Task 4 – Project Specific Gaming Revenue Projections

Southeast Gaming Zone – Cherokee County, Kansas

Final Report

Prepared For:

Kansas Lottery Gaming Facility Review Board

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Task-4 Project Specific Gaming Revenue Projections
Southeast Gaming Zone of Kansas

Table of Contents

Task-4 Project Specific Gaming Revenue Projections
Southeast Gaming Zone of Kansas

Introduction

The State of Kansas has lost gaming revenues for many years to a number of surrounding states, particularly to Missouri and Oklahoma. The recent development of numerous tribal casinos in Oklahoma exacerbated the problem. In an effort to stem the flow of gaming revenues and related taxes, Kansas' legislators passed Senate Bill 66 (the Kansas Expanded Lottery Act), which legalized casino gaming. SB 66 was signed by the governor in 2007.

Key Provisions of Senate Bill 66

Some key provisions of SB 66 that pertain to this study include:

1. Establishment of four casino gaming zones:

- Northeast (located in Wyandotte County)
- Southeast (located in Crawford and Cherokee Counties)
- South Central (located in Sumner and Sedgwick Counties)
- Southwest (located in Ford County)

2. Building one state owned casino in each of the four Kansas gaming zones listed above.

3. Permitting an aggregate of 2,800 slot machines to be installed at the three existing racetracks.

Senate Bill 66 required the counties located within the four subject gaming zones to hold referendum elections for the purpose of either approving or disapproving casino gaming, or slot machines to be located at their respective racetracks. Three gaming zones have racetracks (northeast, southeast, and south central). However, Sedgwick County, located in the south central gaming zone, rejected gaming in their referendum election. As a result, slot machines will be limited to two Kansas racetracks: Woodlands Race Track located in the Kansas City, Kansas (northeast gaming zone), and Camptown Greyhound Park (closed since November 2000) located near Frontenac, Kansas (southeast gaming zone).

The Kansas Lottery Commission has appointed an independent Lottery Gaming Facility Review Board to review all of the gaming applications and select the best ones. The Board has engaged a number of outside consulting firms to help with the reviewing process. To date, five gaming applications have been approved for the northeast zone, one for the southeast zone, three for the south central zone, and two for the southwest zone. The applicants that are selected will be contract managers of the gaming facilities acting on behalf of the Kansas Lottery Commission. As planned, the state will own and/or control the gaming portion of the facilities. However, the lottery will select a contract manager who will manage the gaming. The contract managers that are selected will fund, build, and operate all of the facilities under contract with the state lottery.

The contract managers will also be required to pay the following taxes that are all based on a percentage of casino gaming revenues:

- The lottery facility would pay a minimum of 22% of gaming revenues to the state plus an additional 2% to fund programs for problem gamblers and gaming addictions issues.

- If a lottery gaming facility were located in either the northeast or southwest gaming zones, but not in a city, the gaming facility would be required to pay an additional 3% of gaming revenues to the county where the gaming facility was located.

- If, on the other hand, the gaming facility were located in a city, the facility would pay 1.5% of gaming revenues to the city and 1.5% to the county.

- If the lottery gaming facility were located in either the southeast or the south central gaming zone, but not in a city, the gaming facility would pay 2% of gaming revenues to the county in which the facility were located, and an additional 1% to the other county in the gaming zone (each gaming zone has two counties).

- If a gaming facility were located in a city, a combined tax equal to 3% of gaming revenues would be paid to the city (1%), to the county in which the facility were located (1%), and to the second county in the gaming zone (1%).

These state owned casinos are unique and will be the first state owned casinos in the US.

Assessment of the Kansas Gaming Revenue Potential

Before enactment of Senate Bill 66 (the Kansas Expanded Lottery Act), the Kansas Lottery Commission engaged Christensen Capital to update their study addressing the gaming revenue potential for the four Kansas gaming zones. The updated study was released in March of 2008.

Task One

The Kansas Lottery Gaming Facility Review Board engaged a team of casino gaming consultants including Wells Gaming Research (WGR) and Cummings & Associates to assess the gaming revenue potential of the four authorized gaming zones in Kansas. In essence, Task-1 required a market analysis of each of the gaming zones. This involved estimating the gross gaming revenue potential for a generic casino (not associated with any of the proposals) to be located in each of the gaming zones, and projecting the potential revenue generation for the State of Kansas. The results of studies conducted by WGR and Cummings were compared with the Christensen Study that had been previously commissioned by the Lottery.

In compliance with the Kansas Lottery Gaming Facility Review Board's directive, WGR's Task-1 work was carried out independently and was not influenced by the work performed by either Cummings or Christensen. Moreover, the work that follows on Task-4 was also carried out independently.

Task-4 Project Specific Gaming Revenue Projections
Southeast Gaming Zone of Kansas

Research Methodology & Scope of Work

Kansas Penn Gaming, LLC. (Penn National Gaming, Inc.) submitted an application to the Kansas Lottery Gaming Facility Review Board requesting approval to build a casino entertainment property in Cherokee County, Kansas (southeastern gaming zone).

Trade Area for the Southeast Gaming Zone

The southeast trade area is shown on the map on page 1- 4. The trade area encompasses the 100-to-125-mile radius of the intersection of Kansas, Missouri, and Oklahoma (for quick reference, a circle has been drawn around the subject area). Included are 65 counties located in southeast Kansas, southwest Missouri, northeast Oklahoma, and northwest Arkansas. The boundaries extend from Miami County, Kansas on the north; to Sequoyah County, Oklahoma on the south; to Osage County, Oklahoma on the west; and to Douglas County, Missouri on the east.

The southeast gaming zone includes the Cherokee and Crawford Counties where Kansas Senate Bill 66 has authorized casinos.

Competitive Set

Even though the southeast trade area includes a 100-to-125 mile radius of the Cherokee casino site, the competitive set extends to include all existing and proposed casinos located within a 150-mile region surrounding the development site. Competitor casinos located up to 150 miles from the development site will have overlapping trade areas with the subject casino.

Key Research Components

The major focus of WGR's research and analyses included, but were not limited to, the following:

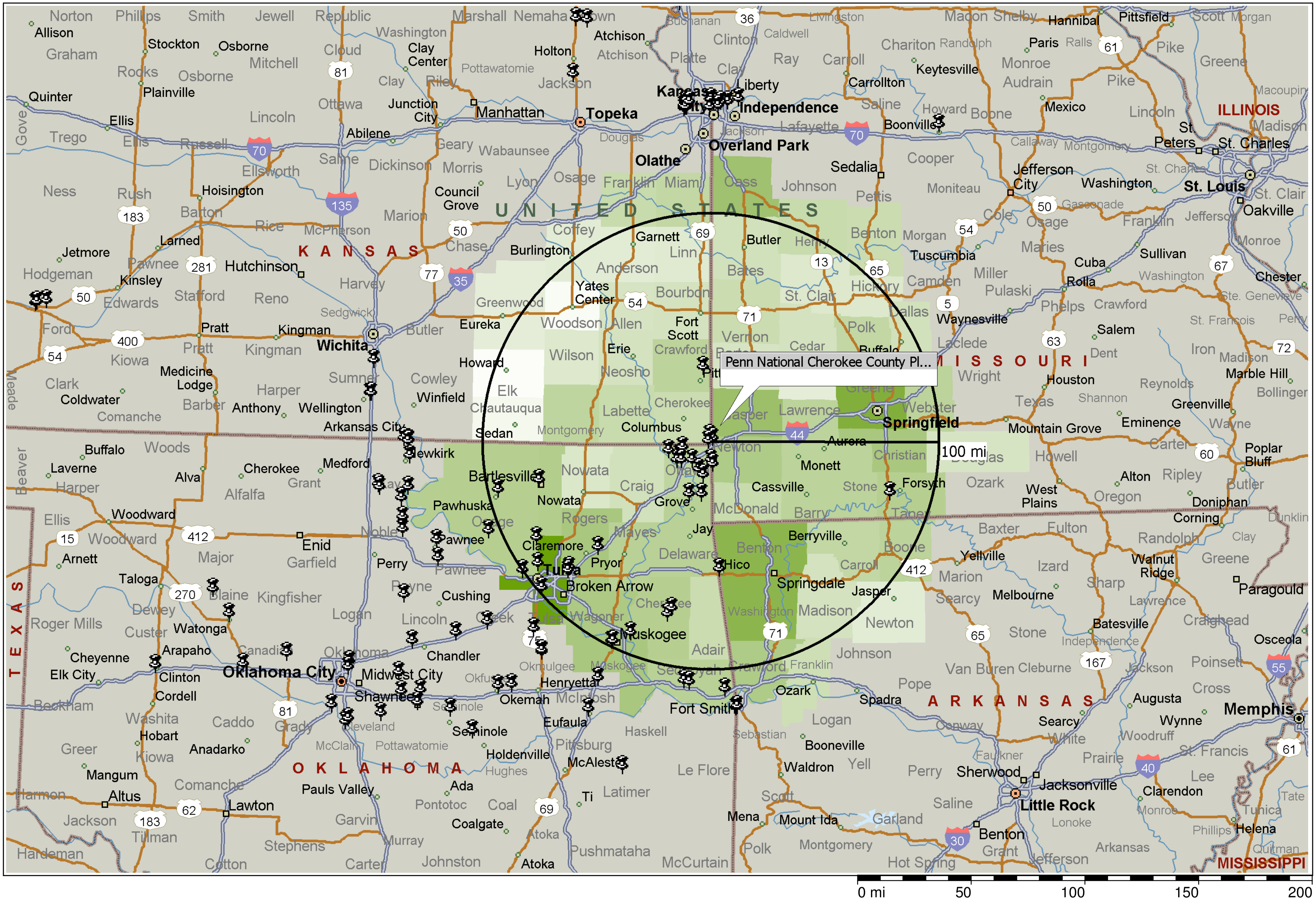
- **Site-Visits**
  Richard Wells, president of WGR, conducted site visits to a majority of the competing casinos located in the southeast gaming zone's trade area. Two changes were made in the assumptions used in WGR's Task-1 report because of additional information gleaned from these on-site visits.

  1. Five proposed new casinos that had been included in Task-1 are facing significant opposition and are not likely to be built in the foreseeable future. They were eliminated from the Task-4 analyses.

  2. The attraction factors were reduced at seven existing southeast casinos in the Task-4 analyses.

- **Population Analyses**
  Detailed population data was obtained from the Bureau of Business & Economic Research, University of Nevada, Reno at the census tract level for 2000 through 2012.

Southeast Zone, Penn National Cherokee



- **Compilation of Casino Capacity & Amenities**
  The casino gaming capacities and amenities for existing casinos, expansions, and proposed/planned casinos located within a 150-mile radius of the Cherokee development sites were compiled and incorporated into the gravity model.

- **Evaluation of the Pro Forma Feasibility**
  In accordance with the requirements outlined in Task-4, WGR analyzed the feasibility of the gaming revenue projections made by Penn National Gaming, Inc. WGR's Task-4 assignment included evaluation of the applications based upon:

  Achievability of the visits and the gaming revenue projections

  Reasonability of the operational projections including departmental revenues, expenses, and projected incomes

  Comparability with the financial performance of Nevada casinos

- **Pro Forma Comparability with Nevada Operators**
  The Cherokee pro forma financial statements were compared and contrasted with three groups of Nevada casinos with annual gaming revenues of $1 million and above:

  Nevada Statewide
  Wendover
  South Lake Tahoe (Douglas County, Nevada).

Gravity Model Analyses

WGR utilized its proprietary gravity modeling system to develop a custom gravity model for the Cherokee casino project. The gravity model was customized to reflect the exact location of the development site, the prevailing market conditions, and the nature and scope of the respective proposal.

Gaming Revenue Forecasts

Current gaming revenues were projected for the Cherokee. WGR analyzed the relevant variables within the context of two scenarios (Scenario 1 and 3).

> **Scenario-1** included the existing casinos and the Cherokee. It did not include casino expansions or other new casinos.
>
> **Scenario-3** included all competitors in the southeast gaming zone, i.e., existing casinos, the Cherokee, all planned/proposed expansions, and all new casinos. In Scenario-3, WGR included the "generic casinos" for Sumner and Wyandotte Counties (developed for Task-1), as well as the slot machines located at the Camptown Greyhound Racetrack.

Results

Three gaming revenue projections (low, mid, and high cases) were developed for each scenario for the 2007 through 2012 period (refer to Section 2 of this report for the details of WGR's analyses). WGR believes that three projection cases encompass a reasonable performance range for casino gaming revenues. WGR prefers not to develop single point projections because forecasting casino revenues is far from an exact science. Many factors, both known and unknown can cause actual performance to vary significantly from the projections.

Background on the Gravity Model

By way of background, WGR has developed a custom, proprietary, gravity model for use in estimating gaming revenues at casinos, as well as for evaluating the impacts of increased competition on those revenues. WGR's gravity modeling methodology has proven to be a flexible and effective tool for estimating gaming revenues for casino projects where the interplay with existing and/or proposed competing casinos could affect future gaming revenues.

