

Proposal for Sumner County by Marvel Gaming, LLC

My Function in this review process is to:

- 1) Evaluate financial stability based on current corporate structure
- 2) Evaluate financial stability based on :
 - a. Financial liquidity
 - b. Financial solvency
 - c. Future commitments

Any financial analysis needs a comparative peer group base for the evaluation process. All current gaming jurisdictions provide analysis on a property basis, size or gaming revenues. Evaluation on a corporate level does not provide the same segmentation. There are a wider range of sizes and industry segments. It is more difficult to define peer groups.

Peer group composite

Different investment bankers and analysts create different peer groups. Casino type businesses could fall into the service industry, the entertainment industry, or the hospitality industry. Within these groups can be different sub-groups. One of the common groups used by gaming analysts is the “service industry” with a “Casino and Gaming” subgroup.

This subgroup currently consists of 60 different companies.¹ The top 20 of these corporations have market capitalization of \$100 million or more². The top corporations include several corporations who have submitted proposals: (June 11, 2008)

	Millions
1. Las Vegas Sands Corp. (LVS)	\$19,111
2. MGM Mirage (MGM)	11,797
3. Wynn Resorts, Limited (WYNN)	9,898
4. International Gaming Technology (IGT)	9,712
5. Melco PBL (MPEL)	4,359
6. Penn National Gaming (PENN)	3,729
13. Pinnacle Entertainment, Inc (PNK)	736

One of the largest casino companies in the world, Harrah’s, is missing because it has been bought out by a private group of Investors (Hamlet Holdings) for a sum over \$29 billion. Before the takeover by Hamlet Holdings, Harrah’s spent the last five years, buying up other well known major casino properties such as Bally’s, Caesars, The

¹ I use information provided by Reuters Research, which is based on this composite of 60 firms. It also appears that Standard & Poor’s also uses this composite. Note that these composites can be different for other financial research.

² Market capitalization represents the current market price times the total number of shares outstanding. The Casino and Gaming market price has decreased by 41% compared to S&P 1500 which declined by 13%.

Flamingo, Harvey's, Imperial Palace, Rio, and Showboat. It currently has over 51 properties around the world with the majority of them in the United States and England.

The MGM Mirage is considered Harrah's major competitor. They have 23 wholly owned casino properties plus 3 other joint ventures. Included in the group of properties are the casinos once owned by Wynn and Circus Circus.

The composition of this group includes International Gaming Technology (IGT) (\$7.9 b), a company that does not own one single casino. Other companies include Great American Financial Corp. and Medical Institutional Services Corporation. Great American Financial Corp., formerly known as Interactive Gaming and Communications Corp., is a holding company that conducts business in the gaming industry through Intersphere Communications, Ltd. (PA), a software development, marketing and Internet communications company specializing in the Internet market. Medical Institutional Services Corp, formerly Go Call, Inc., together with its wholly owned subsidiaries, Go Cash, Ltd. and Go Call Canada, Inc.(\$290,000), is principally a provider of services to businesses engaged in electronic commerce on the Internet (e-commerce).

A analysis of corporations who have submitted Kansas proposals provide a sense of the diversity of the corporations and the problem with using any type of industry norms for comparative analysis.

Comparative Financial Information

	In 000's				
	Harrah's	Sands	Penn	Pinnacle	Butler Nat. Co.
Total Assets	23,357,700	11,466,517	4,967,032	2,193,544	20,444
Total Equity	6,626,900	2,260,274	1,120,962	1,052,359	10,648
Total Cltd + ltd	12,440,400	7,572,330	2,974,922	841,301	6,971
Market Capitalization 7-14		14,280,900	2,117,000	562,370	25,850
Sales	10,825,200	2,950,567	2,565,737	1,068,790	14,681
Net income before Taxes	892,500	138,279	292,240	(1,851)	717
Return on Income	8.24%	4.69%	11.39%	-0.17%	4.88%
Return on Assets	3.82%	1.21%	5.88%	-0.08%	3.51%
Return on Equity	13.47%	6.12%	26.07%	-0.18%	6.73%
Current Ratio	93.01%	92.35%	61.29%	132.77%	203.12%
Debt/Equity	187.73%	335.02%	265.39%	79.94%	65.47%

