



August 02, 2004

Gaming

Sector Weighting:

Market Weight

New Math In California

A More In-Depth Look At Slot Expansion In The Golden State

- Slot expansion at Native American casinos in California is all but certain to occur, in our view. What remains uncertain is under what guidelines: new compacts with the state, Prop 68 (gaming at racetracks), Prop 70 (unlimited slots for Tribes), or as an electronic version of an instant lottery ticket.
- Obviously, each of the first three alternatives mentioned above needs to go through either the political process or additional negotiations. The Tribal Instant Lottery Game (TILG), however, requires no change and is in fact operating in two tribal casinos today.
- Herein, we offer an analysis that suggests a TILG alternative in certain scenarios could be economically equivalent for California Native American casinos as either new Class III gaming compacts or the passage of Proposition 70. The major difference lies in what the state derives.
- While the process in California remains fluid and legal challenges could ensue after election day, we believe that we will have a significantly clearer picture of what form the growth in the California slot market will take and which companies will benefit.

All figures in US dollars, unless otherwise stated.

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Overview

How will gaming expansion proceed in California?

In our view, slot expansion at Native American casinos in California is all but certain to occur in one form or another in the near term. Although five tribes signed new gaming compacts with the state on June 21, it is not certain what legal form expansion will ultimately take with the tribes. There are several potential outcomes. While other tribes could sign similar compacts to those that were signed last month, there are two independent gaming referenda on the state's November 4 ballot that could affect the compacting process. In addition, the present compacts that were signed in 1999 permit tribes to operate lottery games, which we believe offers a viable alternative to Class III slot machines.

Brief Background

Proposition 1A started it all

By way of a brief background, Proposition 1A, which was passed by California voters in March of 2000, essentially authorized Las Vegas style casinos on tribal lands. Coinciding with this constitutional amendment was the signing of gaming compacts between 61 Native American tribes and the state of California in September 1999, which among other items, limited the number of slot machines per casino to a maximum of 2,000. According to our estimates, there are currently 53 tribes operating 54 casinos in the state, with approximately 55,300 slot machines. (Please see Exhibit 1.)

More recently, Gov. Schwarzenegger vowed to renegotiate the existing gaming compacts as part of a campaign pledge to get the tribes to pay their "fair share" of taxes to shore up the state's budget. Among other items, Native American casinos would be given unlimited slot capacity in exchange for a graduated schedule of tax rates based on the number of incremental slots as well as payments to support a bond issue.

New gaming compacts signed June 21

Five tribes signed new gaming compacts on June 21. They include: the (1) Pala Band of Mission Indians, (2) the Pauma Band of Luiseno Mission Indians, (3) the Rumsey Band of Wintun Indians, (4) United Auburn Indian Community, and (5) the Viejas Band of Kumeyaay Indians. The new compacts would permit slot machine supply beyond the present 2,000 machine limit while providing for payments to the state in the form of a bond guarantee and a per unit fee for each additional slot machine. The bond guarantee is in the amount of \$1 billion split among each tribe over 18 years, with a cumulative annual payment of \$100 million. Each tribe would commit a different amount per their separately negotiated compact. (Please see Exhibit 2.)

In response to the governor's initiative to renegotiate gaming compacts in California, two gaming referenda have received approval and will be on the November ballot this fall.

Proposition 68

If approved by the voters, Proposition 68 would allow eleven card clubs and five racetracks to install up to 3,000 slot machines each, or a total of 30,000 units, unless all of California's casino-owning Native American tribes agree to pay 25% of their gaming revenue to the state. In the event one single tribe does not comply with this measure, the eleven card clubs and five horse tracks would then be legally able to install slot machines at their facilities in return for a 33% tax on gaming revenue. The major backers of this proposition are Ocean's Eleven Casino and Churchill Downs, which owns Hollywood Park in California.

Proposition 70

Proposition 70, if approved by the voters, would allow unfettered tribal gaming expansion and, in return, apply the state's 8.84% corporate tax rate to gaming revenue. In addition, limits on the kinds of games tribes can operate as well as

limits on the number of casinos and slot machines on tribal land would be removed. This proposal also would extend the current 20-year gaming compacts to 99 years. This initiative is primarily backed by the Agua Caliente Band of Cahuilla Indians. In addition, the San Manuel Band of Mission Indians pledged \$10 million on July 23 to help support the campaign of Proposition 70. The California Nations Indian Gaming Association, a tribal casino trade group, has also endorsed the measure.

Gov. Schwarzenegger is opposed to both referenda and has publicly stated that he will campaign against them. Early polls indicate that Californians are split on the two ballot initiatives. What is certain in the polling, however, is that Californians are not necessarily opposed to gaming expansion so long as Native American casinos pay their "fair share" in taxes.

The Lottery Alternative

Tribal Instant Lottery Game

In our opinion, this alternative has not received an appropriate level of attention. At present, the Tribal Instant Lottery Game, or TILG, is operating at the Pechanga and Morongo facilities in Southern California. Based on our analysis, a TILG could be a viable alternative that is potentially as profitable for California Native American casinos as new Class III gaming compacts or the passage of Proposition 70.