The concept of gravity modeling is not new to the business world. William J. Reilly first advanced the concept of a gravity model in 1931 in his book entitled *Law of Retail Gravitation*. Gravity models use the principal of Isaac Newton's law of gravity, wherein the attraction between two objects is proportional to their mass, and is inversely proportional to the square of their respective distances. Newton's law of gravity dealt with planets, the amount of gravitational force that they exert on each other, and the effects that the forces of gravity have on their trajectory. This concept of gravitational force, or pull, can be applied to various types of problems, including business, retail, and traffic. Reilly applied the concept to retail shopping center trade area and customer attraction analysis.

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Trade Area Summary

Trade Area

The southeast trade area includes the approximate 100-to-125-mile radius of the Penn National Cherokee development site located on US Highway 166 near the intersection of Kansas, Missouri, and Oklahoma. Included are 65 counties located in southeast Kansas, southwest Missouri, northeast Oklahoma, and northwest Arkansas. The boundaries extend from Miami County, Kansas on the north; to Sequoyah County, Oklahoma on the south; to Osage County, Oklahoma on the west; and to Douglas County, Missouri on the east (refer to the map on page 2-2).

Adult Population for the Surrounding Counties

Exhibit 2-1 shows that in 2007 the adult population was 255 thousand for the counties surrounding the casino site. Projections indicate an increase to approximately 262 thousand by 2012. Jasper County, Missouri, had the highest adult population for a nearby county (79 thousand in 2007 with projections for 82 thousand by 2012). The average compound growth rate for the population located within the surrounding counties has been projected at 0.5%.

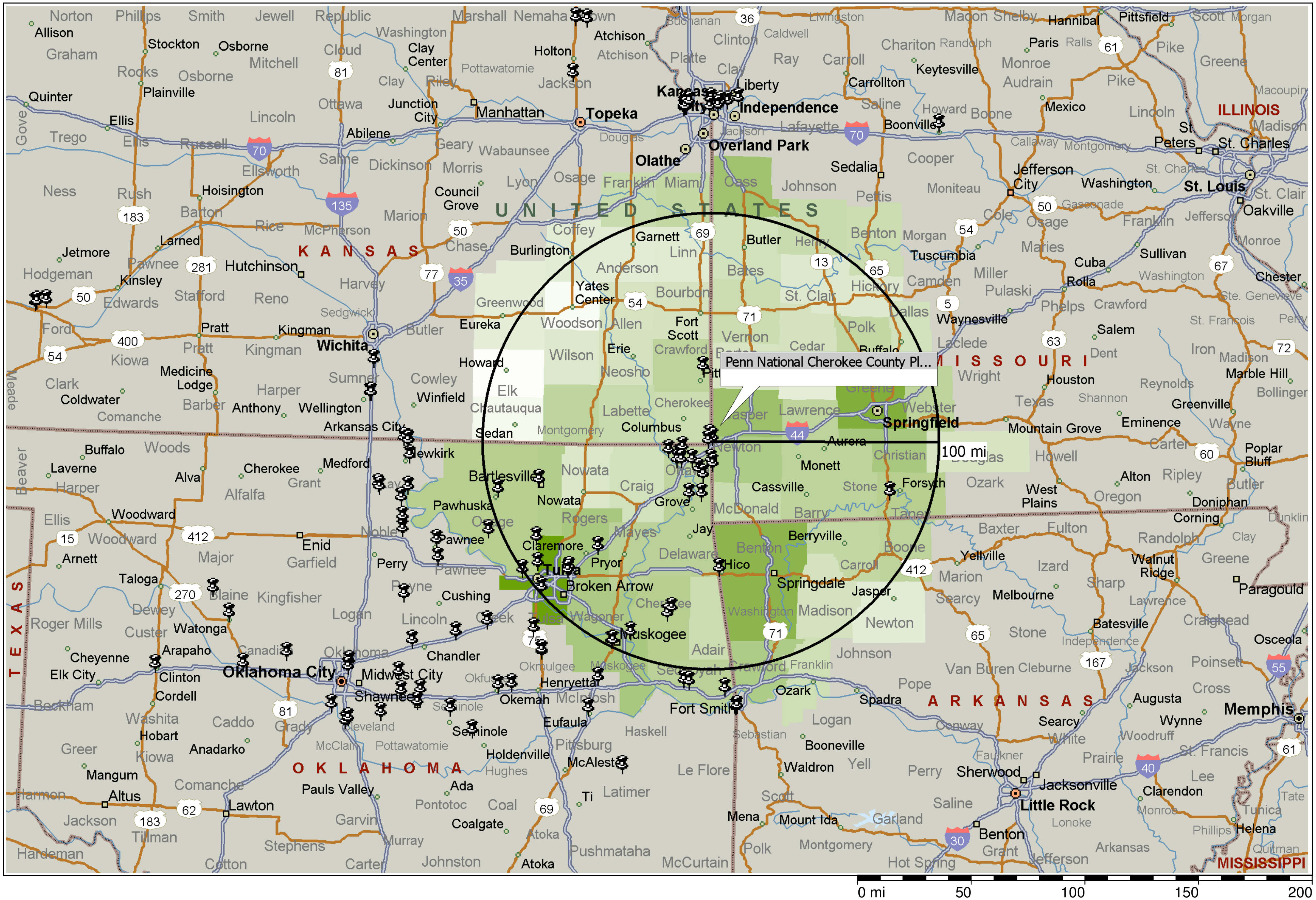
The adult population for the southeast trade area was approximately 2 million in 2007 with projections for 2.2 million by 2012. This reflects an average compound growth rate of 1.2%.

Exhibit 2-1 - Adult Population Statistics for the Southeast Trade Area

# of Co	Counties	2000	2006	2007	2008	2009	2010	2011	2012	ACGR 07 to 12	% Pop/ Co 2012
	Bourbon KS	10,617	10,516	10,509	10,501	10,495	10,486	10,479	10,472	-0.1%	4%
	Cherokee KS	15,708	14,815	14,770	14,729	14,683	14,640	14,595	14,553	-0.3%	6%
	Crawford KS	26,583	26,741	26,803	26,868	26,927	26,993	27,054	27,117	0.2%	10%
	Labette KS	15,943	15,497	15,482	15,464	15,445	15,430	15,413	15,396	-0.1%	6%
	Neosho KS	11,814	11,055	10,971	10,887	10,804	10,722	10,643	10,560	-0.8%	4%
	Barton MO	8,585	8,909	8,972	9,035	9,098	9,163	9,224	9,285	0.7%	4%
	Jasper MO	72,512	77,928	78,643	79,365	80,093	80,829	81,505	82,187	0.9%	31%
	Newton MO	36,546	38,914	39,270	39,629	39,992	40,358	40,709	41,064	0.9%	16%
	Vernon MO	14,016	14,017	14,058	14,100	14,141	14,183	14,222	14,260	0.3%	5%
	Craig OK	10,848	11,505	11,622	11,737	11,855	11,973	12,091	12,213	1.0%	5%
	Ottawa OK	22,965	23,644	23,768	23,895	24,020	24,146	24,272	24,399	0.5%	9%
11	**Total Surrounding Counties**	**246,137**	**253,541**	**254,869**	**256,211**	**257,553**	**258,922**	**260,206**	**261,506**	**0.5%**	**100%**
13	**Total Kansas Counties -** ***Excluding Surrounding Counties***	**111,836**	**111,808**	**111,728**	**111,653**	**111,585**	**111,529**	**111,485**	**111,440**	**-0.1%**	
20	**Total Missouri Counties -** ***Excluding Surrounding Counties***	**507,877**	**555,911**	**563,300**	**570,821**	**578,470**	**586,258**	**592,988**	**599,818**	**1.3%**	
13	**Total Oklahoma Counties -** ***Excluding Surrounding Counties***	**721,554**	**756,598**	**762,467**	**768,379**	**774,374**	**780,394**	**786,508**	**792,673**	**0.8%**	
8	**Total Arkansas Counties**	**315,597**	**370,689**	**380,290**	**390,175**	**400,370**	**410,853**	**421,680**	**432,831**	**2.6%**	
65	**Total Trade Area Population**	**1,903,001**	**2,048,547**	**2,072,654**	**2,097,239**	**2,122,352**	**2,147,956**	**2,172,867**	**2,198,269**	**1.2%**	

Data Sources: Bureau of Business & Economics, University of Nevada, Reno & Wells Gaming Research, May 2008.

Southeast Zone, Penn National Cherokee



Current Casino Capacity

Exhibit 2-2, pages 2-3 and 2-4, shows that 58 casinos (four in Missouri and 54 in Oklahoma) are currently located within an approximate 150 miles distance of the Cherokee casino site. Total gaming capacity includes 31,167 slots, 425 pit table games and 182 poker tables for a total of 607 table games, 3,180 bingo seats, 6 race books, and 1,410,374 square feet of casino space. Other amenities include 74,620 square feet of convention/meeting space, 1,619 hotel rooms, 89 restaurants, 22 entertainment venues, and 35,843 parking spaces.

Exhibit 2-2 - Current Casino Capacity Statistics - SE Trade Area

# of Loc	Casino	# of Slots	# of Pit Tables	# of Poker Tables	# of Total Tables	# of Bingo Seats	Race Book	Casino S.F.	Con-vention S.F.	# of Rooms	# of Restau-rants	Enter-tain-ment	Park-ing
	Missouri:												
1	Ameristar Casino Hotel - Kansas City	3,016	90	15	105	0	0	140,000	14,520	184	11	3	2,660
2	Argosy Riverside Casino Hotel & Spa	1,924	39	8	47	0	0	62,000	18,000	258	5	3	2,700
3	Harrah's North Kansas City Casino & Hotel	1,793	60	12	72	0	0	60,133	10,000	392	6	1	3,122
4	Isle of Capri Casino - Kansas City	1,525	26	6	32	0	0	40,000	0	0	5	1	1,618
	Subtotal of Missouri	**8,258**	**215**	**41**	**256**	**0**	**0**	**302,133**	**42,520**	**834**	**27**	**8**	**10,100**
	Oklahoma:												
1	7 Clans Paradise Casino	700	8	6	14	0	0	30,000	0	0	2	0	500
2	Blue Ribbon Downs	250	0	0	0	0	1	7,150	2,000	0	1	1	1,640
3	Blue Star Gaming and Casino	228	0	0	0	300	0	20,000	0	0	1	0	500
4	Bordertown Bingo & Casino	886	11	10	21	650	1	73,000	0	0	2	0	400
5	Buffalo Run Casino	1,300	20	9	29	0	0	70,000	10,000	0	3	1	1,300
6	Checotah Indian Community Bingo	158	0	0	0	400	0	9,000	0	0	1	0	250
7	Cherokee Casino - Fort Gibson	298	0	0	0	0	0	7,430	0	0	0	0	182
8	Cherokee Casino - Roland	614	6	6	12	0	0	34,375	0	44	1	0	594
9	Cherokee Casino - Sallisaw	251	4	2	6	0	0	27,500	0	0	1	1	250
10	Cherokee Casino - Tahlequah	405	6	3	9	0	0	20,000	0	0	1	0	433
11	Cherokee Casino - West Siloam Springs	1,014	12	12	24	0	0	50,000	0	0	2	1	1,174
12	Cherokee Casino - Will Rogers Downs	250	0	0	0	0	1	18,277	11,000	450	1	1	150
13	Cherokee Casino Resort	1,522	37	35	72	0	0	95,000	7,500	263	8	4	3,100
14	Cherokee Nation Outpost Tobacco Shop	81	0	0	0	0	0	1,728	0	0	0	0	42
15	Choctaw Casino - Pocola	1,152	9	0	9	0	1	87,573	0	0	3	1	890
16	Choctaw Travel Plaza - Wilburton	32	0	0	0	0	0	0	0	0	0	0	15
17	Cimarron Bingo Casino	363	0	0	0	0	1	9,600	0	0	1	0	400
18	Creek Nation Casino Bristow	95	0	0	0	0	0	8,500	0	0	1	0	150
19	Creek Nation Casino Eufaula	240	0	0	0	0	0	7,400	0	0	0	0	200
20	Creek Nation Casino Muscogee	584	7	10	17	300	0	30,000	0	0	1	1	800
21	Creek Nation Casino Okemah	132	0	3	3	110	0	1,800	0	0	0	0	200
22	Creek Nation Casino Okmulgee	334	2	3	5	0	0	11,000	0	0	1	0	600
23	Creek Nation Casino Tulsa	1,512	16	11	27	0	0	38,000	0	0	1	0	2,000
24	Creek Nation Travel Plaza	43	0	0	0	0	0	920	0	0	1	0	50
25	Duck Creek Casino	268	0	0	0	120	0	5,000	0	0	1	0	300
26	Eastern Shawnee Travel Plaza	186	0	0	0	0	0	3,000	0	0	0	0	150
27	Golden Pony Casino	400	0	0	0	0	0	10,000	0	0	1	0	500
28	Grand Lake Casino	879	10	6	16	0	0	45,000	0	0	1	1	1,000
29	High Winds Casino	500	8	0	8	0	0	35,000	0	0	2	0	450
30	Kaw Southwind Casino	1,078	3	4	7	700	0	55,000	0	0	2	0	1,000
31	Keetoowah Cherokee Casino	500	0	0	0	0	0	18,000	0	0	1	0	300
32	Lil' Bit of Paradise Casino 1	100	0	0	0	0	0	0	0	0	0	0	60
33	Lil' Bit of Paradise Casino 2	50	0	0	0	0	0	0	0	0	0	0	30
34	Lucky Turtle Casino	101	0	0	0	0	0	3,000	0	0	1	0	200

