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## **Lottery and Gaming Control Commission**

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1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

### **PROPOSED MERGER AGREEMENT**

between

**Lakes Entertainment, Inc.**  
**("Lakes Entertainment")**

and

**Sartini Gaming, Inc.**  
**("Golden Gaming")**

**COMMISSION PRESENTATION**

## **EXECUTIVE SUMMARY**

### **Introduction**

On January 25, 2015, the Maryland Lottery and Gaming Control Agency (“MLGCA”) received official notification of the Proposed Merger Agreement between Lakes Entertainment, Inc. (“Lakes Entertainment”) and Sartini Gaming, Inc. (“Golden Gaming”). Evitts Resort, LLC was created specifically to be the applicant for the Allegany County video lottery operation license, and its ultimate parent is Lakes Entertainment. The Gaming Law (Ann Code of Md., State Gov’t (“SG”) § 9-1A-01, *et seq.*) requires that the Maryland Lottery and Gaming Control Commission (“Commission”) determine whether a transfer of a licensee’s interests meets, and is consistent with, the requirements of the Gaming Law. SG § 9-1A-19.

### **Proposed Merger**

On January 25, 2015, Lakes Entertainment, Inc. (“Lakes Entertainment”), a publically-traded company whose stock is listed on the NASDAQ, entered into a definitive Agreement and Plan of Merger with Sartini Gaming, Inc. (“Golden Gaming”). Under the terms of the agreement, Lakes Entertainment will create a new wholly-owned subsidiary known as LG Acquisition Corporation which will acquire 100% of the stock of Sartini Gaming. The surviving entity will be renamed Golden Holdings, Inc. and Lakes Entertainment will change its name to Golden Entertainment, Inc. (“Golden Entertainment”). Shares of Golden Entertainment will continue to be publically traded on the NASDAQ.

The Blake L. Sartini and Delise F. Sartini Family Trust (“the Trust”), which currently owns 100% of the stock of Sartini Gaming, will receive 7,858,145 shares of common stock of Golden Entertainment. This will represent an ownership interest of approximately 35.7% of Golden Entertainment and will make the Trust the largest single shareholder of Golden Entertainment. The remaining ownership interest of 64.3% will belong to Lakes Entertainment shareholders, including a 16.6% stake belonging to Lakes Entertainment CEO Lyle Berman and his affiliated entities. (*Refer to attached charts*)

Prior to the closing of the Merger, Golden Gaming is required to enter into an agreement with one or more lenders to refinance or amend its existing credit agreements on such terms and conditions approved by Lakes Entertainment. We were provided information by Golden Gaming management personnel that several lenders have expressed interest in working with Golden Gaming to refinance its existing credit structure and as such, it does not appear that this will be a barrier to completion of the Merger.

Blake L. Sartini will become the President, Chief Executive Officer, and Chairman of the Board of Golden Entertainment. Stephen A. Arcana and Matthew W. Flandermeyer will be the Chief Operating Officer and Chief Financial Officer, respectively. Messrs. Arcana and Flandermeyer, as well as Blake L. Sartini and Delise F. Sartini, have filed Principal Employee Applications with the MLGCA. Mr. Lyle Berman, currently the Chairman and Chief Executive Officer of Lakes Entertainment, and Mr. Timothy Cope, currently the President and Chief Financial Officer of Lakes Entertainment, will both serve as consultants and on the Board of Directors of Golden Entertainment. Messrs. Berman and Cope as well as Lakes Entertainment (Principal Entity) were found qualified and licensed by the

Commission on February 23, 2012, as part of the Operation License approval of Evitts Resorts, LLC (“Rocky Gap Casino”).

## **Background Information**

### **Lakes Entertainment, Inc. (“Lakes Entertainment”)**

Lakes Entertainment, Inc., a Minnesota corporation, develops, finances, manages and owns casino properties. It owns and operates the Rocky Gap Casino Resort in Allegany County, Maryland (“Rocky Gap”) which includes a gaming facility, hotel, an event and conference center, spa, four restaurants and the only Jack Nicklaus signature golf course in Maryland. Lakes Entertainment began managing the Red Hawk Casino in California for the Shingle Springs Band of Miwok Indians when it opened to the public on December 17, 2008, and terminated the management agreement on August 29, 2013.

