

***Kansas Lottery
Gaming Facility Review Board
Southeast Gaming Zone
July 16, 2008***



P R O B E
STRATEGIC SOLUTIONS

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Introduction

The Kansas Lottery Gaming Facility Review Board engaged the partners of Probe Strategic Services to conduct an assessment of the ancillary development and amenities associated with the management proposals for the Lottery Gaming Facilities (LGF) located in the four gaming zones.

To conduct this analysis, Probe examined the characteristics of the market. Based upon the market customer characteristics and the data produced in the gaming market assessments generated in Task 1, a list of possible amenities were developed. In the case of the Southeast Gaming Zone, the scenarios established in Phase 1 were built using a larger hypothetical facility than was eventually proposed. Hence, we will examine the proposals and market in light of the reality expressed in Task Four.

In the case of the Southeast Gaming Zone, since this property will not contain a hotel in the initial phase of development, Probe has elected to utilize drive times to delineate the market. We are utilizing 30, 60 and 90 minute radiuses as our market areas.

The proposals will be examined in the overall context of their ability to fulfill the goals set out in Senate Bill 66:

- Maximize revenues for the state of Kansas
- Promote tourism
- Serve the best interests of the state of Kansas

Summary

Competition is significant in this zone. A considerable volume of low quality convenience gaming is positioned in the Oklahoma market. The co-located Downstream property will enjoy a two year first mover advantage and is competitively positioned.

The first phase amenity package is appropriate for the market.

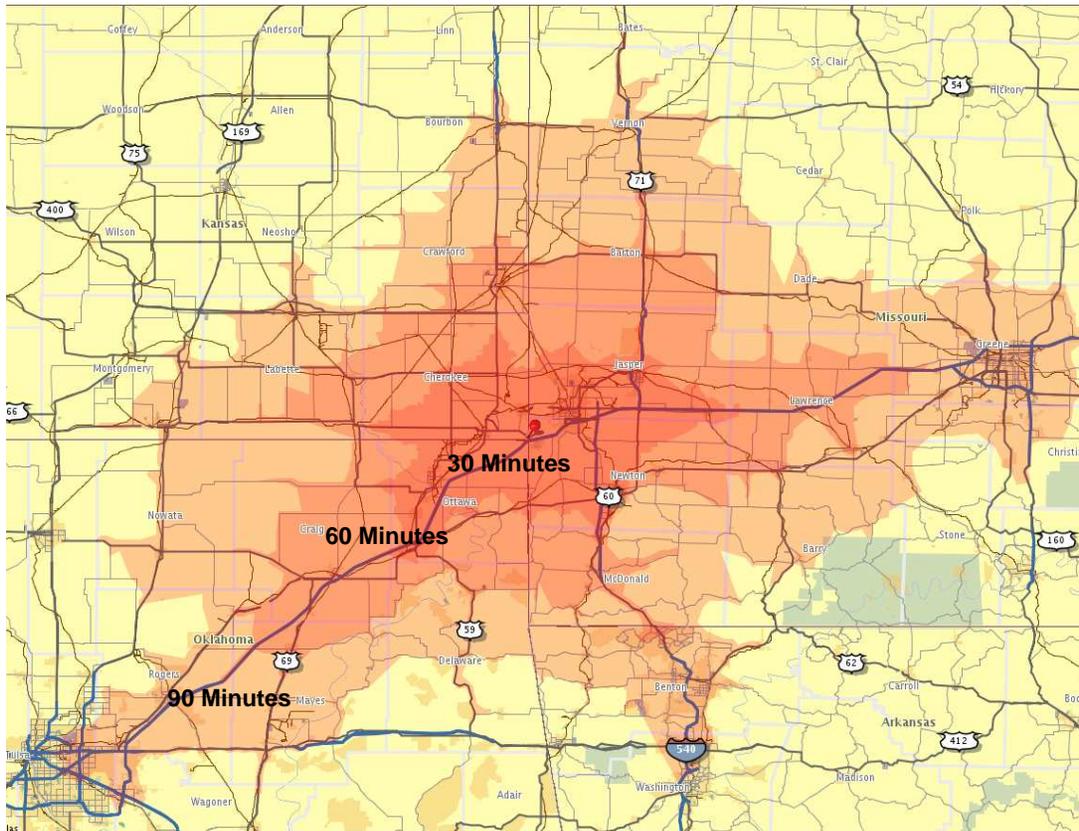
The revenue and expense estimates for the amenities are reasonable in relation to the gaming revenue.

