Financial Suitability Of
Potential Kansas Casino Operators
In Sumner County

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Sumner County Proposed Facilities

Proposed Facilities	Harrah's	Marvel	Penn National
Hotel Rooms	365	300	350
Casino SF	69,000	75,000	70,000
Slots	2,000	2,000	1,500
Table Games	50	83	40
Total Costs	560,000,000	407,400,000	365,000,000
Debt	386,000,000	265,000,000	300,000,000
Equity	174,000,000	142,400,000	65,000,000
Debt/Equity	2.22	1.86	4.62

Sumner Gaming Joint Venture Proposal for Sumner County

- First proposal

Harrah's Kansas Corporate Structure

- County: Sumner
- Property Name: Harrah's Kansas
- Company Name: Sumner Gaming Joint Venture, LLC
- Parent Company:
  - Harrah's Sumner Investment Company, LLC 40%
  - Sumner Gaming and Resorts, LC. 60%

Joint Venture Contributions

Anticipated Project Funding in millions				
		Harrah's	Additional	
		Kansas	Development	Total
Project Debt		$330	$56	$386
Sumner Gaming Equity	60%	$79	$19	$98
Harrah's Equity	40%	$76	0	$76
Total		$485	$75	$560

Overview of
Sumner Gaming and Resorts, LC.

- Sumner Gaming and Resorts L.C is newly-formed limited liability company.
- Its major stockholders, Bruce Christenson, Bruce McPherson, and Michael McPherson have spent a life-time specializing in the development of residential and commercial real estate.
- . **Sumner Gaming and Resorts will act as the managing Member with a 60% ownership interest.**

Equity Contribution by Sumner Gaming and Resorts

- All the stockholders have provided net worth statements as well as tax returns for the last four years.
- Original submission showed an equity contribution of $67 million. Currently, it is $98 million
- Net worth statements were from fall 2007
- While net worth is over the required $98 million, liquid assets are relatively less than the amount required
- Given market conditions, concerned over the ability to contribute the needed equity.

Overview of Harrah's Sumner Investment Company

- Harrah's Sumner Investment Company LLC and Harrah's Sumner Management Company LLC are newly formed limited liability companies both formed on October 12 2007.
- These entities are both 100% owned by Harrah's Operating Company Inc (HOC) which is 100% owned by Harrah's Entertainment Inc.
- Effective January 28, 2008, Harrah's Entertainment Inc. became a privately held corporation when the company was formally purchased by Hamlet Holdings. Hamlet has since restructured the subsidiaries of HOC and Harrah's Enterprise.

Overview of Harrah's Sumner Investment Company

- Harrah's Sumner Investment Company LLC is the 40% non-managing owner in the joint venture.
- Harrah's Sumner Management Company LLC has no ownership in the joint venture but as the managing company will receive a managing fee equal to one percent of gross gaming revenues.

Overview of Harrah’s Entertainment Inc

- Harrah's Entertainment considers itself to be one of the world’s largest casino entertainment providers. Harrah's owns, operates, and/or manages 51 casinos primarily in the US and the UK.
- Harrah’s casino entertainment facilities include 32 land-based casinos, 12 riverboat or dockside casinos, three managed casinos on Indian lands, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, one combination harness racetrack and casino and one managed casino in Canada. The 32 land-based casinos include one in Uruguay, ten in the United Kingdom, two in Egypt and one in South Africa.

Harrah's Entertainment Earnings for period 2004-2007

Exhibit 1: Earnings				
	2007	2006	2005	2004
Revenues	10,825.20	9,673.90	7,010.00	4,396.80
Income before taxes	892.50	834.80	554.10	513.00
% earned before taxes	0.08	0.09	0.08	0.12
Annual Revenue growth rate	0.1190	0.3800	0.5943	
Earnings growth rate	0.0691	0.5066	0.0801	

Earnings

- for the years 2004 to 2007, revenues more than doubled for Harrah's.
- Net income increased but at a slower rate
- While revenues and earnings were growing, the growth rate fell each year.
- Stable return on revenues

Harrah's
Financial Position at 12/31/2007

	2007	2006	2005	2004
Current Ratio	0.93	0.73	1.02	1.04
CFO	1,509	1,540	595	763
Interest coverage	2.11	2.25	2.16	2.90
Debt/Equity	1.88	1.99	1.95	2.53
CFO/capex	1.09	0.61	0.52	1.18
Free Cash Flow	129	-972	-554	118

Harrah's Transition to Private Entity

- In connection with the Merger, as of March 31, 2008, $7.7 billion of debt was retired, $4.6 billion, of debt was retained and $20.5 billion of new debt was issued. The current contractual debt obligations are $25.2 billion.
- Revenues and earnings dropped for the first time in the initial quarter of 2008. The major contribution to the first 2008 quarterly loss was the merger expenses ($142 m) and interest expenses of $557 million.
- ON the positive side, cash flows from operations jumped 46% from first quarter of 2007($335.4) to first quarter of 2008 (489.7)