Exhibit 2-2 (Continued) - Current Casino Capacity Statistics for the SE Trade Area

# of Loc	Casino	# of Slots	# of Pit Tables	# of Poker Tables	# of Total Tables	# of Bingo Seats	Race Book	Casino S.F.	Con-vention S.F.	# of Rooms	# of Restau-rants	Enter-tain-ment	Park-ing
35	Miami Tribe Entertainment	107	0	0	0	0	0	0	0	0	0	0	75
36	Muscogee Travel Plaza	129	0	0	0	0	0	3,000	0	0	0	0	50
37	Native Lights Casino	612	6	0	6	0	0	22,500	0	0	2	0	405
38	Osage Million Dollar Elm Casino - Bartlesville	575	6	6	12	0	0	42,000	0	0	0	0	700
39	Osage Million Dollar Elm Casino - Hominy	273	1	2	3	0	0	0	0	0	1	0	250
40	Osage Million Dollar Elm Casino - Pawhuska	135	0	0	0	0	0	0	0	0	1	0	50
41	Osage Million Dollar Elm Casino - Ponca City	222	0	0	0	0	0	7,700	0	0	1	0	150
42	Osage Million Dollar Elm Casino - Sand Springs	601	4	0	4	0	0	25,000	0	0	1	0	500
43	Osage Million Dollar Elm Casino - Skiatook	152	0	0	0	0	0	0	0	28	1	0	200
44	Osage Million Dollar Elm Casino - Tulsa	1,267	10	7	17	600	0	47,000	1,600	0	3	1	800
45	Pawnee Trading Post	130	0	0	0	0	0	3,500	0	0	2	0	250
46	Pawnee Travel Plaza	35	0	0	0	0	0	0	0	0	0	0	15
47	Peoria Gaming Center	200	0	0	0	0	0	4,200	0	0	1	0	250
48	Pocola Travel and Smoke Shop	15	0	0	0	0	0	1,666	0	0	0	0	6
49	Quapaw Casino	483	8	1	9	0	0	27,000	0	0	1	1	700
50	Sac and Fox Casino - Stroud	49	0	0	0	0	0	825	0	0	0	0	34
51	The Stables Casino	500	4	0	4	0	1	25,000	0	0	2	0	260
52	Tonkawa Casino	374	4	0	4	0	0	14,437	0	0	1	0	400
53	West Siloam Springs Smoke Shop	44	0	0	0	0	0	2,160	0	0	0	0	88
54	Wyandotte Nation Casino	500	8	5	13	0	0	50,000	0	0	3	0	750
	Subtotal of Oklahoma	**22,909**	**210**	**141**	**351**	**3,180**	**6**	**1,108,241**	**32,100**	**785**	**62**	**14**	**25,743**
	58 Total Existing Casinos	**31,167**	**425**	**182**	**607**	**3,180**	**6**	**1,410,374**	**74,620**	**1,619**	**89**	**22**	**35,843**

Data Source: Wells Gaming Research, June 2008.

Gravity Model Projections

Statistics for the key variables used in the custom gravity model build for the Cherokee casino project were based on WGR's proprietary databases, specific data received from Penn National Gaming, Inc. in the application filed with the Kansas Lottery Gaming Facility Review Board, and first-hand information obtained by Richard Wells from on-site casino visits. Wells visited a significant number of casinos located in Oklahoma, Kansas, and Missouri in June 2008.

The gaming revenue projections developed for the Task-1 analyses were fined-tuned in the Task-4 analyses to reflect the addition of the applicant's statistics and Wells' on-site information and impressions. Some major changes that were made included:

- **Eliminating five proposed casinos from the competitor mix** - two of these casinos were proposed for Missouri and three for Oklahoma. Even though some of these facilities might be developed, their future is uncertain at this time. Having said that, if they were developed, they could have negative impacts on competing casinos located in Kansas.

- **Reducing the attraction factors for seven competitor casinos** - these adjustments were based on information gained from Wells' on-site inspections of the casino entertainment properties. One casino was located in Kansas and six were in Oklahoma.

The impact to the Cherokee gravity model developed for Task-4 resulting from the foregoing changes were:

- The number of casino visits was increased in Task-4 over Task-1
- Gaming revenue projections were higher in Task-4 than in Task-1

Inflation Factors Used to Adjust Gaming Revenue Projections
A 2% annual inflation rate was used for casino revenues. Two percent is comparable to the five-year average CPI if food and fuel were excluded.

Scenarios Developed for Task-4

- **Scenario 1** - includes only the existing casinos located within 150-mile radius of the applicant's development site.

- **Scenario 2** – was used in the Task-1 analyses because it included the casino expansions. In the Task-4 analyses, the expansions have been incorporated into scenario 3, thereby eliminating the need for the scenario 2.

- **Scenario 3** - includes the existing casinos, expansions, the applicant's facility, and all other proposed new casinos located within a 150-mile radius of the proposed site.

Application for Penn National Gaming, Inc.

Kansas Penn Gaming, LLC. (Penn National Gaming, Inc.) submitted an application to the Kansas Lottery Gaming Facility Review Board seeking to build a casino entertainment property in Cherokee County, Kansas (southeastern gaming zone).

WGR has been engaged to evaluate the feasibility of the pro forma financial statements (balance sheet and income statement) submitted by Kansas Penn Gaming, LLC (hereinafter referred to as Penn). WGR's Task-4 assignment included evaluation of the applications based on:

- **Achievability** of the gaming revenue projections
- **Reasonability** of the operational projections including departmental revenues, expenses, and projected incomes
- **Comparability** with the financial performance of Nevada casinos

Penn National's Cherokee Casino Project

Casino Name
Hollywood Casino Cherokee

Construction Time / Opening
Penn estimates that it will take 20 months from issuance of license to opening a gaming facility.

Capital Investment
The total proposed investment is $225 million. An initial investment of $125 million would be required to get the facility open. Approximately $100 million in additional amenities would be added over the life of the management contract (refer to page 2-9 for a list of the proposed additions).

The following amenities would be included in Phase-1:

Casino with 30,000 square feet of gaming space equipped with 900 slot machines and 30 table games (14 Blackjack and two each of Craps, Roulette, and Pai Gow Poker). The casino would also have ten tables for other types of games (specific game names were not identified).

Hotel would be added as specified in the management agreement.

Restaurant
- Epic Buffet would feature a broad assortment of menu items including salad bar, carving station, and desert bar. Seating capacity for 225 guests would be provided.

Coffee & Pastry
- Creamery, featuring coffee and pastries, would provide seating capacity for 30 guests.

Bar & Entertainment Venue
- Sports bar and entertainment lounge would provide seating capacity for 75 guests.

Retail Outlet
- 550 square feet of space would be allocated to a small retail outlet/Hollywood Memorabilia Museum.

Parking
- Paved surface parking would be provided for 1,100 cars
- 125 valet parking spaces would be available (adjustable, based on demand)
- Supplemental back lot parking for up to 250 vehicles would be available during peak hours
- 40 additional spaces would be provided for truck and/or RV parking

Capacity Recap w/ the Cherokee Casino (Phase 1) Added

Exhibit 2-3 shows that the current casino capacity in the southeast trade area includes over 31 thousand slot machines and a total of 607 table games. Also included are 3,180 bingo seats, 6 race books, 1.4 million square feet of casino space, 75 thousand square feet of convention space, 1,619 hotel rooms, 89 restaurants, 22 entertainment venues, and approximately 36 thousand parking spaces.

Exhibit 2-3 - Current Gaming Capacity & Phase 1 of Penn's Cherokee Casino

# of Loc	Casinos	# of Slots	# of Pit Tables	# of Poker Tables	# of Total Tables	# of Bingo Seats	Race Book	Casino S.F.	Con-vention S.F.	# of Rooms	# of Restau-rants	Enter-tain-ment	Park-ing
	Current Capacity for Existing Casinos												
1	**Existing 58 Casinos**	**31,167**	**425**	**182**	**607**	**3,180**	**6**	**1,410,374**	**74,620**	**1,619**	**89**	**22**	**35,843**
	Scenario 1 - Penn National Phase 1												
1	Penn National Cherokee Co. Planned (Phase 1)	900	30	0	30	0	0	6,070	0	0	2	1	1,140
	Subtotal Of Scenario 1	**900**	**30**	**0**	**30**	**0**	**0**	**6,070**	**0**	**0**	**2**	**1**	**1,140**
	Scenario 3 - Expansions & Other Proposed												
	Expansions												
1	Buffalo Run Casino	0	0	0	0	0	0	0	0	103	0	0	0
2	Cherokee Casino - W. Siloam Springs	486	10	0	10	0	0	10,000	20,000	140	1	1	0
3	Cherokee Casino Resort	732	34	0	34	0	0	30,000	0	350	2	0	0
4	Creek Nation Casino Tulsa	1,788	34	0	34	0	0	0	0	0	0	0	0
	Proposed												
1	Camptown Greyhound Park	600	0	0	0	0	1	0	0	0	2		700
2	Downstream Casino Resort (open)	2,000	30	15	45	0	1	70,000	8,000	226	2	2	2,200
3	First Council Casino (open)	900	8	8	16	0	0	40,000	0	0	2	1	950
4	Sumner County Planned	2,000	50	0	50	0	0	0	30,000	275	4	3	3,700
5	The Woodlands	800	0	0	0	0	1	0	0	0	4	0	1,100
6	Wyandotte 7th Street Casino (open)	450	0	0	0	0	0	20,000	0	0	1	0	0
7	Wyandotte County Planned	3,000	100	0	100	0	0	0	100,000	500	6	5	7,000
	Subtotal of Scenario 3	**12,756**	**266**	**23**	**289**	**0**	**3**	**170,000**	**158,000**	**1,594**	**24**	**12**	**15,650**
	Total Existing, Expansions & New	**44,823**	**721**	**205**	**926**	**3,180**	**9**	**1,586,444**	**232,620**	**3,213**	**115**	**35**	**52,633**
	% Increase Over Current	**44%**	**70%**	**13%**	**53%**	**0%**	**50%**	**12%**	**212%**	**98%**	**29%**	**59%**	**47%**
	Data Source: Wells Gaming Research, June 2008.												

Phase 1 of the Cherokee Casino would increase slot capacity by 900 machines and table games by 30. Other increases would include six thousand square feet of convention/meeting space, two restaurants, one entertainment venue, and over 1,100 parking spaces.

In total, the Cherokee (Phase 1), the expansions, and the other proposed casinos would increase slots from 31 thousand to 45 thousand (44%), and total table games from 607 to 926 (53%).

Cherokee Project w/ Full Build-Out

Penn plans to add amenities over the life of the management contract. The list provided in the application submitted to the Kansas Lottery Gaming Facility Review Board includes:

- Expanded gaming (up to 20,000 square feet with 600 additional positions)
- Hotel with up to 200 rooms
- Added food and beverage amenities (for example, 125 seat mid-priced restaurant)
- Pool, fitness and spa facilities
- Car museum (for approximately 300 vintage automobiles)
- Additional meeting/conference space
- Multi-function/events center with up to 1,750 seats
- Additional third party retail outlets for food and beverages
- Expanded parking

Capacity Recap for the Cherokee Casino w/ Full Build-Out

Exhibit 2-4 shows the cumulative capacity increases from Phase 1 and the Final Phase for the Cherokee project. For example, the southeast trade area currently has 31,167 slot machines.

