

Las Vegas outlook ...

CAPACITY WORRIES FOR I-15, McCARRAN CAST LONG SHADOWS ON STRIP BUILDING BOOM

Megaresort building booms on the Las Vegas Strip have always drawn naysayers who doubt that the new capacity will attract enough new customers. The doubters have always been wrong.

But with \$25 billion or more in new Las Vegas resorts expected to open within the next half-dozen years, it is not their ability to lure enough new business that most troubles resort developers. Rather, it is the transportation infrastructure — chiefly the primary gateways that bring people to Las Vegas: McCarran International Airport and Interstate 15.

Airport capacity is the biggest threat to the new projects because almost all of the new growth will be in the form of luxury resorts targeting the kind of upscale visitors who travel to Las Vegas chiefly by air.

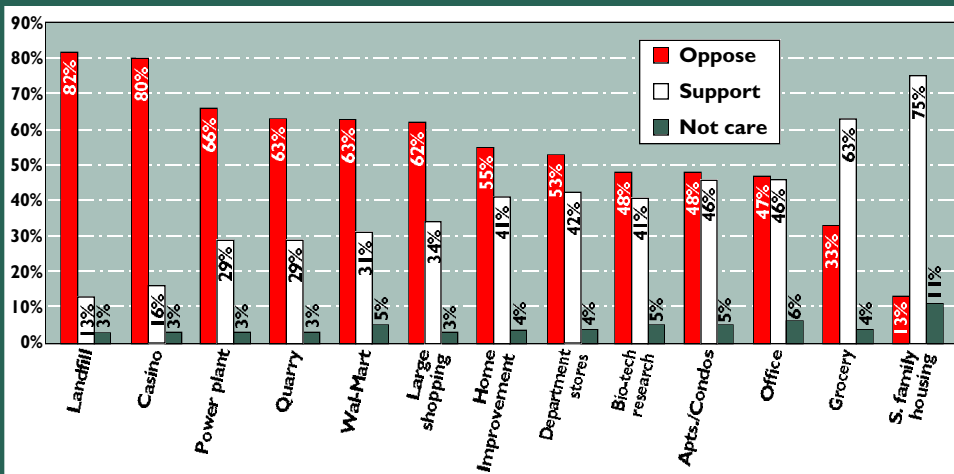
Slightly less than half of the 38.5 million visitors to Las Vegas last year traveled by air, but that portion of the pie should grow, even as projects such as MGM Mirage's CityCenter, Boyd Gaming's Echelon Place, Las Vegas Sands' Palazzo and Wynn see Las Vegas on page 9

GAMING INDUSTRY OBSERVER IS AN OFFICIAL PUBLICATION OF:



NOVEMBER 14 - 16, 2006
LAS VEGAS CONVENTION CENTER
NOVEMBER 13 / G2E TRAINING & DEVELOPMENT INSTITUTE
www.globalgamingexpo.com
203-840-5533

Opposition to development



Development trends ...

NIMBY MOVEMENT PLACES CASINOS AT TROUBLING END OF SCALE; STARTING WITH BIG HANDICAP

Editor's Note: Casinos are widely heralded as generators of prodigious employment. Of considerably lesser repute is the heat that casinos generate in the development stage. As the chart above shows, the public sees only landfill development in a worse light.

The poll that generated this data was conducted by Saint Consulting, a Hingham, Mass., firm that specializes in winning zoning and land-use battles. Chairman/CEO P. Michael Saint and Vice Chairman Robert J. Flavell analyze the casino-land use issue below; they will also deliver a special presentation on this issue at our 3rd annual Pennsylvania Gaming Congress in March.

BY P. MICHAEL SAINT AND ROBERT J. FLAVELL

Despite the increasing popularity of casinos among gamblers and officials in cities that host them, an overwhelming majority of Americans say they would oppose a casino in their community. In fact, the landscape of future development is becoming a battlefield — something casino owners and developers need to take into account.

The first-ever nationwide survey conducted to measure anti-development feelings across the country showed that 80 percent of Americans would oppose a casino proposed for their community. Only 16 percent said they would support it, and only 3 percent said they did not care.

The survey indicated that casinos were the second least-popular land use, just two points more popular than landfills, which drew 82 percent opposition.

On the one hand, Americans do appear to enjoy casinos, given rising numbers in both visits and revenue. But they also perceive them as less than desirable for their community, notwithstanding the taxes, jobs and other benefits they may bring.

This finding may come as no surprise in a nation that wants to shop at Wal-Mart but doesn't want one built nearby, and where a huge appetite for electricity seems inconsistent with high opposition to new power plants.

Growth and development in America are no longer seen as a boon to the local economy or a sign of progress. Nowadays, they are often seen as intrusive, obnoxious and a threat to the quality of life and character of a community.

Years ago we noticed that not-in-my-backyard opposition in the United States was concentrated in population centers on the East and West coasts. But gradually we began hearing from developers in the heartland that they, too, were facing vocal opposition see **OPPOSITION** on page 2

on projects that once would have been considered routine.

Today, we work in 41 states and find that opposition to development has no geographic limit. In fact, neighborhood residents will oppose almost any development proposed for their community, and they will use the political process to protect their turf.

We decided to measure Americans' appetite for new development in their communities through The Saint Index, a nationwide, scientific survey of 1,000 respondents conducted by the Center for Economic and Civic Opinion at the University of Massachusetts - Lowell.

The vast majority of Americans — 73 percent — believe their community is developed enough already or is over-developed, and 83 percent of suburbanites do not want any new development in their communities.

It is not just landfills or casinos. Two-thirds of Americans would oppose a power plant in their town, and 63 percent would oppose either a quarry or a Wal-Mart. And so it goes, through category after category of development.

But even we were surprised to learn that one in five Americans has actively opposed a development project of one sort or another in their community.

ATTITUDES TOWARD CASINO DEVELOPMENT

Our survey asked people who had opposed a project what type of project they had opposed. Only 2 percent said casinos, of course, because so few are being built nationwide. But when asked what type of development they would most like to see in their community, not a single respondent said casino.

Indeed, when we look at the numbers more closely, the breakdown is even less encouraging. While 80 percent of respondents said they would oppose a casino, a determined majority (72 percent of the 80 percent) said they would "strongly oppose," not just "somewhat oppose."

Supporters are equally committed, though too few in number to win a land-use fight. Of the 16 percent who said they would support a casino development, 10 percent said they would do so "strongly."

It is important to note that we did not ask respondents whether they like casinos, or whether they regularly or even occasionally visit one. We asked how they would respond if a casino were proposed in their community. It is clear that most Americans believe a casino would have a negative impact.

Support and opposition for casinos tracks with

the respondent's perception of whether his community needs growth. Nearly half (46 percent) of Americans believe their communities have attained optimal development and are just fine "as-is," and another 27 percent think their town is over-developed — totaling a majority of 73 percent of Americans who simply don't want growth. This compares with those who think their community is under-developed, a distinct minority at 27 percent.

These views have consequences for casino developers. By a large majority (75 percent), those who believe their community is over-developed would oppose a casino, a figure that drops to 24 percent among those who think their community is under-developed.

Generally, older, wealthier, better-educated, conservative homeowners are more likely to oppose a casino in their community. Younger, less-affluent, less-educated, independent-minded renters are more likely to support a casino in their community.