Harrah's Financial Position at 3/31/2008

	1stQt2008	1stqt2007
Current Ratio	1.14	0.90
CFO	490	335
Interest coverage	0.36	13.24
Debt/Equity	6.13	1.95
CFO/capex	1.41	0.77
Free Cash Flow	143	-100

Committed Construction Projects

Harrah's Atlantic City Expansion	$585
Horseshoe Hammond Expansion in Indiana	$485
Caesars Palace Expansion in Las Vegas	$1,000
Margaritaville in Biloxi, Mississippi	$704
Total Project costs	$2,774

Project costs and completion

- Harrah's Atlantic City has opened with additional phase-ins this summer
- HorseShoe Hammond expected to open in September 2008
- Caesars Las Vegas currently in process with completion in 2009
- Margaritaville has expected starting date summer 2008 with completion date Spring 2010
- Given current environment, has this changed?

Contractual Obligations
As of March 31, 2008

- **Future payments**
- Per the March 31, 2008 10-Q

Contractual Obligations	Total	Less 1yr	1-3 yrs	4-5 yrs	>5 yrs
Debt	25,230.10	72.9	1,339.30	644.80	23,173.10
Capital lease obligations	2.7	1.0	1.6	0.1	
Estimated interest payments	13,999.00	1,629.20	3,506.80	3,308.80	5,554.20
Operating lease obligations	2,447.30	95.4	146.6	131.8	2,073.50
Purchase orders obligations	82.9	82.9	—	—	—
Guaranteed payments					
to State of Louisiana	134.8	60	74.8	—	—
Community reinvestment	130.5	6.3	12.7	12.3	99.2
Construction commitments	1,289.60	1,289.60	—	—	—
Entertainment obligations	132.8	59.2	66.9	3.9	2.8
Other contractual obligations	100.2	55.2	9.2	5.7	30.1
Total	43,549.90	3,351.70	5,157.90	4,107.40	30,932.90

Changes in Financial Structure

- Expectations are that EBITDA will be $1.9 billion for 2008 and $1.950 for 2009*
- Current contractual obligations of $3.4 for less than a year and $5.2 for the following 2 years**
- Requires additional debt funding
  - How will this be handled??
- *Source: Deutsche Bank Global Market Research, May 12, 2008, **Per March 31,2008 Harrah's Quarterly Report

Current Debt Structure

- The current debt (3/31/2008) is $25.2 billion
- Interest rates range from 5.375% to a high of 10.75%/11.5% for Toggle notes.
- Many of the notes have PIK terms.
- Harrah's has indicated that they will pay the February 2009 payments with new debt
- Current market yields for Harrah's debt runs as high as 16%. Debt prices $.61 on $1face value.

Issues To Be Addressed

- Can the joint venture partners meet their commitment for $98 million
- First Quarterly report (3/31/2008) has negative free cash flows for the next 3 years. Is it possible to commit to new projects?

Concluding Points for Consideration

- **Positives**
  - Harrah's is the largest gaming corporation in the world with 2007 revenues more than $10.8 billion. The MGM Mirage is next at $7.6 billion.
  - Has consistently been one of the most profitable corporations in the industry.
  - Generating positive cash flow from operations.
  - CFO in 2007 was over $1.5 billion.
  - First quarter CFO had 46% increase
  - Anticipates CFO of $2.0 billion for 2008
  - Has a $9.2 billion credit line to draw from and $1.8 billion currently available.
  - May request one or more incremental term loan facilities and/or increase commitments under the revolving facility in an aggregate amount of up to $1.75 billion

Concluding Points for Consideration

- **Negatives**
  - No longer a publically traded company: Limits financial flexibility
  - Current Ratio has a negative trend
  - Refinancing of debt leaves company with a 6.13 debt/equity ratio.
  - Total debt in excess of $25 billion
  - Interest rates are raising as debt default risks increase
  - Current outstanding debt has dropped reflecting interest risk rates of 16%.
  - Current committed capital expenditures exceed CFO forcing company to utilize more debt financing.
  - Current negative economic conditions forces interest expense with new debt.
  - Increased debt and interest payments use large amounts of CFO.

Concluding Points for Consideration

- **Additional factors**
  - Owns or operates 51 casino operations world wide
  - Very organized, very structured and professional
  - Has experience in running a diverse group of gaming properties
  - Has served in capacity of gaming management with a series of Indian facilities
  - Has equivalent gaming properties in neighboring states
  - The next 3 years could see negative free cash flow

Marvel Gaming Proposal for Sumner County

- Second company

Trailhead Casino Resort Corporate Structure

County:	Sumner County
Property Name:	Trailhead Casino Resort
Company Name:	Marvel Gaming, LLC
Parent Company:	Same
Ownership:	Newly formed group of Investors

Investors of Marvel Gaming LLC

- Marvel Gaming LLC includes a combination of trusts and individuals, some with excellent gaming experience.
- This group includes 10 different members of the Binion family, seven who have set up individual trusts.
- Other individual equity contributors include members of the Marvel Gaming management team. They include Roger Wagner, Jon Wolfe, Dominic Polizzotto, Karen Greene, Lloyd Buzzi, and Andrew J. Astrachen.

