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No Gambling Necessary When Investing In Lakes Entertainment

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Jamul Tribes Debt

In 1999, Lakes entered into an agreement with the Jamul Tribe ("Jamul Tribe") to develop and manage the Jamul Casino Project. This agreement was terminated in March 2012, and at that time management estimated fair value of the Jamul notes receivable from the Jamul Tribe to be zero (having an initial carrying value of \$57.5 million).

In April 2013, Penn National Gaming (PENN) entered into an agreement with the Jamul Tribe to jointly develop a casino on the lands held by Jamul Tribe near San Diego, California. In connection with that agreement, Lakes and the Jamul Tribe entered into a subordinated intercreditor agreement, whereby Lakes and Jamul Tribe reinstated the \$60 million owed to Lakes but which is subordinate to PENN's claims. For conservatism, I will ascribe an expected value of 10% to the Jamul Tribe notes, or \$6 million. Given the recent catalyst from repayment of the Miwok Tribe's outstanding debt and the fact that Jamul has a qualified strategic partner in its development, I think that could increase the chances of a higher repayment.

As part of the Jamul agreement, Lakes also entered into a ten-year option agreement with PENN that grants PENN the right to purchase approximately 98 acres of land which Lakes owns adjacent to the Jamul Tribe's trust land ("Option Agreement"). The purchase price for the land is \$7 million and increases annually by 1%, and Penn pays Lakes a nominal fee each year as part of the Option Agreement (less than \$0.1 million).

I will ascribe a value of \$7 million to the land.