

**A Market and Potential Revenue Analysis
of a Video Lottery Terminal Facility
at The Meadowlands
and Review of Potential Impacts on
the Atlantic City Gaming industry**

WHITE PAPER
March 2005

EXECUTIVE SUMMARY

Christiansen Capital Advisors LLC has worked with the State of New Jersey, the New Jersey Casino Reinvestment Development Authority and Merrill Lynch & Co. to evaluate the potential market, revenues and impacts on Atlantic City casinos of a Video Lottery Terminals (“VLT”) facility at The Meadowlands.

Objective

The State of New Jersey would like to increase resources for programs supported by the State Lottery by installing player terminals at The Meadowlands.

Business Environment

The overwhelming competitive challenge faced by Atlantic City casinos in the next five years will be from neighboring gaming developments in Pennsylvania, racinos in New York, and the construction of large scale, clustered casino resorts in the Catskills.

The State of New Jersey will continue to foster and support a strong Atlantic City gaming industry via the Casino Reinvestment Development Authority investment initiatives in Atlantic City infrastructure and in non-gaming Atlantic City casino company projects in a scope and manner not found in other states with major gaming markets.

Casino companies operating in Atlantic City have recognized both the interstate opportunity and threat, and are taking development positions to offensively capture new markets and defensively mitigate dilution of their own market share in the Atlantic City market.

Conclusions

- The VLT facility envisioned by the State at The Meadowlands will not create, in and of itself, a large and sustained negative impact on Atlantic City gaming. Given that The Meadowlands’ VLTs would only be a 20 minute drive from the large population of North Jersey and neighboring New York, we estimate that over 70% of the new patrons have never or rarely visited the Atlantic City casinos.
- VLTs at The Meadowlands will serve a very strong, latent demand for gaming entertainment in North Jersey, initially generating over \$350 million dollars in annual, additional Lottery revenues.
- Near-term and intermediate-term competition for Atlantic City casinos from neighboring Pennsylvania and New York markets will far out-weigh any sustained competition of a VLT facility at The Meadowlands. With the widely-expected 10,000 VLTs at Aqueduct and Yonkers Raceway in New York, 20,000 slot machines in the Greater Philadelphia area and up to five casino hotels in the Catskills each with a potential size of Foxwoods, the Atlantic City gaming industry’s existing market will be seriously impacted. Presumably this is the reason that major AC casino company players are hedging their market strategies with major plays in these competing markets.
- The Meadowlands VLT facility will help stem New Jersey population-derived gaming dollars from crossing the State’s borders.

METHODOLOGY

Our work, detailed in Exhibit 5, has been framed by the State's overriding goals:

- To continue and enhance State assistance to improve Atlantic City infrastructure and contribute to non-gaming economic development projects,
- To foster the continued growth and vibrancy of the Atlantic City gaming industry and gaming in New Jersey by protecting State borders, not just a single location,
- To preserve the New Jersey horse industry by ensuring the long-term viability of State racetracks,
- To keep the State's and the Atlantic City gaming interests in alliance, and
- To create an additional, sustainable long-term State Lottery revenue stream for dedicated State programs.

At all stages of our work, we observed that the Atlantic City casino industry is a vital part of the State's economy supported by a very reasonable regulatory and favorable tax structure and a unique CRDA assistance package.

Key Assumptions

CCA's market and revenue analysis is predicated on the initial installation of VLTs in The Meadowlands grandstand facility by January 1, 2006. This assumption has been supported by preliminary engineering and architectural work discussed with us and from informal discussions with major system and machine vendors with VLT and related experience.

Our findings are based on the assumption that approximately 2,092 VLTs will be installed at The Meadowlands by the beginning of calendar year 2006. We have also assumed that during 2006, 3,000 competing gaming devices will begin operation at Philadelphia Park near Philadelphia and 10,000 competing gaming devices will begin operation at Aqueduct and Yonkers Raceway in New York. Meadowlands VLTs would represent only 13.8% of this initial increase in market supply.

Our analysis includes our expectation that, during 2007, Philadelphia Park will add another 2,000 gaming devices and that two additional competing gaming facilities will open in the Philadelphia market at Chester Downs and at a non-racetrack location within the City of Philadelphia. We also assume that a fourth and final Philadelphia market gaming facility will open in 2008 and that five tribal casinos will begin operation in the Catskills of New York during 2009. These assumptions are all based on recently enacted legal changes in Pennsylvania and well-publicized plans of the Pataki Administration and major casino companies, including several companies operating in Atlantic City.¹ At this point, VLTs at The Meadowlands will represent only 4.4% of the additional gaming supply in the regional market dominated by Atlantic City.

¹ Caesars Entertainment, Inc has announced plans to bid for one of the non-racetrack Pennsylvania slot licenses; Caesars proposes to invest \$350 million for a slot parlor and entertainment complex on the Delaware River South of Penn's Landing. Caesars is also partners with the St. Regis Mohawk Tribe in developing the Mohawk Mountain Casino Resort in the Catskills, about 90 miles Northwest of New York City. In June 2004, Harrah's Entertainment acquired a 50% interest in Chester Downs; Harrah's agreed to finance construction and start-up costs for the racino project, estimated at \$250 million, in consideration of the equity stake. MGM Mirage has partnered with the New York Racing Association to build and operate the \$100 million racino at Aqueduct.