We further analyze the casino issue by demographics:

- **Income level:** The more people earn, the more they would oppose a casino in their community. The survey showed that 78 percent of those making more than \$50,000 per year would oppose a casino, a number that increases to 86 percent for those making more than \$75,000.

This compares with 79 percent of those making less than \$50,000, a number that drops to 73 percent for those who earn less than \$25,000. Income also dictates support: only 14 percent of those making more than \$75,000 would support a casino, while 21 percent of those making less than \$50,000 would do so.

- **Age group:** Older people consider their community as-is, those between age 36 and 55 are more likely to consider their community over-developed, and those under 35 are most likely to consider their community under-developed.

But when it comes to casino development, the range of opinions is much narrower. 74 percent of people age 18 to 35 oppose casinos. Those age 36 to 55 oppose them by 81 percent. Those age 56 to 65 oppose them by the same percentage: 81. And in the oldest group, 83 percent of those over 65 oppose them.

- **Education:** Those who attain higher levels are

more likely to consider their community over-developed than those at lesser levels. These attitudes hold true for casinos: 88 percent of those with a bachelor's degree or higher were opposed to casino development, while 75 percent of those who had a high school education or less were opposed. And 75 percent of those with some college, but not a bachelor's degree, were opposed.

- **Home ownership:** Homeowners were most likely to see their town as fine "as-is" (49 percent), while renters tended to think of their town as under-developed (43 percent). Similarly, homeowners were more likely to oppose casino development (81 percent) than renters (72 percent).

- **Town and country:** Urban residents are more likely to oppose a casino (82 percent). Suburban residents are a little bit less opposed (79 percent),

and the same figure (79 percent) pertains to rural residents.

- **Gender and employment:** Women are somewhat more likely to oppose a casino (83 percent) than men (76 percent). People who identify themselves as homemakers oppose casinos somewhat more (84 percent) than those who are employed outside the home (78 percent), or those who are retired (85 percent).

- **Political Ideology:** Those who identified themselves as liberal, moderate or conservative all oppose casino development by wide margins — 71 percent, 83 percent and 83 percent, respectively.

READY FOR BATTLE

We also learned from the survey that people who oppose development are more willing and likely to do something about their opposition than former generations have been.

Few Americans — only 3 percent or 4 percent, in most cases — say they do not care one way or the other about development, regardless of category. Most do — and mostly they are opposed.

At work in the expanding NIMBY movement are traditional concerns about traffic, property values, neighborhood character, public safety and sprawl. That has always been the case with development opponents of any stripe. What's new is the growing activism and sophisticated political tactics opponents use to pressure public officials, attack developers, get permits denied, appeal discretionary

It is clear that most Americans believe a casino would have a negative impact.

see **OPPOSITION** on page 9

Marketing trends I...

BASEBALL ANALOGY COULD BE HIT WITH REGIONAL CASINO OPERATIONS

Long-time readers of *Gaming Industry Observer* know that we have a long, storied history — dating back to the first Clinton administration — of relying heavily on other industries to note important trends in gaming.

For example, we have two separate analogies that compare casinos to breakfast cereals. One holds that breakfast cereals transformed loyalty based on taste into loyalty based on coupons. (If you don't get the analogy, we will smack you on the noggin with a match-play coupon that is better than our competitors' match-play coupon.)

The other analogy holds that cereal makers focused too much on market share amongst their small cadre of competitors, and were blinded by consumers' shift toward bagels, muffins and other alternatives that neither snapped, crackled nor popped. The result: By not focusing on the big picture, cereals generated soggy returns for their investors.

The lesson for casino operators outside Las Vegas — and for Wall Street, for that matter — was that the extreme focus on market share among casinos prohibited a more expansive view: a share of discretionary spending among adults.

Operators that heeded that lesson (we first suggested it way back in the 20th century) are having their breakfast and eating it, too. They learned that they can't increase revenue or margins by competing solely on price.

Our newest analogy involves comparing casinos to that other great national pastime: baseball. Not the Little League variety, where it's all about good sportsmanship, but the big-league, hardball variety where it's all about finding ways to increase the fan

base, generate more attendance and grow revenue.

Consider that the domestic casino industry historically can count on about 25 percent of all adults who comprise its core customer base. That percentage increases as the industry expands, creating new customers as casinos get closer to home. Even with the easiest access, however, the penetration rate rarely punches through the 40 percent level, indicating that — even with markets where visiting a casino is as easy as visiting a supermarket — casinos still do not reach half of their potential market.

The answer then could be to steal some signals from Major League Baseball, which has a similar problem. Winning isn't everything, it seems. Consider the poor Atlanta Braves. The storied franchise won its division every year between 1992 and 2005, an unmatched record of accomplishment. Annual attendance, however, declined by a full third between 1997 and 2004. In 2003, the Braves lost \$30 million, due largely to those 1.3 million fans who stayed home.

The Braves learned the hard way that winning isn't enough, and have taken important steps — including changing their mindset — to woo fans, and to create new attractions designed to penetrate even further among adults who like to spend money to have a good time. Many of those adults don't know the difference between a box score and a box lunch, but the Braves don't seem to mind.

The team, a division of Time Warner, invested \$30 million in various upgrades. The new steps include taking out two rows of seats to create "the 755 Club" where fans pay \$500 for annual membership to sit on a patio that offers quality food (desserts are

\$6), entertainment and even a little baseball.

The Braves turned a basic concourse behind its 66 luxury suites into an air-conditioned, carpeted "Lexus Level" (sponsored by the luxury car maker) that offers high-end food prepared by chefs who are a far cry from the peanut vendors who serve the hoi polloi.

These, and other efforts, are increasing attendance, which rose slightly this year even though the Braves' division championship streak was snapped and the team did not enter post-season play.

Becky Wallace, executive editor of *Team Marketing Report*, a sports marketing publication, recently told the *New York Times*: "We are a

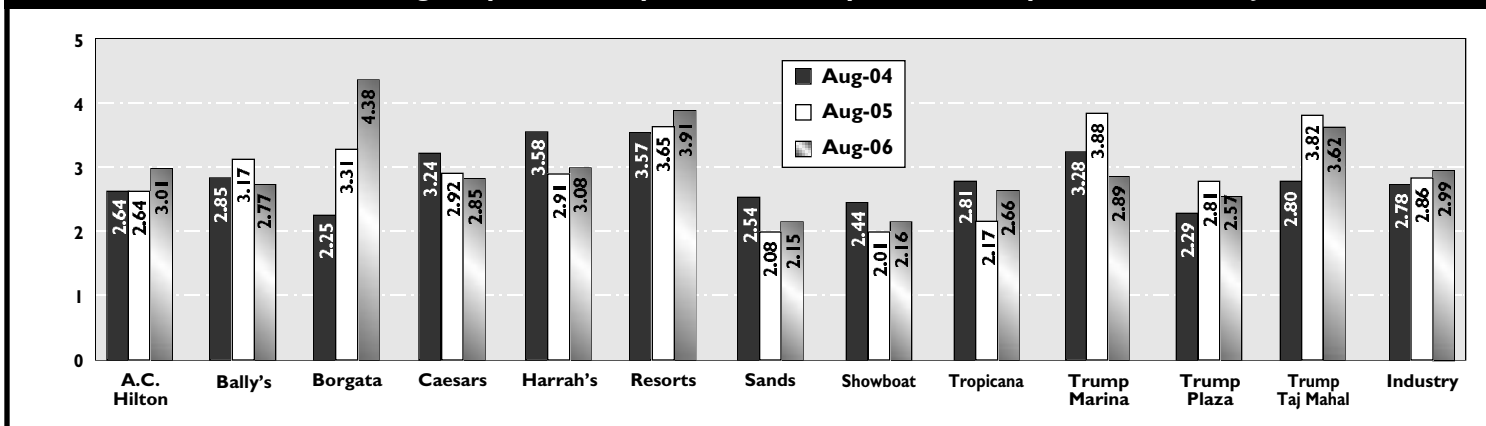
society that craves entertainment, and a game might not do it anymore on its own. There aren't as many true fans as there used to be, so teams are turning games into events."