Lakes Entertainment was formed in 1998 under the name of GCI Lakes, Inc., which was changed to Lakes Gaming, Inc. in August 1998 and to Lakes Entertainment, Inc. in 2002. Lakes Entertainment is the successor to the Indian gaming business of Grand Casinos, Inc. and became a public company through a spin-off transaction in which shares of Lakes Entertainment’s common stock were distributed to the shareholders of Grand Casinos. Lakes Entertainment managed various casinos under contracts held by Grand Casinos through 2002. Lakes Entertainment had a management contract for the Cimarron Casino in Oklahoma from 2006 through May 2010, for the Four Winds Casino Resort in Michigan from August 2007 through June 2011 and for the Red Hawk Casino in California from December 2008 through August 2013.

Lakes Entertainment owns and operates the Rocky Gap Casino Resort in Allegany County, Maryland which Lakes Entertainment acquired on August 3, 2012 for \$6.8 million. In connection with the closing of the acquisition of Rocky Gap, Lakes Entertainment entered into a 40 year operating ground lease with the Maryland Department of Natural Resources for approximately 268 acres in the Rocky Gap State Park on which Rocky Gap is situated. The Lease Agreement contains an option to renew for 20 years after the initial 40-year term.

After acquiring Rocky Gap, Lakes Entertainment converted the then-existing convention center into a gaming facility which opened to the public on May 22, 2013 and features 577 video lottery terminals (“VLTs”), 15 table games, two poker tables, a casino bar and a lobby food and beverage outlet. The AAA Four Diamond Award® winning resort also includes an event and conference center that opened during the fourth quarter of 2013, which is able to accommodate large groups and features flexible use meeting rooms. The total cost of the Rocky Gap project was approximately \$35.0 million, which included the initial acquisition cost. Lakes Entertainment has a financing facility that was used to finance \$13.4 million of the project costs. The amount outstanding on this financing facility as of December 28, 2014 was \$11.7 million.

### **Sartini Gaming, Inc. (“Golden Gaming”)**

Formerly known as “Golden Gaming, Inc.”, Golden Gaming was formed in February 2012 when the Company converted from a corporation to a limited liability company. At the time of conversion, all of the membership units of

Golden Gaming, Inc. were transferred to 77 Golden Gaming, LLC, a Nevada Limited Liability Company also formed in February 2012. Golden Gaming, LLC is a wholly-owned subsidiary of 77 Golden Gaming, LLC which in turn is a wholly-owned subsidiary of Sartini Gaming, Inc., a Nevada corporation.

Golden Gaming and its subsidiaries operate casinos and taverns, and conduct route operations throughout Nevada. Specifically, Golden Gaming operates three casinos in Pahrump, Nevada; the Golden Pahrump Nugget, Gold Town Pahrump, and the Lakeside Casino and RV Park. These properties offer gaming operations consisting of slot machines, table games, poker rooms, and bingo halls, as well as non-gaming amenities including a hotel, numerous restaurants, conference centers, and a bowling alley. The Golden Gaming's Golden Tavern Group operates 48 taverns in the Las Vegas and Reno area under various brand names which cater primarily to local residents. Each tavern has approximately 15 gaming machines.

Golden Route Operations is Golden Gaming's gaming machine route operator which installs, operates and services gaming machines under space leases and revenue participation agreements. The gaming machines are placed primarily with local privately-owned taverns, convenience stores, supermarkets, and pharmacies located throughout Nevada.

Golden Gaming's main offices are located at 6595 South Jones Boulevard, Las Vegas, Nevada, with additional offices located in Pahrump and Reno, Nevada. Currently Golden Gaming is licensed to conduct business only in the state of Nevada, and employs approximately 2,100 individuals statewide.

Golden Gaming's parent company, Sartini Gaming Inc., is wholly-owned by the Blake L. Sartini and Delise F. Sartini Family Trust. Blake and Delise Sartini are the sole trustees and beneficiaries of the Trust which was formed in September, 1991 as an estate planning vehicle. The Trust has submitted a Principal Entity Disclosure Form to the MLGCA.

In February 2012, Golden Gaming purchased several subsidiaries of Affinity Gaming, LLC for approximately \$73.2 million. The subsidiaries acquired from Affinity operated approximately 5,400 gaming machines under space leases and revenue participation agreements throughout Nevada, and also owned and operated the Gold Town Pahrump Casino and the Lakeside Casino and RV Park. These acquisitions significantly strengthened Golden Gaming's existing route operation and casino market positions.