The Tribal Instant Lottery Game was first installed in December 2003 by Multimedia Games in partnership with the Pechanga Band of Luiseno Mission Indians, which run the Pechanga Resort and Casino, and the Morongo Band of Mission Indians, which run Casino Morongo in California. TILG is a one-touch game based on a simulated scratch-off lottery ticket that employs a central determinant system but offers a Class III-like experience. The 1999 California compacts provide that tribes may operate games which are legal for the California State Lottery to operate. The TILG game falls under this provision.

The Pechanga and Morongo tribes, as well as the Sycuan Band and Agua Caliente Band, had for a time engaged Gov. Schwarzenegger in negotiations for new gaming compacts separate from the five tribes who signed on June 21. Collectively, these four tribes offered monetary payments to the state that were similar to those made by the five tribes that signed new gaming compacts. However, these four tribes sought to avoid concessions on the so-called soft issues, i.e., labor union organization, greater authority given to local governments, and third-party binding arbitration, among other such items. As of this writing, these negotiations appear to have stalled. In fact, the Agua Caliente Band continues to be the major sponsor of Proposition 70.

TILG could be economically equivalent to Class III games in certain scenarios

Based on our analysis, we believe that a Tribal Instant Lottery Game could be economically equivalent to Class III games in certain scenarios. Please see Exhibit 3. We have assumed a 15% revenue sharing arrangement with the equipment supplier on the TILG games and a 10% discount to various win per unit per day figures. We discount the win per unit per day on TILG games given that they are centrally determined and could play at a slower speed than class III games and thus have different demand dynamics, although this may not be the case. Nevertheless, the results are compelling. For example, with an additional 1,500 machines and assuming win per day of \$325, net revenues under the new gaming compact scenario would be \$132.8 million for the casino, while under a successful Proposition 70 scenario, net revenues would total \$141.2 million. However, an equivalent TILG scenario generates net revenues of approximately \$136.1 million, or roughly equal to the other two scenarios. This development holds across different win per unit per day amounts and number of incremental slots added.

Key Takeaways

TILG economically equivalent for the Tribes – not so for the State

Based on our analysis, certain California tribal casinos could install Tribal Instant Lottery Games and be economically equivalent to a scenario where a new gaming compact is signed or Proposition 70 is successfully passed. In fact, we believe that the tribes could add TILG games in addition to signing a new compact. Ultimately, we believe that the lottery opportunity provides significant leverage for the tribes in negotiating with the state. Also, it is important to realize that the TIGL game would not provide any tax revenue to the state. On the other hand, the other alternatives would provide significant tax revenue. For example, if Proposition 68 passed, the state would generate a five-year total tax receipt of approximately \$9.0 billion. Likewise, if Proposition 70 passed, the state would receive about \$5.6 billion in tax revenue over five years. The amount under a scenario where additional gaming compacts are signed would also be substantial, but due to the one-time bond offering, which we assume would increase to \$2.5 billion, the longer-term contribution to the state falls short of the other two scenarios. (Please see Exhibit 4.) Clearly a TILG alternative is something the Governor would want to avoid, but in fact can't, because they are currently legal under the current compacts.

Supplier perspective – a no-lose scenario

From a supplier perspective, we believe that this is a significant opportunity, particularly for Multimedia Games. MGAM originally developed the TILG game and has a first-mover advantage as the present market leader in centrally determined games. Potential opportunities should also exist for Alliance Gaming, which has a growing presence in the Class II segment through its SDG subsidiary, and for International Game Technology, which has been actively pursuing centrally determined game opportunities. WMS would also have the opportunity to participate in this market through license agreements for game content, as would IGT, AGI and MGAM. Finally, GTECH Holdings is an established lottery game and system provider with the California State Lottery, and coupled with its acquisition of slot maker Spielo gaming, could become a participant in this market. We estimate that TILG and similar products could evolve into a \$275 million annual revenue opportunity (20,000 units, \$250/unit/day, 15% participation rate) for the suppliers.

If the tribes chose to go either the new compact route or if either Proposition is passed, the equipment suppliers would also benefit through the sale of units into the market. Although we believe the revenue share model is superior, the opportunity for suppliers remains substantial.

California process remains fluid

Ultimately, the process in California remains fluid, especially with respect to each proposition. In fact, if either Proposition 68 or 70 passes, we would surely expect some legal challenges to unfold. Further, we believe the recent gaming compacts would become void if Prop. 68 passed, creating new competition. Within the regulatory uncertainties and complexities in California law, we believe lottery games provide a suitable, available alternative, and perhaps most important, one that can be executed today. Overall, we believe that California should become a lucrative growth market longer term for both the tribes and suppliers of stand-alone and centrally determined games.