Baseball is finding more adults with disposable income, giving them more reasons to visit the old ballpark with new ways to spend money. Translate that into a strategy for the casino industry: Casinos can make inroads into that 60 percent-plus slice of the adult market that spends its money elsewhere by cultivating more attractions, and by developing marketing strategies that reach beyond the database. Las Vegas is the master of the give-them-more-reasons strategy, to the point where even far-fetched ideas (such as in-room stripper poles at The Palms) find a comfortable home.

This strategy is relatively easy to accomplish in regional destinations such as Atlantic City and Mississippi, but will remain a challenge in existing and emerging high-tax franchise markets such as Delaware, Florida and Pennsylvania. ■

Casinos can
make inroads
by cultivating
more attractions.

Benchmarking snapshot: Est. position hours per visitor trip in Atlantic City



ATLANTIC CITY PRODUCTIVITY DATA I*

| | NO. OF FULL-TIME EMPLOYEES, SEP-06 | ONE-YEAR CHANGE | TWO-YEAR CHANGE | THREE-YEAR CHANGE | NO. OF PART-TIME EMPLOYEES, SEP-06 | ONE-YEAR CHANGE | TWO-YEAR CHANGE | THREE-YEAR CHANGE | NO. OF OTHER EMPLOYEES, SEP-06 | ONE-YEAR CHANGE | TWO-YEAR CHANGE | THREE-YEAR CHANGE |
|-----------------|------------------------------------|-----------------|-----------------|-------------------|------------------------------------|-----------------|-----------------|-------------------|--------------------------------|-----------------|-----------------|-------------------|
| AC Hilton | 2,301 | -6.4% | -12.7% | -17.6% | 334 | 35.2% | 17.6% | 27.5% | 270 | 50.8% | -4.9% | 5.1% |
| Bally's | 4,673 | -9.4% | -19.0% | -25.0% | 389 | -35.6% | -36.6% | -31.0% | 655 | 10.8% | 10.5% | 19.5% |
| Borgata | 5,530 | 9.4% | 18.3% | 18.4% | 1,329 | 19.6% | 65.1% | 150.8% | 458 | 100.0% | 100.0% | 100.0% |
| Caesars | 3,329 | 4.0% | -6.4% | -14.6% | 281 | -9.4% | 0.7% | 18.6% | 634 | 19.6% | 13.2% | 10.3% |
| Harrah's | 2,718 | 5.3% | 7.4% | 1.2% | 148 | -0.7% | 23.3% | 76.2% | 327 | 44.7% | 5.1% | 8.3% |
| Resorts | 2,254 | -7.0% | -7.2% | -4.2% | 348 | 6.1% | 11.9% | 270.2% | 319 | 18.1% | 8.9% | -41.1% |
| Sands | 1,564 | -6.5% | -11.5% | -16.4% | 180 | -3.2% | 2.3% | -10.9% | 252 | 11.5% | 13.5% | -6.7% |
| Showboat | 2,283 | 7.3% | 4.9% | -8.6% | 188 | -7.8% | 46.9% | 108.9% | 379 | -3.6% | -26.8% | -25.1% |
| Tropicana | 3,758 | -7.8% | 2.1% | 0.5% | 634 | -10.3% | 14.2% | 17.8% | 380 | -29.9% | -10.4% | -21.6% |
| Trump Marina | 1,880 | -10.3% | -14.9% | -22.7% | 266 | -14.5% | -10.4% | -16.1% | 143 | -28.5% | -23.1% | -25.5% |
| Trump Plaza | 2,261 | -7.3% | -12.2% | -17.7% | 195 | -12.9% | -7.6% | -34.8% | 237 | -18.8% | 3.0% | 74.3% |
| Trump Taj Mahal | 3,622 | -5.6% | -9.1% | -15.1% | 597 | 2.6% | 25.7% | 37.9% | 293 | -42.5% | -42.0% | -35.5% |
| Total | 36,173 | -2.6% | -4.8% | -10.0% | 4,889 | -1.5% | 14.9% | 33.9% | 4,347 | 9.8% | 5.4% | 1.9% |

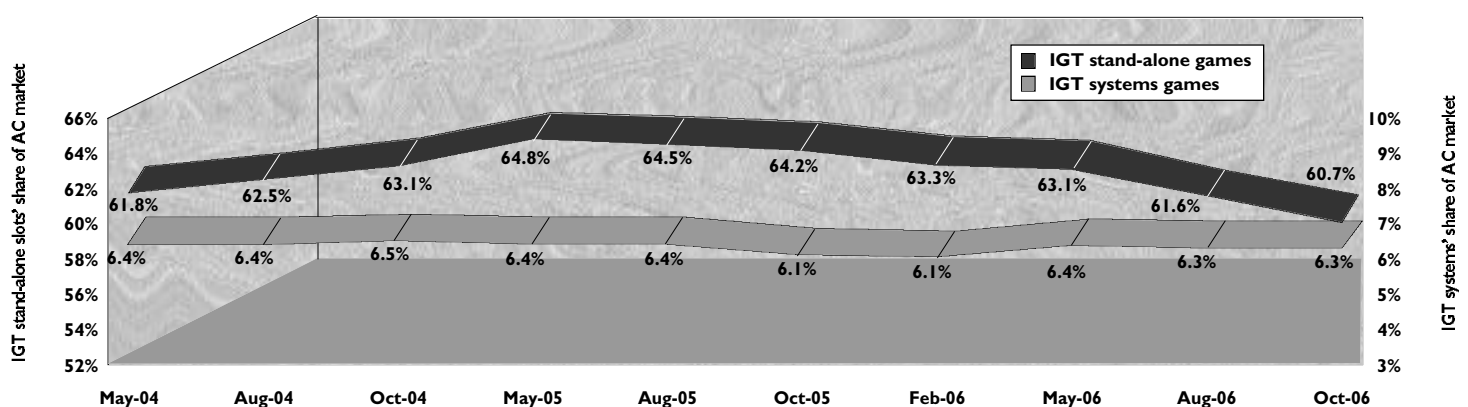
* Larger italic numbers indicate the highest number in that category.