Exhibit 2-4 - Gaming Capacity w/ Penn's Full Cherokee Build Out, the Expansions, & Other Proposed Casinos – SE Trade Area

# of Loc	Casinos	# of Slots	# of Pit Tables	# of Poker Tables	# of Total Tables	# of Bingo Seats	Race Book	Casino S.F.	Con-vention S.F.	# of Rooms	# of Restau-rants	Enter-tain-ment	Park-ing
	Current Capacity for Existing Casinos												
1	**Existing 58 Casinos**	**31,167**	**425**	**182**	**607**	**3,180**	**6**	**1,410,374**	**74,620**	**1,619**	**89**	**22**	**35,843**
	Scenario 1 - Penn National Final												
1	Penn National Cherokee County Planned (Phase Final)	1,435	40		40	0	0	26,070	38,000	200	4	3	2,340
	Subtotal Of Scenario 1	**1,435**	**40**	**0**	**40**	**0**	**0**	**26,070**	**38,000**	**200**	**4**	**3**	**2,340**
	Scenario 3 - Expansions & Other Proposed												
	Expansions												
1	Buffalo Run Casino	0	0	0	0	0	0	0	0	103	0	0	0
2	Cherokee Casino - West Siloam Springs	486	10	0	10	0	0	10,000	20,000	140	1	1	0
3	Cherokee Casino Resort	732	34	0	34	0	0	30,000	0	350	2	0	0
4	Creek Nation Casino Tulsa	1,788	34	0	34	0	0	0	0	0	0	0	0
	Proposed												
1	Camptown Greyhound Park	600	0	0	0	0	1	0	0	0	2		700
2	Downstream Casino Resort	2,000	30	15	45	0	1	70,000	8,000	226	2	2	2,200
3	First Council Casino	900	8	8	16	0	0	40,000	0	0	2	1	950
4	Sumner County Planned	2,000	50	0	50	0	0	0	30,000	275	4	3	3,700
5	The Woodlands	800	0	0	0	0	1	0	0	0	4	0	1,100
6	Wyandotte 7th Street Casino	450	0	0	0	0	0	20,000	0	0	1	0	0
7	Wyandotte County Planned	3,000	100	0	100	0	0	0	100,000	500	6	5	7,000
	Subtotal of Scenario 3	**12,756**	**266**	**23**	**289**	**0**	**3**	**170,000**	**158,000**	**1,594**	**24**	**12**	**15,650**
	Total Existing, Expansions & New	**45,358**	**731**	**205**	**936**	**3,180**	**9**	**1,606,444**	**270,620**	**3,413**	**117**	**37**	**53,833**
	% Increase Over Current	**46%**	**72%**	**13%**	**54%**	**0%**	**50%**	**14%**	**263%**	**111%**	**31%**	**68%**	**50%**
	Data Source: Wells Gaming Research, June 2008.												

The full build-out of the Cherokee, the expansions, and other proposed new casinos listed in Exhibit 2-4, would result in some major increases in casino gaming capacity and customer amenities. Key increases are targeted for slot capacity, up from 31,167 machines to 45,358 machines (46% for the trade area). The total number of table games has been estimated to increase from 607 to 936 (54%). Casino capacity would increase from 1.4 million square feet to 1.6 million (14%). Convention capacity would increase from 75 thousand square feet to 271 thousand (263%). Hotel rooms have also been targeted for major increases, up from 1,619 to 3,413 (111%).

Gravity Model Forecasts
Compared with Penn's Pro Forma Projections

A comparison and contrast of the casino visits and gaming revenues for WGR's Task-4 follows (Task-4 has been abbreviated to T-4 in the text that follows).

When comparing the casino visit and gaming revenue statistics for WGR's T-4 with those for Task-1 (the "generic casino"), it is important to keep in mind that five new proposed casinos were eliminated from the T-4 analyses because they face strong opposition and are not likely to happen any time soon. Moreover, the attraction factors at seven of the remaining casinos were reduced after WGR's on-site inspections. As a result, the T-4 projections tended to have a higher number of casino visits and gaming revenues than those developed for the Task-1.

By way of additional information, the new Downstream Casino that opened on July 6, 2008, is located on property adjacent to Penn National's Cherokee development site.

Casino Visits

Penn's forecasted casino visit statistics are displayed in red in the upper section (top row of data) of Exhibit 2-5, page 2-12. Penn compiled the visit statistics for both the residential population (732,376) and for the tourists (130,240). The combined total was 862,616.

- **Scenario 1** includes the Cherokee and the existing casinos (no other new casinos or expansions were added). The T-4 visit estimates made by WGR are shown in red in the mid section of Exhibit 2-5. WGR's data has been presented in a low, mid, and high case format.

  Penn forecasted a total 863 thousand casino visits per year for the Cherokee. WGR's T-4 projections for scenario 1 are for a low of 359 thousand visits, a mid level of 618 thousand, and a high of 828 thousand visits. The respective variances between the forecasts made by Penn and WGR's T-4 projections show a difference of 504 thousand (140.5%) in the low case, 245 thousand (39.6%) in the mid case, and 35 thousand (4.2%) in the high case.

- **Scenario 3** includes the existing casinos, the Cherokee, all planned expansions, and the other new proposed casinos. Comparison of Penn's forecast of 863 thousand visits with WGR's T-4 projections made for scenario 3 shows that Penn's visits run 653 thousand visits higher (310.9%) than the T-4 low case estimates of 210 thousand. Penn is 472 thousand visits (120.6%) higher than WGR's T-4 mid case estimates of 391 thousand, and 311 thousand (56.3%) higher than WGR's T-4 high case of 552 thousand visits.

Exhibit 2-5 - Casino Visit Projections for the Cherokee Casino for 2011
Southeast Gaming Zone

Penn Cherokee Projections for the Number of Visits - Southeast Gaming Zone			
Casino Visits	**Residential**	**Tourist**	**Total**
Penn Cherokee's Application - Phase I	**732,376**	**130,240**	**862,616**
Scenario 1 - WGR's projections includes Penn Cherokee & all existing casinos, but no new casinos			
Casino Visits	**Low**	**Mid**	**High**
WGR's Penn Cherokee:			
Phase I (Task 4)	**358,721**	**617,762**	**827,952**
Final Phase (Task 4)	732,492	1,175,186	1,515,623
WGR's Generic Cherokee (Task 1)	627,713	1,018,447	1,322,725
Difference in WGR Projections - Final Phase vs Generic	**104,779**	**156,739**	**192,898**
Scenario 1 - Variance in Casino Visits	**Low**	**Mid**	**High**
Penn Cherokee's Application vs. WGR Penn Cherokee - Phase I	**503,895**	**244,854**	**34,664**
Scenario 3 - WGR's projections includes Penn Cherokee plus all existing, expanding, & new casinos			
Casino Visits	**Low**	**Mid**	**High**
WGR's Penn Cherokee:			
Phase I (Task 4)	**209,929**	**391,078**	**551,727**
Final Phase (Task 4)	477,472	836,139	1,130,768
WGR's Generic Cherokee (Task 1)	407,084	728,705	1,001,896
Difference in WGR projections - final phase vs generic	**70,388**	**107,434**	**128,872**
Scenario 3 - Variance in Casino Visits	**Low**	**Mid**	**High**
Phase 1 - Penn Cherokee's Application vs. WGR Penn Cherokee	**652,687**	**471,538**	**310,889**
Source: Penn Cherokee's Application and Wells Gaming Research			

Gaming Revenue Comparisons

Penn's application included gaming revenue forecasts for residential players ($45,816,079) and for tourists ($11,577,139). The combined gaming revenue total was $57,393,218. Refer to the top row of data included in Exhibit 2-6. The results of the T-4 projections with inflation versus Penn's forecasts are summarized below.

Exhibit 2-6 - Gaming Revenue Projections for the Cherokee Casino for 2011

Penn Cherokee's 2011 Revenue Projections for the Southeast Gaming Zone			
Casino Revenues	**Residential**	**Tourist**	**Total**
Penn Cherokee's Application - Phase I	**$45,816,079**	**$11,577,139**	**$57,393,218**
Scenario 1 - WGR's Projections includes Penn Cherokee & all existing casinos, but no new casinos			
Casino Revenues	**Low**	**Mid**	**High**
WGR's Penn Cherokee - Phase 1 (Task 4):			
w/o Inflation	$23,618,000	$41,256,000	$55,874,000
w/ Inflation	**$25,554,676**	**$44,638,992**	**$60,455,668**
WGR's Penn Cherokee - Final Phase (Task 4):			
w/o Inflation	$49,204,000	$80,495,000	$105,035,000
w/ Inflation	$53,238,728	$87,095,590	$113,647,870
WGR's Generic Cherokee (Task 1):			
w/o Inflation	$41,524,000	$68,676,000	$90,290,000
w/ Inflation	$44,928,968	$74,307,432	$97,693,780
Difference in WGR's Final Phase vs Generic w/ Inflation	**$8,309,760**	**$12,788,158**	**$15,954,090**
Scenario 1 - Variance in Casino Revenues w/ Inflation	**Low**	**Mid**	**High**
Phase I - Penn Cherokee's Application vs. WGR (Difference)	**$31,838,542**	**$12,754,226**	**-$3,062,450**
Scenario 3 - WGR's Projections Includes Penn Cherokee plus all existing, expanding, & new casinos			
Casino Revenues	**Low**	**Mid**	**High**
WGR's Penn Cherokee - Phase 1 (Task 4):			
w/o Inflation	$13,989,000	$26,222,000	$37,186,000
w/ Inflation	**$15,136,098**	**$28,372,204**	**$40,235,252**
WGR's Penn Cherokee - Final Phase (Task 4):			
w/o Inflation	$32,105,000	$56,828,000	$77,433,000
w/ Inflation	$34,737,610	$61,487,896	$83,782,506
WGR's Generic Cherokee (Task 1):			
w/o Inflation	$26,296,000	$47,451,000	$65,625,000
w/ Inflation	$28,452,272	$51,341,982	$71,006,250
WGR's Final Phase vs Generic w/ Inflation (Difference)	**$6,285,338**	**$10,145,914**	**$12,776,256**
Scenario 3 - Variance in Casino Revenues w/ Inflation	**Low**	**Mid**	**High**
Phase I - Penn Cherokee's Application vs. WGR (Difference)	**$42,257,120**	**$29,021,014**	**$17,157,966**
Source: Penn Cherokee's Application and Wells Gaming Research			

- **Scenario 1** estimates assume that Penn would be located in a market with the existing casinos only (no other new casinos or casino expansions would be added). WGR's gaming revenue estimates for T-4 with inflation are shown in red in the mid-section of Exhibit 2-6. The variances between Penn's projections and WGR's T-4 forecasts are also shown. WGR's T-4 gaming revenue data is presented in a low, mid, and high case format.

  A comparison of Penn's gaming revenue forecasts with the T-4 projections with inflation shows that Penn's estimate of approximately $57 million compares with a T-4 low of $26 million, the T-4 mid case of $45 million, and the T-4 high of $60.5 million. Thus, Penn's projections are $32 million higher (124.6%) than WGR's T-4 low, $13 million (28.6%) higher than WGR's T-4 mid case, and $3 million (5.1%) lower than WGR's T-4 high.

- **Scenario 3** includes the addition of the Cherokee, all existing casinos, the expansions, and all other new casinos. The variance between the $57 million shown in Penn's application and WGR's T-4 forecasts with inflation for scenario 3 show that Penn is $42 million higher (279.2%) than the T-4 low of $15 million, $29 million (102.3%) above the T-4 mid case estimate of $28 million, and $17 million (42.6%) higher than the T-4 high case of $40 million.

Financial Statement Analyses

Following is a comparison of Penn National's pro forma financial statements (balance sheets and income statements) with comparable financial statement data for three groups of casinos in Nevada.

Research Methodology & Analyses

Background

All Nevada casinos are required to file annual *NGC-17 Reports* with the Nevada Gaming Control Board (NGCB). The *NGC-17 Reports* contain detailed financial data and operating statistics for each reporting casino. These reports are the primary source of information used by the NGCB to compile the *Nevada Gaming Abstracts***.** The *Abstracts* contain consolidated balance sheets and income statements for casinos that have annual gross gaming revenues of a million dollars or more. Nevada statutes prohibit disclosure of financial information for individual casinos. As a result, all financial data were reported by market groups (for example, $72 million and above for casinos with hotel rooms).

The 2007 fiscal year *Abstract* data (the most current available) were used as benchmarks for comparing each applicant's pro forma balance sheet and income statement.

Cherokee Penn National

The pro forma balance sheet and income statement line items for the year 2011 (the first full year of operation) were compared with equivalent percentages developed for the Nevada casino groups listed below:

- Statewide $1 Million and Over with Rooms (data average for 149 casinos)
- Wendover $1 Million and Over (data average for six casinos)
- Douglas (County) South Lake Tahoe $1 Million and Over (data average for four casinos)

Balance Sheet

Refer to Exhibit 2-7, pages 2-17 to 2-18, for the balance sheet that correspond with the discussion that follows. The data shows that the current assets and the fixed assets were evaluated as a percent of total assets. The pro forma percentages for Penn were compared with corresponding percentages developed for the three foregoing Nevada casino groups.