Exhibit 1. California Native American Casinos

#	Native American Casinos	Native American Tribe	Slots
1	Agua Caliente Casino	Agua Caliente Band of Cahuilla Indians	1,140
2	Alturas Casino	Alturas Rancheria	90
3	Augustine Casino	Augustine Band of Mission Indians	700
4	Barona Valley Ranch Resort & Casino	Barona Band of Mission Indians	2,000
5	Black Bart Casino	Sherwood Valley Rancheria Band of Pomo Indians	248
6	Black Oak Casino	Tuolumne Me-Wuk Tribe	1,540
7	Blue Lake Casino	Blue Lake Rancheria	500
8	Cache Creek Indian Bingo & Casino	Rumsey Band of Wintun Indians	2,000
9	Cahuilla Creek Casino	Cahuilla Band of Mission Indians	220
10	Casino Morongo	Morongo Band of Mission Indians	2,000
11	Casino Pauma	Pauma Band of Mission Indians	850
12	Cher-Ae-Heights Casino	Cher-Ae-Heights Indian Community of Trinidad	330
13	Chicken Ranch Bingo & Casino	Chicken Ranch Rancheria Band of Me-Wuk Indians	254
14	Chukchansi Gold Resort & Casino	Picayune Rancheria of the Chukchansi Indians	1,800
15	Chumash Casino Resort	Santa Ynez Band of Chumash Indians	2,000
16	Colusa Indian Casino & Bingo	Colusa Indian Community	777
17	Diamond Mountain Casino	Susanville Indian Rancheria	150
18	Eagle Mountain Casino	Tule River Band of Yokuts Indians	750
19	Elk Valley Casino	Elk Valley Rancheria	275
20	Fantasy Springs Casino	Cabazon Band of Mission Indians	1,656
21	Feather Falls Casino	Mooretown Rancheria	1,000
22	Gold Country Casino	Tyme Maidu Tribe-Berry Creek Reservation	900
23	Golden Acorn Casino	Campo Band of Kumeyaay Indians	750
24	Harrah's Rincon Casino and Resort (HET)	Rincon Band of San Luiseno Indians	1,605
25	Havasu Landing Resort & Casino	Chemehuevi Tribe	220
26	Hopland Sho-Ka-Wah Casino	Hopland Band of Pomo Indians	1,200
27	Jackson Rancheria Casino Hotel	Jackson Band of Mi-Wuk Indians	1,500
28	Konocti Vista Casino at the Lake	Big Valley Rancheria	650
29	La Jolla Trading Post/Casino	La Jolla Band of Mission Indians	30
30	Lucky Bear Casino & Bingo	Hoopa Valley Tribe	85
31	Lucky 7 Casino	Smith River Rancheria	300
32	Mono Wind Casino	Auberry Big Sandy Rancheria	329
33	Paiute Palace Casino	Bishop Paiute Tribe	300
34	Pala Casino Resort & Spa	Pala Band of Mission Indians	2,000
35	Palace Indian Gaming Center	Santa Rosa Rancheria Tachi Yokut Tribe	2,000
36	Pechanga Resort and Casino	Pechanga Band of Luiseno Mission Indians	2,000
37	Pit River Casino	Pit River Tribe	100
38	Quechan Paradise Bingo and Casino	Quechen Indian Tribe Fort Yuma	260
39	Red Fox Casino	Cahto Tribe of the Laytonville Rancheria	96
40	River Rock Casino (UWN)	Dry Creek Rancheria Band of Pomo Indians	1,600
41	Robinson Rancheria Bingo & Casino	Robinson Band of Pomo Indians	680
42	Rolling Hills Casino	Paskenta Band of Nomlaki Indians	650
43	San Manuel Indian Bingo & Casino	San Manuel Band of Mission Indians	2,000
44	Shodakai Coyote Valley Casino	Coyote Valley Band of Pomo Indians	500
45	Soboba Casino	Soboba Band of Mission Indians	2,000
46	Spa Hotel & Casino	Agua Caliente Band of Cahuilla Indians	1,000
47	Sycuan Casino	Sycuan Band of the Kumeyaay Nation	2,000
48	Table Mountain Casino & Bingo	Table Mountain Rancheria	2,000
49	Thunder Valley Station (STN)	United Auburn Indian Community	1,906
50	Trump 29 Casino (DJT)	Twenty-Nine Palms Band of Mission Indians	2,000
51	Twin Pine Casino	Middletown Rancheria Band of Pomo Indians	450
52	Valley View Casino	San Pasqual Band of Mission Indians	1,150
53	Viejas Casino	Viejas Band of Kumeyaay Indians	2,000
54	Win-River Casino Bingo	Redding Rancheria	751
Total Slots			55,292

Source: 2004 Indian Casino Directory and CIBC World Markets Corp. estimates.

Exhibit 2. Graduated Scale / Bond Payments Per Tribe

Pala Band of Mission Indians	
Slot Count	Fee / Slot
2,001 - 2,500	\$12,000
2,501 - 3,000	13,200
3,001 - 3,500	17,000
3,501 - 4,000	20,000
4,001 - 4,500	22,500
4,501+	25,000
Annual bond payments: \$18.86 million.	