However, ancillary revenue will be a function of gaming revenue as both are tied to visits to the property. Should gaming revenue achieve only the Wells and Cummings estimates, ancillary revenues will decline proportionately.

It is our professional opinion that the Downstream casino will be the dominant player in the market. In the First Phase of development, the Hollywood casino would operate as an overflow property. The amenities proposed would not create a stronger gravitational pull to grow the market significantly beyond a convenience gaming option.

Market Assessment

Location



The Proposed casino for the Southeast Gaming Zone is located in Cherokee County on US Highway 166/400 approximately one mile north of Interstate 44 (I-44).

The closest city is Joplin MO, within a 15 minute drive of the location. The major population centers in the 90 minute drive are Springfield MO, which lies completely within the 61-90 minute drive ring, and the northeastern area of Tulsa which lies approximately 90 minutes from the location. Bentonville AR also lies within the 61-90 minute drive ring.

We have examined the demographic data within drive time rings from the location, using 30 minute, 60 minute and 90 minute rings. The data contained herein are inclusive unless noted, meaning that the 60 minute ring includes those from the 30 minute ring, and the 90 minute ring includes those from the 60 minute and 30 minute rings.

This use of these drive time rings decreases the total population, mostly as a function of the removal of Tulsa from what would be the 100 mile drive ring.

Market Assessment

Demographic Composition - Population

Population by Age	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
Total Populatoin	197,637	337,617	1,253,516
Average Age	37.2	38.0	37.0
Adult Population Over 21	141,034	243,219	898,520
Population 45 Years and Older	78,660	138,423	492,632
Population 45 Years and Older (% of Adult)	56%	57%	55%

Within 30 minutes of the location, there are 141,034 adults, while there are 243,219 adults within 60 minutes. The majority of the population within a 90 minute drive is located within 61-90 minutes of a population of 655,301 adults, bringing the total adults within 90 minutes to 898,520.

Percent of Total Population by Race/Ethnicity	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
White Alone	88%	88%	86%
Black Alone	1%	1%	2%
American Indian Alone	4%	4%	4%
Asian or Pacific Islander Alone	1%	1%	2%
Some Other Race Alone	2%	0%	0%
Two or More Races	4%	4%	4%
Hispanic Origin	4%	4%	6%

Fifty-six percent of the adult population within 30 minutes is 45 years or older. Fifty-seven percent are over 45 in the 60 minutes drive time ring, and 55% are over 45 in the 90 minutes drive time ring.

Percent of Total Population by Educational Attainment	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
No High School Diploma	18%	18%	16%
High School Graduate	35%	37%	34%
Some College	29%	29%	30%
Received Bachelor's Degree	18%	17%	21%

The population is 88% White up to 60 minutes from the location, and is 86% White within 90 minutes. Four percent of the population is American Indian alone. There is a slight increase in the percentages of Black alone, (1% to 2%), Asian or Pacific Islander alone (1% to 2%) and Hispanic Origin (4% to 6%) in the entire 90 minute area compared to the 30 minute ring.

Educational attainment increases slightly as the distance from the location increases, with a total of 30% having some college and 21% with a college degree within the entire 90 minute drive time ring.

Market Assessment

Demographic Composition - Finances

Per Capita	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
Median Disposable Income	\$ 13,270	\$ 12,818	\$ 14,659
Indexed to US	0.79	0.77	0.88
Mean Disposable Income	\$ 16,804	\$ 16,265	\$ 18,593
Indexed to US	0.75	0.72	0.83
Median Net Worth	\$ 21,867	\$ 20,945	\$ 27,979
Indexed to US	0.54	0.51	0.69
Mean Net Worth	\$ 141,459	\$ 133,629	\$ 154,400
Indexed to US	0.72	0.68	0.79

The levels of Mean and Median Disposable Income within a 90 minute drive of the property are 88% and 83% of the US levels, respectively.

Within 60 minutes of the proposed facility, the Median Disposable Income is 77% of the US median, while the Mean level is 72% of the US level. Within 30 minutes, both the Median and Mean levels increase slightly to 79% and 75%, respectively.

Likewise, the Median Net Worth (total wealth less secured and unsecured debt) for the overall 90 minute drive radius is \$27,979, or 69% of the US median; it is greater than the \$20,945 (51% US median) within 60 Minutes or \$21,867 (54% US median) within 30 Minutes.

