Pennsylvania outlook, page 8

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Michael Pollock's
GAMING INDUSTRY
OBSERVER
Intelligence for the Gaming Industry®

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# National outlook I ...

AS CONSUMERS CLOSE WALLETS, OPERATORS MAY CLOSE DOORS IN CERTAIN MARKETS

*(Editor's note: This is the second in an occasional series on how the recession is impacting the gaming industry. See Vol. 14, no. 2, p. 1 for the first installment.).*

The calls to us come at regular intervals: Reporters seeking independent commentary regarding when the once recession-resistant gaming industry in Atlantic City/Las Vegas/Connecticut/Wherever will rebound.

The commonly held belief is that the industry is attached to the hip of the overall economy, meaning that **Lawrence Summers** and **Alan Greenspan** may be better predictors of the industry's revival than any gaming-specific analyst.

We believe, however, that there are two critical questions to ponder in the meantime: What happens until then? And, logically, what happens after that point?

The answers themselves may be joined at the hip: A shakeout and lasting consumer retrenchment. It is

see SHAKEOUT on page 3

Save the date

EAST COAST GAMING CONGRESS

May 18 - 19, 2009
Atlantic City
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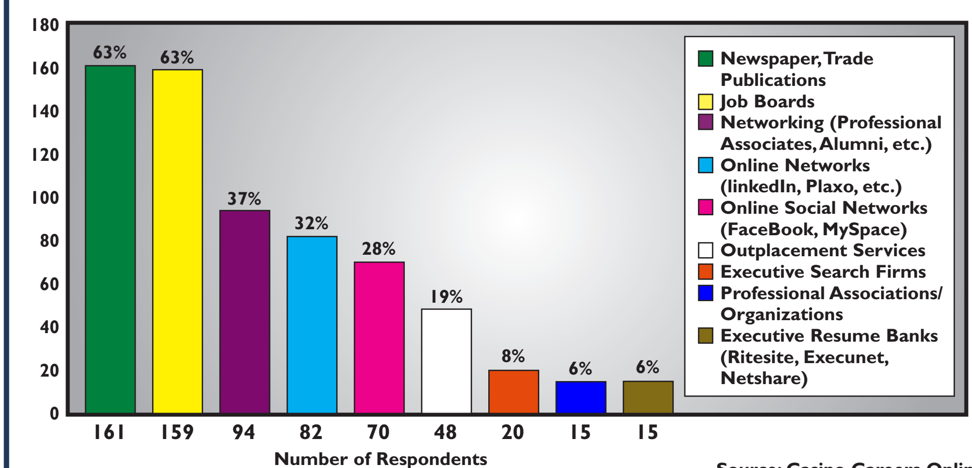
## Resources used to seek gaming employment




Source: Casino Careers Online

# Employment trends ...

THE LONGER EXECUTIVES SERVE, THE HARDER THEY FALL THESE DAYS; PLACEMENT CONCERNS ABOUND

*Editor's Note: The recession has led to a glut of available talent in casino management. To properly put this phenomenon into perspective, we turned to **Beth Deighan**, president of Casino Careers Online (www.casinocareers.com), a recruitment and HR consulting resource to the gaming-hospitality and technology industries.*

*With the expert assistance of **Mona Vaccarella**, **Susan Schneider** and **Zad Imam**, Deighan developed a proprietary survey specifically for the following analysis, which she authored.*

While the alcohol and gaming industries have traditionally shown to be recession-resistant, it is now painfully evident that they are not recession-proof. Year-over-year gaming results are on a steady decline in virtually all markets, resulting in layoffs worldwide, and although DISCUS (Distilled Spirits Council of the United States), reflected a revenue increase of 2.8 percent and a sales increase of 1.6 percent in 2008, the growth figures reflect a year-over-year slowdown, from 5.6 percent and 2.4 percent, respectively.

Elsewhere in the leisure industry, the downturn in the US hotel segment has reached a 20-year high in vacancies, the National Restaurant Association reports that restaurant activity has fallen to a record-low level, and cruise lines have slashed prices by 50 percent to attract passengers.

The US unemployment rate of 7.6 percent is at its highest level in 16 years, and 2008 was the worst year for the labor market since World War II.

With more than 11 million unemployed nationally, qualified candidates greatly outnumber the job opportunities available in today's marketplace, leaving a plethora of talented executives in the job market in every market sector — gaming, hospitality, information technology, banking, retail, manufacturing, and entertainment.