United Auburn Indian Community	
Slot Count	Fee / Slot
1,907 - 2,000	\$11,000
2,001 - 2,500	12,000
2,501 - 3,000	13,200
3,001 - 3,500	17,000
3,501 - 4,000	20,000
4,001 - 4,500	22,500
4,501+	25,000
Annual bond payments: \$33.8 million.	

Pauma Band of Luiseno Mission Indians	
Slot Count	Fee / Slot
1,051 - 1,500	\$8,500
1,500 - 2,000	11,000
2,001 - 2,500	12,000
2,501 - 3,000	13,200
3,001 - 3,500	17,000
3,501 - 4,000	20,000
4,001 - 4,500	22,500
4,501+	25,000
Annual bond payments: \$5.75 million.	

Viejas Band of Kumeyaay Indians	
Slot Count	Fee / Slot
2,001 - 2,500	\$12,000
2,501 - 3,000	13,200
3,001 - 3,500	17,000
3,501 - 4,000	20,000
4,001 - 4,500	22,500
4,501+	25,000
Annual bond payments: \$17.4 million.	

Rumsey Band of Wintun Indians	
Slot Count	Fee / Slot
1,763 - 2,000	\$11,000
2,001 - 2,500	12,000
2,501 - 3,000	13,200
3,001 - 3,500	17,000
3,501 - 4,000	20,000
4,001 - 4,500	22,500
4,501+	25,000
Annual bond payments: \$25.0 million.	

Source: June 21 California Native American Gaming Compacts and CIBC World Markets Corp. estimates.

Exhibit 3. TILG Revenue Comparison

Net After-Tax Incremental Revenue Under New Gaming Compacts (\$ in millions)							
	Slots	500	1,000	1,500	2,000	2,500	3,000
W/U/D	\$225	\$23.1	\$57.5	\$90.1	\$121.2	\$151.0	\$179.5
	\$250	24.6	63.7	100.8	136.4	170.8	203.9
	\$275	26.2	69.8	111.5	151.7	190.6	228.3
	\$300	27.8	75.9	122.2	166.9	210.4	252.7
	\$325	29.3	82.0	132.8	182.2	230.2	277.0
Net After-Tax Incremental Revenue Under Prop 70 (\$ in millions)							
	Slots	500	1,000	1,500	2,000	2,500	3,000
W/U/D	\$225	\$22.9	\$60.3	\$97.8	\$135.2	\$172.6	\$210.1
	\$250	25.5	67.1	108.6	150.2	191.8	233.4
	\$275	28.0	73.8	119.5	165.3	211.0	256.8
	\$300	30.6	80.5	130.4	180.3	230.2	280.1
	\$325	33.1	87.2	141.2	195.3	249.4	303.4
Net Incremental Revenue From TILG (\$ in millions)							
	Slots	500	1,000	1,500	2,000	2,500	3,000
W/U/D	\$203	\$31.4	\$62.8	\$94.2	\$125.7	\$157.1	\$188.5
	\$225	34.9	69.8	104.7	139.6	174.5	209.4
	\$248	38.4	76.8	115.2	153.6	192.0	230.4
	\$270	41.9	83.8	125.7	167.5	209.4	251.3
	\$293	45.4	90.7	136.1	181.5	226.9	272.2

Source: CIBC World Markets Corp. estimates.

Exhibit 4. California 5-Year Tax Revenue Totals

Scenario	Slot Machines			R/S/D	Gross Slot Revenue	Table Revenue	Total Revenue	Tax Rate	Recurring Tax		Annual Total	5-Year Total
	Current	Additional	Total						Revenue	Other		
Proposition 68	-	30,000	30,000	\$500	\$5,475.0	-	\$5,475.0	33.0%	\$1,806.8	-	\$1,806.8	\$9,033.8
Proposition 70	53,000	36,000	89,000	325	10,557.6	2,111.5	12,669.2	8.9%	1,125.5	-	1,125.5	5,627.6
New Compacts	53,000	36,000	89,000	325	10,557.6	-	\$10,557.6	-	\$658.2	\$2,500.0	\$3,158.2	\$5,791.0

Source: CIBC World Markets Corp. estimates.

“New Compacts” annual revenue assumes additional bond support of \$1.5 billion in addition to the \$1 billion supported by the 5 original tribes.

