board of Directors can seriously disrupt the business and management of a company and cause a company to suffer great expense. Such attempts may also take place at inopportune times and may involve terms which may be less favorable to all of the shareholders than would be available in a transaction negotiated and approved by the Board of Directors. On the other hand, transactions approved by the Board of Directors can be carefully planned and undertaken at an opportune time in order to obtain maximum value for the company and all of its shareholders. In addition, in the case of a proposal which is presented to the Board of Directors, there is greater opportunity for the Board of Directors to analyze the proposal thoroughly and to present that analysis to the shareholders in the most effective manner.

Unsolicited or hostile takeover attempts are frequently structured in ways which may not be in the best interests of all of the shareholders. Although a takeover attempt may be made at a price substantially above then current market prices, such offers are sometimes made for less than all of the outstanding shares of a target company. As a result, shareholders may be presented with the alternative of either partially liquidating their investment at a time which may be disadvantageous or retaining their investment as minority shareholders in an enterprise which is controlled by persons whose objectives may be different from those of the remaining minority shareholders. A takeover attempt may take the form of a two-tiered offer in which cash is offered for a portion of the target company's outstanding shares and thereafter securities that are or may be worth less than the cash portion are offered for the remaining shares. Furthermore, hostile takeover attempts are sometimes timed and designed to foreclose or minimize the possibility of more favorable competing bids, which frequently may result in shareholders losing the opportunity to receive and consider alternative and possibly more attractive proposals. The Board of Directors recognizes that takeover attempts which have not been negotiated with and approved by a target company's board of directors do not always have the unfavorable consequences or effects described above. See "Possible Negative Considerations" below. However, the Board of Directors believes that the potential disadvantages of unapproved takeover attempts are sufficiently great that prudent steps to reduce the likelihood of such takeover attempts are in the best interests of the Company and all of its shareholders. Accordingly, the Board of Directors believes that it is in the best interests of the Company and its shareholders to encourage potential acquirors to negotiate directly with the Board of Directors and that certain of the changes resulting from the Recapitalization Amendments will encourage such negotiations and may discourage hostile takeover attempts. It is also the Board's view that the existence of these provisions should not discourage anyone from proposing a merger or other transaction at a price reflective of the true value of the Company and which is in the best interests of all of its shareholders. No provision of the Existing Articles of Incorporation should prevent any person from making a tender offer to shareholders of the Company or prevent any shareholder from accepting such an offer, although the Recapitalization Amendments, as a practical matter, could inhibit the making of such an offer. See "LEGAL PROCEEDINGS."

In addition, the Board of Directors believes that the Dividend Provision allows the Company to take full advantage of the provisions of the Florida GCA regarding the payment of dividends and provides increased flexibility in planning future corporate action and enhances the ability of the Company to pay dividends.

The Board of Directors believes that, notwithstanding the termination of the Sosnoff Offer and the abandonment of the Plan of Recapitalization, the Recapitalization Amendments continue to be in the best interests of the Company and its shareholders and recommends that shareholders vote AGAINST Proposals (2)(a) and (b).

Possible Negative Considerations

Notwithstanding the belief of the Board of Directors as to the benefits to shareholders of the Recapitalization Amendments, shareholders should recognize that one of the effects of the Recapitalization Amendments may be to discourage a future attempt to acquire control of the Company which is not presented to and approved by the Board, but which a substantial number and perhaps even a majority of the shareholders of the Company might believe to be in their best interests or in which shareholders might receive a substantial premium for their Shares over then current market prices. As a result, shareholders who might desire to participate in such a transaction may not have an opportunity to do so. In addition, unapproved tender offers and takeover attempts may or may not be made at times and in circumstances which are beneficial to and in the interests of shareholders of the Company. Tender offers or takeover attempts do not all have features of the type which may be to the disadvantage of shareholders. Furthermore, it is not always the case that an unsolicited offer will be less advantageous than a company-negotiated transaction. Unsolicited offers can provide shareholders with considerable value for their Shares and may provide benefits to shareholders other than a premium price for their Shares.

In considering Proposals (2)(a) and (b), shareholders of the Company should also be aware that the overall effect of the Recapitalization Amendments is to make it more difficult for holders of even a

majority of the outstanding Shares to change the composition of the Board of Directors of the Company and remove existing management in circumstances where a majority of the shareholders may be dissatisfied with the performance of the incumbent directors or otherwise desire to make changes.

The Board has considered these potential disadvantages and has concluded that the potential benefits of the Recapitalization Amendments significantly outweigh their possible disadvantages and recommends that shareholders vote AGAINST Proposals (2)(a) and (b).

Existing Charter and By-laws Provisions

In addition to the Recapitalization Amendments, the Company currently has and, whether or not Proposals (2)(a) and (b) are approved by shareholders, will continue to have certain charter and by-law provisions which may have certain possible anti-takeover effects. These provisions were in effect prior to the adoption of the Plan of Recapitalization by the Board of Directors. For information regarding litigation involving certain of these provisions, see "LEGAL PROCEEDINGS." Certain of these provisions are described below.

Nomination of Directors. The Existing By-laws, like the Original By-laws, require that a person's candidacy be notified to the Board of Directors at least 75 days in advance of any solicitation in order for such person to be eligible to be elected or serve as a director, unless such person is already a director or such notice is waived by the Board. Such notice must contain certain information specified in the Federal proxy rules and regulations. In addition, the Existing By-laws provide that a candidate for director must be cleared by the Company's internal security department and must be properly qualified with applicable gaming regulatory authorities. Under the Existing By-laws certain persons owning securities of or associated with competitors of the Company and its subsidiaries are ineligible to be elected or serve as directors.

The Board believes that advance notice of nominations by shareholders affords a meaningful opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by the Board of Directors, will provide an opportunity to inform shareholders about such qualifications. This provision is especially important where a director's qualifications can affect the ability of the Company and its subsidiaries to obtain and maintain approvals, qualifications and licenses from gaming regulatory authorities necessary to the conduct of the Company's business. The procedures described above may have the effect of precluding a nomination for the election of directors at a particular meeting if the proper procedures are not followed and may discourage or deter a shareholder from conducting a solicitation of proxies to elect its own directors or otherwise attempting to obtain control of the Company.

Business Introduced by Shareholders at Meetings. The Existing By-laws, like the Original By-laws, provide that, for business to be properly introduced by a shareholder where such business is not specified in the notice of meeting or brought by or at the direction of the Board of Directors, in addition to any other applicable requirements, the shareholder must have given at least 75 days' prior written notice to the Company. Such a by-law provision does not preclude discussion by any shareholder as to any business properly brought before any meeting. Under the Existing By-laws, the Chairman of the Board, who also serves as chairman of any meeting, may, if the facts warrant, determine and declare that any business was not properly brought before such meeting and such business will not be transacted.

The purpose of requiring advance notice of business to be brought by a shareholder before a meeting of shareholders is to enable the Board of Directors to give advance notice of such business to shareholders generally, and to afford the Board of Directors a meaningful opportunity to consider the merits of the matter to be raised by shareholders. Although this provision does not give the Board of Directors or the Chairman of the Board any powers to approve or disapprove such matters, this procedure may have the effect of precluding the consideration of matters at a particular meeting if the proper procedures are not followed, even if approval of such matters may be deemed by some shareholders to be beneficial to the Company and its shareholders.

NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN
(Proposal 3)

Although the Company has a history of attracting and retaining talented individuals of proven judgment and competence to its Board of Directors, as businesses and the business climate have become more complex, directors of the Company and most other companies have been required to spend increasingly substantial time dealing with the problems and opportunities of the companies they serve as directors. The growing demands on directors' time have greatly heightened the competition for potential directors who possess the talents, skills, judgment, personal attributes and other characteristics of an outstanding director. Also, the regulatory requirements and the significant intrusion into directors' privacy pursuant to gaming licensing requirements makes it more difficult for the Company to attract outside directors.

In an effort to enable the Company to continue to compete in attracting and retaining talented directors, the Board of Directors, on October 19, 1987, recommended that the shareholders approve the adoption of the Non-Employee Directors' Plan, reserving 100,000 Shares for the grant of nonqualified stock options to non-employee directors. The Board of Directors believes that the Non-Employees Directors' Plan will provide additional incentives to non-employee directors to continue to serve on the Company's Board by providing them with an opportunity to share in the Company's future growth. If the Non-Employee Directors' Plan is approved by shareholders and the Securities and Exchange Commission issues an appropriate "No Action" letter with respect to the Non-Employee Directors' Plan, non-employee directors will receive the options described below under the Non-Employee Directors' Plan.

The Non-Employee Directors' Plan would provide that non-employee directors will receive certain options to purchase Shares for an option price per Share equal to the fair market value of the Shares on the date of grant. Non-employee directors (i) commencing or continuing terms on the Board at the Annual Meeting of Shareholders on November 24, 1987, or (ii) who are elected to the Board for the first time at any subsequent special or annual meeting of shareholders will each receive, on the applicable date, an option to purchase 5,000 Shares, which shall become exercisable in full on the date six months and one day after the date of grant and shall expire on the fifth anniversary of the grant date. On the date of each subsequent annual meeting of shareholders, each continuing non-employee director will automatically receive an option to purchase an additional 1,000 Shares, which option shall become exercisable in full on the date six months and one day after the date of grant. Subject to the aforementioned expiration provisions, the term of each option shall generally be five years, but any option shall expire within a maximum of nine months after the optionee ceases to serve as non-employee director. When each option is granted, Limited Rights equal to the number of Shares covered by such option will also be granted. The Limited Rights will become exercisable for a sixty-day period if certain specified changes in the ownership of the Company occur. Upon the exercise of an option's related Limited Rights, a cash payment will be made and the related option will be cancelled.

The foregoing discussion summarizes the terms of the Non-Employee Directors' Plan. This summary is not intended to be complete and is qualified in its entirety by reference to the full text of the Non-Employee Directors' Plan attached as Exhibit B to this Proxy Statement.

The affirmative vote of the holders of a majority of the Shares present in person or by proxy at the Annual Meeting is necessary to approve Proposal (3). For the reasons set forth above, the Board of Directors recommends a vote FOR Proposal (3).

LEGAL PROCEEDINGS

On March 9, 1987, Mr. Sosnoff and MTS Acquisition Corp. brought an action in the Florida District Court against the Company and the directors of the Company entitled *Martin T. Sosnoff and MTS Acquisition Corp. v. Caesars World, Inc., et. al.,* Case No. 87-0441-Civ-Ryskamp (the "Florida Action"). The action alleged that (i) the defendants committed a breach of the directors' fiduciary duty by embarking on a course of conduct designed to entrench management and deter major shareholders from acquiring control of the Company, including the claim that the directors had adopted discriminatory provisions in debentures issued by the Company that were designed to deter acquisition of more than 25% of the Shares by increasing the cost to an acquiror of the Shares in a manner not calculated to yield any benefit to shareholders; (ii) by virtue of having adopted the discriminatory debenture provisions, the defendants had inequitably discriminated against Mr. Sosnoff by diluting his holdings as against the outstanding capital stock of any other shareholder and that by reason of the foregoing, defendants had violated their fiduciary obligations, as well as Florida statutory and common law; (iii) the defendants had violated Section 14(a) of the Exchange Act and Rule 14a-9 of the General Rules and Regulations (the "Rules") promulgated thereunder by falsely stating in the Company's Notice and Proxy Statement dated October 24, 1986, that a shareholder proposal to limit the Board of Directors' ability to institute anti-takeover measures would be presented to the shareholders of the Company for action at the Annual Meeting held December 9, 1986 when in fact such proposal was not presented at the shareholders' meeting and the vote on the proposal was not counted; and (iv) the provision in the Original By-laws requiring notice to be given to the Board of Directors at least seventy-five days before an action by consent for election of new directors and the provision in the Original By-laws that shareholder consent to remove a director does not become effective until the final termination of any proceedings commenced to determine the validity of the consent, were designed to deter takeovers and to entrench management and as such were in violation of the defendants' fiduciary duty and in violation of Florida law.

Mr. Sosnoff and MTS Acquisition Corp. sought the following declarations and orders from the court: (a) a declaration that the allegedly discriminatory 25% provision in the debentures was invalid; (b) a declaration that by virtue of the acts alleged in the complaint the defendants by their acts of entrenchment had violated their fiduciary duty; (c) a declaration that the defendants had violated Section 14(a) of the Exchange Act and 14a-9 of the Rules; (d) a declaration that the provisions of the Original By-laws set forth above were invalid and *ultra vires;* (e) an order that the allegedly discriminatory debenture provisions were not enforceable; and (f) an order that the votes cast at the last annual shareholders' meeting of the Company be tabulated by an independent inspector. In addition, Mr. Sosnoff and MTS Acquisition Corp. sought injunctive relief enjoining the defendants from enforcing the allegedly discriminatory provisions of the debentures or the taking of any other action allegedly to entrench management. Pursuant to a motion filed by the Company and the directors on March 12, 1987, the Florida District Court issued an order on March 18, 1987 transferring the Florida Action to the California District Court. By Notice dated September 4, 1987, Mr. Sosnoff and MTS Acquisition Corp. voluntarily dismissed the Florida Action without prejudice.

On March 16, 1987, the Company brought the Company Action in the California District Court against Mr. Sosnoff and MTS Acquisition Corp. entitled *Caesars World, Inc. v. Martin T. Sosnoff and MTS Acquisition Corp.,* Case No. 87-01622-WJR (Px). In the Company Action, the Company alleged that Mr. Sosnoff and MTS Acquisition Corp. were in violation of Section 14(d) and 14(e) of the Exchange Act and the Rules and in violation of Section 7 of the Exchange Act and Regulations G, T and U thereunder for the following reasons. First, contrary to the provisions of Section 14(d) of the Exchange Act and Rules which require disclosure of the bidder's financial condition where material to a decision of a security holder regarding action to be taken on his shares, the Sosnoff Offer provided no financial information concerning MTS Acquisition Corp. and failed to disclose any financial information about Mr. Sosnoff who dominates and controls MTS Acquisition Corp. and on whose behalf the Sosnoff Offer was being made. Second, Mr. Sosnoff's and MTS Acquisition Corp.'s Schedule 14D-1 and the Sosnoff Offer were materially false and misleading in that they failed to disclose among other things: (a) the true purpose of the Sosnoff Offer,

namely the manipulation of the market price of the Shares so as to enable Mr. Sosnoff to sell his Shares at a profit; (b) that Mr. Sosnoff did not intend to consummate the Sosnoff Offer in accordance with the terms set forth in the Sosnoff Offer; (c) that Mr. Sosnoff had within the last six months, attempted to sell his Shares to third parties at a premium and had materially misstated the content and timing of his discussions with the Company regarding the sale of his Shares; and (d) that Mr. Sosnoff and MTS Acquisition Corp. lacked the financial means themselves to purchase the Shares in the Sosnoff Offer and had no reasonable expectation of obtaining the financing needed to complete the Sosnoff Offer.