As shown from the above table, the proposals have come from Harrah's, the giant in the industry with total assets exceeding \$23 billion, compared to Butler national with only

\$20 million in assets. Comparison of other financial strengths shows complete disparity in all categories of corporations. A substantial amount of the growth in the industry has been financed by way of debt.³ The industry norm is sitting at 2.4 times. As can be seen, many of the current proposals come from companies that are highly leveraged. In the current economic environment, this could be a real deal breaker.

Needless to say, with all the mergers and takeovers, and developments within the industry, there are many highly leveraged corporations that are susceptible to the current downturn of the economy. Current headlines include the following.

- 1) NEW YORK, June 10 (AP) - Shares of Las Vegas Sands Corp. fell to its lowest point in two years Tuesday after two analysts raised concerns about the health of the casino operators' key markets, Las Vegas and Macau.
- 2) CHICAGO, June 16 (Market Watch) Airfare hikes, capacity cuts start to pinch Las Vegas. Soaring fuel prices are starting to hit home in Las Vegas as cash-strapped airlines hike fares and cut capacity at McCarran International Airport - Sin City's tourism lifeline - leading to pressure on room rates and lower spending levels by visitors.
- 3) NEW YORK, June 17 (Reuters) - Harrah's Entertainment Inc's debt may weaken from already distressed levels as heavy capital spending and interest payments absorb cash flows at a time when the casino operator is also facing declining gambling revenues.

3

Debt-Laden Casinos Squeezed by Slowdown By TAMARA AUDI and JEFFREY MCCRACKEN
July 1, 2008; Page A1: Wall Street Journal

Corporate Structure

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

Marvel Gaming LLC is a newly formed LLC that includes a combination of trusts and individuals, some with excellent gaming experience that is interested in developing one of the manager properties in Kansas. 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.

The investors obviously think highly of the management group given that their equity investment is less than one percent, but they will have a 13% ownership. The investors have agreed to provide an equity contribution of \$62,513,000. With total estimated project costs at \$397,669,576, the equity will be 16 percent. The debt /equity ratio would be 5, substantially over the industry norm of 2.4. Marvel gaming does have a letter from Deutsche Bank Securities signifying a high interest in putting together a financing arrangement.

Financial Strength

This is a newly formed business entity. There is no background or history. But, 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. Roger Wagner was the President and COO for Horseshoe and has more than 40 years of experience in the industry. His management team has a similar background.

The investors have agreed to contribute \$62,513,000. There is currently no formal documentation or agreement. The investors have provided net worth statements and tax returns for four years. The net worth statements are broken down into liquid assets and other assets. Liquid assets are those that are capable of being converted into cash in a relatively short period of time. This information is considered confidential so no specific numbers will be discussed. If additional information is needed, a spreadsheet can be developed with the relevant information. Otherwise, what can be basically said is that the group has the financial ability to support this project.

As an investment group, there are plenty of liquid assets to meet the current \$63 million commitment. There would be additional assets remaining to more than cover any cash shortages.

While not being able to evaluate the lifestyle of the investment group, their tax returns show substantial taxable income along with substantial exempt income.

Marvel Proposal for Sumner County

Per July 11, 2008 presentation

1. Cost of Project	\$407,400,000	
2. 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%

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.

Marvel is contributing equity contributions of \$142.6 million to the project which will provide a 35% investment in the project. The financing is from Deutsche Bank.

Concluding Points for Consideration

Positives

1. New entity with experienced gaming management from a competitive market of Las Vegas.
2. Willing to provide a 35% equity investment. This is a solid vote of confidence.

Negatives

1. The management team has a Las Vegas gaming experience but lacks the mid-west market experience.
2. No track record in the development of new properties.