Exhibit 5. EBITDA Comparative Valuation Table



Rtg	Company	Tkr	FYE	Price as of 7/26/04	Shares	Market Cap (\$ in MM)	Calendar EBITDA			% Chg.			EV/EBITDA Multiple			3-Yr EBITDA CAGR (A)
							2003	2004E	2005E	'02-'03	'03-'04	'04-'05	2003	2004E	2005E	
Large-Cap																
NR	Caesars Entertainment	CZR	Dec.	14.77	310.0	4,578.7	1,041.0	1,153.0	1,229.0	(6.0%)	10.8%	6.6%	8.5X	7.4X	6.7X	3.5%
SP	Harrah's Entertainment	HET	Dec.	46.56	113.1	5,265.9	1,081.7	1,245.1	1,337.4	(3.8%)	15.1%	7.4%	8.3X	7.9X	7.3X	6.0%
NR	Mandalay Resort Group	MBG	Jan.	67.61	68.0	4,597.5	653.9	869.1	866.9	4.8%	32.9%	(0.3%)	10.9X	8.3X	8.3X	11.6%
SP	MGM Mirage	MGG	Dec.	44.10	147.1	6,487.1	1,146.3	1,399.6	1,485.7	(3.2%)	22.1%	6.2%	10.7X	8.2X	7.6X	7.8%
SP	Station Casinos ⁽¹⁾	STN	Dec.	42.12	68.0	2,864.2	255.2	289.8	313.1	6.1%	13.6%	8.0%	15.3X	14.4X	12.6X	9.2%
Large-cap average						4,758.7				(1.2%)	19.4%	5.5%	10.3X	8.8X	8.1X	7.5%
Small-Cap																
SU	Argosy Gaming	AGY	Dec.	33.51	29.7	995.2	243.1	252.1	260.8	(11.5%)	3.7%	3.5%	7.1X	7.1X	6.6X	-1.7%
SP	Ameristar Casinos	ASCA	Dec.	30.68	27.6	846.8	206.4	232.8	242.5	17.7%	12.8%	4.2%	7.4X	6.4X	5.7X	11.4%
SO	Aztar Corp.	AZR	Dec.	24.36	35.5	864.8	175.9	184.9	228.6	(5.9%)	5.1%	23.6%	7.7X	7.1X	6.3X	6.9%
SO	Boyd Gaming	BYD	Dec.	24.76	85.8	2,124.4	270.3	438.6	562.0	(1.8%)	62.3%	28.1%	11.1X	9.7X	7.7X	26.9%
SU	Churchill Downs	CHDN	Dec.	36.51	13.7	500.2	65.7	59.9	71.9	(3.5%)	(8.8%)	20.0%	9.0X	10.6X	9.4X	1.8%
SO	Isle of Capri	ISLE	Apr.	16.49	31.5	519.4	258.7	249.1	280.2	4.9%	(3.7%)	12.5%	5.4X	6.0X	5.6X	4.4%
SP	Kerzner International	KZL	Dec.	45.97	32.0	1,471.0	159.9	166.0	174.9	4.7%	3.8%	5.4%	11.1X	10.7X	9.6X	4.6%
NR	Magna Entertainment	MECA	Dec.	6.40	108.0	691.2	22.5	25.1	37.5	3.7%	11.6%	49.4%	30.0X	40.7X	27.8X	20.0%
SP	MTR Gaming	MNTG	Dec.	9.88	28.7	283.6	53.8	60.6	63.8	16.7%	12.6%	5.3%	7.1X	7.0X	6.2X	11.4%
SP	Penn National Gaming	PENN	Dec.	31.97	41.5	1,326.8	246.4	284.9	302.2	74.3%	15.6%	6.1%	7.9X	7.4X	6.6X	28.8%
SP	Pinnacle Entertainment	PNK	Dec.	11.44	33.1	378.7	85.3	92.5	120.0	(0.9%)	8.4%	29.7%	8.0X	6.8X	6.5X	11.7%
Small-cap average						909.3				10.8%	18.6%	16.6%	10.4X	10.6X	8.7X	14.1%
Small-cap average (excluding CHDN and MECA)						979.0				12.1%	20.7%	13.9%	8.9X	8.2X	7.2X	14.3%
Gaming Equipment																
SO	Alliance Gaming	AGI	Jun.	14.60	52.2	762.1	125.5	128.4	146.2	2.1%	2.3%	13.9%	8.9X	8.7X	7.6X	6.0%
SP	G-TECH Holdings	GTK	Feb.	42.84	67.9	2,908.8	409.4	465.1	512.9	10.4%	13.6%	10.3%	6.5X	6.7X	6.0X	11.4%
SO	International Game Tech.	IGT	Sep.	31.55	376.9	11,891.2	865.7	955.8	945.8	(2.3%)	10.4%	(1.0%)	12.2X	11.6X	11.3X	2.2%
SO	Multimedia Games	MGAM	Sep.	23.60	31.0	731.6	75.1	108.9	129.6	26.2%	45.0%	19.0%	9.8X	6.7X	5.6X	29.6%
SU	WMS Gaming	WMS	Jun.	27.10	30.8	834.7	15.1	38.4	64.5	(34.9%)	154.3%	68.0%	52.9X	23.1X	14.4X	40.6%
Gaming equip. average						3,425.7				(0.3%)	19.1%	5.8%	13.0X	11.0X	10.1X	7.0%

(1) 2003 and 2004 EV/EBITDA multiples are calculated based on corporate EBITDA less management fees from Thunder Valley plus the company's pro rata share of earnings from Green Valley Ranch
(A) Represents 3-Year CAGR over 2003 through 2005.

Source: Company reports and CIBC World Markets Corp. estimates.