In the Company Action, the Company alleged in addition that, in violation of the provisions of the Exchange Act, the Schedule 14D-1 and the Sosnoff Offer failed to disclose Mr. Sosnoff's plans and proposals relating to the Company, namely that Mr. Sosnoff intended to make material changes to the Company's business including increasing the Company's borrowings and relocating the Company's headquarters away from Los Angeles, California, and changing the management. Furthermore, the Sosnoff Offer failed to disclose that as a result of the requisite Nevada and New Jersey regulatory approvals, the consummation of the Sosnoff Offer may have been delayed for an unspecified time. The Company further alleged in the Company Action that due to the fact that MTS Acquisition Corp. had no independent assets of its own, other than the Shares it intended to acquire, the issuance of unsecured debt securities by MTS Acquisition Corp. in partial financing of the merger, resulted in violation of Section 7 of the Exchange Act and Regulations G, T and U thereunder which prohibit the use of borrowed funds to purchase securities where the borrowing is secured only by such securities if the amount of such borrowing exceeds 50% of the value of the Shares.

The Company sought, among other things, the following relief from the California District Court (i) a judgment enjoining defendants from acquiring any Shares of the Company pursuant to the Sosnoff Offer or otherwise and from soliciting to sell any Shares or otherwise attempting to affect, control or influence the management of the Company; (ii) an order that the defendants make appropriate disclosures and correct all the false and misleading information made by them in the Sosnoff Offer and prohibiting the defendants from purchasing any Shares for such time as will allow full dissemination of these disclosures to the market place and to the Company's shareholders; and (iii) an order prohibiting Mr. Sosnoff and MTS Acquisition Corp. from making any false or misleading statements. On March 16, 1987, the California District Court granted the Company's motion to take discovery in respect of the Company Action on an expedited basis.

On March 23, 1987, MTS Acquisition Corp. and Mr. Sosnoff filed an answer and counterclaim with the California District Court in response to the Company Action. The counterclaim named the Company and each of the members of the Board of Directors as counterclaim defendants. The answer denied the material allegations of the Company Action. The counterclaim recited the claims alleged in the Florida Action and added two new counts, one alleged that the Company's Schedule 14D-9 was materially false and misleading and a second alleged that certain directors of the Company had not been licensed or otherwise found suitable by the Nevada Gaming Commission and that pursuant to the Original By-laws, such directors were therefore not eligible to serve as directors of the Company, and that any corporate actions taken as a result of a vote by such directors were *ultra vires* and invalid.

On March 26, 1987, the Company filed a motion in the Company Action to dismiss the two new counts described above and on April 22, 1987 the California District Court issued an order dismissing the first, without prejudice on the grounds of mootness and declined to dismiss the second count. On April 15, 1987, the Company and the individual counterclaim defendants filed a reply to MTS Acquisition Corp. and Mr. Sosnoff's counterclaims. The reply denied all the material allegations of the counterclaims and set forth a number of affirmative defenses thereto.

On April 17, 1987 the Company filed a motion in the Company Action that sought judgment dismissing certain of the counterclaims of Mr. Sosnoff and MTS Acquisition Corp. (which alleged that the counterclaim defendants breached their fiduciary duties to Mr. Sosnoff by inter alia not recommending that the Company's shareholders accept the Sosnoff Offer) and that sought judgment dismissing the third affirmative defense of the answer of Mr. Sosnoff and MTS Acquisition Corp. (which alleged that the Company's management came into California District Court with unclean hands and that the Company was therefore stopped from obtaining equitable relief).

On April 23, 1987 MTS Acquisition Corp. and Mr. Sosnoff filed an answer and amended and supplemental counterclaims in the Company Action. The amended and supplemental counterclaims essentially recited the claims alleged in the counterclaims. In addition the amended and supplemental counterclaims alleged that Amendments No. 2 and No. 3 to the Company's Schedule 14D-9 and the exhibits thereto contained materially false and misleading statements concerning the Plan of Recapitalization including, *inter alia,* (a) a failure to disclose that Drexel Burnham and the Company's management allegedly developed several sets of financial projections concerning the Company that contained widely disparate results and that the projections listed in the Company's press release of April 5, 1987 announcing the Plan of Recapitalization were the most optimistic among the various sets prepared; (b) a failure to disclose that Drexel Burnham allegedly refused to rely upon the Company's "optimistic" projections disclosed in the April 5, 1987 press release; (c) a failure to disclose that Drexel Burnham allegedly would have received approximately $40 million in fees if the Plan of Recapitalization went forward; (d) a failure to disclose that the Board of Directors of the Company allegedly may have chosen, without explanation or prior condition, not to approve the distribution of the Dividend to shareholders, even if the shareholders approved the Plan of Recapitalization and all other conditions were met; (e) a failure to disclose that allegedly there were a number of contingencies which may have prevented the payment of the Dividend to shareholders; (f) a failure to disclose that allegedly the Company's Board, as recently as October 1986, rejected the alternative of a plan of recapitalization as inconsistent with the long-term goals of the Company and as detrimental to its competitive position, and the Company's management allegedly made conflicting statements during the last twelve months about the Company's long-term goals and management's views about a recapitalization; (g) a failure to disclose the allegedly real purpose and likely impact of the proposed Plan of Recapitalization and other proposed changes in the Company's corporate structure and information which allegedly showed that the Board of Directors of the Company was being led in a manner designed to protect management's interests; (h) a misleading statement that the Plan of Recapitalization would have received the necessary regulatory approvals, when such regulatory approvals of the Plan of Recapitalization were by no means certain; (i) an alleged failure to disclose the possible anti-takeover effects of provisions in the Delaware Articles and By-laws; (j) an alleged misleading statement that management allegedly may have increased the dividend component of the Plan of Recapitalization without disclosing that any such increase would decrease whatever value, if any, may have been attributed to the Delaware shares; (k) an allegedly misleading statement that the Sosnoff Offer, as amended, was more highly conditional and less likely to receive regulatory approval than the Plan of Recapitalization; and (l) an alleged misleading statement that the Board and its financial advisors had concluded that the Plan of Recapitalization was superior from a financial point of view to the amended Sosnoff Offer, when no such conclusion was reached or could be truthfully reached. The amended and supplemented counterclaims also alleged that the Company's directors breached their fiduciary duties of care, loyalty and candor to Mr. Sosnoff as a shareholder of the Company by approving the Plan of Recapitalization.

On May 1, 1987, the Company and the individual counterclaim defendants filed a reply to the amended and supplemental counterclaims filed by MTS Acquisition Corp. and Mr. Sosnoff on April 23, 1987 in the Company Action. The reply denied all the material allegations of the amended and supplemental counterclaims and set forth a number of affirmative defenses thereto.