Cash was projected at $10 million (3.4% of total assets) for the Cherokee. This compares with:

- $22.3 million in cash (6.6% of total assets) for the casinos in the Nevada group *Statewide $1+ Million with Rooms*
- $4.8 million in cash (9.1% of total assets) for casinos in the *Wendover $1+ Million)*

- $5.9 million in cash (3.6% for casinos in the *Douglas (County), South Lake Tahoe $1+ Million)*

Cash as a percent of total assets for the Cherokee was 5.7% lower than the highest Nevada casino group and 0.2% below the lowest Nevada group. Thus, the cash position of the Cherokee was weaker than for the three comparative Nevada casino groups.

The remaining analyses focus on the line item percentage differences between the Cherokee and the selected Nevada groups in terms of the highs and lows. For example, the Cherokee percentage will be compared with the Nevada group with the highest percentage of a particular line item, as well as the Nevada group with the lowest percentage.

Other Current Assets were $5 million (1.7% of total assets) for the Cherokee. This was 0.2% above the comparative high and 1.0% higher than the low.

Total Current Assets were $15 million (5.1% of total assets for the Cherokee). This was 7.5% below the comparative Nevada high and 3.2% less than the low.

Total Fixed Assets were $278 million for the Cherokee (94.9% of total assets). This is 7.9% above the comparative high and 31.5% above the low.

Liabilities and Capital

The current liabilities, long-term debt, and capital were evaluated in terms of the percent of total liabilities and capital.

Total Current Liabilities were $5 million for the Cherokee (1.7% of total current liabilities). This is 11.5% lower than the highest comparative Nevada group and 3.1% below the lowest.

Total Long-Term Debt (Notes) at $282 million (96.2% of total long term debt) was significantly higher than the three Nevada groups (71.8% above the highest and 96.1% above the lowest).

Retained Earnings were negative at approximately $14 million (4.8% of total liabilities and capital). This was 116.7% below than the highest Nevada group and 17.4% less than the lowest.

Total Capital of $6 million for the Cherokee equaled 2.1% of total liabilities and capital. This was 128.3% below the highest comparative group and 27.4% less than the lowest.

Exhibit 2-7
Balance Sheet Comparison
Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007 Average Per Casino	%	Elko County Wendover $1M+ FY @ June 30, 2007 Average Per Casino	%	Douglas County SLT $1M+ FY @ June 30, 2007 Average Per Casino	%	Cherokee Penn National Gaming Pro Forma for Average Per Casino	%	% Differences % High (Dif)	%Low (Dif)
ASSETS										
Current Assets										
Cash	$22,320,648	6.6%	$4,842,868	9.1%	$5,936,348	3.6%	$10,000,000	3.4%	-5.7%	-0.2%
Receivables:										
Casino	$2,875,917	0.8%	$104,804	0.2%	$3,051,497	1.9%	$0	0.0%		
Trade	$2,752,837	0.8%	$8,309	0.0%	$728,453	0.4%	$0	0.0%		
Sundry	$1,343,910	0.4%	$142,627	0.3%	$407,332	0.2%	$0	0.0%		
Notes	$1,783,360	0.5%	$5,313	0.0%	$3,625	0.0%	$0	0.0%		
Prepaid Expenses	$2,471,893	0.7%	$1,075,396	2.0%	$2,166,356	1.3%	$0	0.0%		
Other Current Assets	$5,225,513	1.5%	$538,071	1.0%	$1,214,071	0.7%	$5,000,000	1.7%	0.2%	1.0%
Total Current Assets	**$38,774,079**	**11.4%**	**$6,717,386**	**12.6%**	**$13,507,681**	**8.3%**	**$15,000,000**	**5.1%**	**-7.5%**	**-3.2%**
Fixed Assets										
Land	$75,773,012	22.2%	$2,777,593	5.2%	$13,035,928	8.0%	$0	0.0%		
Land Improvements	$3,378,053	1.0%	$437,138	0.8%	$86,967	0.1%	$0	0.0%		
Buildings & Improvements	$119,858,889	35.2%	$29,289,482	55.0%	$64,229,683	39.4%	$208,218,000	71.2%	16.1%	36.0%
Furniture & Equipment	$22,034,105	6.5%	$9,810,689	18.4%	$14,176,748	8.7%	$69,406,000	23.7%	5.3%	17.3%
Lease Improvements	$1,125,805	0.3%	$1,062,194	2.0%	$4,989,295	3.1%	$0	0.0%		
Construction in Progress	$17,436,141	5.1%	$2,914,011	5.5%	$6,784,876	4.2%	$0	0.0%		
Total Fixed Assets	**$239,606,004**	**70.3%**	**$46,291,108**	**87.0%**	**$103,303,497**	**63.3%**	**$277,624,000**	**94.9%**	**7.9%**	**31.5%**
Other Assets	$62,292,263	18.3%	$207,076	0.4%	$46,314,553	28.4%	$0	0.0%		
Total Assets	**$340,672,345**	**100.0%**	**$53,215,570**	**32.6%**	**$163,125,730**	**100.0%**	**$292,624,000**	**100.0%**		

Exhibit 2-7
Balance Sheet Comparison
Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007		Elko County Wendover $1M+ FY @ June 30, 2007		Douglas County SLT $1M+ FY @ June 30, 2007		Cherokee Penn National Gaming Pro Forma for		% Differences	
	Average Per Casino	%	Average Per Casino	%	Average Per Casino	%	Average Per Casino	%	% High (Dif)	%Low (Dif)
LIABILITIES & CAPITAL										
Current Liabilities										
Accounts Payable - Trade	$2,489,155	0.7%	$373,653	0.7%	$2,159,688	1.3%	$5,000,000	1.7%	0.4%	1.0%
Accounts Payable - Other	$10,780,916	3.2%	$6,012	0.0%	$1,362,478	0.8%	$0	0.0%		
Current Portion of LT Debt	$2,104,106	0.6%	$283,206	0.5%	$352,575	0.2%	$0	0.0%		
Accrued Expenses	$15,451,522	4.5%	$1,673,542	3.1%	$5,367,561	3.3%	$0	0.0%		
Other Current Liabilities	$14,213,502	4.2%	$229,522	0.4%	$1,156,832	0.7%	$0	0.0%		
Total Current Liabilities	**$45,039,200**	**13.2%**	**$2,565,934**	**4.8%**	**$10,399,133**	**6.4%**	**$5,000,000**	**1.7%**	**-11.5%**	**-3.1%**
Long-Term Debt										
Mortgages	$14,071,887	4.1%	$741,875	1.4%	$651,718	0.4%	$0	0.0%		
Debentures & Bonds	$4,796,181	1.4%	$0	0.0%	$0	0.0%	$0	0.0%		
Notes	$46,774,143	13.7%	$13,006,545	24.4%	$206,873	0.1%	$281,585,000	96.2%	71.8%	96.1%
Contracts	$51,833	0.0%	$26,137	0.0%	$0	0.0%	$0	0.0%		
Other	$47,050,776	13.8%	$20,652,715	38.8%	$74,065,500	45.4%	$0	0.0%		
Total Long-Term Debt	**$112,744,821**	**33.1%**	**$34,427,272**	**64.7%**	**$74,924,091**	**45.9%**	**$281,585,000**	**96.2%**	**31.5%**	**63.1%**
Other Liabilities	$948,400	0.3%	$554,238	1.0%	($134,807,155)	-82.6%	$0	0.0%		
Total Liabilities	**$158,732,421**	**46.6%**	**$37,547,444**	**70.6%**	**-$49,483,931**	**-30.3%**	**$286,585,000**	**97.9%**	**27.4%**	**128.3%**
Capital										
Owners Capital Accounts	$33,888,943	9.9%	$109,147	0.2%	$21,093,428	12.9%	$20,000,000	6.8%	-3.1%	-6.1%
Capital Stock & Other Cap.	$64,149,383	18.8%	$8,842,398	16.6%	$8,990,061	5.5%	$0	0.0%		
Retained Earnings	$83,901,598	24.6%	$6,716,581	12.6%	$182,526,173	111.9%	-$13,962,000	-4.8%	-116.7%	-17.4%
Total Capital	**$181,939,924**	**53.4%**	**$15,668,126**	**29.4%**	**$212,609,661**	**130.3%**	**$6,038,000**	**2.1%**	**-128.3%**	**-27.4%**
Total Liabilities & Capital	**$340,672,345**	**100.0%**	**$53,215,570**	**100.0%**	**$163,125,730**	**100.0%**	**$292,624,000**	**100.0%**		

Income Statement

Refer to Exhibit 2-8, pages 2-22 through 2-25, for the income statement comparisons that correspond with the following financial statement discussions.

Revenue
The most notable difference was in gaming revenues. The Cherokee projected $57.4 million in gaming revenues (93.5% of total revenues). This is 20.5% higher than Nevada's top group percentage and 45.0% higher than the Nevada's bottom group percentage.

General & Administrative Expenses
Key differences in general & administrative expenses include:

> **Advertising and Promotion** for the Cherokee was projected at $7.5 million (12.1% of the total). This is 7.5% greater than the comparative high and 10.5% above the low.
>
> **Building Depreciation** was projected at $3.6 million (5.8% of the total). This was 2.8% more than the comparative high and 3.7% above the low.
>
> **Interest Expense** was projected at $13.5 million (22% of the total for G & A). This was 15.2% above the comparative high and 18.1% more than the low.

The Cherokee's pro forma income statement did not include expense for bad debts or comps.

EBITDAR for the Cherokee was projected at $11 million (17.9%). This was 7.9% below the comparative high and 0.5% less than the low.

Casino Department

Table Game revenue has been forecasted at $7.2 million (12.5% of the total). This is 18.3% below the comparative Nevada high and 8.1% less than the low.

Slot Machine revenue has been estimated at $50.2 million (87.5% of the total). This is 10.7% above the high and 22.3% greater than the low.

Complimentary Expenses were projected at $2 million (3.5% of the total). This was 22.7% below the comparative Nevada high and 9.9% below the low.

Gaming Taxes and Licenses at $15.5 million (27% of the total revenues) are considerably higher than for the comparative Nevada groups (18.7% above the comparative high and 19.5% above the low).

Departmental Income at $25.9 million was 45.1% of total revenues (20.0% less than the comparative Nevada high and 7.8% above the low).

Hotel Department

Hotel was not included in Penn's pro forma income statement for the Cherokee, phase-1.

Food Department

Revenues for the food department were projected at approximately $2.8 million. A 50-50 split between food sales and comps was shown in the pro forma income statement.

Food Sales of $1.4 million were 29.1% below the high and 2.0% below the low.

Food Comps at $1.4 million were 2.0% greater than the high and 29.1% above the low.

Bad Debts & Comp Expenses for the food department were not included in the pro forma income statement.

Payroll Taxes were one of the primary differences between the Cherokee and the three Nevada casino groups used for the comparisons. Payroll taxes were projected at $447 thousand (16.2% of revenues). This was 11.9% greater than the comparative high and 12.8% above the low.

Payroll – Other Employees at $1.7 million was 60.6% of revenues (22.2% above than the comparative Nevada's high and 27.2% higher than the low).

Total Departmental Expenses were projected at $2.4 million (85.6% of total revenues). This is 21.8% more than the high and 36.6% above the low.

Beverage Department

A 50-50 split between beverage sales and comps was shown in the pro forma income statement.

Beverage Sales of $344 thousand (50% of the total of $688 thousand) were 5.6% below the high and 27.6% above the low.

Beverage Comps at $344 thousand were 27.6% below the high and 5.6% above the low.

Payroll Taxes were projected at $112 thousand (16.3% of revenue). This was 13.2% above the high and 14.5% higher than the low.

Other Departmental Expenses were projected at $417 thousand (60.6% of revenue). This was 51.7% above the high and 56.5% higher the low.

Departmental Income (Loss) showed a loss of $108 thousand (a negative 15.7% of the total revenue). This was 62.2% below the comparative high and 48.7% below the low.

Other Departments

The Cherokee pro forma included revenues and expenses for a small *Retail Department*. The category, *Other Departmental Income*, was also included*)*. To compare with Nevada, these were combined and classified as *Other Operating and Non-Operating*.

Revenue
The total $574 thousand in revenues included for the retail department was split 50-50 between sales and comps. Sales at $287 thousand (50%) were 44.4% below the high and 10.5% less than the low. Comps at $287 thousand were 10.5% above the comparative Nevada groups and 44.4% more than the low.

Expenses
There were no bad debt expense or complimentary expense reported in the pro forma income statement.

Key percentage differences include payroll taxes, payroll-employee benefits, and payroll-other employees. *Payroll Taxes* were projected at $587 thousand (102.3% of total revenues), which were 99.9% above the comparative high and 101.8% more than the low.

Payroll-Employee Benefits were projected at $317 thousand (55.2% of departmental revenue). This was 49.8% more than the comparative high and 55.0% more than the low.

The *Payroll-Other Employees* category was projected at $2.2 million (382.1% of departmental revenues). This was 359.0% above the comparative high and 377.1% higher than the low).

Employees (Full Time Equivalents – FTEs)

An average of 510 FTEs were proposed for the Cherokee. Key departmental assignments included:

Casino Department – 355 FTEs projected (69.6% of the total). This was 31.2% above the highest percent in selected groups from Nevada, and it was 44.3% higher than the low.