A CHANGING GAMING INDUSTRY LANDSCAPE

Since the opening of its first casino in 1978, Atlantic City has enjoyed a virtually monopoly on casino gaming for the East Coast and, in particular, the Mid-Atlantic region. That monopoly was curtailed at the margins by the authorization of racinos in Delaware in 1995 and the opening of Foxwoods Casino and Resort (1993) followed by Mohegan Sun (1996) in Eastern Connecticut. The observed historical impacts of these increases in supply were minimal and transitory (Exhibit 1).

Exhibit 1: Gross Gaming Revenues Atlantic City, Connecticut Tribal facilities and Delaware racinos 1993-2003

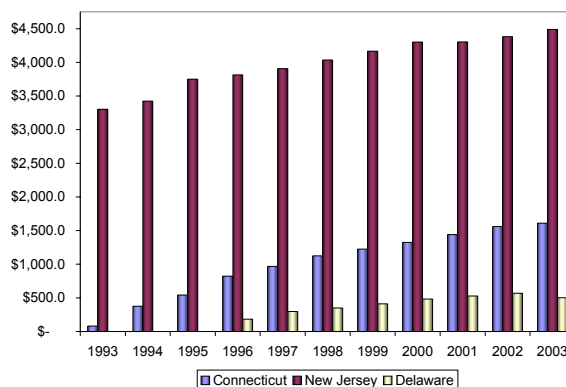


Exhibit 2: Current and Future Gaming Device Supply in the Tri-State Area

	Number of Machines	% of Total
<i>Current</i>		
Atlantic City, NJ	43,096	67.0%
Delaware	5,930	9.2%
Connecticut	13,574	21.1%
Monticello Raceway	1,743	2.7%
Total	64,343	100.0%
<i>New Supply</i>		
Philadelphia, PA	20,000	42.0%
Eastern, PA	5,500	11.6%
Yonkers	5,000	10.5%
Aqueduct	5,000	10.5%
Catskills, NY	10,000	21.0%
<i>Meadowlands</i>	<i>2,092</i>	<i>4.4%</i>
Total	47,592	100%

Over the next five years the regional market currently served by the Atlantic City Gaming Industry will face competing supply additions. The first of these changes is already underway in New York State. In late 2001, New York passed the Omnibus Gambling Act authorizing VLTs at the eight racetracks in the State, and paving the way for 3-5 more tribal casino/resorts in the State including the Catskills, a 90 minute drive from North Jersey and New York City.

On July 5, 2004 Pennsylvania Governor, Ed Rendell, signed into law Act 71 which authorizes up to 61,000 slot machines to be placed at seven racetracks, five non-racetrack locations, and two resorts within Pennsylvania. We expect the evolving installation of 20,000 slot machines within the greater Philadelphia metropolitan Philadelphia area and 5,500 machines in Eastern Pennsylvania, for a total of 35,000 machines in the next four years. All told, the supply of gaming devices in the Atlantic City greater regional market is going to increase by over 75%, with VLTs at The Meadowlands contributing less than 5% of this total.

Exhibit 3: Map of Current and Future Gaming Locations



Unlike prior supply addition in Connecticut and Northern New York, these competing gaming facilities will generate sustained market impacts that are neither *de minimis* nor transitory and unlike any in Atlantic City's history. CCA estimates the impact of 20,000 devices in Philadelphia alone will siphon off nearly \$300 million in slot spending from Atlantic City casinos and that the combined impacts of Aqueduct, Yonkers, and the Catskills will impact Atlantic City casinos by more than \$650 million (Exhibit 4).

By comparison, we estimate that 2,092 VLTs at The Meadowlands will initially generate additional Lottery revenues of approximately \$350 million annually with only 11.7% of this total derived from customers that might otherwise have traveled to Atlantic City casinos. CCA calculates a possible, initial decline of \$32-40 million in annual slot revenues in Atlantic City attributable to having VLTs at The Meadowlands – a relatively

Exhibit 4: Summary of Impacts of Future Gaming Device Supply in the Tri-State Area

Summary of Impacts			
	# of Machines		Atlantic City Impacts (in millions)
Philadelphia	20,000	\$	300.0
NYC Racinos	10,000	\$	38.14
Catskill Casinos	10,000-15,000	\$	330.2
Total		\$	668.3

small impact on a base of about \$4.8 billion in total Atlantic City Gross Gaming Revenues. CCA further expects this impact on Atlantic City to decline to less than \$30 million annually when additional gaming supply is installed at Aqueduct, Yonkers Raceway, and at tribally-owned casino resorts in the Catskills.

OVERVIEW OF RESULTS

The gaming industry in New Jersey will face unprecedented change in the next five years. The installation of VLTs at The Meadowlands presents an opportunity to provide a convenient, New Jersey-based gaming option for residents of Northern New Jersey and New York to compete with soon-to-be-expanded gaming competition in New York State. A State of New Jersey/Atlantic City gaming industry alliance to protect New Jersey-resident gaming will keep more gambling dollars in the State of New Jersey, preserve good regulatory and favorable tax structures on the Atlantic City casinos, continue the flow of resources to improve Atlantic City infrastructure and encourage the casino companies to reinvest in-State rather than increase their presence in competing Pennsylvania and New York markets.