On May 6, 1987, the Company lodged an amended and supplemental complaint for injunctive and declaratory relief in the California District Court entitled *Caesars World, Inc. v. Martin T. Sosnoff, et al,* Case No. 87-01622 WRJ (Px) (the "Amended Company Action"). The Amended Company Action essentially recited the claims alleged in the Company Action. Furthermore, the Amended Company Action made the following additional allegations. First, the Amended Company Action alleged that contrary to the provisions of Sections 14(d) and 14(e) of the Exchange Act and the Rules, which require disclosure of the bidder's financial condition where material to a decision of a security-holder of the subject company regarding action to be taken on his shares, the amended Sosnoff Offer, like the original Sosnoff Offer, provided no financial information concerning MTS Acquisition Corp. and failed to disclose material financial information about Mr. Sosnoff on whose behalf the amended Sosnoff Offer was being made. Second, the Amended Company Action alleged that the Sosnoff Offer, as supplemented on March 10 and

March 23, 1987, and as amended on April 13, 1987 was materially false and misleading in that it failed to disclose among other things: (a) that Mr. Sosnoff, who never intended to consummate the Sosnoff Offer by April 3, 1987, initially established an illusory expiration date of April 3, 1987 to manipulate the market by stampeding arbitrageurs into purchasing Shares; (b) complete and truthful information with respect to Mr. Sosnoff's plans for the Company; (c) that the amended Sosnoff Offer contained false and misleading statements with respect to Mr. Sosnoff's contacts with the Company's management; (d) the true difficulties and procedures involved in gaining the approval of the Nevada Gaming Commission; (e) that if the amended Sosnoff Offer was successful, the Company would have incurred nearly $1 billion in debt; (f) the terms of the "Series A Preferred Stock" that Mr. Sosnoff proposed to issue for the outstanding Shares not purchased for cash; (g) the expected terms of the permanent financing Mr. Sosnoff hoped to arrange to repay the short term tender offer financing; and (h) the factual basis for Mr. Sosnoff's conclusion that the Sosnoff Offer was superior from the point of view of the Company's shareholders to the terms of the Plan of Recapitalization. Third, the Amended Company Action alleged that Mr. Sosnoff's consent solicitation statement contained materially false and misleading statements in the following ways: (a) in describing the Plan of Recapitalization, Mr. Sosnoff stated it would have saddled the Company with $1 billion of new debt, but failed to disclose that the amended Sosnoff Offer would have saddled the Company by nearly an additional $1 billion in debt; (b) a failure to disclose complete and truthful information with respect to Mr. Sosnoff's plans for the Company; (c) a failure to disclose that Mr. Sosnoff has indicated a willingness to have his Shares repurchased at a premium above market price which the Company declined to do; (d) a failure to disclose that the independent Board members of the Company remaining after Mr. Sosnoff's proposed removal of the four "inside" management directors unanimously voted to approve the Plan of Recapitalization and reject the Sosnoff Offer, (e) whereas Mr. Sosnoff in his consent solicitation statement sought to disparage the Plan of Recapitalization because it contemplated awarding "substantial equity interests in the Company to management," he failed to disclose that Mr. Sosnoff was contemplating offering management significant interest in the Company following his proposed merger which would have provided benefits comparable to equity ownership to enhance managerial performance; (f) Mr. Sosnoff's Consent Solicitation Statement and the accompanying shareholder consent card misstate the date on which the consents would have expired; (g) while Mr. Sosnoff chastised the Company's senior officers for receiving generous compensation, he failed to disclose that his cash compensation for 1986 exceeded $729,000; (h) while Mr. Sosnoff solicited shareholder consent to alter certain anti-takeover provisions in the Original By-laws, he failed to disclose that Atalanta/Sosnoff, of which Mr. Sosnoff is chairman, chief executive officer and a 61% shareholder, has stringent anti-takeover provisions including a stock option compensation program that becomes exercisable upon a change in control; (i) a failure to disclose the terms of the junior preferred shares that Mr. Sosnoff proposed to issue in exchange for the shares he did not intend to purchase for cash; and (j) while Mr. Sosnoff sought to remove Mr. Gluck from the Company's Board of Directors he failed to disclose that he complimented Mr. Gluck on his excellent work in a conversation with him on April 8, 1987. Fourth, the Amended Company Action alleged that MTS Acquisition Corp. and Mr. Sosnoff had violated Sections 14(d) and 14(e) of the Exchange Act by deliberately making materially false and misleading statements regarding the risks involved in obtaining the regulatory approval of the casino regulatory authorities. Fifth, the Amended Company Action alleged that Mr. Sosnoff's Schedule 13D and the amendments thereto filed by Mr. Sosnoff since September 9, 1983, were false and misleading and in violation of Section 13(d) of the Exchange Act and the Rules in that they concealed Mr. Sosnoff's true intentions to acquire and make material changes in the Company and thereby caused the manipulation of the price of the Shares and that Mr. Sosnoff's purpose in so doing was to avoid the inevitable rise in the price for the Shares which would have accompanied such disclosure making it more expensive for Mr. Sosnoff to consummate the Sosnoff Offer. Sixth, Mr. Sosnoff's proposed financing violated the Federal margin laws and the rules and regulations thereunder. The Amended Company Action sought the following additional relief from the California District Court: (a) a judgment enjoining Mr. Sosnoff from (i) the solicitation of written consents for shareholder action or revocation of written consents; (ii) seeking to take any action based upon written consents from the Company's shareholders; and (iii) taking any further action to effect the financing of the Sosnoff Offer including the issuance of preferred stock of MTS Holding and (b) a judgment (i) voiding all consents from the Company's shareholders received by Mr. Sosnoff; (ii) setting a new record date for determining those

shareholders entitled to express their consent in writing without a shareholder meeting; and (iii) requiring Mr. Sosnoff and MTS Acquisition Corp. to divest themselves of Shares acquired by them since the filing of their misleading Schedule 13D.

On May 1, 1987, Mr. Sosnoff and MTS Acquisition Corp. filed a motion for a preliminary injunction against the Company and its directors in the California District Court in the Company Action seeking to enjoin the Company, the counterclaim defendants and the directors of the Company from (i) proceeding with its Plan of Recapitalization or undertaking any extraordinary corporate transactions until correct and complete disclosure was made to the public and (ii) engaging in acts in violation of fiduciary duties and the duties of due care, candor and loyalty.

The motion for a preliminary injunction was based, among other things, upon the following allegations. First, the motion alleged that the Company had violated Sections 14(d) and (e) of the Exchange Act by disclosing to the public materially misleading projections that were in part prepared solely for the purpose of the Plan of Recapitalization and not in the regular course of business and by failing to disclose (a) the existence or contents of other less optimistic projections; (b) that in September 1986 the Company's management and Drexel Burnham advised the Company's Board against a recapitalization as contrary to the Company's long-term interests; (c) the fees of Drexel Burnham if the Plan of Recapitalization was consummated; (d) that the Plan of Recapitalization involved the adoption of anti-takeover devices which entrenched management; and (e) that Drexel Burnham itself when analyzing the Plan of Recapitalization, had refused to rely upon projections released by the Company. Second, the motion alleged that the Company's Schedule 14D-9 created a misleading impression about the likelihood that the Plan of Recapitalization would have received the necessary regulatory gaming approvals. Third, the motion alleged that the counterclaim defendants breached their duty of loyalty to the shareholders in rejecting the Sosnoff Offer, and in approving the Plan of Recapitalization. Fourth, the motion alleged the counterclaim defendants violated their duty of care by relying exclusively on Mr. Gluck and Drexel Burnham in rejecting the Sosnoff Offer and in adopting the Plan of Recapitalization without taking any other steps to investigate the Sosnoff Offer or to ask about alternate projections. Fifth, the motion alleged that the counterclaim defendants violated their duty to act with candor by disclosing to the Company's shareholders optimistic projections of future performance and by failing to disclose alternative projections that had been developed by its investment banker which were allegedly more pessimistic. The Company filed papers with the California District Court in opposition to Mr. Sosnoff's motion.