The Mean Net worth is closer to the US level when compared to the Median Net Worth, most likely due to land wealth creating a long tailed distribution.

Market Assessment

Entertainment and Leisure Activities

Propensity to participate in various Activities	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
Gambled at casino in last 12 months	79	77	86
Gambled at casino 6+ times in last 12 months	86	90	94
Played bingo in last 12 months	123	118	111
Played lottery: <2 times in last 30 days	82	82	89
Played lottery: 2-5 times in last 30 days	104	103	103
Played lottery: 6+ times in last 30 days	105	101	99
Bought lottery ticket in last 12 mo: Daily Drawing	94	88	87
Bought lottery ticket in last 12 mo: Instant Game	112	108	106
Bought lottery ticket in last 12 mo: Lotto Drawing	91	91	94
Bought lottery ticket in last 12 months	97	96	97

Based on the Demographics of the customers, they are less likely to participate in casino gaming than the overall US population. However, level of frequent gamblers (6+ times a year) approaches the national average for the 90 minute radius. This is a function of income, as those who live further from the proposed property have greater levels of income and wealth.

Individuals in this area are more likely to play bingo and play the lottery frequently when compared to the US average. With regards to the lottery, customers in the market area are more likely to purchase instant games when compared to the propensity to purchase Lotto or Daily games.

Note that for the demographics that live in this area the propensity to play the lottery is higher than to go casino gambling. This is a function of income as lottery play can be a budget entertainment expense vs. a trip to a casino.

The following slides detail the resident population’s Market Potential Index (MPI). This measures the relative likelihood of the adults in the specified trade area to exhibit certain consumer behavior or purchasing patterns compared to the U.S. average. An MPI of 100 represents the U.S. average.

These data are based upon national propensities to use various products and services, applied to local demographic composition. Thus, consumer behaviors in an area are inferred from the known behavior of persons with similar characteristics obtained from a representative national survey.

Usage data were collected by Mediamark Research Inc. in a nationally representative survey of U.S. households.

Market Assessment

Entertainment and Leisure Activities

Propensity to participate in various Acti	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
Went to bar/night club in last 12 months	92	88	97
Dined out in last 12 months	90	90	95
Dine out < once a month	110	101	104
Dine out 2+ times per week	94	96	99
Dine out 2-3 times a month	92	94	97
Dine out once a month	84	84	90
Dine out once a week	84	84	91

Based Upon Propensity of US Population with Demographics similar to Market Area

Overall, customers in the area are less likely to eat out or visit a bar when compared to the national benchmark.

Among those who do eat out, they are more likely to do so less frequently when compared to the national average.

The propensity to dine outside the home or visit a bar or nightclub increases as distance from the proposed property increases. This is a function of urban nature of the Springfield and Tulsa suburbs included in the outer portion of the drive time zone.

Market Assessment

Entertainment and Leisure Activities

Propensity to participate in various Activities	2008 Demographic Data		
	Population Within		
	30 Minutes	60 Minutes	90 Minutes
Attend sports event: auto racing (NASCAR)	109	112	110
Attend sports event: auto racing (not NASCAR)	114	114	109
Attend sports event: basketball game (college)	94	95	101
Attend sports event: football game (college)	85	86	99
Attend sports event: golf tournament	86	81	90
Attended auto show in last 12 months	101	95	100
Attended music performance in last 12 months	87	86	94
Attended country music performance in last 12 mo	122	124	121
Attended rock music performance in last 12 months	75	71	86
Attended movies in last 6 months	87	86	94
Participated in horseback riding	118	124	115
Participated in hunting with rifle	140	152	130
Participated in hunting with shotgun	136	146	127
Participated in motorcycling	115	117	111
Participated in target shooting	117	125	114
Participated in auto racing	126	126	119
Participated in fishing (fresh water)	130	136	123
Participated in golf	79	81	91
Play golf < once a month	71	74	85
Play golf 1+ times a month	90	91	97

Based Upon Propensity of US Population with Demographics similar to Market Area

The customers in the area participate in a variety of leisure activities at or above the national average. Outdoor activities such as hunting, target shooting, horseback riding and fishing are among those activities these customers enjoy.

Customers in the area are likely to attend racing events and attend auto shows.