Exhibit 6. EPS Comparative Valuation Table



Rtg	Company	Tkr	FYE	Price as of 7/26/04	Shares	Market Cap (\$ in MM)	Calendar EPS			% Chg.			P/E			3-Yr EPS CAGR (A)	
							2003	2004E	2005E	'02-'03	'03-'04	'04-'05	2003	2004E	2005E		
Large-Cap																	
NR	Caesars Entertainment	CZR	Dec.	14.77	310.0	4,578.7	\$0.47	\$0.71	\$0.80	(11.3%)	51.1%	12.7%	31.4X	20.8X	18.5X	14.7%	
SP	Harrah's Entertainment	HET	Dec.	46.56	113.1	5,265.9	\$2.88	\$3.25	\$3.51	(2.7%)	12.8%	8.0%	16.2X	14.3X	13.3X	5.8%	
NR	Mandalay Resort Group	MBG	Jan.	67.61	68.0	4,597.5	\$2.43	\$4.04	\$4.00	29.9%	66.3%	(1.0%)	27.8X	16.7X	16.9X	28.8%	
SP	MGM Mirage	MGG	Dec.	44.10	147.1	6,487.1	\$1.49	\$2.66	\$2.85	(20.3%)	78.5%	7.1%	29.6X	16.6X	15.5X	15.1%	
SP	Station Casinos	STN	Dec.	42.12	68.0	2,864.2	\$1.23	\$1.95	\$2.19	78.3%	58.5%	12.3%	34.2X	21.6X	19.2X	47.0%	
Large-cap average						4,758.7				6.9%	53.9%	7.4%	27.2X	17.5X	16.3X	19.5%	
Small-Cap																	
SU	Argosy Gaming	AGY	Dec.	33.51	29.7	995.2	\$2.13	\$2.39	\$2.61	(12.3%)	12.2%	9.2%	15.7X	14.0X	12.8X	2.4%	
SP	Ameristar Casinos	ASCA	Dec.	30.68	27.6	846.8	\$1.82	\$2.33	\$2.65	1.7%	28.0%	13.7%	16.9X	13.2X	11.6X	14.0%	
SO	Aztar Corp.	AZR	Dec.	24.36	35.5	864.8	\$1.46	\$1.56	\$2.07	(1.4%)	6.8%	32.7%	16.7X	15.6X	11.8X	11.8%	
SO	Boyd Gaming	BYD	Dec.	24.76	85.8	2,124.4	\$0.84	\$1.48	\$1.85	(21.5%)	76.2%	25.0%	29.5X	16.7X	13.4X	20.0%	
SU	Churchill Downs	CHDN	Dec.	36.51	13.7	500.2	\$1.80	\$1.42	\$1.75	2.3%	(21.1%)	23.2%	20.3X	25.7X	20.9X	-0.2%	
SO	Isle of Capri	ISLE	Apr.	16.49	31.5	519.4	\$1.68	\$1.23	\$1.82	2.4%	(26.8%)	48.0%	9.8X	13.4X	9.1X	3.5%	
SP	Kerzner International	KZL	Dec.	45.97	32.0	1,471.0	\$2.38	\$2.65	\$2.92	28.6%	11.3%	10.2%	19.3X	17.3X	15.7X	16.4%	
NR	Magna Entertainment	MECA	Dec.	6.40	108.0	691.2	(\$0.20)	(\$0.08)	(\$0.13)	(266.7%)	(60.0%)	62.5%	-32.0X	-80.0X	-49.2X	NM	
SP	MTR Gaming	MNTG	Dec.	9.88	28.7	283.6	\$0.53	\$0.53	\$0.65	(14.5%)	0.0%	22.6%	18.6X	18.6X	15.2X	1.6%	
SP	Penn National Gaming	PENN	Dec.	31.97	41.5	1,326.8	\$1.63	\$2.10	\$2.33	61.4%	28.8%	11.0%	19.6X	15.2X	13.7X	32.1%	
SP	Pinnacle Entertainment	PNK	Dec.	11.44	33.1	378.7	(\$0.16)	(\$0.23)	(\$0.04)	(5.9%)	43.8%	(82.6%)	-71.5X	-49.7X	-286.0X	NM	
Small-cap average						909.3				(12.2%)	20.9%	18.7%	20.4X	16.2X	13.7X	13.6%	
Small-cap average (excluding CHDN, MECA and PNK)						1,054.0				7.5%	29.0%	19.3%	20.4X	15.7X	13.2X	16.1%	
Gaming Equipment																	
SO	Alliance Gaming	AGI	Jun.	14.60	52.2	762.1	\$1.03	\$1.10	\$1.20	28.8%	6.8%	9.1%	14.2X	13.3X	12.2X	14.5%	
SP	G-TECH Holdings	GTK	Feb.	42.84	67.9	2,908.8	\$2.78	\$2.93	\$3.16	14.4%	5.4%	7.8%	15.4X	14.6X	13.6X	9.2%	
SO	International Game Tech.	IGT	Sep.	31.55	376.9	11,891.2	\$1.17	\$1.35	\$1.50	28.6%	15.4%	11.1%	27.0X	23.4X	21.0X	18.1%	
SO	Multimedia Games	MGAM	Sep.	23.60	31.0	731.6	\$1.07	\$1.35	\$1.64	(35.5%)	26.2%	21.5%	22.1X	17.5X	14.4X	-0.4%	
SU	WMS Gaming	WMS	Jun.	27.10	30.8	834.7	(\$0.12)	\$0.25	\$0.78	(400.0%)	(308.3%)	212.0%	-225.8X	108.4X	34.7X	169.2%	
Gaming equip. average						3,425.7				2.6%	(2.0%)	20.7%	24.1X	21.1X	19.8X	23.0%	
S&P 500				SPX	NA	1084.07											
Broad market																	

(A) Represents 3-Year CAGR over 2003 through 2005.