Food & Beverage Departments – 74 FTEs specified for the food and beverage combined. This was 14.5% of the total and was 12.7% below the comparative high and 7.6% less than the low.

General and Administrative Department – 6 FTEs projected (1.2% of the total). This was 22.9% below the comparative high and 8.3% less the comparative low.

Other Departments – 75 FTEs were allocated (14.7% of the total). This was 5.9% above the comparative Nevada high and 12.9% greater than the low.

Exhibit 2-8
Profit & Loss Comparison
Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007 Average Per Casino	%	Elko County Wendover $1M+ FY @ June 30, 2007 Average Per Casino	%	Douglas County SLT $1M+ FY @ June 30, 2007 Average Per Casino	%	Cherokee Penn National Gaming Pro Forma for 2011 Average Per Casino	%	% Differences % High (Dif)	%Low (Dif)
REVENUE										
Gaming	$79,014,048	48.5%	$29,880,279	73.0%	$81,031,947	61.4%	$57,393,000	93.5%	20.5%	45.0%
Rooms	$34,314,791	21.1%	$2,754,115	6.7%	$18,198,796	13.8%	$0	0.0%		
Food	$22,090,792	13.6%	$4,825,698	11.8%	$15,099,634	11.4%	$2,754,874	4.5%	-9.1%	-7.0%
Beverage	$8,962,519	5.5%	$1,751,018	4.3%	$10,650,793	8.1%	$688,719	1.1%	-6.9%	-3.2%
Other (Include Retail)	$18,547,184	11.4%	$1,729,314	4.2%	$6,982,320	5.3%	$573,932	0.9%	-10.4%	-3.3%
Total Revenue	**$162,929,333**	**100.0%**	**$40,940,423**	**100.0%**	**$131,963,491**	**100.0%**	**$61,410,525**	**100.0%**		
Cost of Sales	$12,462,828	7.6%	$3,404,542	8.3%	$8,560,267	6.5%	$1,708,763	2.8%	-5.5%	-3.7%
Gross Margin	$150,466,505	92.4%	$37,535,881	91.7%	$123,403,224	93.5%	$59,701,763	97.2%	3.7%	5.5%
Departmental Expenses	$79,891,205	49.0%	$15,664,060	38.3%	$74,048,463	56.1%	$37,527,000	61.1%	5.0%	22.8%
Departmental Income (Loss)	$70,575,300	43.3%	$21,871,821	53.4%	$49,354,761	37.4%	$22,174,763	36.1%	-17.3%	-1.3%
GENERAL & ADMINISTRATIVE EXPENSES										
Advertising & Promotion	$2,710,134	1.7%	$1,888,840	4.6%	$4,146,803	3.1%	$7,461,000	12.1%	7.5%	10.5%
Bad Debt Expense	$19,741	0.0%	$0	0.0%	$17,652	0.0%	$0	0.0%		
Complimentary Expense	$1,448,880	0.9%	$882,773	2.2%	$667,982	0.5%	$0	0.0%		
Depreciation - Buildings	$4,834,473	3.0%	$889,596	2.2%	$2,783,008	2.1%	$3,568,000	5.8%	2.8%	3.7%
Depreciation & Amort. - Other	$6,859,248	4.2%	$3,788,498	9.3%	$6,364,619	4.8%	$6,334,000	10.3%	1.1%	6.1%
Energy Expense (elect., gas, etc.)	$2,849,618	1.7%	$976,527	2.4%	$3,497,446	2.7%	$0	0.0%		
Equipment Rental or Lease	$264,693	0.2%	$60,435	0.1%	$268,198	0.2%	$0	0.0%		
Interest Expense	$11,090,580	6.8%	$2,178,273	5.3%	$5,064,123	3.8%	$13,500,000	22.0%	15.2%	18.1%
Music & Entertainment	$782,554	0.5%	$501,793	1.2%	$47,436	0.0%	$0	0.0%		
Payroll Taxes	$698,556	0.4%	$274,451	0.7%	$344,533	0.3%	$129,000	0.2%	-0.5%	-0.1%
Payroll - Employee Benefits	$2,174,684	1.3%	$232,826	0.6%	$827,409	0.6%	$70,000	0.1%	-1.2%	-0.5%
Payroll - Officers	$325,794	0.2%	$260,168	0.6%	$99,687	0.1%	$480,000	0.8%	0.1%	0.7%
Payroll - Other Employees	$7,931,553	4.9%	$3,272,240	8.0%	$3,621,656	2.7%	$0	0.0%		
Rent of Premises	$794,178	0.5%	$60,609	0.1%	$3,446,236	2.6%	$0	0.0%		
Taxes - Real Estate	$1,605,463	1.0%	$343,279	0.8%	$1,378,236	1.0%	$1,500,000	2.4%	1.4%	1.6%
Taxes & Licenses - Other	$315,875	0.2%	$408,036	1.0%	$165,113	0.1%	-$984,000	-1.6%	-2.6%	-1.7%
Utilities (Other than Energy Exp.)	$844,945	0.5%	$253,204	0.6%	$419,844	0.3%	$192,000	0.3%	-0.3%	0.0%
Other General & Admin. Exp.	$10,141,202	6.2%	$1,939,436	4.7%	$9,573,184	7.3%	$2,326,000	3.8%	-3.5%	-0.9%
Total G&A Expenses	**$55,692,173**	**34.2%**	**$18,210,982**	**44.5%**	**$42,733,164**	32.4%	**$34,576,000**	**56.3%**	**11.8%**	**23.9%**
Net Income (Loss) Before Federal Income Taxes & Extraordinary Items	**$14,883,127**	**9.1%**	**$3,660,839**	**8.9%**	**$6,621,597**	**5.0%**	**-$12,401,237**	**-20.2%**	**-29.3%**	**-25.2%**
EBITDAR	**$38,461,607**	**23.6%**	**$10,577,815**	**25.8%**	**$24,279,584**	**18.4%**	**$11,000,763**	**17.9%**	**-7.9%**	**-0.5%**

Exhibit 2-8

Profit & Loss Comparison

Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007		Elko County Wendover $1M+ FY @ June 30, 2007		Douglas County SLT $1M+ FY @ June 30, 2007		Cherokee Penn National Gaming Pro Forma for 2011		% Differences	
	Average Per Casino	%	Average Per Casino	%	Average Per Casino	%	Average Per Casino	%	% High (Dif)	%Low (Dif)
CASINO DEPARTMENT										
Revenue										
Pit Revenue (Inc. Keno & Bingo)	$24,368,448	30.8%	$6,143,853	20.6%	$22,112,005	27.3%	$7,174,000	12.5%	-18.3%	-8.1%
Coin Operated Devices	$51,533,041	65.2%	$22,951,868	76.8%	$56,253,795	69.4%	$50,219,000	87.5%	10.7%	22.3%
Poker and Pan	$1,350,006	1.7%	$471,051	1.6%	$1,008,022	1.2%	$0	0.0%		
Race Book	$737,466	0.9%	$87,893	0.3%	$654,867	0.8%	$0	0.0%		
Sports Pool	$1,025,086	1.3%	$225,615	0.8%	$1,003,259	1.2%	$0	0.0%		
Total Revenue	**$79,014,048**	**100.0%**	**$29,880,279**	**100.0%**	**$81,031,947**	**100.0%**	**$57,393,000**	**100%**		
Departmental Expenses										
Bad Debt Expense	$822,377	1.0%	$13,996	0.0%	$211,063	0.3%	$0	0.0%		
Commissions	$600,531	0.8%	$143,706	0.5%	$662,740	0.8%	$0	0.0%		
Complimentary Expense	$13,862,944	17.5%	$3,997,079	13.4%	$21,262,602	26.2%	$2,009,000	3.5%	-22.7%	-9.9%
Gaming Taxes and Licenses	$6,094,818	7.7%	$2,484,886	8.3%	$6,085,713	7.5%	$15,496,000	27.0%	18.7%	19.5%
Preferred Guest Expenses	$1,670,080	2.1%	$0	0.0%	($4,614)	0.0%	$0	0.0%		
Payroll Taxes	$1,205,396	1.5%	$334,444	1.1%	$1,493,130	1.8%	$2,593,000	4.5%	2.7%	3.4%
Payroll - Employee Benefits	$2,573,727	3.3%	$265,579	0.9%	$2,783,086	3.4%	$1,402,000	2.4%	-1.0%	1.6%
Payroll - Officers	$133,625	0.2%	$0	0.0%	$0	0.0%	$0	0.0%		
Payroll - Other Employees	$8,349,661	10.6%	$2,037,826	6.8%	$10,489,204	12.9%	$9,683,000	16.9%	3.9%	10.1%
Race Wire Fees	$121,188	0.2%	$14,929	0.0%	$113,431	0.1%	$0	0.0%		
Other Departmental Expenses	$5,878,327	7.4%	$1,127,826	3.8%	$7,667,586	9.5%	$300,000	0.5%	-8.9%	-3.3%
Total Departmental Expenses	**$41,312,674**	**52.3%**	**$10,420,270**	**34.9%**	**$50,763,939**	**62.6%**	**$31,483,000**	**54.9%**	**-7.8%**	**20.0%**
Departmental Income (Loss)	$37,701,373	47.7%	$19,460,010	65.1%	$30,268,008	37.4%	$25,910,000	45.1%	-20.0%	7.8%
ROOMS DEPARTMENT										
Revenue										
Room Sales	$28,643,975	83.5%	$2,125,042	77.2%	$11,092,642	61.0%				
Complimentary Rooms	$5,670,816	16.5%	$629,073	22.8%	$7,106,154	39.0%				
Total Revenue	**$34,314,791**	**100.0%**	**$2,754,115**	**100.0%**	**$18,198,796**	**100.0%**				
Departmental Expenses										
Bad Debt Expense	$49,202	0.1%	$0	0.0%	$38,228	0.2%				
Complimentary Expense	$427,277	1.2%	$13,168	0.5%	$81,875	0.4%				
Payroll - Taxes	$518,703	1.5%	$112,827	4.1%	$385,236	2.1%				
Payroll - Employee Benefits	$1,831,643	5.3%	$78,130	2.8%	$821,842	4.5%				
Payroll - Officers	$36,256	0.1%	$0	0.0%	$0	0.0%				
Payroll - Other Employees	$5,227,930	15.2%	$1,228,793	44.6%	$3,645,902	20.0%				
Other Departmental Expenses	$3,611,842	10.5%	$514,834	18.7%	$1,874,629	10.3%				
Total Departmental Expenses	**$11,702,852**	**34.1%**	**$1,947,752**	**70.7%**	**$6,847,712**	**37.6%**				
Departmental Income (Loss)	$22,611,939	65.9%	$806,363	29.3%	$11,351,084	62.4%				