The problem is worldwide. The December 2008 jobless rate rose to 8 percent in the 25 European Union countries and China has a target unemployment rate of 4.6 percent in 2009, the worst since 1980.

To gauge the impact of the talent surplus on the gaming industry, Casino Careers Online launched an online career-transitioning survey of management job seekers in the casino/hospitality and technology industries last month. More than 250 respondents representing a cross-section of casino/hospitality executives in the job market completed the survey.

Respondents were comprised of 21 percent vice

see EMPLOYMENT on page 6

# National outlook II ....

STATES MUST RECOGNIZE
CASINOS AS PARTNERS,
SAYS PENN NATIONAL'S WILMOTT

*Editor's Note: The following is the keynote address of **Timothy Wilmott**, president and COO of Penn National Gaming, at our Pennsylvania Gaming Congress & Mid-Atlantic Racing Forum on February 24.*

As we sit here today, it's impossible to escape the reality that we are an industry in crisis. In fact, by the end of my remarks, you may think you just sat through a eulogy for a once-thriving industry we all knew and loved, but it's hard to paint a rosy picture of the economic tsunami that has befallen us.

The fact is, all of the major gaming operators, save for Penn National and Wynn Resorts, are either currently in default of their forbearance agreements, or at risk of violating covenants. While Wynn and Penn currently have the top two highest market caps, respectively, I have been in this business for 20 years and clearly no one has been spared from what I would consider one of the worst years I've ever seen in the gaming space.

In fact, we estimate that $70 billion in equity value was lost last year by the eight largest publicly traded gaming companies. For us, what we're finding is that it's less a function of visitation — in fact our customer counts aren't off that much — it's primarily a product of less spend per visit, which is the result of consumer discretionary spending being down everywhere.

Yet amidst this economic storm, the gaming expansion arms race continues to escalate in the Mid-Atlantic states. Here in Pennsylvania, we'll soon see a larger, permanent casino at the Meadows sometime this spring, the Rivers Casino project in Pittsburgh is scheduled to open this summer, and the much anticipated Las Vegas Sands project in Bethlehem has received its first shipment of slot product.

Meanwhile, the Philadelphia casinos are working hard to come online, and an effort is already underway to allow table games in Pennsylvania to further compete with neighboring states. There's also the proposal for video poker in the taverns, which may be a bit of a leap for a state that still hasn't privatized its liquor stores.

Meanwhile, in Maryland, voters in November approved of 15,000 slot machines at five locations throughout the state. West Virginia has seen the introduction of table games at three of its four race-tracks — soon to be four of four if we're successful at Charles Town, potentially in the fall. Delaware is debating legislation that would allow sports betting and the introduction of table games. And remember that Aqueduct in New York will be soon offering 4,500 slots.

With more and more competition coming, it's hard to escape the reality that there may simply be too much supply for the Mid-Atlantic market, and some of it quite honestly needs to shake out.

Pinnacle imploded the Sands in Atlantic City two years ago and customers don't seem to miss it. In December, Atlantic City experienced its biggest-ever monthly revenue decline — down nearly 19 percent from December 2007. In January, things improved a bit, but business was still down nearly 10 percent. It's clearly a disturbing trend that may be exacerbated by the fact that more than half of the casinos in Atlantic City today are currently in, or are facing, bankruptcy.

> 'Many states, incomprehensively, look to further restrict, tax and torture the industry.'

As most of you are no doubt aware, the RFP process for Atlantic City's Bader Field has been put on hold for the time being, given the state of the economy. Revel's $2 billion project was one of the bright spots on the horizon but it has been put on indefinite hold.

Even when the markets recover — and who knows when that will be — Atlantic City will face some daunting long-term challenges, including the new competition in Pennsylvania, Maryland, New York and elsewhere. Given my many years of experience in the Atlantic City market, I believe there's just not any good news that's going to be coming out of there for the next two to three years.

Lest you think this is only an East Coast problem of which I have been speaking, last year was the worst on record for declining gaming revenues in Nevada. The major hotel-casinos saw their net earnings drop by nearly 70 percent in the last fiscal year.

Yet despite the dire straights facing our industry, there is a stunning lack of awareness and understanding of our condition among the host states. Rather than look to help find cures to what ails this economic engine, many states, incomprehensively, look to further restrict it, tax it and torture it — particularly in places like Illinois, where the former governor invented the practice of economic waterboarding.