Source: Company reports and CIBC World Markets Corp. estimates.

Exhibit 7. FCF Comparative Valuation Table



Rtg	Company	Tkr	FYE	Price as of 7/26/04	Shares	Market Cap (\$ in MM)	Calendar FCF			FCF Growth Rate			P/FCF			3-Yr FCF CAGR (A)
							2003	2004E	2005E	'02-'03	'03-'04	'04-'05	2003	2004E	2005E	
Large-Cap																
NR	Caesars Entertainment	CZR	Dec.	14.77	310.0	4,578.7	\$1.27	\$0.83	\$1.33	(13.0%)	(34.6%)	60.2%	11.6X	17.8X	11.1X	(3.1%)
SP	Harrah's Entertainment	HET	Dec.	46.56	113.1	5,265.9	\$4.80	\$4.52	\$4.59	(11.6%)	(5.8%)	1.5%	9.7X	10.3X	10.1X	(5.4%)
NR	Mandalay Resort Group	MBG	Jan.	67.61	68.0	4,597.5	\$4.94	\$5.23	\$6.03	25.4%	5.9%	15.3%	13.7X	12.9X	11.2X	15.2%
SP	MGM Mirage	MGG	Dec.	44.10	147.1	6,487.1	\$3.06	\$4.08	\$4.51	(21.3%)	33.3%	10.5%	14.4X	10.8X	9.8X	5.1%
SP	Station Casinos	STN	Dec.	42.12	68.0	2,864.2	\$2.50	\$2.50	\$3.03	38.1%	0.0%	21.2%	16.8X	16.8X	13.9X	18.7%
Large-cap average						4,758.7				(1.4%)	2.3%	20.3%	13.0X	13.2X	10.9X	4.8%
Small-Cap																
SU	Argosy Gaming	AGY	Dec.	33.51	29.7	995.2	\$4.52	\$3.21	\$3.48	(8.1%)	(29.0%)	8.4%	7.4X	10.4X	9.6X	(10.9%)
SP	Ameristar Casinos	ASCA	Dec.	30.68	27.6	846.8	\$4.06	\$2.06	\$3.40	28.1%	(49.3%)	65.0%	7.6X	14.9X	9.0X	2.4%
SO	Aztar Corp.	AZR	Dec.	24.36	35.5	864.8	\$1.99	\$1.14	\$3.13	(22.9%)	(42.7%)	174.6%	12.2X	21.4X	7.8X	6.7%
SO	Boyd Gaming	BYD	Dec.	24.76	65.7	1,626.7	\$1.67	\$2.28	\$2.71	(5.6%)	36.7%	18.8%	14.8X	10.8X	9.1X	15.3%
SU	Churchill Downs	CHDN	Dec.	36.51	13.7	500.2	\$2.19	\$2.91	\$2.00	22.3%	32.9%	(31.3%)	16.7X	12.5X	18.3X	3.8%
SO	Isle of Capri	ISLE	Apr.	16.49	31.5	519.4	\$4.17	\$3.25	\$3.78	36.3%	(22.1%)	16.3%	4.0X	5.1X	4.4X	7.3%
SP	Kerzner International	KZL	Dec.	45.97	32.0	1,471.0	\$3.67	\$3.19	\$3.49	2.2%	(13.1%)	9.4%	12.5X	14.4X	13.2X	(0.9%)
NR	Magna Entertainment	MECA	Dec.	6.40	108.0	691.2	(\$0.14)	(\$0.22)	(\$0.09)	(380.0%)	57.1%	(59.1%)	-45.7X	-29.1X	-71.1X	NM
SP	MTR Gaming	MNTG	Dec.	9.88	28.7	283.6	\$0.83	\$0.75	\$1.04	(10.8%)	(9.6%)	38.7%	11.9X	13.2X	9.5X	3.8%
SP	Penn National Gaming	PENN	Dec.	31.97	41.5	1,326.8	\$3.25	\$2.38	\$3.15	47.7%	(26.8%)	32.4%	9.8X	13.4X	10.1X	12.7%
SP	Pinnacle Entertainment	PNK	Dec.	11.44	33.1	378.7	\$1.49	\$0.81	\$1.41	84.0%	(45.6%)	74.1%	7.7X	14.1X	8.1X	20.3%
Small-cap average						864.0				(15.8%)	(8.2%)	30.8%	6.8X	10.1X	4.2X	5.4%
Small-cap average (excluding CHDN and MECA)						923.7				12.1%	(16.1%)	42.0%	10.6X	13.2X	9.6X	6.0%
Gaming Equipment																
SO	Alliance Gaming	AGI	Jun.	14.60	52.2	762.1	\$0.35	\$0.58	\$0.84	(25.5%)	65.7%	44.8%	41.7X	25.2X	17.4X	21.4%
SP	G-TECH Holdings	GTK	Feb.	42.84	67.9	2,908.8	\$3.43	\$2.82	\$3.53	14.0%	(17.8%)	25.2%	12.5X	15.2X	12.1X	5.5%
SO	International Game Tech.	IGT	Sep.	31.55	376.9	11,891.2	\$1.31	\$1.32	\$1.43	35.1%	0.8%	8.3%	24.1X	23.9X	22.1X	13.8%
SO	Multimedia Games	MGAM	Sep.	23.60	31.0	731.6	(\$0.19)	\$1.32	\$1.98	(141.3%)	(793.7%)	50.2%	-124.2X	17.9X	11.9X	62.7%
SU	WMS Gaming	WMS	Jun.	27.10	30.8	834.7	(\$0.97)	\$0.75	\$1.59	(256.5%)	(177.3%)	112.0%	-27.9X	36.1X	17.0X	36.9%
Gaming equip. average						3,425.7				7.0%	(42.1%)	19.7%	14.0X	22.8X	19.5X	15.9%

