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Gambling and the Law®: How to Win \$23.1 Million by Folding

The World Series of Poker offers the biggest prize in the world of sports. The last player walks away with \$8.94 million.

Not bad. But far short of what champion poker player Lyle Berman made, betting on casinos in Ohio.

Berman has won three WSOP bracelets and is co-founder of its rival, the World Poker Tour. But he is now playing much bigger games.

In late October 2009, Berman had his publicly traded company, Lakes Entertainment, Inc. (NASDAQ: LACO), enter into a Funding and Option Agreement with Penn National Gaming, Inc. (NASDAQ: PENN), regarding the November referendum. LACO agreed to pay 10% of what PENN spent on its campaign to bring casinos to Columbus and Toledo. In return, if the election succeeded, LACO had the option to fund up to 10% of the costs of building the casinos and get up to 10% of the casino's equity.

LACO ended up putting up \$1.9 million. The referendum passed. So LACO had the right to own 10% of casinos in two of the four largest cities in Ohio. But, to do so, LACO would have to come up with tens of millions of dollars more.

Now imagine you are Berman. PENN has offered you \$25 million to walk away.

How would you play this hand?

A few more facts: Those two casinos are going to cost at least \$500 million. So LACO's cost would be another \$50 million.

PENN is swimming in cash. Due to panicking by banks in an aborted buyout at the beginning of the Great Recession, PENN received \$1.475 billion cash, to, basically, do nothing – that is, it agreed to not be sold. So, while other casino companies are declaring bankruptcy – Riviera just filed – PENN can afford to take its time and spend as much as it wants on its two new Ohio casinos.

LACO, on the other hand, is a much smaller casino company. It is doing relatively well, given the state of the national economy. But, as everyone knows, credit has dried up. Banks and other lenders are reluctant to lend money for any project, even

casinos in the middle of major American cities.

PENN's casinos will be in Toledo in August and Columbus. They will, of course, be fantastically successful. But LACO would not see any return on its investment until 2012, at the earliest; probably not until 2013.

On a personal level, LACO and PENN are working together on these two casinos. But they are actually competitors, to the point where they had sued each other in the past.

So, do you take the \$25 million or try to come up with the additional \$50 million?

Making \$25 million cash on a \$1.9 million bet is a nice return on investment. But any casino opening with a near monopoly in the heart of a large American city is bound to make many times that amount for the owner of 10%.

It turns out, the decision was not that difficult.

LACO took the \$25 million.

Because LACO had made a similar deal with another company, Rock Ohio Ventures, LLC, group led by Dan Gilbert, owner of the Cleveland Cavaliers, in the same election. LACO paid Rock \$2.4 million for an undetermined equity position in Rock's Ohio casinos.

So, LACO wins \$23.1 million cash, and still has part ownership in casinos that will open soon in Cincinnati and Cleveland.

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