We recognize that the states have their own budget crises to deal with, but many mistakenly think they can hike taxes on us or impose new fees, or unreasonably expand their way out of these economic doldrums. It quite simply doesn't work that way. As our chairman (**Peter Carlino**) likes to say, the more you tax something, the less you get.

Maryland looks to be the poster child of that axiom. When you're trying to compete with Atlantic City, whose tax rate is a little over 9 percent, and Pennsylvania, whose tax rate is north of 55 percent, or even West Virginia, whose tax rate is a blended 60 percent, passing a bill with a 67 percent tax rate does not help very much. Not to mention that on top of what is the second highest tax rate in the country, there is a minimum required capital spend of $25 million per 500 machines.

While that's not a particularly high threshold, it does point to the state forcing minimum investment and not letting the marketplace dictate how capital is spent in this exceptionally high-tax jurisdiction. When you add in a lot of other unfortunate things in the enabling legislation to a historic credit crisis and ongoing recession, you've got a perfect recipe for diminished returns.

In fact, in the RFP process for the 15,000 allowable slots in five locations throughout the state, the total bids received — once you subtract the two that were disqualified — account for little more than one-third of the available machines.

By the way, Baltimore took the recipe and kicked it up a notch. On top of the 67 percent, they've imposed a $36 million land lease on the Baltimore site. They then had the audacity to complain about the lack of any real suitors. Now we can possibly understand why the Irsay family moved the Colts out of Baltimore years ago.

Penn is one of the bidders in Maryland and has proposed a facility in Cecil County near the Delaware border. We think our project will be successful, but I can assure you that it will be built with the tax rate in mind. It gives new meaning to the expression "sharpen your pencil."

In short, a low tax rate and a stable business environment are the primary ingredients that lead to significant capital investment. With the gaming industry extremely capital constrained, it's going to look more than ever to mature, stable markets to deploy its precious resources.

Things like smoking bans, which have been debated by every one of the Mid-Atlantic gaming states, and adopted by some, wreak havoc on a bottom line. In Illinois, for example, the smoking ban

*see WILMOTT on page 3*

W I L M O T T
continued from page 2

there is the primary reason why the industry is down nearly 25 percent year over year.

That is not the case in Indiana or Missouri, which don't have smoking bans. Atlantic City, hopefully, has learned its lesson as well on this subject, and the jury is still out on how badly Pennsylvania's smoking restrictions will continue to impact business here. The fact is, unless there is a true level playing field, which is difficult given tribal sovereignty at Indian casinos, you will always have some degree of smoker flight or, at the very least, less time on device which equates to less revenues.

Our industry is hampered by things like the inability to utilize tax free promotional credits in places like West Virginia, when neighboring states have them. There are also the high costs of regulations, as well as restrictions on complimentaries, low bet limits, and overly restrictive hours of operation.

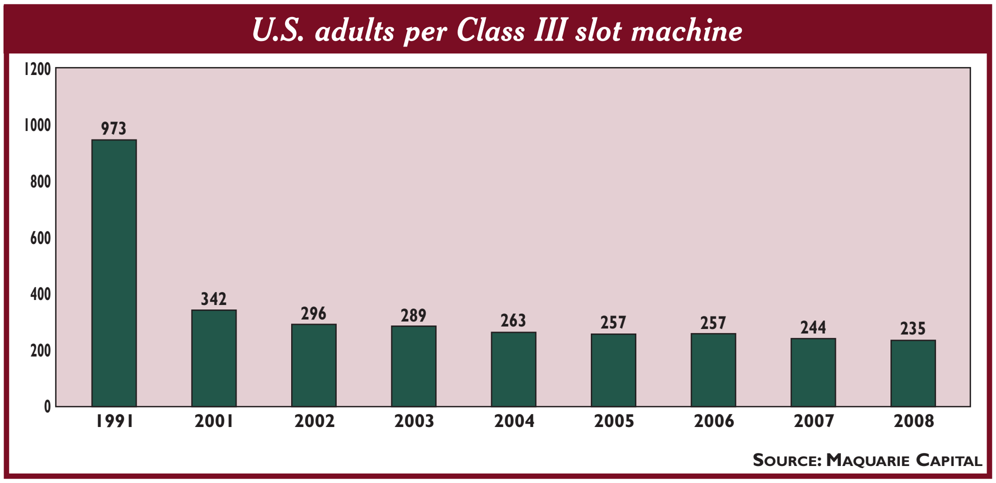
This may be heresy for a company whose heritage is in racing, but the $90 million subsidy the Atlantic City operators must pay to the horsemen in New Jersey is certainly a part of what ails the industry there and, frankly, it's just bad public policy. Just as it is in Illinois, where the most lucrative four riverboats — out of nine — must pay a 3 percent subsidy to a small group of wealthy racetrack owners. The nation now knows the full story behind that corrupt piece of legislation.