They are also likely to attend college football and basketball games, with the propensity to attend increasing as distance increases

They attend music performances at slightly below the national level, but are much more likely to attend country music shows.

While those in the closer drive time radius are less likely to play golf than those in the US overall, those in the outer ring are as or more likely to play golf often, driving the frequent golf level for the 90 minute ring to close to the US level.

Market Assessment

Competitive Overview

The property in the Southeast Gaming Zone will be operating in a highly competitive environment given the volume of 50 Native American Gaming facilities in Oklahoma within a 150 mile radius. These casinos average 493 slots with a median number of slot machines of 358.

While the majority of these casinos are small with limited amenities, (one or perhaps two average restaurants) the significant competition will come from the Downstream Casino, located on the land adjacent to the property.

The Downstream casino was designed for 2000 slot machines, with 30 tables games and 15 poker tables. It will have 222 hotel rooms, a spa, and 10,000 sq ft of convention space. While not adjacent to the property the tribe owns the Eagle Creek Golf Club across I44.

The Downstream property also operates four restaurants: a steakhouse, a buffet, a café/grille and a food court, with a fifth restaurant slated, as well as a center bar.

The Downstream property is significantly better than the vast majority of casinos within the Oklahoma Market, and also has the dual advantages of being the first mover in the market, and first off the exit.

In addition, the Cherokee Casino Tulsa is preparing a \$125 Million expansion to add hotel rooms and spa, as well as additional restaurants, including a Toby Keith branded establishment.

Consequently, the SEGZ property will compete with the northeast Oklahoma tribal casinos for the convenience gaming, but will also compete in Joplin and Springfield MO, as well as along the I44 corridor for the drive-by traffic with Downstream.

In addition, the property will compete regionally with the Northeast and South Central Gaming Zone properties likely to have a full compliment of amenities. To a lesser extent, it will compete regionally with the four Kansas City, MO casinos.

Despite the inferiority of the majority of the Oklahoma properties, the addition of Downstream creates a highly competitive environment in which to operate.

Product Assessment

Potential Products

Probe has been asked to examine the potential amenities assuming a Phase 1 only. Operating under this instruction, we make the following assumptions:

Casino Size: 900 slot machines with 30 table games.

The Task 4 estimates of visitation for this facility as described are as follows:

Task 4 Estimates

Measure	Wells	Cummings	Mean
Visitors	76,319	506,234	669,402
Revenues	\$48M	\$26.3M	\$43.8M

Probe believes that in the first Phase of the casino, with no hotel or added amenities, that the correct course of action is to create higher quality food outlets in comparison to the Downstream property, while pricing competitively.

Potential Products

F&B:

Buffet: Value priced, with a variety of offerings in greater quantity and quality than the competitive set.

Café: American cuisine targeted at the country lifestyle of the surrounding area. Some upscale items to appeal to travel market and to give customers at Downstream an incentive to visit.

Food Court/Quick Serve: Appeal to the budget/convenience gambler looking for an inexpensive and fast alternative.

Two Casino bars: One could be co-located in a restaurant, the other on the casino floor, preferably in the middle

Retail:

Sundry and Gift Shop: Convenience items and logo gift items.

Additional Features:

RV, Truck, and Bus Parking – Traffic intercept of I44

Proposal Assessment

Kansas Penn Gaming

Product Assessment – Hollywood Casino – F&B

Epic Buffet (225 Seats, 5,625 Sq Ft, Cost per person: \$15): Buffets are a standard product for entry in a casino environment. The Epic Buffet would work within the master brand and could be marketed as a leading buffet in the area. The cost is comparable to the average cost at Downstream. Given the product offered in the first week at the Downstream Casino, winning the battle of the buffet between the co-located products should be achievable given Penn National's extensive experience with the Hollywood brand.

Sport Bar/ Entertainment Lounge (75 Seats, 1,813 Sq Ft, Cost per person: \$16): Given the size of the casino, a second, multi-purpose outlet is an appropriate product offering. The ability to act as a bar, serve bar food as a sit down meal, and provide space for live entertainment allows the property to market and integrate this product as necessary. Given the strong College Sports focus of the region, especially the outer drive markets of Tulsa and Springfield, the Sports Bar would appeal to the proposed market.

Coffee/Pastry Shop (30 Seats, 750 Sq Ft, Cost per person: \$9): A required element is to have some form of "grab and go" food.