ATLANTIC CITY PRODUCTIVITY DATA II*

| | EST. WIN PER FULL-TIME EQUIVALENT EMPLOYEE SEP-06 | ONE-YEAR CHANGE | TWO-YEAR CHANGE | THREE-YEAR CHANGE | FOUR-YEAR CHANGE | EST. AVERAGE WIN PER FTE, 12 MONTHS ENDING SEP-06 | CHANGE FROM 12 MONTHS ENDING SEP-05 | CHANGE FROM 12 MONTHS ENDING SEP-04 | CHANGE FROM 12 MONTHS ENDING SEP-03 | CHANGE FROM 12 MONTHS ENDING SEP-02 |
|-----------------|---|-----------------|-----------------|-------------------|------------------|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| AC Hilton | \$10,698 | 8.4% | 21.9% | 29.9% | 25.4% | \$10,326 | 16.4% | 18.7% | 21.0% | 19.0% |
| Bally's | \$11,742 | 22.4% | 30.5% | 48.2% | 37.5% | \$9,915 | 13.2% | 15.4% | 15.1% | 15.9% |
| Borgata | \$11,164 | 1.8% | 3.3% | 30.7% | | \$10,897 | 1.9% | 10.1% | | |
| Caesars | \$13,030 | 2.4% | 23.5% | 34.2% | 34.8% | \$12,799 | 13.1% | 19.2% | 26.0% | 23.2% |
| Harrah's | \$16,041 | 2.3% | 12.5% | 35.0% | 20.4% | \$15,048 | 5.3% | 9.4% | 17.0% | 23.6% |
| Resorts | \$10,251 | 9.1% | 15.0% | 39.8% | 30.8% | \$8,993 | 7.3% | 14.6% | 15.2% | 12.4% |
| Sands | \$8,121 | 7.1% | 7.0% | 16.5% | 9.3% | \$7,929 | -3.0% | 0.6% | 7.3% | 12.7% |
| Showboat | \$14,358 | -6.7% | 1.2% | 32.4% | 29.0% | \$14,773 | 4.7% | 15.4% | 34.6% | 38.4% |
| Tropicana | \$9,492 | 21.2% | 31.9% | 41.2% | 17.4% | \$8,514 | 11.0% | 16.6% | 9.4% | 10.8% |
| Trump Marina | \$11,497 | 38.4% | 23.2% | 47.5% | 33.7% | \$9,755 | 5.1% | 11.9% | 19.1% | 15.3% |
| Trump Plaza | \$11,377 | 20.4% | 23.6% | 38.8% | 33.4% | \$9,639 | -0.7% | 4.8% | 11.6% | 10.2% |
| Trump Taj Mahal | \$12,415 | 19.1% | 25.1% | 44.7% | 37.6% | \$10,700 | 7.3% | 13.3% | 20.5% | 19.7% |
| Total | \$11,722 | 11.5% | 18.7% | 37.7% | 30.0% | \$10,715 | 7.6% | 13.0% | 19.2% | 20.3% |

* Larger italic numbers indicate the highest number in that category.

Focus on IGT's shifting shares in Atlantic City



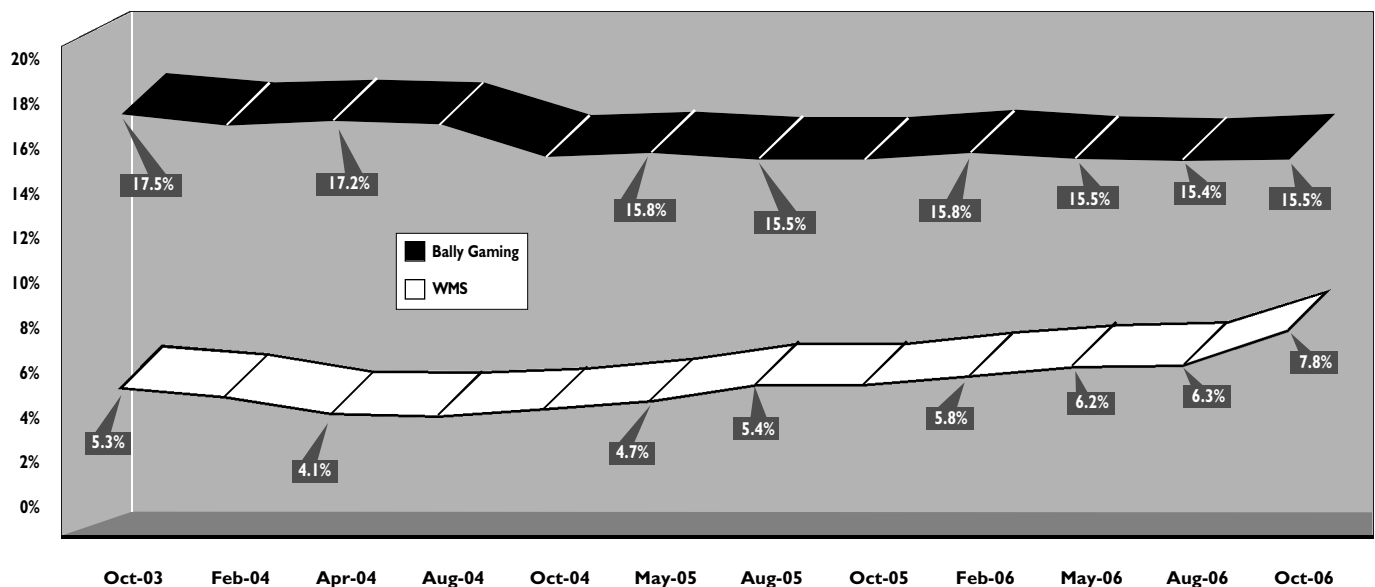
ESTIMATED ATLANTIC CITY NO. OF SLOTS, FALL 2006

| | TOTAL | ARISTOCRAT | ATRONIC | BALLY | IGT STAND-ALONE | IGT SYSTEMS | SIGMA | WMS | OTHER |
|--------------|---------------|--------------|------------|--------------|-----------------|--------------|------------|--------------|------------|
| Hilton | 2,246 | 185 | 1 | 402 | 1,327 | 120 | 49 | 153 | 9 |
| Bally's | 5,480 | 246 | 20 | 1,064 | 3,639 | 261 | 0 | 240 | 10 |
| Borgata | 4,073 | 433 | 20 | 785 | 2,209 | 275 | 54 | 280 | 17 |
| Caesars | 3,239 | 340 | 35 | 483 | 1,802 | 216 | 0 | 344 | 19 |
| Harrah's | 3,738 | 232 | 36 | 337 | 2,310 | 235 | 17 | 571 | 0 |
| Resorts | 2,754 | 74 | 94 | 580 | 1,644 | 220 | 36 | 96 | 10 |
| Sands | 2,000 | 65 | 48 | 334 | 1,313 | 153 | 0 | 64 | 23 |
| Showboat | 3,654 | 276 | 28 | 282 | 2,532 | 189 | 10 | 327 | 10 |
| Tropicana | 3,888 | 216 | 135 | 634 | 2,034 | 178 | 138 | 506 | 47 |
| Trump Marina | 2,013 | 271 | 0 | 196 | 1,261 | 137 | 19 | 104 | 25 |
| Trump Plaza | 2,274 | 173 | 0 | 210 | 1,539 | 198 | 8 | 128 | 18 |
| Taj Mahal | 3,778 | 251 | 12 | 748 | 2,148 | 289 | 68 | 230 | 32 |
| Total | 39,137 | 2,762 | 429 | 6,055 | 23,758 | 2,471 | 399 | 3,043 | 220 |