On May 5, 1987, the Company filed a notice of motion for a preliminary injunction against Mr. Sosnoff and MTS Acquisition Corp. in the California District Court in the Amended Company Action which sought to remedy Mr. Sosnoff's and MTS Acquisitions Corp.'s violation of Sections 13(d) and 14(a), (d) and (e) and Section 7 of the Exchange Act and related violations of law and sought to enjoin Mr. Sosnoff from taking any actions in connection with the tender offer or his solicitation of written consents pending trial on the merits of the action.

The motion was based upon the following grounds. First, the motion alleged that the Sosnoff Offer was false and misleading and in violation of Sections 14(d) and (e) of the Exchange Act in that Mr. Sosnoff (i) knowingly established an illusory expiration date in the Sosnoff Offer which would never be met in view of the time required to clear the gaming approval procedures upon which the Sosnoff Offer was conditioned and that Mr. Sosnoff's purpose in so doing was to drive Shares into the hands of arbitrageurs in order to facilitate Mr. Sosnoff's efforts to acquire control of the Company regardless of the effect it would have on long-term shareholders; (ii) failed to disclose material information concerning his own financial condition which is required of him, in light of the fact that he is a bidder and the primary motivating force behind the Sosnoff Offer, that he must satisfy a personal margin debt of approximately $44 million as a precondition to receiving his tender offer financing and that shareholders in a second step merger would receive securities and not cash; and (iii) concealed material information from the Company's shareholders concerning his plans and intentions with respect to the Company. Second, the motion alleged that Mr. Sosnoff's consent solicitation materials were materially false and misleading in that Mr. Sosnoff (i) misrepresented the expiration dates of the consents to be executed by shareholders and (ii) failed to disclose his plans with respect to the Company. Third, the motion alleged that Mr. Sosnoff's Schedule 13D and subsequent amendments thereto were materially false and misleading in that he falsely disclaimed

therein any plan to acquire the Company or to cause any material changes in the Company or to enter into contracts with respect to the Company and that his purpose in so doing was in order to avoid the rise in the price of Shares which would accompany the disclosure of such plans and make the consummation of the Sosnoff Offer more expensive. A separate motion alleged that defendants' proposed bridge financing required for the Amended Sosnoff Offer from the sale of securities of MTS Holding violated the Federal laws restricting margin loans and lending in that the shares of the so called "preferred stock" proposed to be sold were in reality not equity securities but were debt securities and that the failure of Mr. Sosnoff and MTS Acquisition Corp. to disclose their scheme to violate the margin rules violated federal law. Mr. Sosnoff and MTS Acquisition Corp. filed papers with the California District Court in opposition to the Company's motion.

On June 1, 1987, Mr. Sosnoff and MTS Acquisition Corp. lodged an Answer to the Amended and Supplemental Complaint and Second Amended Supplemental Counterclaims (the "Second Supplemental Counterclaims") in the action entitled *Caesars World, Inc. v. Martin T. Sosnoff, et al,* Case No. 87-01622 WJR (Px). The Answer denied all of the material allegations in the Company's Amended and Supplemental Complaint For Injunctive Relief filed on May 6, 1987. The Second Supplemental Counterclaims essentially recited the claims alleged in the Amended and Supplemental Counterclaims. In addition, the Second Supplemental Counterclaims alleged that Amendment No. 3 to the Company's Schedule 14D-9 failed to disclose the contents of the fairness opinions and other advice given to the Board by Drexel Burnham and Bear Stearns with respect to the Recapitalization. The Second Supplemental Counterclaims further alleged, among other things, that the May 18 Proxy Statement contained materially false and misleading statements and omissions including, *inter alia,* (i) a failure to disclose that the effect of certain of the Recapitalization Amendments, subject to approval at the Special Meeting, would undermine the possibility that third parties would make an offer that would be more attractive to shareholders; (ii) a failure to disclose that certain Drexel Burnham alternative calculations were based on "input from the Company's operating management"; (iii) a failure to disclose the contents of the Drexel Burnham preliminary projections and that the Drexel Burnham preliminary projections projected lower income than the projections ultimately relied on by the Board; (iv) the disclosure in the Proxy Materials concerning the Drexel Burnham "conservative case" and the "flat case" misleadingly created the impression that Drexel Burnham's projections were of no significance to the shareholders in placing a value on the "stub"; (v) a failure to disclose that Drexel Burnham relied on the "conservative case" and the "flat case" projections in deciding whether to underwrite the Debt Securities; (vi) a failure to disclose that some of the assumptions used by Drexel Burnham were furnished to the Company's management and that some of the alternative cases developed by Drexel Burnham were reviewed by the Company's senior management; (vii) the statement in the Proxy Materials misleadingly described the Drexel Burnham alternative projections as "calculations" because it falsely implied that the numbers bear no relationship to historical trends or to possible operating results for the Company; (viii) a failure to disclose information necessary to allow an investor to perform a comparative valuation of the "stub"; (ix) a failure to disclose that in the fall of 1986 the Board rejected the alternative of a recapitalization or other leveraged transactions as inconsistent with the long term goals of the Company and management's philosophy; (x) a failure to disclose that on March 11, 1987 the Company's chief financial officer sent projections to Drexel Burnham that contained growth assumptions for Caesars Palace lower than those implied in the 1987 strategic plan prepared by the Company; (xi) a failure to disclose that Bear Stearns refused at the April 14 Board meeting to render an opinion that the Recapitalization was financially superior to the Sosnoff Offer; (xii) a failure to disclose that the Plan of Recapitalization may have been deemed by the Internal Revenue Service to constitute a reorganization within the meaning of Internal Revenue Code of 1986 § 368(a)(1)(D), whereby the Company could incur substantial tax liability to the Federal Government as a net result of the reorganization in an amount up to $170 million and that such tax liability could have a serious financial impact on the Company. The Second Supplemental Counterclaims further alleged that the Board of Directors breached its fiduciary duties by (i) scheduling the vote of the Company's shareholders on June 12, 1987, prior to the expiration of the Sosnoff Offer; (ii) amending the Plan of Recapitalization to include a proposal permitting the shareholders to vote on June 12 to amend the Original Articles of Incorporation and to add what Mr. Sosnoff and MTS Acquisition Corp. contended

were "anti-takeover devices" to the charter of the Company before changing the state of incorporation from Florida to Delaware; (iii) providing that the Dividend pursuant to the Plan of Recapitalization would not be paid to the shareholders, even if approved, unless the alleged "anti-takeover" amendments were approved; and (iv) failing to disclose that the adoption of the Recapitalization Amendments would eliminate the Sosnoff Offer. The Second Supplemental Counterclaims further alleged that certain transactions contemplated by the Plan of Recapitalization were subject to Section 13(e) of the Exchange Act and Rule 13e-3 promulgated thereunder and that the counterclaim defendants were in violation of this Rule and Regulation by failing to file the requisite Statement on Schedule 13 E-3. The Second Supplemental Counterclaims further alleged that certain statements in the Company's press releases of April 5, 1987 and May 18, 1987 constituted an offer to sell securities prior to the filing and effectiveness of a registration statement in violation of Section 5 of the Securities Act and Rule 145 promulgated under the Securities Act.