I'm here this morning to send a message — in fact, you could call it a wakeup call — to those states wanting to remain competitive in this ongoing expansion arms race: We are your partners. To the extent we are successful, you are successful. It's just that simple.

The reality is when the state's share is more than 50 percent of the gross revenues, it can be said the state owns more of the business than we do, and it's time for the states to look beyond partisan politics and political correctness and start looking at the business model.

Through stable markets, reasonable and steady tax rates, and perhaps even expanded gaming offerings, we are incentivized to invest enormous amounts of capital that benefit not only our individual companies, but the state, our host communities and our tens of thousands of employees whose jobs depend on our long-term success.

In these troubled times, we're not asking for a bailout, and we're not looking for handouts. We're just asking for states to recognize, as I said at the outset, that we are an industry in crisis, as many are today, and we need your help in removing the restrictor plates on this economic engine and allow it to regain its footing and achieve its fullest potential. ■




S H A K E O U T
continued from page 1

one thing for properties that are buckling under the weight of their debt to restructure when they have the hope of brighter days ahead; it is wholly another thing (or, if you prefer, a whole nuther thing) to restructure when there is little hope of reclaiming previous volumes patrons and dollars.

Macquarie Capital analyst **Joel Simkins**, one of the sharpest minds covering the industry, notes that, in the modern era of gaming, substantial casinos rarely close for good. Those that do are either purchased, recapitalized by new owners or are imploded to make room for a next-generation product.

However, the combination of rapid expansion and contracting consumer discretionary dollars has created saturation in some markets (see data on p. 5). Hence, restructuring may not make sense for certain properties — and may, in fact, be beneficial for the markets in which they operate.

"Given the steady climb in gaming revenues since the mass proliferation of the sector in the last 20 years, the industry has never seen such a dramatic pullback in fundamentals, particularly as new supply is still coming online in Las Vegas and a handful of other markets. It is difficult to predict how long the consumer malaise may last; however, it is reasonable to assume that the destruction of wealth and jobs has probably impaired the core baby boomer customer base enough to warrant a reduction in industry supply," Simkins said in a research report that quickly gained national recognition.

"Keep in mind that versus the early 1990s, when casino gaming was still a novelty, Class II/Class III slot machines are fairly ubiquitous and readily accessible to most Americans. Similarly, with the exception of Utah and Hawaii, most Americans can also find lottery, pari-mutuel, bingo, and other gambling alternatives as well," Simkins wrote.

"While we view free market competition as a good thing, not surprisingly many of the casinos that could go by the wayside reside in unlimited license markets like Nevada or Mississippi. In our view, the pro-business status of both states and low tax rates has something to do with a reasonable oversupply of capacity. While a market such as Atlantic City still generates attractive win per position metrics, the fate of some older casinos has not been enhanced by smoking bans, new competition from Pennsylvania, and chronic underinvestment in the non-gaming experience," he wrote.

Casino-style gambling is no longer a special experience for most Americans (see accompanying chart). The casino count in the United States is approaching 1,000 — that includes land-based, floating, racetrack, tribal and slot parlors. That figure excludes the dozens, perhaps hundreds, of casinos' worth of retail slots/VLTs, card rooms and illegal/gray electronic gaming devices.

The economic contraction is, rather efficiently (and without charging a consulting fee), identifying those markets that have a gaming oversupply. This will necessarily lead to a shakeout, and Simkins (who also does not charge a consulting fee, because he's a sell-side equity analyst) pegs Laughlin, Mesquite, Primm and Reno, Primm as likely candidates.