Overall, Golden Gaming's financial position and operating performance has not been positive but has shown definite signs of steady improvement over the period reviewed (December 31, 2010 through December 31, 2014). The expansion of its route and casino operations in February 2012 significantly strengthened Golden Gaming's existing market positions, and bolstered its revenue. This, coupled with Golden Gaming's ability to control its operating costs, has led to positive and steadily improving operating results. However, throughout the period reviewed, Golden Gaming has been saddled with substantial amounts of long-term debt at high interest rates resulting in a continual drain on Golden Gaming's financial resources. Interest expense on this debt in excess of \$20 million annually has overshadowed Golden Gaming's positive operating results, resulting in continued net losses.

It appears that the Proposed Merger with Lakes Entertainment will alleviate to some degree the issues faced by Golden Gaming with its long-term debt. Lakes Entertainment has significant amounts of cash and other liquid assets and are not highly leveraged which should greatly benefit the company post-merger. Golden Gaming is in the process of restructuring its debt, and believes that the combined company post-merger will have approximately \$145 million in long-term debt, which will be at substantially lower interest rates than Golden Gaming is currently paying.

There is no indication that Golden Gaming is experiencing any overwhelming financial difficulty, and the merger will improve Golden Gaming's financial position. Additionally, Golden Gaming's independent auditors have not expressed any concerns with its financial condition. There are no concerns with Golden Gaming's financial condition, and no derogatory information was disclosed during the course of our review relating to Principal Entity applicant, Blake L. Sartini and Delise F. Sartini Family Trust.

The below listed natural person qualifiers ("principals") have been identified through their association with Golden Gaming and its Principal Entity, the Blake L. Sartini and Delise F. Sartini Family Trust.

1. Blake Louis Sartini, Golden Gaming, LLC
2. Delise Fertitta Sartini, Golden Gaming, LLC
3. Stephen Arcana, Golden Gaming, LLC
4. Matthew Flandermeyer, Golden Gaming, LLC

During our investigation, it was determined that on June 19, 2012, Golden Route Operations, LLC (“GRO”), a wholly-owned subsidiary of Golden Gaming, filed applications with the Illinois Gaming Board (“IGB”) for licensure as a manufacturer, distributor and supplier of electronic gaming devices. As a result of its due diligence investigation, IGB determined that GRO was unsuitable for licensing under Illinois law due to alleged organized crime associations of Frank Fertitta, Jr., who was the now-deceased father of Delise F. Sartini and father-in-law of Blake Sartini. The alleged organized crime associations were related to an alleged skimming operation at the Fremont Casino in Las Vegas during the late 1970’s. During that time, Frank Fertitta, Jr. was employed as the general manager of the Fremont Casino. The criminal allegations were investigated by law enforcement and Nevada gaming regulators. Mr. Fertitta, Jr. denied the accusations and was ultimately never the subject of any charges.

As a result of its findings, the IGB provided GRO with the opportunity to withdraw its application in lieu of the initiation of denial proceedings, which GRO ultimately exercised despite adamantly denying any associations with organized crime or other wrong doing. The IGB ultimately moved to allow GRO the right to file an application in the future should it desire to do so.

During our investigation, a comprehensive review of the above matter was conducted, which included the on-site examination of IGB records and interviews with the investigators involved in the GRO Illinois application. We also conducted an on-site review of documentation compiled by the Nevada Gaming Board related to the IGB investigation, and personal interviews related to this matter with Blake and Delise Sartini. It should be noted that from the onset of advising the MLGCA

of the Proposed Merger, the Sartinis were forthright in providing information related to the Illinois matter. Moreover, we found no evidence that Frank Fertitta, Jr. was ever charged in relation to organized crime activities. Our review failed to uncover any information that suggests that any of the applicants affiliated with Sartini Gaming, LLC/Golden Gaming in connection with the Proposed Merger are associated with organized crime.

### **Findings**

Based on our investigation, MLGCA staff has determined that this Proposed Merger meets and is consistent with the Gaming Law. In addition, we conclude that Golden Gaming, its principal entity and principals, have established by clear and convincing evidence their qualifications for licensure. Therefore, MLGCA staff recommends MLGCC approval of the Proposed Merger.