The relief sought by Mr. Sosnoff and MTS Acquisition Corp. recited the requests for relief in the Florida Action. In addition, Mr. Sosnoff and MTS Acquisition Corp. sought the following orders from the California District Court: (i) an order that the counterclaim defendants correct the false and misleading statements in their Schedule 14D-9 and amendments thereto and the Proxy Materials; (ii) an order enjoining counterclaim defendants from making any false and misleading statements or taking any other action proscribed by Sections 13(e), 14(d) or 14(e) of the Exchange Act and Section 5 of the Securities Act, and the regulations promulgated thereunder, with regard to any response, recommendations, plan of recapitalization or other action in connection with the Sosnoff Offer; (iii) an order enjoining counterclaim defendants from taking any steps to implement or put into effect the Plan of Recapitalization; (iv) in the alternative, an order enjoining counterclaim defendants from taking any steps to implement the Plan of Recapitalization until the Sosnoff Offer expired and until the Company received the necessary regulatory approvals from the New Jersey and Nevada gaming authorities; and (v) an order enjoining counterclaim defendants from adopting any rights plan that would give different rights incident to Shares held by different shareholders.

Preliminary Injunction Hearing

On June 4, 1987, the California District Court heard the motion for a preliminary injunction by Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding against the counterclaim defendants and the motions by the Company for a preliminary injunction against Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding. Among the relief sought by Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding was a request that the California District Court adjourn the Special Meeting. The California District Court, after hearing argument, took the motions under submission and directed the parties to submit proposed orders with respect thereto. The California District Court also took under submission the motion by the Company and the counterclaim defendants for judgment on the pleadings dismissing certain counterclaims of Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding against the Company and the counterclaim defendants and for judgment dismissing defendants' third affirmative defense.

Ruling with Respect to Mr. Sosnoff

On June 8, 1987, the California District Court issued an order (the "Sosnoff Order") in which it ruled that the Company had established a probability of successfully demonstrating that the defendants' plan to finance the Sosnoff Offer violated the federal margin regulations and that the defendants' offering materials failed to disclose certain material information, and granted the Company's motion for a preliminary injunction. In the Sosnoff Order, the California District Court ordered that:

> "1. Defendants, and each of them, and each and all of their respective agents, employees, representatives, servants, successors and assigns, and any and all persons or entities acting by or under defendants' authority or acting in concert with defendants, are enjoined during the pendency of this action from purchasing any shares of the common stock of Caesars World, Inc. pursuant to their Tender Offer as originally constituted and as amended and supplemented."

"2. Nothing herein shall prevent Defendants from commencing a new tender offer for Caesars shares in full compliance with all requirements of law, including the federal securities laws. Any new tender offer shall disclose the following material information regardless of whether it has heretofore been publicly disseminated:

(a) Information about Mr. Sosnoff's personal finances. Disclosure shall be deemed adequate if it meets the guidelines of the Instructions accompanying Item 9 of SEC Schedule 14D-1;

(b) Necessary regulatory approvals may delay tender offer approval. Mr. Sosnoff's advisors have forecasted that such delay could range from one to six months;

(c) If Defendants acquire control of Caesars, there is a reasonable probability that they will use Caesars' available cash to repay or to service the debt that they will incur in purchasing Caesars stock and that they will pledge almost all of Caesars' assets as security for such debt;

(d) If Defendants acquire control of Caesars, there is a reasonable probability that they do one or more of the following: direct Caesars to close its Los Angeles office, sell its Lake Tahoe facility, terminate Caesars' forays outside its main businesses (which have included a magazine, an ice cream venture, boutique clothing and television production), renegotiate the lease on its Atlantic City property to reduce the lease payments (which may thus lead the Company to forego the opportunity to purchase the property at a favorable price) and to limit its capital improvement spending to maintenance only."

Rulings With Respect to the Company

Also, on June 8, 1987, the California District Court granted the motion of Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding, and issued the Company Order preliminarily enjoining the Company and its directors. In the Company Order, the California District Court ordered that:

"Caesars World, Inc. and its directors are enjoined during the pendency of this action from convening a Special Meeting of Shareholders for the purpose of approving the Recapitalization Plan described in Caesars' Proxy Materials until thirty days after they circulate to shareholders a Supplement to the May 18, 1987 Proxy Materials containing the following:

(1) A disclaimer acknowledging that the statement in the Letter to Shareholders from Henry Gluck, Chairman of the Board and Chief Executive Officer that the 'plan of recapitalization does not preclude a third party, including Mr. Sosnoff, from making a more attractive offer to the Company's shareholders, either before or after the recapitalization is effected' is misleading. The disclaimer should acknowledge that approval of the Plan of Recapitalization, as a practical matter, will preclude Mr. Sosnoff or another third party from offering to purchase shares at a premium over then prevailing market prices pursuant to a bid to gain control of the Company.

(2) Copies of the March 23, 1987 Drexel Burnham Lambert Memorandum (Defendant and Counterclaimant's Exhibit 1030) and the March 24, 1987 Drexel Burnham Lambert Memorandum (Counterclaimant's Exhibit 1046.)"

Copies of the March 23, 1987 Drexel Burnham Memorandum and the March 24, 1987 Drexel Burnham Memorandum are attached as Annexes I and II respectively to the Supplement to the May 18 Proxy Statement dated June 15, 1987. Also on June 8, 1987, the California District Court denied the Company's motion for judgment on the pleadings.

Motion to Clarify or Modify the Sosnoff Order

On June 12, 1987, Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding Corp. made an *ex parte* application to the California District Court for clarification or modification of the Sosnoff Order. In the application, Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding asked the California District Court: (i)

to clarify whether the Sosnoff Offer permitted MTS Acquisition Corp. to make required additional disclosures by amending its existing tender offer or whether the California District Court specifically intended to require it to commence a new tender offer; (ii) to confirm the defendants' understanding that the Sosnoff Order permits MTS Acquisition Corp. to make full corrective disclosure, provided that the expiration date of the tender offer is no later than the date of the adjourned Special Meeting; (iii) in the event that the California District Court intended to require MTS Acquisition Corp. to commence a new tender offer, to modify the Sosnoff Order; and (iv) to clarify whether the Sosnoff Order required additional financial disclosure by Mr. Sosnoff and, if so, to specify the exact information required.

The California District Court, after hearing argument, on June 12, 1987, issued *the June 12 Order* providing that:

> "1. Defendants are enjoined during the pendency of this action from offering to purchase shares of Caesars World, Inc. so long as defendants propose to finance such purchase through (1) the financial plan described in defendants' Form S-1 Registration Statement filed with the Securities and Exchange Commission, and (2) any other financial plan which violates Federal Reserve Board Regulations G and U.
>
> 2. In the event that defendants undertake the financing of a tender offer for Caesars' shares in a manner that does not violate Regulations G and U, they may publish this new financial plan in a Supplement to defendants' existing Offer to Purchase as amended and supplemented.
>
> 3. If defendants undertake the disclosure of the additional information referred to in the Court's June 8 Order, they may publish these additional disclosures in a Supplement to defendants' existing Offer to Purchase, as amended and supplemented.
>
> 4. If defendants satisfy the conditions of paragraph 2 and paragraph 3, supra, then they may proceed with their existing Tender Offer and need not institute a new tender offer for Caesars' shares.
>
> 5. Mr. Sosnoff's disclosure of his personal financial position in his Supplemental Amended Offer to Purchase, dated June 3, 1987, adequately complies with the Williams Act's requirements for disclosure of a tender offeror's finances.
>
> 6. Defendants may not purchase shares of Caesars' stock until twenty business days after publication of the information referred to in paragraph 2 and paragraph 3, supra.
>
> 7. Plaintiffs and its Board of Directors may not convene a shareholders' meeting for the purpose of approving the Board's proposed Plan of Recapitalization until fifteen business days after publication of the disclosures referred to in the Court's Order Granting Defendants' Motion for Preliminary Injunction, entered by this Court on June 8, 1987.
>
> 8. The Court's Orders of Preliminary Injunction, entered June 8, 1987, inadvertently omitted MTS Holding Corp. as a defendant in the captions to those orders. Those Orders are hereby amended to apply to MTS Holding Corp. with the same force and effect as if MTS Holding Corp. appeared in the captions.
>
> 9. The Court's Order Granting Plaintiff's Motion for a Preliminary Injunction inadvertently held that defendants' proposed financing plan violates Federal Reserve Board Regulation U when in fact the plan violates Federal Reserve Board Regulations G and U. The order is hereby amended such that all references to Regulation U are supplanted with references to Regulation G and U.
>
> 10. Except as provided above, defendants' motion is denied."