Proposal Assessment

Kansas Penn Gaming

Product Assessment – Hollywood Casino – Other

Retail and Hollywood Memorabilia Museum (550 SqFt): Minimal retail as needed. Memorabilia Museum obviously works within the master brand. Its size may limit the amount of draw it will have upon the customer base.

Truck, RV, and Bus parking (40 Spaces): With the available land, large vehicle parking can be provided. The property can be marketed along I44 as the unique, Hollywood, exciting, full casino experience.

RV draw will be mainly casino visits as no hook-up provisions are available in this phase. There are RV parks in nearby area campsites, and several RV campgrounds including a KOA facility on HWY43.

Proposal Assessment

Kansas Penn Gaming

Product Assessment – Hollywood Casino – F&B - Financials

F&B Revenue as percent of Casino Sales:	6%
Food Percent of F&B:	80%
Beverage percent of F&B	20%
Food comps as percent of sales:	50%
Beverage comps as percent of sales:	50%
F&B Loss as percent of revenue (Mean):	(18%)

Ratios are within acceptable limits for a casino of this size and compliment of amenities.

Note: as would be expected, food drives the greater loss, and beverage becomes profitable in year four. However, food would continue to mount losses.

F&B Consolidated Pro-Forma						
	2010	2011	2012	2013	2014	2015
Revenue	2,152	3,444	4,376	5,425	5,696	5,981
Cost of Sales	(776)	(1,422)	(1,888)	(2,413)	(2,548)	(2,691)
Gross Margin	1,376	2,022	2,488	3,013	3,148	3,291
Expenses	(1,822)	(2,946)	(3,486)	(3,889)	(3,889)	(3,889)
Income	(446)	(924)	(998)	(876)	(741)	(598)

F&B Consolidated Pro-Forma as Percent of F&B Revenue						
	2010	2011	2012	2013	2014	2015
Revenue	Percent of F&B Revenue					
Cost of Sales	-36%	-41%	-43%	-44%	-45%	-45%
Gross Margin	64%	59%	57%	56%	55%	55%
Expenses	-85%	-86%	-80%	-72%	-68%	-65%
Income	-21%	-27%	-23%	-16%	-13%	-10%

Proposal Assessment

Kansas Penn Gaming

Product Assessment – Hollywood Casino – Retail - Financials

Retail Revenue as percent of Casino Sales: 0.5%

Retail comps as percent of sales: 50%

Retail Income as percent of Sales (Mean): 16%

Ratios are within acceptable limits for a casino of this size and with the proposed amenities.

	Retail Consolidated Pro-Forma					
Retail	2010	2011	2012	2013	2014	2015
Revenue	359	574	729	904	949	997
Cost of Sales	(179)	(287)	(365)	(452)	(475)	(498)
Gross Margin	179	287	365	452	475	498
Expenses	(196)	(238)	(238)	(239)	(239)	(239)
Income	(17)	49	127	213	236	260

As expected, Food drives the greater loss, and beverage becomes profitable in year four. (However, food would continue to mount losses.)

Note: expenses as a percent of sales decreased due to an increase in projected visitor volume without a corresponding increase in projected staffing levels.

Retail Consolidated Pro-Forma as Percent of Retail Revenue

Retail	2010	2011	2012	2013	2014	2015
Revenue	Percent of Retail Revenue					
Cost of Sales	-50%	-50%	-50%	-50%	-50%	-50%
Gross Margin	50%	50%	50%	50%	50%	50%
Expenses	-55%	-41%	-33%	-26%	-25%	-24%
Income	-5%	9%	17%	24%	25%	26%

Proposal Assessment Kansas Penn Gaming

Our professional opinion is that Kansas Penn Gaming will operate an overflow facility. We base this opinion on the Cummings and Wells reports on estimates of gaming revenue and visitation; the facilities that are recommended in first phase of the Kansas Penn Gaming proposal; the strong volume of convenience gaming supply in the area (although inferior); and most importantly, the strong competition from the adjacent property operating under different jurisdictional regulations.

We believe that a significant percentage of people will visit both co-located properties for the entertainment variety that they would offer. However, from an amenity standpoint, Kansas Penn National would be number two in the market with regards to variety and quantity of amenities. Kansas Penn National has the opportunity to compete on quality, but given the estimated gaming revenue, the resources to do so may be limited.

It is our opinion that this facility would not significantly grow the market through their amenities, especially with regards to out market tourism, and would share the market that currently exists.