Marvel Gaming
Proposal for Sumner County

- The Sumner proposal would create a high rise 16 story hotel with 300 extra large rooms, including 172 suites. It also includes a 75,000 square foot casino handling 2,000 slots and 50 table games. The total cost is estimated to be $407.4 million.

Funding of project		Percentage
Equity financing	$ 142,600,000	35.0%
Term loan	$138,900,000	34.3%
Second mortgage	$125,000,000	35.0%

Marvel Gaming
Proposal for Sumner County

- The investors initially agreed to contribute $62,513,000. This amount was increased to$142.6 million for the July 11,2008 presentation. This is a 35% equity interest.
- The investors have provided net worth and liquid asset statements for 2007as well as tax returns for four years. These statements provide evidence that the group has the financial ability to support this project.
- Marvel also appears to have the financing in place with Deutsche Bank.

Financial strength of Marvel Gaming

- This is a newly formed business entity. There is no background or history.
- It is composed of a group of investors who held stock interests in the gaming property operated by the Horseshoe Holding Company until it was sold to Harrah’s Entertainment in 2004.
- It’s intended management under the leadership of Roger Wagner is the same management team that operated the Horseshoe Holding Company.

Penn National Proposal for Sumner County

Third company with proposal

Corporate Structure

Gaming Zone:	Southeast
County:	Sumner County
Property Name:	Hollywood Casino-Wellington
Company Name:	Kansas Penn Gaming LLC
Parent Company:	Penn National Gaming, Inc.
Ownership Interest:	100%

Penn Hollywood Casino Resort Facility

- **Original submission;** Penn initially proposed a facility which included a 500 room high end hotel with a 75,000 square foot casino handling 2000 slots and 50 table games. The cost would add up to $534 million.
- **Revised submission;** According to the July 11, 2008 presentation, Penn will do a phase in of the project. Phase 1 of the casino resort includes a 350 room resort hotel. The casino would have a gaming floor of 70,000 square feet with 1,500 slots and 40 table games. The total estimated cost for the revised submission proposal would be $365 million.

Penn Earnings

- Penn has been able to generate a steady growth in revenues for all years including the first quarter of this year despite the downturn of the economy.
- Penn has had an average revenue growth rate of 28% per year between 2004 and 2007.
- Penn has consistent return before taxes close to 12%
- Penn acknowledges that most of the properties operate in mature competitive markets and as a result, they expect future growth to come from future facilities investments.

Basic Fundamentals For Penn National Prior to Failed Merger

Liquid and Solvency	2007	2006	2005	2004
Current Ratio	0.61	0.97	0.90	1.04
CFO	431,219	281,809	150,475	197,164
Interest coverage	2.51	2.92	2.66	2.87
Debt/Equity	2.65	3.07	5.10	2.16
CFO Interest charge	3.22	2.46	2.77	3.68
Free Cash Flow	70,064	-127,074	29,340	128,207

Financial Trends: Positive

- Consistent increase in Revenues and Earnings
- Consistent increase in CFO
- Debt to Equity ratio, while still high, shows declining trend
- Interest coverage greater than 2.5 times

Financial Trends: Negative

- Decreasing current ratio trend
- Highly leveraged
- Large decrease in cash for 1st Quarter of 2008 (by -48.66%)
- Will have $940 million due within 3 years

Major Positive Event: Failed Merger Takeover

- $200,000,000 cash break-up fee
- $1,250,000,000 redeemable preferred equity with a repurchase date of 2015
- The preferred equity allows Penn to forgo any interest or dividend payments
- Provides ability to reduce debt or invest in new proposals.

Possible Changes In Financial Ratios

	Prior Bal	Addition	Debt payment
	3/31/2008	7/14/2008	7/14/2008
Current Ratio	0.61	4.88	2.11
Debt/Equity	2.62	1.12	0.71

Latest Information On Use Of New Cash

- Debt payment of $600 million
- Repurchase of Stock $200 million
- Remainder for new developments

Source: Susquehanna Financial Group, LLLP, July 8, 2008

Concluding Points for Consideration

- **Positives**
  - Healthy growth rate in revenues.
  - Healthy growth rate in earnings.
  - Healthy growth rate in cash flows from operations (CFO).
  - CFO has exceeded capital expenditures.
  - Failed merger generates $1.475 billion in cash.
  - The additional cash flow changes the financial flexibility of company.

Concluding Points for Consideration

- **Negatives**
  - Maintains extremely low current ratio
  - Currently has high debt/equity ratio
  - First quarter cash flow significantly down
  - For current project, has not clearly defined its debt/equity financing approach.

Concluding Points for Consideration

- **Additional factors**
  - One of the top Casino Corporations in America
  - Owns or operates nineteen facilities in fifteen jurisdictions
  - Has experience in running smaller properties
  - Has large number of employees and managers
  - After the failed merger, has the cash and or financing to close a deal for either of its projects.
  - Has cut back its original plans and is doing a two phase project. Taking a very conservative approach toward competition.