Also on June 12, 1987, the Company and the individual counterclaim defendants filed a reply to the Second Amended and Supplemental Counterclaims lodged with the California District Court by MTS Acquisition Corp., MTS Holding and Mr. Sosnoff on June 1, 1987 in the Company Action. The reply denied all the material allegations of the Second Amended and Supplemental Counterclaims and set forth a number of affirmative defenses thereto.

On August 8, 1987 Mr. Sosnoff, MTS Acquisition Corp. and MTS Holding Corp. filed a motion to dismiss the Amended Company Action and to vacate the Sosnoff Order. On October 5, 1987, the Court heard argument on the motion and took the matter under submission.

On September 8, 1987, the Company lodged with the Court and filed a motion for leave to file and serve a second amended and supplemental complaint for injunctive and declaratory relief with the California District Court entitled *Caesars World, Inc. v. Martin T. Sosnoff, et al.*, Case No. 87-01622 WJR (Px) (the "Second Amended Company Action"). The Second Amended Company Action repeats certain of the claims alleged in the Company Action, as previously amended. In addition, the Second Amended Company Action alleges that Mr. Sosnoff has filed four amendments to his Schedule 13D since the California District Court's June 12 order was made and has issued a press release that failed to disclose, *inter alia,* that Mr. Sosnoff has maintained (i) his intention to seek control of the Company and (ii) his specific plans to alter the Company's businesses, management and operations. The Second Amended Company Action seeks judgment against the defendants, *inter alia:* (i) preliminarily and permanently enjoining them from acquiring or attempting to acquire any shares of the Company's stock; (ii) ordering that defendants make appropriate corrective disclosures; (iii) declaring that defendants proposed financing scheme violates Section 7 of the Exchange Act and the regulations promulgated thereunder by the Federal Reserve Board; (iv) requiring defendants to divest themselves or otherwise rescind the purchase of the Company's shares acquired by them since the filing of their initial misleading Schedule 13D; (v) prohibiting defendants and those acting with them or on their behalf from making any false or misleading statements or taking any other action in violation of the Exchange Act; and (vi) granting the Company its reasonable costs, expenses and attorneys' fees. On October 5, 1987, the Court heard argument on the Company's motion for leave to file and serve the Second Amended Company Action and took the matter under submission.

In addition, during March 1987, the following purported shareholder class actions were filed in the Superior Court of the State of California for the County of Los Angeles against the Company, and its directors and in addition, in respect of actions (ii) through (v) below, against Drexel Burnham: (i) On March 11, 1987, *Aaron D. Stauber v. Henry Gluck et al.*, Case No. CA 001019; (ii) On March 17, 1987, *Jacob Heffler and Isabel C. Heffler v. Henry Gluck et al. and Drexel Burnham Lambert Inc.*, Case No. CA 001022; (iii) On March 18, 1987, *Moise Katz v. Henry Gluck et al. and Drexel Burnham Lambert Inc.*, Case No. CA 001023; (iv) On March 19, 1987, *Therresa Kmieck v. Henry Gluck et al. and Drexel Burnham Lambert Inc.*, Case No. CA 001024; and (v) On March 19, 1987, *William Paul and Manci Paul v. Henry Gluck et al. and Drexel Burnham Lambert Inc.*, Case No. CA 001025.

In action (i) above, the plaintiff shareholder alleged a scheme by the directors of the Company to entrench themselves in their positions constituting self-dealing, overreaching and a breach of their fiduciary duties. The action sought declaratory and injunctive relief and damages. In actions (ii) through (v) above, the plaintiff shareholders alleged, among other things, that the Board of Directors of the Company, aided and abetted by Drexel Burnham, in order to protect their positions and own interests, have pursued a course of conduct making it difficult for any outside party to acquire the Company at any price and have committed an abuse of trust and a breach of their fiduciary duties to the Company and its shareholders. The complaints sought declaratory and injunctive relief and damages.

On March 13, 1987, a purported shareholder class action entitled *ABC Bridge Club and Albert Ominsky v. William E. Chaikin et al. and Martin T. Sosnoff* was filed in the United States District Court for the District of New Jersey, Camden Division (the "New Jersey Action"). In the New Jersey Action, the plaintiff shareholders alleged that the directors of the Company would breach their fiduciary duties to the Company and commit a waste of corporate assets if they paid "greenmail" to Mr. Sosnoff in order to buy back Shares owned by him at a premium over the market price. The action sought declaratory and injunctive relief. On April 6, 1987, the same plaintiff shareholders filed a purported shareholder class action in the Superior Court of the State of California for the County of Los Angeles against the Company and its directors entitled *ABC Bridge Club and Albert Ominsky v. Henry Gluck et al.*, Case No. CA 001028 (the "ABC Bridge Club Action"). In this action the shareholder plaintiffs alleged, among other things, that the directors of the Company, in order to protect their own financial interests, were pursuing a plan to

entrench themselves in their positions as directors of the Company and to prevent any shareholders not favored by them from acquiring control of the Company and that the alleged plan constituted, among other things, self-dealing, an abuse of trust and a breach of their fiduciary duties to the shareholders of the Company. The action further alleged that as a result of the directors' alleged conduct, the plaintiff shareholders have suffered damages in that they cannot obtain the best available price or fair value for their Shares. The action sought declaratory and injunctive relief and damages. The plaintiffs filed a Notice of Voluntary Dismissal in the New Jersey action on May 29, 1987.

On March 18, 1987, a purported class action was filed by C. Oliver Burt, Jr. in the California District Court against the Company and its directors, entitled *C. Oliver Burt, Jr. v. William E. Chaikin et al., Caesars World, Incorporated and Martin T. Sosnoff,* Case No. 87-01689, alleging that the directors of the Company would breach their fiduciary duties to the Company and commit a waste of corporate assets if they paid "greenmail" to Mr. Sosnoff in order to buy back Shares owned by him at a premium over their market value. The complaint sought declaratory and injunctive relief and damages.

On March 24, 1987, a purported class action was filed by Barnett Stepak in the Circuit Court of the 11th Judicial Circuit in and for Dade County, Florida, General Jurisdiction Division (which was subsequently dismissed by order of that court on April 15, 1987). On April 6, 1987, the same plaintiff again filed an action in the Superior Court of the State of California for the County of Los Angeles, Case No. CA 001029, against the Company and its directors entitled *Barnett Stepak v. Caesars World, Inc. et al.* (the "Barnett Stepak Action"), alleging, among other things, that the directors breached their fiduciary duties and were guilty of self-dealing and overreaching by approving the Plan of Recapitalization and by failing to maximize shareholder value and failing to (i) disarm the Company's anti-takeover devices, and (ii) negotiate in good faith and cooperate with and provide confidential information to Mr. Sosnoff, and that their primary purpose was among other things to retain their control of the Company. The action sought declaratory and injunctive relief and damages.