ESTIMATED ATLANTIC CITY SLOT MARKET SHARE, FALL 2006

| | ARISTOCRAT | ATRONIC | BALLY | IGT STAND-ALONE | IGT SYSTEMS | SIGMA | WMS | OTHER |
|--------------|-------------|-------------|--------------|-----------------|-------------|-------------|-------------|-------------|
| Hilton | 8.2% | 0.0% | 17.9% | 59.1% | 5.3% | 2.2% | 6.8% | 0.4% |
| Bally's | 4.5% | 0.4% | 19.4% | 66.4% | 4.8% | 0.0% | 4.4% | 0.2% |
| Borgata | 10.6% | 0.5% | 19.3% | 54.2% | 6.8% | 1.3% | 6.9% | 0.4% |
| Caesars | 10.5% | 1.1% | 14.9% | 55.6% | 6.7% | 0.0% | 10.6% | 0.6% |
| Harrah's | 6.2% | 1.0% | 9.0% | 61.8% | 6.3% | 0.5% | 15.3% | 0.0% |
| Resorts | 2.7% | 3.4% | 21.1% | 59.7% | 8.0% | 1.3% | 3.5% | 0.4% |
| Sands | 3.3% | 2.4% | 16.7% | 65.7% | 7.7% | 0.0% | 3.2% | 1.2% |
| Showboat | 7.6% | 0.8% | 7.7% | 69.3% | 5.2% | 0.3% | 8.9% | 0.3% |
| Tropicana | 5.6% | 3.5% | 16.3% | 52.3% | 4.6% | 3.5% | 13.0% | 1.2% |
| Trump Marina | 13.5% | 0.0% | 9.7% | 62.6% | 6.8% | 0.9% | 5.2% | 1.2% |
| Trump Plaza | 7.6% | 0.0% | 9.2% | 67.7% | 8.7% | 0.4% | 5.6% | 0.8% |
| Taj Mahal | 6.6% | 0.3% | 19.8% | 56.9% | 7.6% | 1.8% | 6.1% | 0.8% |
| Total | 7.1% | 1.1% | 15.5% | 60.7% | 6.3% | 1.0% | 7.8% | 0.6% |

Shifting shares in Atlantic City slot market



Cluster analysis

The cluster analysis in this newsletter breaks down as follows: The Atlantic City Hilton and Tropicana comprise the Route 40/Exit 2 cluster; Caesars and Trump Plaza are the Expressway cluster; Bally's and the Sands are the Brighton Park cluster; Resorts, Showboat and Trump Taj Mahal are the Inlet cluster; Harrah's, Trump Marina and Borgata are the Marina cluster. Caesars cluster (not included in the totals) is Bally's and Caesars.

ATLANTIC CITY TRANSPORTATION DATA, YEAR ENDING AUG-06

| | NO. OF BUS PASSENGERS, AUG-06 | YEAR-TO-YEAR CHANGE | MONTH-TO-MONTH CHANGE | NO. OF BUS PASSENGERS, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 | ESTIMATED NO. OF CARS PARKED, AUG-06 | YEAR-TO-YEAR CHANGE | MONTH-TO-MONTH CHANGE | ESTIMATED NO. OF CARS PARKED, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 |
|-----------------|-------------------------------|---------------------|-----------------------|---|--------------------------------|--------------------------------------|---------------------|-----------------------|--|--------------------------------|
| AC Hilton | 66,317 | -17.0% | 7.6% | 695,664 | 12.8% | 66,950 | 8.1% | 4.0% | 660,173 | 11.9% |
| Bally's | 169,098 | 82.2% | 105.0% | 1,164,920 | 8.9% | 128,082 | -3.5% | 6.7% | 1,335,859 | 9.7% |
| Borgata | 798 | 46.7% | 130.0% | 4,634 | -37.9% | 151,120 | -13.9% | -1.4% | 1,727,863 | -8.0% |
| Caesars | 61,574 | 18.0% | -7.7% | 633,193 | 12.7% | 139,968 | 7.6% | 2.8% | 1,345,909 | 31.9% |
| Harrah's | 5,237 | -26.8% | 37.0% | 57,734 | -17.3% | 132,924 | -5.2% | 10.7% | 1,423,026 | 3.6% |
| Resorts | 57,486 | 25.0% | 10.8% | 518,451 | 10.3% | 42,017 | -2.4% | 13.8% | 416,981 | 11.1% |
| Sands | 35,211 | -26.1% | 7.5% | 405,200 | -22.7% | 49,467 | -10.6% | 3.8% | 456,626 | 28.9% |
| Showboat | 79,551 | -5.7% | 11.4% | 845,667 | 4.8% | 133,081 | -11.0% | 3.5% | 1,416,693 | 4.5% |
| Tropicana | 52,572 | -5.4% | 18.0% | 568,842 | -4.7% | 124,442 | -20.1% | 3.7% | 1,287,830 | 5.8% |
| TrumpMarina | 8,274 | -26.6% | 17.3% | 83,898 | -30.7% | 75,992 | 55.9% | 13.6% | 538,874 | -6.2% |
| Trump Plaza | 57,830 | -18.5% | 29.8% | 544,751 | -30.5% | 72,787 | 16.7% | 13.9% | 538,383 | -10.8% |
| Trump Taj Mahal | 56,777 | 2.3% | 11.8% | 581,475 | -10.7% | 98,948 | 15.5% | 1.6% | 881,410 | -3.9% |
| Total | 650,725 | 7.8% | 25.6% | 6,104,429 | -2.8% | 1,215,779 | -2.0% | 5.2% | 12,029,628 | 4.8% |

ATLANTIC CITY CLUSTER ANALYSIS

| | NO. OF BUS PASSENGERS, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 | ESTIMATED NO. OF CARS PARKED, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 | ESTIMATED NO. OF VISITORS, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 | CHANGE FROM YEAR ENDING AUG-04 | ESTIMATED WIN PER VISITOR, YEAR ENDING AUG-06 | CHANGE FROM YEAR ENDING AUG-05 | CHANGE FROM YEAR ENDING AUG-04 |
|-------------------------|---|--------------------------------|--|--------------------------------|---|--------------------------------|--------------------------------|---|--------------------------------|--------------------------------|
| Route 40/Exit 2 cluster | 1,264,506 | 4.2% | 1,948,004 | 7.8% | 5,744,915 | 7.0% | 32.1% | \$135 | 2.9% | -10.5% |
| Expressway cluster | 1,177,944 | -12.5% | 1,884,292 | 16.1% | 5,511,816 | 8.5% | 4.0% | \$152 | -5.4% | -1.5% |
| Brighton Park cluster | 1,570,120 | -1.5% | 1,792,484 | 14.0% | 5,692,834 | 9.3% | -0.6% | \$148 | -5.9% | 0.6% |
| Inlet cluster | 1,945,593 | 0.9% | 2,715,085 | 2.5% | 8,190,288 | 2.1% | 2.8% | \$151 | 3.3% | 7.1% |
| Marina cluster | 146,266 | -26.2% | 3,689,763 | -3.6% | 8,632,721 | -4.1% | -3.3% | \$171 | 9.3% | 18.6% |
| Total | 6,104,429 | -2.8% | 12,029,628 | 4.8% | 33,772,574 | 3.4% | 4.7% | \$153 | 1.7% | 4.5% |
| Caesars Cluster | 1,798,113 | 10.3% | 2,681,768 | 19.8% | 7,966,179 | 17.5% | 10.5% | \$152 | -9.1% | -5.7% |