Exhibit 2-8

Profit & Loss Comparison

Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007 Average Per Casino	%	Elko County Wendover $1M+ FY @ June 30, 2007 Average Per Casino	%	Douglas County SLT $1M+ FY @ June 30, 2007 Average Per Casino	%	Cherokee Penn National Gaming Pro Forma for 2011 Average Per Casino	%	% Differences % High (Dif)	%Low (Dif)
FOOD DEPARTMENT										
Revenue										
Food Sales	$17,480,259	79.1%	$2,508,814	52.0%	$11,030,606	73.1%	$1,377,000	50.0%	-29.1%	-2.0%
Complimentary Food Sales	$4,610,533	20.9%	$2,316,884	48.0%	$4,069,028	26.9%	$1,377,000	50.0%	2.0%	29.1%
Total Revenue	**$22,090,792**	**100.0%**	**$4,825,698**	**100.0%**	**$15,099,634**	**100.0%**	**$2,754,000**	**100.0%**		
Cost of Sales	$7,432,601	33.6%	$2,256,660	46.8%	$4,795,224	31.8%	$1,215,000	44.1%	-2.6%	12.4%
Gross Margin	$14,658,190	66.4%	$2,569,038	53.2%	$10,304,410	68.2%	$1,539,000	55.9%	-12.4%	2.6%
Departmental Expenses										
Bad Debt Expense	$8,221	0.0%	$0	0.0%	$336	0.0%	$0	0.0%		
Complimentary Expense	$162,434	0.7%	$150,221	3.1%	$33,651	0.2%	$0	0.0%		
Payroll - Taxes	$959,573	4.3%	$163,201	3.4%	$570,792	3.8%	$447,000	16.2%	11.9%	12.8%
Payroll - Employee Benefits	$2,810,534	12.7%	$100,451	2.1%	$1,267,609	8.4%	$242,000	8.8%	-3.9%	6.7%
Payroll - Officers	$82,282	0.4%	$0	0.0%	$0	0.0%	$0	0.0%		
Payroll - Other Employees	$8,473,131	38.4%	$1,615,345	33.5%	$5,032,195	33.3%	$1,668,000	60.6%	22.2%	27.2%
Other Departmental Expenses	$1,587,938	7.2%	$332,447	6.9%	$1,185,225	7.8%	$0	0.0%		
Total Departmental Expenses	**$14,084,114**	**63.8%**	**$2,361,664**	**48.9%**	**$8,089,807**	**53.6%**	**$2,357,000**	**85.6%**	**21.8%**	**36.6%**
Departmental Income (Loss)	$574,077	2.6%	$207,374	4.3%	$2,214,603	14.7%	-$818,000	-29.7%	-44.4%	-32.3%
BEVERAGE DEPARTMENT										
Revenue										
Beverage Sales	$4,981,327	55.6%	$392,310	22.4%	$5,665,099	53.2%	$344,000	50.0%	-5.6%	27.6%
Complimentary Beverage Sales	$3,981,192	44.4%	$1,358,708	77.6%	$4,985,694	46.8%	$344,000	50.0%	-27.6%	5.6%
Total Revenue	**$8,962,519**	**100.0%**	**$1,751,018**	**100.0%**	**$10,650,793**	**100.0%**	**$688,000**	**100.0%**		
Cost of Sales	$2,027,205	22.6%	$643,664	36.8%	$2,609,749	24.5%	$207,000	30.1%	-6.7%	7.5%
Gross Margin	$6,935,314	77.4%	$1,107,354	63.2%	$8,041,045	75.5%	$481,000	69.9%	-7.5%	6.7%
Departmental Expenses										
Bad Debt Expense	$337	0.0%	$0	0.0%	$472	0.0%	$0	0.0%		
Complimentary Expense	$73,197	0.8%	$1,804	0.1%	$9,447	0.1%	$0	0.0%		
Payroll - Taxes	$219,838	2.5%	$53,581	3.1%	$194,512	1.8%	$112,000	16.3%	13.2%	14.5%
Payroll - Employee Benefits	$616,144	6.9%	$62,978	3.6%	$437,025	4.1%	$60,000	8.7%	1.8%	5.1%
Payroll - Officers	$12,191	0.1%	$0	0.0%	$0	0.0%	$0	0.0%		
Payroll - Other Employees	$1,691,318	18.9%	$338,653	19.3%	$1,499,698	14.1%	$0	0.0%		
Other Departmental Expenses	$752,660	8.4%	$71,660	4.1%	$947,499	8.9%	$417,000	60.6%	51.7%	56.5%
Total Departmental Expenses	**$3,365,686**	**37.6%**	**$528,676**	**30.2%**	**$3,088,653**	**29.0%**	**$589,000**	**85.6%**	**48.1%**	**56.6%**
Departmental Income (Loss)	$3,569,628	39.8%	$578,678	33.0%	$4,952,392	46.5%	-$108,000	-15.7%	-62.2%	-48.7%

Exhibit 2-8

Profit & Loss Comparison

Cherokee Versus Three Nevada Casino Groups

Description	Statewide $1M+ w/ Hotel Rooms FY @ June 30, 2007 Average Per Casino	%	Elko County Wendover $1M+ FY @ June 30, 2007 Average Per Casino	%	Douglas County SLT $1M+ FY @ June 30, 2007 Average Per Casino	%	Cherokee Penn National Gaming Pro Forma for 2011 Average Per Casino	%	% Differences % High (Dif)	%Low (Dif)
OTHER INCOME										
Revenue										
Other Op. and Non-Op. Income	$17,505,088	94.4%	$1,045,532	60.5%	$6,077,430	87.0%	$287,000	50.0%	-44.4%	-10.5%
Other Complimentary Items	$1,042,097	5.6%	$683,782	39.5%	$904,890	13.0%	$287,000	50.0%	10.5%	44.4%
Total Revenue	**$18,547,184**	**100.0%**	**$1,729,314**	**100.0%**	**$6,982,320**	**100.0%**	**$574,000**	**100.0%**		
Cost of Sales	$3,003,022	16.2%	$504,218	29.2%	$1,155,295	16.5%	$287,000	50.0%	20.8%	33.8%
Gross Margin	$15,544,162	83.8%	$1,225,096	70.8%	$5,827,026	83.5%	$287,000	50.0%	-33.8%	-20.8%
Departmental Expenses										
Bad Debt Expense	$21,643	0.1%	$0	0.0%	$166	0.0%	$0	0.0%		
Complimentary Expense	$310,666	1.7%	$3,015	0.2%	$222,979	3.2%	$0	0.0%		
Payroll - Taxes	$300,282	1.6%	$8,705	0.5%	$166,726	2.4%	$587,000	102.3%	99.9%	101.8%
Payroll - Employee Benefits	$725,919	3.9%	$4,621	0.3%	$377,820	5.4%	$317,000	55.2%	49.8%	55.0%
Payroll - Officers	$26,032	0.1%	$0	0.0%	$0	0.0%	$0	0.0%		
Payroll - Other Employees	$3,066,507	16.5%	$83,812	4.8%	$1,608,639	23.0%	$2,193,000	382.1%	359.0%	377.2%
Other Departmental Expenses	$4,974,831	26.8%	$305,547	17.7%	$2,882,022	41.3%		0.0%		
Total Departmental Expenses	**$9,425,880**	**50.8%**	**$405,700**	**23.5%**	**$5,258,352**	**75.3%**	**$3,097,000**	**539.5%**	**464.2%**	**516.1%**
Departmental Income (Loss)	$6,118,282	33.0%	$819,396	47.4%	$568,674	8.1%	-$2,810,000	-489.5%	-536.9%	-497.7%

AVERAGE NUMBER OF EMPLOYEES FOR THE YEAR										
Casino Department	326	25.3%	135	29.3%	474	38.4%	355	69.6%	31.2%	44.3%
Rooms Department	207	16.1%	76	16.6%	170	13.8%	0	0.0%		
Food Department	350	27.2%	101	22.1%	301	24.4%	74	14.5%	-12.7%	-7.6%
Beverage Department	88	6.8%	28	6.1%	98	7.9%	0	0.0%		
G&A Department	203	15.8%	110	24.0%	117	9.4%	6	1.2%	-22.9%	-8.3%
Other Departments	113	8.8%	8	1.8%	76	6.2%	75	14.7%	5.9%	12.9%
Total FTEs	**1,285**	**100.0%**	**459**	**100.0%**	**1,236**	**100.0%**	**510**	**100.0%**		

AVERAGE NUMBER OF ROOMS AVAILABLE PER DAY										
Available Rooms	909		289		588		200 Planned			

Information on Wells Gaming Research & Richard H. Wells

Following is detailed information regarding Wells Gaming Research's many services, as well as personal information about Richard H. Wells, WGR's president:

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Professional Services Offered:

Wells Gaming Research (hereinafter referred to as WGR) is a highly respected provider of a wide-range of research and advisory services for the casino gaming industry.

Casino Player Count Service™:
WGR's Casino Player Count Service™ has become the standard for measuring relative player count performance within the casino gaming industry. Our player count service is widely used by casinos, as well as by equity analysts who track public gaming companies. WGR's weekly online player count reports are accompanied by a host of powerful, user friendly analytical tools that make it quick and easy for a client casino to monitor the competition. Client casinos can log on to WGR's website and evaluate their competitors using the following performance criteria:

- Casino rankings based on player count volume
- Number of table game and/or slot machine players
- Percent distribution of players
- Gaming capacity inventory for both table games and slot machines
- Percent distribution of market capacity
- Percent of capacity utilized
- User defined market fair share percentages

Fair Share Goal Setting Targets for User Defined Markets
One of the newest and most exciting features of WGR's Casino Player Count Service™ is fair share goal setting for user-defined markets. WGR's online player count service automatically calculates the number of players required for a casino to reach a series of fair market share targets (for example, 100%, 105%, and 110%).

Gaming Capacity Inventories
WGR updates the gaming capacity inventory statistics for the player count service on a quarterly basis. Client casinos can easily monitor capacity adjustments for both table games and slot machines for their casino, as well as for their competitors. WGR's website also provides a capacity trend analysis feature.

Equity Analysts
Equity analysts use WGR's Casino Player Count Service™ reports to monitor player counts for individual casinos owned by public companies, and to track entire market areas. WGR's player count statistics are also given consideration by equity analysts when forecasting quarterly casino revenues.

Data Collection for WGR's Casino Player Count Service
WGR's field representatives physically count casino players five or more times per week in 164 casinos located throughout the U.S. WGR's current player count service areas include California, Louisiana, Mississippi, Nevada, and New Mexico.

Casino Feasibility Studies

WGR's databases contain a detailed history of casino player counts collected in eleven major gaming markets located throughout the U.S. This exclusive player count information provides WGR with a proprietary resource that is unmatched for projecting player volume, which is a key variable in the revenue function.

WGR has conducted casino feasibility studies and financial projections for a number of new casinos, including those proposed in:

- **Mississippi** – Tunica.
- **Nevada** - Las Vegas (the Strip, the Offstrip, and North Las Vegas), as well as for Reno, Henderson, and Jackpot.
- **Nova Scotia** - Halifax and Sydney.

Casino Gaming Market Studies

WGR's databases contain over 350,000 casino player counts collected between 1990 and 2007. Capacity information is collected and updated regularly on each casino's inventory capacity mix of slot machines and table games. The player count data allows WGR to track individual casinos, groups of casinos, and casino markets more closely and accurately than any other organization except the state gaming regulatory authorities.

WGR has developed a custom casino gravity modeling system designed to forecast casino revenues while taking into account the impacts that new or expanded competing casinos could have on the project. The model is customized to include the appropriate trade area and competitive casinos for each project.

Major market studies include:

- Las Vegas, Nevada area (Strip, Offstrip, North Las Vegas, & Henderson)
- Reno & Sparks, Nevada
- Minden/Gardnerville, Nevada
- Carson City, Nevada
- Northern California
- South Lake Tahoe
- Mississippi (Tunica, Natchez, & Vicksburg)
- Shreveport, Louisiana
- Iowa (Spencer, Ottumwa, Emmetsburg, Waterloo, Davenport, & Bettendorf)
- Sugar Creek, Missouri
- Southern Kansas
- Southern Indiana
- North-East Kentucky

Competitive Gaming Equipment Inventories

WGR conducts capacity inventories of slot machines, electronic player tracking systems, and other gaming equipment located in casinos throughout the U.S. The client selects the casinos to be inventoried. Then, WGR conducts the equipment inventories and does the comparative analyses. WGR's clients include both casinos and major slot machine manufacturers. Slot machine inventory projects include:

- 38 Tribal casinos in California.
- 108,000 slot machines located in 50 U.S. casinos, as well as five Canadian casinos (inventories are conducted twice each year).
- 18,000 slot machines located in eight large Las Vegas casinos.

Litigation & Legislative Support

WGR provides a host of gaming related services to attorneys in the form of:

- Financial and market analyses
- Expert testimony and depositions
- Analyses of opposing expert reports
- Development of questions for depositions
- Development of exhibits for use in court
- Competitive analyses for anti-trust issues
- Exhibits, documents, and expert testimony for legislative issues

Marketing Research

WGR has conducted a wide variety of gaming related marketing research studies for casino clients, as well as for proprietary internal use. For example, WGR has analyzed:

- The demographics and gambling characteristics of golfers on a nationwide basis.

- The gambling and demographic characteristics of local residents in both Reno and Las Vegas.

- The growth of various forms of gaming in Reno's four major feeder markets (California, Oregon, Washington, and British Columbia).

Marketing Surveys

Recent market research surveys include:

- 600 Las Vegas Strip visitors for a casino client
- 465 slot directors for a slot manufacturer
- 900 gaming establishments for a slot manufacturer
- 600 telephone inquiries to casino slot departments regarding online slot machine systems

Market & Financial Due Diligence

WGR is well positioned to assist casino buyers in evaluating gaming markets in terms of:

- Competition
- Financial and operating performance
- Improvement potential of casino acquisition candidates

Financial Benchmark Studies

WGR conducts financial benchmark studies for existing casinos. Both revenue and expense line items are compared with a casino's peer group of competitors. Differences are flagged. One such study greatly aided the Client in improving its financial performance and in turning losses into profits.

Special Projects

WGR conducts special projects on an ongoing basis. Some examples include:

- Casino market supply and demand analyses
- Slot and table game trends
- Casino player trend analyses
- Utilization analyses (table games including Caribbean Stud and Let-It-Ride, as well as slot machines and automatic shuffler)
- Competitive analyses of slot machine inventories and utilization
- Table game instruction programs
- Average bets by table minimums for blackjack and craps
- Player counts by ethnic groups

Other Casino Gaming Services

Slot Payback Certification
WGR provides verification and certification of win percentages for slot machines and video poker machines. Casinos have successfully used the win percentages in advertising campaigns.