In recognition of the fact that gaming in the Mid-Atlantic region is undergoing wholesale changes, VLTs at The Meadowlands will recapture gaming dollars that will no longer flow to Atlantic City casinos when racinos, slot parlors and tribal casinos develop and expand in Pennsylvania and New York. These machines will help support an industry that is a vital part of the State's economy by increasing the distribution and scope of the Lottery in New Jersey.

From our analysis and prior gaming market experience, CCA believes:

- VLTs at The Meadowlands will serve a very strong, latent demand for gaming entertainment in North Jersey, initially generating over \$300 million dollars in annual additional Lottery revenues. VLTs at The Meadowlands will draw from Northern New Jersey and New York areas residents who don't drive the 2 hours to Atlantic City or don't do it very often. By our calculations, only 19% of potential gaming "spend" in the Northern New Jersey market makes its way to Atlantic City casinos.
- Near-term and intermediate-term competition for Atlantic City casinos from neighboring Pennsylvania and New York markets will far out-weigh any sustained competition of a VLT facility at The Meadowlands. 10,000 gaming devices at Aqueduct and Yonkers Raceway will obviously have greater implications for Atlantic City casinos than 2,100 machines at The Meadowlands. We estimate that developing Pennsylvania and New York gaming facilities will siphon over \$650 million annually from Atlantic City casinos and far out-weigh the estimated \$32-40 million initial impact (or less than 1% of Atlantic City's gross casino revenue) of a VLT facility at The Meadowlands.
- The Meadowlands VLT facility will help prevent New Jersey population-derived gaming dollars from crossing State borders. The convenience of the 'drive-to' nature of a VLT facility at The Meadowlands will keep North Jersey gaming dollars in-State and defend New Jersey gaming from losing patrons to new venues in New York and Eastern Pennsylvania. North Jersey will soon be surrounded by three gaming alternatives: slot machines in Philadelphia and Eastern Pennsylvania, VLTs in New York, and casinos in the Catskills -- facilities with more convenient access than Atlantic City. North Jersey residents will be within an hour drive of at least one of these facilities.

- The gaming industry is expanding at an accelerating pace outside of the State of New Jersey and an enhanced State-Gaming Industry 'partnership' is needed to protect Atlantic City Casinos' unique destination market. New Jersey fosters its Atlantic City gaming industry with the second-lowest tax rate in the United States. Additionally, the Casino Reinvestment Development Authority (CRDA), which reinvests 1.25% of gross gaming revenue, is unique in the United States.

Exhibit 5: Methodology

In our analysis, CCA utilized proprietary models it has used in previous studies, modified to take into account specific market conditions in New Jersey and surrounding areas, to develop projections for the market potential of expanded gaming in the State.

The model chosen, which is used in many location-based analyses of this type, is often referred to as a "gravity model," because it is similar to Newton's Law of Gravitation (for which the distance factor would be -2.0: if you double the distance, the attraction declines by a factor of four). This model has been refined by CCA over the years, as it relates to gaming facilities; the technique focuses on the demographics of areas surrounding each facility, in particular the number of adults residing at various distances, and the observed ratio of actual spending of other similar adult populations.

The models used for the projections in this report adjust the population surrounding each facility (or proposed facility) for distance, per capita income, and the proportion of urban to rural residents, the non-resident "visitor" population, and competition. From these data we calculate an adjusted adult population around each facility, or group of facilities. This measure weighs adults who live closer to a facility at higher values than those who live at greater distances. Total actual or estimated revenues (or consumer spending) in each market is divided by these adjusted population figures to arrive at revenue per "distance adjusted" adult.

As noted above, an important component of CCA's analysis is a verifiable adult spending base for slot machines and table games. We assess the experience of existing casino, riverboat, and/or pari-mutuel gaming device facilities ("racinos") in both the market being modeled and in comparable markets and use this experience as the basis for estimates of the consumer demand for a proposed gambling facility and its potential impacts upon existing gambling facilities. CCA's analyses are based upon observed, verifiable distance-adjusted spending per adult in comparable gambling markets, providing a factual basis for projections.

Our projections of casino demand and potential revenues are based on an important observation: other things being equal, gambling patrons tend to gamble at the facility that is most conveniently located for them. "Convenience" is a quality with multiple parameters where gambling is concerned, however. Casino patrons can and sometimes do visit more distant facilities, particularly if there is a critical mass of casinos or amenities that they cannot find at the nearest facility.

Because the public tends to gamble at the facility that is most conveniently located, patronage (and associated spending) at full-service casino gambling facilities falls off with distance, but less rapidly than for many other forms of gambling (and other leisure spending). For destination land-based casino resorts, we assume (based upon previous research and CCA's experience) a "distance coefficient" of -0.5, compared to values of around -0.6 for riverboats and large racinos and about -0.7 for limited size and or restricted-device racinos.