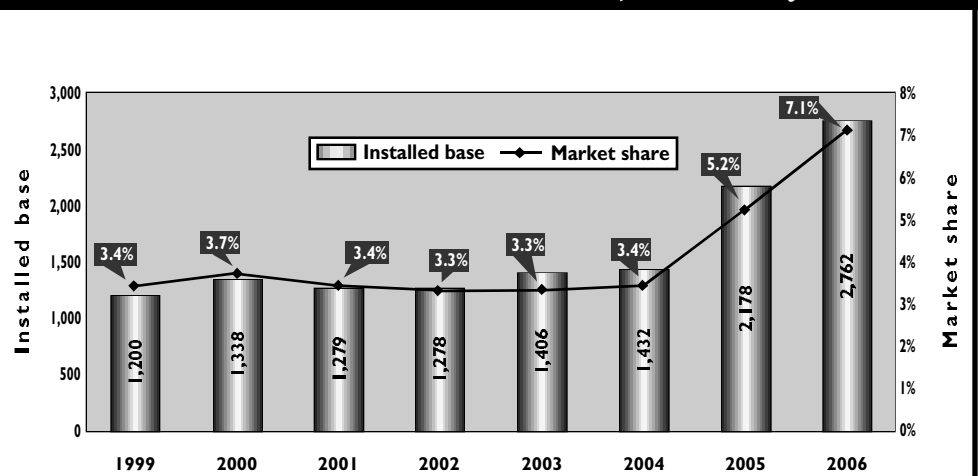
If You Want More Information . . .

The charts and tables in this issue represent only a sample of the data that are available to subscribers.

Michael Pollock's Gaming Industry Observer maintains data from previous periods, as well as for trends that are not listed here. We can also produce tables that focus on information specific to your needs.

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Focus on Aristocrat: Shifts in share, Atlantic City



Marketing trends II...

LOCALS PLAYBOOK REQUIRES FOCUS ON LOCALS ATTRIBUTES

The Las Vegas locals market is widely considered one of the best gaming markets in the country, stocked with customers who live in a gambling-centric economy and who are, to an extent, captive in the isolated desert metropolis.

Station Casinos and Boyd Gaming subsidiary Coast Casinos employ many of the same strategies to target these customers, and both have been highly successful in doing so.

Station (Palace Station, Boulder Station, Texas Station, Sunset Station, Santa Fe Station, Green Valley Ranch, Red Rock Resort, Fiesta Rancho and Fiesta Henderson) and Coast (Gold Coast, Orleans and Suncoast) use many common strategies. They each:

- Use a wide range of nongambling amenities like movie theaters, bowling, affordable buffets, and bars and nightclubs.
- Are convenient, with excellent access, abundant covered and surface parking, and child care centers.
- Lure gamblers with free payroll check cashing and check-cashing contests, nonstop direct-mail marketing, and pro football contests.
- Heavily weight their slot mix toward video poker.
- Offer sociable and slower-moving games including race and sports books, poker rooms, bingo parlors and keno.
- Continually update their technology and their gambling and nongambling amenities.

Each company, however, uses a different approach toward the same end — lessons for operators in any highly competitive environment.

A chief difference is that the Coast Club offers slot bettors cash back for points; Station's Boarding Pass club does not. Coast founder **Michael Gaughan**, who left Boyd in October to take over the South Coast (and renaming it South Point), said he believes players wanted the ability to redeem points for cash.

Coast awards slot points based on coin-out, whereas Station tallies points based on coin-in. The practical effect is almost nil, but there is a psychological difference, says Gaughan, who believed that his targeted customers would want slot points to be a gamble as well: Win more money, earn more points; win less money, earn fewer points. Station's coin-in method offers a predictable return: Bet \$1, earn one point.

Ironically, Gaughan has decided to use Station's coin-in point system at the South Point.

Station's Boarding Pass is a tiered card system like Harrah's Total Rewards. Special lines get bigger gamblers with higher card levels into the buffet or to the slot club window first. In addition to keeping their best customers happy, shorter waits in line allow them to return to the casino floor faster.

Once again, Gaughan's philosophy was responsible for the Coast difference. The Club Coast cards are all the same, and everyone stands in the same line waiting for a table at Coast buffets and cafes. Gaughan said he did not want his customers feeling like second-class citizens while bigger players waltzed past them.

In the pits, Station makes almost all of its comping decisions using a computerized formula that is based on rated Boarding Pass play. Average bet, length of play and games played factor into the dollar value of available comps pit bosses can grant players.

Coast pit bosses are granted much more flexibility to award comps to regular table players. Players are closely rated, but comping decisions are not as closely tied to the earned dollar value of customers' prior play. The Coast system reflects Gaughan's insistence that pit bosses develop close rapport with their regular players and his willingness to grant them comping authority, while the Station system reflects executives who want to make sure that comps are awarded to those who deserve them.

Coast pit bosses also more closely scrutinize blackjack play for card counting than do Station bosses.

Off the casino floor, Station and Coast pursue a different entertainment strategy. Coast showroom entertainers, with few exceptions, appeal to the 45-and-up crowd, with many acts most popular with senior citizens. Station's booked acts are more likely to appeal to patrons a decade or two younger.

Their clubs and bars reflect their different approaches, too: Station nightclubs tend to be hipper, host more young acts and draw a much younger crowd.

Coast's Orleans, which has an arena, is the exception, as bookers schedule a wide range of musical acts along with boxing, hockey and other sporting events.

But the Orleans and Suncoast showrooms largely book acts well past their prime.

In dining options, all Station-branded properties, except Palace Station, have a wide selection of brand-name fast food outlets: Fatburger, Panda Express, Quiznos and others. In the Coast casinos, most outlets are owned in-house.

Coast casino restaurants at the mid- and high-levels are more cookie-cutter than are Station's, but Coast's price points are generally lower. The restaurants at each of Coast's casinos are practically interchangeable, while Station's top-end restaurants are much more distinctive (and expensive).

Coast and Station have each learned that is not necessary to be all things to all people, nor is it necessary to engage in copycat tactics. Each has shown a willingness to act on its convictions based on its deep understanding of its customers. ■

Each has shown
a willingness
to act on its
convictions.

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New York update ...

RESIDENTS OF YONKERS SEEM TO GO BONKERS FOR EMPIRE CITY SLOTS

The soft opening of Empire City at Yonkers Raceway has provided some hard information about the market for gaming in that populous region north of New York City. For one thing, Yonkers is proving to be more than a locals racino.

It is already very much of a neighborhood gathering spot.

Veteran slots executive **Anthony Celona**, who is overseeing the sixth casino opening in his career so far, noticed on a recent evening that the casino floor was about 70 percent occupied. He walked outside to the parking lot, and expected to see a similar ratio of cars to spaces. He was astounded when he noticed that the parking area was only 30 percent occupied.