The above actions (i) through (v) and the ABC Bridge Club Action and the Barnett Stepak Action have been consolidated for all purposes under the caption *Stauber et al. v. Henry Gluck et al.*, Case No. CA 001019 in the Superior Court of California for the County of Los Angeles (the "Superior Court Consolidated Action").

On April 22, 1987, a purported shareholder class action entitled *Joseph E. Kovacs and Harry Lewis v. Caesars World, Inc., Henry Gluck et al.,* Case No. C408087, was filed by Joseph E. Kovacs and Harry Lewis against the Company and its directors in the Superior Court of New Jersey Chancery Division, Atlanta County, alleging among other things that: (a) the director defendants have devised a scheme to entrench themselves in their positions of management and control for the Company and in so doing have denied shareholders maximum value for their Shares while at the same time allegedly enhancing their own financial interests; (b) the Plan of Recapitalization was an attempt to entrench management by enabling them to acquire a large share of the Company for an allegedly inadequate consideration; and (c) in refusing to negotiate in good faith with Mr. Sosnoff, the defendants perpetuated a fraud upon shareholders and engaged in improper and illegal practices in breach of their fiduciary duties to the shareholders. The action sought declaratory and injunctive relief and damages. By Stipulation and Order dated June 8, 1987, plaintiffs in *Kovacs* dismissed the action without prejudice and stated their intent to refile their claims as part of the Superior Court Consolidated Action.

On April 28, 1987, a purported class action entitled *Frank Carpi v. Caesars World, Inc., Henry Gluck et al.,* Case No. CA 001031, was filed by Frank Carpi in the Superior Court of California for the County of Los Angeles alleging that the defendants breached their fiduciary duties towards the Company's shareholders through self-dealing and overreaching by: (a) failing to disarm the Company's anti-takeover practices; (b) failing to negotiate in good faith and cooperate with and provide confidential information to Mr. Sosnoff; (c) failing to adequately ensure that any conflicts of interest between the defendants' own interest and their fiduciary obligation to maximize shareholder value would be resolved in the best interests of the Company's shareholders; and (d) by approving the Plan of Recapitalization with the primary purpose of retaining their control of the Company and unfairly divesting the Company's shareholders of the benefit of the ownership of the Company at an allegedly inadequate price. The action sought declaratory and injunctive relief and damages. This action has been consolidated as part of the Superior Court Consolidated Action.

On June 4, 1987, all parties to the Superior Court Consolidated Action agreed, subject to court approval, to a settlement of all of such actions and to their dismissal with prejudice, although no request has yet been made to schedule a hearing for such court approval. The proposed settlement was based upon plaintiffs' counsels' conclusion that the Plan of Recapitalization, including the payment of the $26.25 Dividend, would maximize shareholder value, serve the best interests of shareholders and confer substantial benefits on holders of Shares and the Convertible Debentures. As part of the settlement, the Company has agreed, subject to court approval, to pay up to $1 million in fees and up to $62,500 in expenses in the aggregate to the respective counsel in the shareholder actions. Also as part of the settlement, the plaintiff in the shareholder class action pending in the California District Court entitled *C. Oliver Burt, Jr. v. William E. Chaikin et al., Caesars World, Inc. and Martin T. Sosnoff,* Case No. 87-01698, agreed to a dismissal with prejudice of the action.

On September 3, 1987, in an action where no defendant was previously served, Morris Rottman and Michael Cottle lodged a motion for leave to vacate a voluntary dismissal and to serve and file an amended supplemental complaint in an action entitled *Morris Rottman and Michael Cottle v. Caesars World, Inc., Henry Gluck et al.,* Case No. CV 87-3746 WJR (PX) (the "Rottman Action") in the California District Court. The Rottman Action alleges, *inter alia,* breach of fiduciary duty by the Company's Board of Directors in embarking on a purported scheme of entrenchment in connection with, among other things, actions taken in furtherance of the Plan of Recapitalization. The Rottman Action seeks an order from the California District Court allowing the action to proceed as a derivative action on behalf of the Company, an order allowing the action to proceed as a class action on behalf of all shareholders, an order mandating that the defendant directors seek out and encourage potential acquirors, including Sosnoff, and offer information pertinent to the financial condition of the Company, an order enjoining defendant directors from taking further actions to adopt or implement any restructuring measures proposed as part of the Plan of Recapitalization and a determination as to actual damages suffered by the Company and the class of shareholders and judgment against the defendants for such amounts. By stipulation dated September 18, 1987, the parties agreed to (i) allow the Rottman Action to be served and filed and (ii) stay the Rottman Action pending resolution of the Superior Court Consolidated Action.

Legal Expenses and Indemnification

All of the above legal proceedings except one name the Company as defendant and all except one include all of the directors as defendants too. It is impossible to separate the defense of the Company and the individuals in most instances. Any defense of the directors was pursuant to the indemnification provisions of the Existing By-laws. It is estimated that legal fees approximated $120,000 with respect to the above shareholder class actions; however, it is impossible to ascertain how much, if any, of this amount relates to a defense of the directors pursuant to the indemnification provisions of the By-laws since separate counsel was not retained for the directors. No separate defense of the directors was effected in the Sosnoff actions.

INDEPENDENT ACCOUNTANTS

Arthur Andersen & Co. ("Arthur Andersen") audited the accounts of the Company for the fiscal year ended July 31, 1987.

Representatives of Arthur Andersen are expected to be present at the Annual Meeting. They will be given an opportunity to make a statement if they desire to do so and are expected to be available to answer questions.

PROXY SOLICITATION

Proxies are being solicited by and on behalf of the Board of Directors. All expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement will be borne by the Company. In addition to solicitation by use of the mails, proxies may be solicited by directors, officers and employees of the Company in person or by telephone, telegram or other means of communication. Such directors, officers and employees will not be additionally compensated, but may be reimbursed for out-of-pocket expenses, in connection with such solicitation. Arrangements will also be made with custodians, nominees and fiduciaries for forwarding of proxy solicitation material to beneficial owners of Shares held of record by such persons, and the Company may reimburse such custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith. The Carter Organization, Inc., 237 Park Avenue, New York, New York 10017, has been engaged to solicit proxies on behalf of the Company. The Carter Organization was paid fees aggregating $650,000 for its services pursuant to an agreement entered into at the time it performed revocation of consent services in connection with Mr. Sosnoff's consent solicitation and proxy solicitation services for the Company in connection with the Plan of Recapitalization and will not receive additional compensation for its services in connection with the solicitation of proxies for use at the Annual Meeting. The Carter Organization will be reimbursed for its reasonable out-of-pocket expenses and will be indemnified against certain liabilities in connection with its solicitation of proxies, including certain liabilities under the Federal securities laws.

SHAREHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

Shareholder proposals intended to be presented at the next annual meeting of shareholders must be received by June 25, 1988. Proposals should be addressed to the Secretary of Caesars World, Inc., 1801 Century Park East, Los Angeles, California 90067 and should be sent Certified Mail—Return Receipt Requested. In order for a person to be eligible to be elected as a director, such person's candidacy must have been notified to the Board of Directors at least seventy-five days before October 20, 1988. Any such notification shall be effective only if it contains all the information required under Schedule 14A under the Exchange Act.

OTHER MATTERS

The Board does not know of any other business which may be presented for consideration at the Annual Meeting. If any business not described herein should come before the Annual Meeting, the persons named in the enclosed Proxy will vote on those matters in accordance with their best judgment.

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