Pedestrian Traffic Counts
WGR has conducted pedestrian traffic studies to determine pedestrian volumes, directions, and other characteristics of pedestrian traffic behavior in targeted areas in Las Vegas and Reno. Two specific locations were the intersection of Las Vegas Boulevard and Tropicana Avenue in Las Vegas and on Virginia Street in downtown Reno.

Special Event Attendance
WGR conducts attendance counts at special events, primarily in Nevada (Reno, Las Vegas, and Laughlin) for convention authorities and other clients. WGR has conducted attendance counts at most of Reno's special events.

Corporate Background

WGR was established in 1990. In 1995, WGR was incorporated under the laws of the State of Nevada.

WGR is a privately held corporation. The principal officers include Richard H. Wells, President and Peggy P. Wells, Vice President and Secretary/Treasurer.

WGR's president, Richard H. Wells, has over thirty years of experience in conducting financial and market feasibility studies for the casino, hotel, banking, and oil and gas industries. Wells is supported by a well-trained staff with experience and expertise in computer programming, finance, economics, and market analyses.

In addition to the staff, WGR subcontracts, on an as-needed basis, with highly qualified and respected professionals who specialize in a wide-range of technical disciplines including marketing research, statistics, demographic statistics and data analyses, economic and social impact analyses, and legal counsel.

Online Casino Player Count Service™

WGR has converted its player count reporting system from a weekly hard copy report to a suite of powerful, online, easy-to-use reporting and analysis tools. The Internet now makes it possible for WGR to share these tools with our clients.

WGR not only provides the Casino Player Count Service™ Reports online via the Internet, we also provide our clients with a host of online analytical tools. For example, WGR's clients can now select a specific set of competitive casinos and time periods to conduct custom analyses.

A total of seven (7) online reporting menu options are offered:

1. Monthly
2. Weekly
3. Daily
4. Multi-Month Trend Analysis
5. User Defined Two-Period Comparisons
6. Capacity Trend Analysis
7. Average Counts by Day-of-Week or Time-of-Day

Four (4) options are provided for viewing, downloading, and printing the user defined reports:

1. Web Browser,
2. Tab Delimited Download (Excel or other spreadsheet compatible)
3. PDF file uncompressed
4. PDF file compressed (ZIP)

Weekend player counts are now available to our clients by Monday afternoon, 5PM Pacific Time. All weekly player count data is audited and finalized by Thursday afternoon, 5PM Pacific Time. This puts the player count data in the clients hands several days earlier than the hard copy reports.

Online Access & Client Training:
Each person in our Client's organization who needs access to WGR online service will be assigned a username and password for secure website access. WGR's clients are allowed an unlimited number of users, at no additional cost.

WGR will conduct a training session to acquaint Client users with the new online system. WGR's new online reporting system is easy-to-use and quick at creating user defined custom player count reports. A half-hour training/orientation session is all that is needed for a user to get started with WGR's new online reporting system.

Richard H. Wells, Experience & Qualifications

Wells is founder and president of **Wells Gaming Research**, a Nevada Corporation that provides Casino Player Count Service™, a market share tracking service, to over 160 casino clients in Nevada, Mississippi, Louisiana, New Mexico, and California.

Wells Gaming Research also performs a wide range of consulting and gaming research assignments including casino market studies, financial feasibility studies, financial projections, due diligence, litigation support, legislative issue support, and gaming industry expert witness services for the gaming industry.

Wells has fifteen years experience as a senior executive in the casino-hotel industry with Holiday Inns, Harrah's, and Bally's. Wells has also held positions in management, planning, and financial analysis for a large regional bank and a major international oil company.

Wells has a B.S. degree in business from Oklahoma State University and completed a post-graduate program in Systems Dynamics at M.I.T. Wells has participated in a wide range of community service activities and is listed in Marquis Who's Who in Finance and Industry and Marquis Who's Who in America.

Wells Gaming Research Client List
(Current and/or Prior Customers)

Aladdin Gaming, LLC:
- Aladdin Resort & Casino ~ Las Vegas, Nevada

Ameristar Casinos, Inc. ~ Las Vegas, Nevada
Alamo Travel Center ~ Sparks, Nevada
Aristocrat Technologies, Inc. ~ Las Vegas, Nevada
Arizona Charlie's Casino Hotel ~ Las Vegas, Nevada
Arizona Charlie's East Casino Hotel ~ Las Vegas, Nevada
Avi Resort & Casino ~ Laughlin, Nevada
Baldini's Sports Casino ~ Reno, Nevada
Bear Stearns Companies, Inc.
Binion's Horseshoe ~ Tunica, Mississippi
Boyd Gaming Corporation:
- California Hotel & Casino ~ Las Vegas, Nevada
- Fremont Hotel & Casino ~ Las Vegas, Nevada
- Main Street Station Hotel Casino ~ Las Vegas, Nevada
- Sam's Town Hotel & Gambling Hall ~ Las Vegas, NV
- Sam's Town Tunica Hotel & Gambling Hall ~ Tunica, MS
- Stardust Resort & Casino ~ Las Vegas, Nevada

Bronco Billy's Sports Bar & Casino ~ Cripple Creek, CO
Caesars Palace Hotel & Casino ~ Las Vegas, Nevada
Cannery Casino Hotel ~ Las Vegas, Nevada
Clay County Gaming Initiative, Inc. ~ Clay Co, Iowa
Club Cal-Neva/Virginian Hotel Casino ~ Reno, Nevada
Coast Hotel & Casinos, Inc.:
- Gold Coast Hotel Casino ~ Las Vegas, Nevada
- Suncoast Hotel & Casino ~ Las Vegas, Nevada
- The Orleans Hotel & Casino ~ Las Vegas, Nevada

Copa Casino ~ Gulfport, Mississippi
DRKW - Grantchester, Inc. ~ New York, New York
Eldorado Hotel Casino ~ Reno, Nevada
Fallon Paiute-Shoshone Tribe ~ Fallon, Nevada
Fidelity Investments ~ Boston
Fitzgeralds Hotel Casino ~ Reno, Nevada
Four Queens Hotel Casino ~ Las Vegas, Nevada
Greenspun Corporation ~ Las Vegas, Nevada
Guild, Russell, Gallagher, & Fuller, LTD ~ Reno, Nevada
Galleria Associates ~ Henderson, Nevada
Golden Phoenix Hotel Casino ~ Reno, Nevada
GEM, LLC ~ Reno, Nevada
Harrah's Casino Hotel ~ Lake Tahoe, Nevada
Harrah's Casino Hotel ~ Laughlin, Nevada
Harrah's Hotel Casino ~ Reno, Nevada
Harrah's Hotel Casino ~ Tunica, Mississippi
Hollywood Casino ~ Tunica, Mississippi
Horseshoe Casino & Hotel ~ Bossier City, Louisiana
Innovative Gaming Corporation of America
International Gaming Technology
Isle of Capri Casinos, Inc.:
- Isle of Capri Casino ~ Bossier City, Louisiana
- Isle of Capri Casino ~ Biloxi, Mississippi
- Isle of Capri Casino - Lula, Mississippi
- Isle of Capri Casino - Vicksburg, Mississippi

Isleta Casino & Resort - Albuquerque, New Mexico
ITT Sheraton Gaming Division
John Ascuaga's Nugget ~ Reno, Nevada
Lady Luck Hotel Casino ~ Las Vegas, Nevada
Little Creek Casino ~ Shelton, Washington
Majestic Star Casinos:
- Fitzgeralds Hotel Casino ~ Las Vegas, Nevada
- Fitzgeralds Hotel Casino ~ Tunica, Mississippi

Mandalay Resort Group:
- Circus Circus Hotel Casino ~ Reno, Nevada
- Circus Circus Hotel Resort & Casino ~ Las Vegas, NV
- Colorado Belle Hotel & Casino ~ Laughlin, Nevada
- Edgewater Hotel & Casino ~ Laughlin, Nevada
- Excalibur Resort Hotel & Casino ~ Las Vegas, Nevada
- Gold Strike Casino & Resort ~ Tunica, Mississippi
- Luxor Resort Hotel & Casino ~ Las Vegas, Nevada
- Mandalay Bay Resort & Casino ~ Las Vegas, Nevada
- Monte Carlo Resort & Casino ~ Las Vegas, Nevada
- Silver City ~ Las Vegas, Nevada
- Silver Legacy Resort & Casino ~ Reno, Nevada
- Slots-A-Fun ~ Las Vegas, Nevada

Monarch Casino & Resort, Inc.:
- Atlantis Casino Resort ~ Reno, Nevada

Wells Gaming Research Client List (Continued)
(Current and/or Prior Customers)

Mikhon Gaming Corporation
Nevada Resort Association ~ Las Vegas, Nevada
MGM • Mirage:
- Beau Rivage Hotel & Casino ~ Biloxi, Mississippi
- Bellagio Hotel & Casino ~ Las Vegas, Nevada
- Golden Nugget Hotel & Casino ~ Laughlin, Nevada
- MGM Grand Hotel Casino ~ Las Vegas, Nevada
- New York New York Hotel & Casino ~ Las Vegas, NV
- The Mirage Hotel & Casino ~ Las Vegas, Nevada
- Treasure Island at the Mirage ~ Las Vegas, Nevada

Palms Casino Hotel ~ Las Vegas, Nevada
Park Place Entertainment:
- Bally's Casino Las Vegas ~ Las Vegas, Nevada
- Bally's Casino Tunica ~ Tunica, Mississippi
- Flamingo Las Vegas ~ Las Vegas, Nevada
- Flamingo Laughlin ~ Laughlin, Nevada
- Grand Casino Biloxi ~ Biloxi, Mississippi
- Grand Casino Gulfport ~ Gulfport, Mississippi
- Grand Casino Tunica ~ Tunica, Mississippi
- Las Vegas Hilton ~ Las Vegas, Nevada
- Oshea's ~ Las Vegas, Nevada
- Paris Las Vegas ~ Las Vegas, Nevada
- Reno Hilton ~ Reno, Nevada
- Sheraton Casino ~ Tunica, Mississippi

Peppermill, Inc.:
- Peppermill Hotel Casino ~ Reno, Nevada
- Western Village Inn & Casino ~ Sparks, Nevada

Penn National Gaming, Inc.
- Boomtown Casino ~ Biloxi, Mississippi
- Casino Magic ~ Bay St. Louis, Mississippi

Pinnacle Entertainment, Inc.:
- Boomtown Hotel • Casino • RV Park ~ Reno, Nevada
- Casino Magic ~ Biloxi, Mississippi
- Boomtown Casino ~ Bossier City, Louisiana

R&R Advertising
Rail City Casino ~ Sparks
Ramada Express Hotel & Casino ~ Laughlin, Nevada
Ramada Inn Speakeasy Casino ~ Reno, Nevada
Rampart Casino ~ Las Vegas, Nevada
Reno/Sparks Convention & Visitor's Authority
Rio Suite Hotel Casino ~ Las Vegas, Nevada
River Palms Resort Casino ~ Laughlin, Nevada
Riverside Resort Hotel Casino ~ Laughlin, Nevada
Riviera Hotel & Casino ~ Las Vegas, Nevada
Sands Regency Hotel Casino ~ Reno, Nevada
Seven Circle Resorts, Inc.
Sheraton Casino ~ Halifax, Novia Scotia
Sheraton Hotel Casino ~ Tunica, Mississippi
Showboat Hotel Casino ~ Las Vegas, Nevada
Si Redd's Oasis Hotel & Casino ~ Mesquite, Nevada
Silicon Gaming, Inc.
Silver Club Hotel Casino ~ Sparks, Nevada
Silverton Hotel & Casino ~ Las Vegas, Nevada
Station Casinos, Inc.:
- Boulder Station Hotel & Casino ~ Las Vegas, NV
- Fiesta Henderson ~ Las Vegas, Nevada
- Fiesta Rancho Casino Hotel ~ Las Vegas, Nevada
- Green Valley Ranch Resort & Spa ~ Las Vegas, NV
- Palace Station Hotel & Casino ~ Las Vegas, Nevada
- Santa Fe Station Hotel Casino ~ Las Vegas, Nevada
- Sunset Station Hotel & Casino ~ Las Vegas, Nevada
- Texas Station Gambling Hall & Hotel ~ Las Vegas, NV

Stratosphere Casino Hotel & Tower ~ Las Vegas, Nevada
Terrible's Casino Hotel ~ Las Vegas, Nevada
Thunder Valley Casino ~ Lincoln, California
Treasure Bay Casino Resort ~ Biloxi, Mississippi
Tropicana Hotel Casino ~ Las Vegas, Nevada
Tuscany Hotel & Casino ~ Las Vegas, Nevada
Venetian Resort Hotel Casino ~ Las Vegas, Nevada
WMS Gaming Inc. ~ Waukegan, Illinois
Wild Game NG:
- Siena Hotel Spa & Casino ~ Reno, Nevada

Wynne Resorts, LTD ~ Las Vegas, Nevada
Zeh Saint-Aubin Spoo ~ Reno, Nevada