Many of the customers at the property, it seems, are walking to the slots. They live in the neighborhood, and are quite accustomed to using feet as the preferred mode of transportation.

Few casinos in the world could ever count on nearby residents to make up a meaningful portion of the visitor mix, but then again, few casinos in the world are in neighborhoods such as Yonkers.

This working-class community, in which renters outnumber homeowners, has a total population of nearly 200,000, with more than a third of them 45 or older. More than 131,000 adults are 25 or older.

If 45 percent of those adults visit at least eight times per year, spending \$80 per visit (a reasonable estimate for a community in which Empire City is by far the biggest attraction), the Yonkers residents alone could produce nearly \$38 million in annual gross gaming revenue. Add in the Bronx, the rest of Westchester County, and other nearby densely populated pieces of the New York puzzle, and you begin to understand why the future of this new racino is fairly well assured.

Even when the Aqueduct racino eventually opens and creates a new magnet for Queens and Brooklyn, Yonkers would still have a huge population base within its franchise territory.

Empire City is already doing well, even though it is a long way from operating on all eight cylinders. On its first Saturday, it generated \$836,000, while a week later, it reached \$927,000. With an initial inventory of only 1,870 machines, that equates to a daily win per unit on that Saturday of \$496. No paid advertising accompanied that soft opening (the date of which was decided on one day's notice), which makes those numbers even more eye-popping.

The first slots were limited to the first floor of the

existing clubhouse. An additional 500 games are being readied, at this writing, on the more attractive second level, which will focus on machines denominated between \$1 and \$25.

Another 3,000 games are expected to go online by the end of the year in a new, 120,000-square-foot building, which sits on the site of the old grandstand. When it is fully operational, Empire City will have 5,500 slots in a facility with a total investment of \$240 million.

Upon completion, Empire City will be able to compete very effectively for a slice of the discretionary spending pie in the region. The expansion offers much higher ceilings, and a New York look, complete from Art Deco touches to a theater, and an all-important parking garage.

Few slot managers could match Celona's vast experience in the Northeast, from managing the slot floors at Trump Taj Mahal to Foxwoods. He understands the market, and knows what will work. For example, he knows that it would be ineffective and not particularly profitable to chase the line bus business, since the tax rate in New York of about 60 percent limits the ability of any operator to offer cash incentives, and Empire City will be limited to food deals or other non-cash offerings. He has, however, negotiated for charter runs from groups within a 30- to 50-mile radius.

Empire City's ability to fully leverage either Celona's experience — or the populous market — is limited by certain increasingly perceptible flaws in the New York system.

For example, New York set up a scheme in which the four approved suppliers — International Game Technology, Bally Technologies, Sierra Design Group (now a division of Bally) and Spielo (now a division of GTECH) — must compete in a constant gladiator-style fight to the finish.

If any of the four competitors' cumulative offerings fall below 90 percent of the average win per unit in any quarter, the state will pull their machines out and replace them with the offerings of a supplier with a greater-than-average win per unit.

This winner-take-more strategy forces the suppliers to lobby the New York Lottery — which controls the machines — for prime real estate. Celona, based on his experience, would rather not clog the entranceways with low-denomination slots that attract more frequent play. As a smart manager, Celona recognizes the value of placing those popular machines in more attractive locations that would prompt players to venture more deeply into the bowels of the property. But, of course, Celona is focused on the interests of Empire City, and not necessarily those of the suppliers.

That creates an inherent, unavoidable problem, what is known in MBA circles as "goal incongru-

ence." If the different stakeholders in the process — the state, the operator and the suppliers — are all focused on different prizes, everyone comes up short.

Couple that with the high tax rate, and it is clear that even a smart operator in a great geographic location faces daunting challenges.

Additionally, New York's limitation on four suppliers has forced major competitors such as WMS and Aristocrat to enter via an indirect route. Some of their games have been licensed to Sierra Design Group, and thus run in Bally boxes. Of course, many of their more popular titles such as Monopoly are nowhere to be found.

Still, despite the challenges, Empire City at Yonkers is already proving that it has the ingredients for success: good management and a sizable local population.

Footnote: We do not expect New Jersey residents to be a meaningful slice of the Yonkers' revenue pie, partly because many are intimidated — or frustrated — by the Gordian knot of truck-clogged highways that must be traversed. Still, make no mistake: New Jersey is close enough to hear the slots at Yonkers, as well as those that are coming to other parts of southern New York.

New York slots will likely prove to be one of the more powerful engines that will be harnessed to advance the cause of approving slots at Meadowlands Racetrack — which is actually closer than Yonkers to midtown Manhattan. The argument will be put forward that slots are needed at the Meadowlands to protect New Jersey's northern flank from spending money on the wrong side of the Hudson River. ■

Observer launches Regulatory Digest

Gaming Industry Observer this month launched the Regulatory Digest, a national compendium of actions, petitions and other critical information from state-regulated jurisdictions and the National Indian Gaming Commission.

The Regulatory Digest is compiled by Regulatory Analyst Michael Diamond, who has decades of journalistic, investigative and other experience in following the gaming industry. Diamond most recently served as an Investigator with the New Jersey Office of the Inspector General.

The Regulatory Digest is delivered biweekly to *Gaming Industry Observer* Platinum Service subscribers at no additional cost. It joins the Capitol Gaming Monitor, Northeast Slot Report(c), and Quarterly Analysis series in the Platinum Service suite of proprietary reports, analyses and services.

To request samples of our Regulatory Digest or other Platinum Service products, contact Paula Leach at pleach@gamingobserver.com or (609) 272-1392. ■

Resorts' Encore stoke the visitor count. And that will be a problem, because McCarran is expected to hit its capacity in 2012.

After its already scheduled expansion is completed, McCarran capacity is estimated to be 53 million annual passengers (some of whom will be traveling Las Vegas, while others will be connecting passengers who do not actually visit the city).

Clark County, which manages Las Vegas airports, plans a new airport to relieve McCarran capacity in Ivanpah, near Jean — the small outpost with two casinos and a state prison about 10 miles northeast of the California state line. The Ivanpah airport is not scheduled to open until 2017 — if environmental reviews or construction setbacks do not cause delays.

There has been little public comment from casino operators or elected officials on the urgency of the airport capacity situation, but it is logical to expect that the billions in new and existing investment will spur the parties to cut red tape and accelerate both the environmental reviews and Ivanpah airport construction.

If there is a five-year wait — or longer — for airport capacity to catch up with the visitor demand, stopgap remedies might include moving more small jets to suburban airports in Henderson and North Las Vegas. There is no appetizing solution if tourist demand outpaces airport capacity. And one big reason for that is that the one traditional safety valve has its own capacity troubles.

INTERSTATE 15

In late 2001 and early 2002, when Las Vegas was reeling from the effects of 9-11, individual resorts and the Las Vegas Convention and Visitors Authority turned to the city's other reliable source of visitors: Drive-in customers. With last-second marketing pitches by direct mail and targeted television pitches to established drive-in markets, motorists flocked to Las Vegas and the city rapidly returned to its customary hotel occupancy rates above 90 percent.

Drive-in customers arrive on two main highways, from four different directions. Folks from points northeast including Salt Lake City, and from points southwest in Southern California take Interstate 15. Drivers from central Arizona and points southeast, and from Reno and the Pacific Northwest often take U.S. 95.