(A) Represents 3-Year CAGR over 2003 through 2005.

Source: Company reports and CIBC World Markets Corp. estimates.

Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 8/2/2004:

Alliance Gaming (2a, 2b, 2d, 2f, 4a, 4b) (AGI-NYSE, US\$13.67, Sector Performer)
Ameristar Casinos (1, 2a, 2f) (ASCA-OTC, US\$26.51, Sector Outperformer)
Argosy Gaming Company (AGY-NYSE, US\$32.09, Sector Underperformer)
Aztar Corporation (2d, 2f) (AZR-NYSE, US\$23.89, Sector Outperformer)
Boyd Gaming Corporation (2a, 2b, 2d, 2f, 4a, 4b) (BYD-NYSE, US\$25.75, Sector Outperformer)
Caesars Entertainment (4a, 4b) (CZR-NYSE, US\$14.75, Not Rated)
Churchill Downs Inc. (1) (CHDN-OTC, US\$37.99, Sector Underperformer)
GTECH Holdings Corporation (2a, 2d, 2f) (GTK-NYSE, US\$21.17, Sector Performer)
Harrah's Entertainment, Inc. (2a, 2d, 2f, 4a, 4b) (HET-NYSE, US\$46.47, Sector Performer)
International Game Tech. (2f, 4a, 4b) (IGT-NYSE, US\$31.95, Sector Outperformer)
Isle of Capri, Inc. (1, 2a, 2d, 2f, 3a, 3b, 4a, 4b) (ISLE-OTC, US\$16.35, Sector Outperformer)
Kerzner International Ltd (2a, 2b, 2d, 4a, 4b) (KZL-NYSE, US\$46.79, Sector Performer)
Magna Entertainment Corp. (1, 2a, 2b, 2d) (MECA-OTC, US\$6.41, Not Rated)
Mandalay Resort Group (MBG-NYSE, US\$67.39, Not Rated)
MGM Mirage (2a, 2b, 2d, 4a, 4b) (MGG-NYSE, US\$43.68, Sector Performer)
MTR Gaming (1) (MNTG-OTC, US\$9.63, Sector Performer)
Multimedia Games Inc. (1) (MGAM-OTC, US\$18.62, Sector Performer)
Penn National Gaming (1, 2a, 2d) (PENN-OTC, US\$36.39, Sector Performer)
Pinnacle Entertainment (2a, 2d) (PNK-NYSE, US\$11.15, Sector Performer)
Station Casinos Inc. (STN-NYSE, US\$43.33, Sector Performer)
WMS Industries, Inc. (2a, 2f) (WMS-NYSE, US\$27.24, Sector Underperformer)

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DR	Dropped	Stock coverage is discontinued.
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UR	Under Review	Under Review
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NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and S&P/TSX Composite in Canada.

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Sector Performer (Hold/Neutral)	399	45.3%	Sector Performer (Hold/Neutral)	240	60.2%
Sector Underperformer (Sell)	172	19.5%	Sector Underperformer (Sell)	82	47.7%
Restricted	0	0.0%	Restricted	0	0.0%

Ratings Distribution: Gaming Coverage Universe

(as of 02 Aug 2004)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	27.8%	Sector Outperformer (Buy)	5	100.0%
Sector Performer (Hold/Neutral)	10	55.6%	Sector Performer (Hold/Neutral)	7	70.0%
Sector Underperformer (Sell)	3	16.7%	Sector Underperformer (Sell)	1	33.3%
Restricted	0	0.0%	Restricted	0	0.0%

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