About 60 percent arrive via I-15 from Southern California; last year an average of 39,000 daily visitors crossed the freeway's state line.

But I-15 too often turns into an extended parking

lot on Fridays eastbound and Sundays westbound. What should be a four- to six-hour trip can become two to three hours longer (or even more) during the peak periods.

Nevada's state and federal politicians understand the importance of I-15 to the Las Vegas economy. They have widened and improved their portion of I-15. They have lobbied California lawmakers and transportation officials to do likewise to their section of I-15 — even contributing millions in Nevada federal highway funds to California's I-15 projects.

But it is difficult to persuade California lawmakers to make I-15 improvements a priority when the state has dozens of other overburdened freeways.

Nevada transportation officials do not have much faith that one oft-mentioned method of alleviating highway congestion will soon come to the rescue: High-speed trains. The cost of a super high-speed train linking Orange and Los Angeles counties to Las Vegas is seen as prohibitive without giant federal subsidies, and those are viewed as unlikely.

And plans by one private operator to develop a train that would link Las Vegas to Victorville, Calif., face long odds. Not only do most Southern Californians want to be able to drive their cars when they get to Las Vegas (instead of leaving their cars in a Victorville parking lot), but Federal Highway Administration officials want to use the I-15 right-of-way for road construction, not railroad tracks.

There are two partial solutions that could keep drive-in traffic flowing to Las Vegas. One is an increased emphasis on attracting drive-in customers from markets that do not use I-15 from southern California. Phoenix, Salt Lake City, the San Francisco Bay area and Reno are markets that might be profitably targeted.

The best solution may be toll roads. Many Southern Californians, particularly those in the affluent southern Orange County area, are already used to paying for the privilege of driving on less-traveled toll roads. Many also drive on otherwise congested freeways that reserve one or two lanes for those willing to pay. Nevada transportation experts are already floating the toll road idea to fund new lane capacity.

But until toll roads are built, toll lanes are added or I-15 is widened, weekend congestion on the main artery linking Las Vegas to its Southern California lifeblood will continue to get worse.

At some point, unless the looming I-15 and airport capacity issues are remedied, the true choke point will not be so much on the roads or taxiways, but on the gaming industry's P&Ls. ■

zoning relief, and otherwise render project proposals politically untenable.

Some 25 years ago, a few highly motivated project opponents might attend a local public hearing to express their point of view. Today, project opponents organize coalitions, put up websites, telephone public officials, pack meeting halls, conduct fund raising, and retain lawyers. They know which boards and officials in their municipality have the power to approve projects, and they know how to pressure these officials to get their way.

They also know how to use the ballot box. The Saint Index found that Americans want to know where candidates for office stand on development issues — and will not elect candidates who are perceived as development-friendly. The level of importance these voters place on a candidate's position on growth rises with the age of the voter — as does the propensity of a given person to vote. In other words, those most opposed to developer-friendly candidates are also those most likely to vote in the election.

Although numerous studies and analyses over the years have cited the benefits that casino operations can bring to a community, and have recorded the favorable views of public officials in communities that host casinos, the strength of NIMBYism is growing in both numbers and sophistication.

The political calculus is increasingly becoming a problem for developers: the people versus the greedy mega-corporation is much more attractive to the upwardly mobile local elected official than the supporting arguments involving the promise of community benefits packages and tax income projections. Casino operators seeking expansion outside of existing gambling centers, in particular, begin with a significant handicap. ■

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Marketing trends III...

IN COOLNESS WAR, BORGATA'S WALLET WINS HANDILY

In the classic Warren Beatty film "Heaven Can Wait," the former owner of the Los Angeles Rams is ruining how Beatty's character out-negotiated him to gain control of the franchise.

"My team. That son of a bitch got my team," the former owner laments.

"What kind of pressure did he use, Milt?," a friend asks.

"Well, I asked for \$50 million, and he said OK."

The friend pauses and shakes his head: "Ruthless bastard."

In the real world of entertainment, Borgata Hotel Casino & Spa has taken on the

Beatty character's persona, and it cannot wait to lock up as many A-list entertainers as it can. The odds are growing increasingly likely that when a star who can fill an arena plays Atlantic City, Borgata's name will be nearby. Notably, Borgata has even taken to sponsoring shows at Boardwalk Hall, where it will generate no walk-in business for itself, but will — to some degree — be sharing its largesse with its competitors.

The competitors, it seems, are not unlike the fictional Milt: begrudging admirers who display at least a hint of jealousy. They note that Borgata garners so many top entertainers because it is willing to say "OK" to higher prices.

This policy has produced both tangible and intangible benefits. For one thing, Borgata has created a significant source of revenue, with patrons paying top dollar with precious few of them getting comps.

For another, Borgata now dominates — although it does not fully own — that high-end market segment for entertainment because its policy of paying the going rate has created formidable barriers to entry for most of its competitors. Its daunting cash flow gives Borgata the wherewithal to finance that entertainment, which helps maintain that cash flow, which allows it to sign more entertainers, which intimidates competitors who are fearful of bidding for talent without any guarantee of an acceptable return.

Most important, Borgata has successfully used entertainment — along with its strong design, its well-placed restaurants and other assets — to position itself as the "cool" establishment in Atlantic City.

Wall Street recognizes the value of "coolness" although few can factor it into a discounted cash flow analysis. The core question is: How can coolness be defined in the context of a casino destination?

House of Blues at Showboat, for example, has set out to position itself as the cutting-edge venue for established niche artists and emerging performers in various genres from reggae to classic rock. Amidst the distinctly older Showboat demographic, House

of Blues has clearly established a "cool" beachhead, and has beaten competitors such as Trump Marina, which helped pioneer the concept but has since visibly retreated from that segment.

House of Blues is sometimes dismissed by its competitors as focusing on artists whose audience is too young and/or too cash-poor to be of much value to the gaming floor. But House of Blues has focused on more than

youth. Indeed, veteran artists such as Jeff Beck and Bonnie Raitt would belie the perceived focus on youth.

Age is not the issue; impact is.

The immeasurable concept of "coolness" is perhaps best analyzed by these yardsticks: What does it do for the bottom line? Can it be easily replicated?

By those standards, Borgata would seem to be the clear leader. Borgata need not grapple with the challenge that House of Blues faces at Showboat of needing to integrate disparate generations of customers under one roof.

It is free to pursue one positioning strategy. Its entertainment strategy is fully integrated with its mix of restaurants and night clubs, thus helping it attract customers who are either youthful or who view themselves as forever young. The latter category includes many affluent adults. The result is that Borgata's entertainment strategy creates its own revenue source, through ticket sales, while generating additional gaming, hotel and food-and-beverage revenue.

At the same time, Borgata's willingness to pay top dollar ensures that most of its competitors will leave it alone to pursue this successful strategy.

That is not ruthless. That is not foolish. That is a very smart way to deploy dollars.

Footnote: Borgata can see the day when it will not have to schlep customers across town for major concerts at Boardwalk Hall: It has, in the conceptual stage, plans for its very own 12,000-seat arena. Now that's cool. ■

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Michael Pollock's Gaming Industry Observer
is a division of Spectrum Gaming Group, LLC.
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