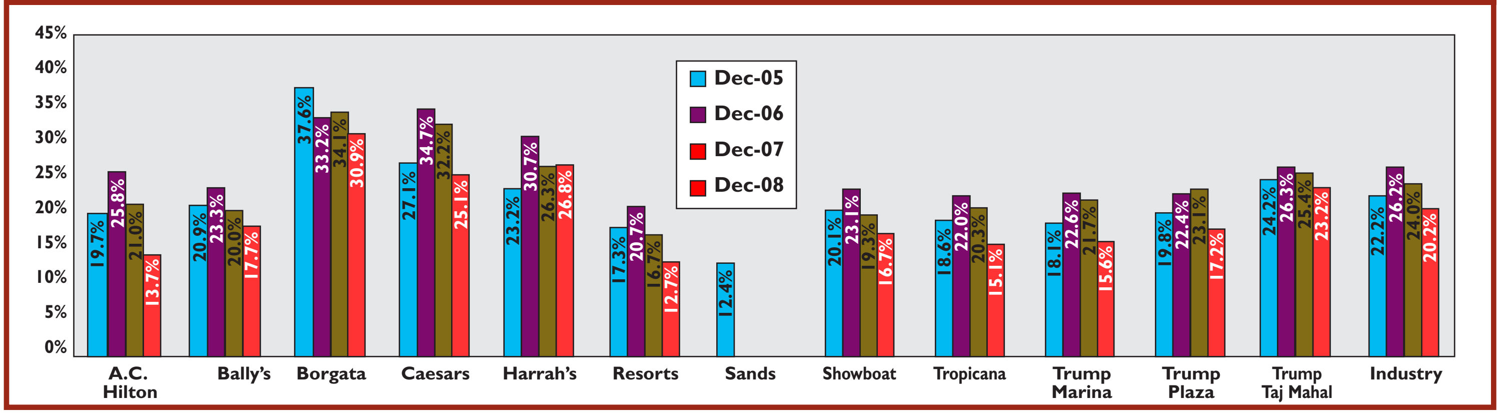
Each of these border markets flourished about three decades ago by attracting drive-in customers from Arizona, California and New Mexico. Those states, combined, now have more than 100 Indian casinos.

Downtown Las Vegas may be another shakeout candidate, whose cheap prices may not be so attractive now that the nicer Strip hotels are charging incredibly low room rates. Simkins, noting the financial issues facing Station Casinos, believes the Las Vegas locals market could also see a reduction in supply.

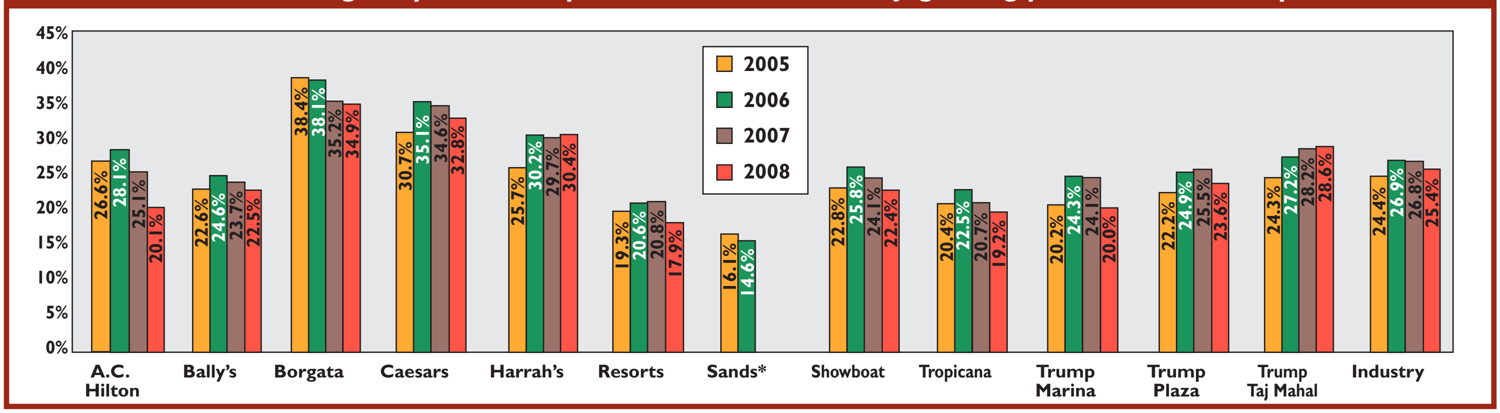
In Atlantic City, we concur with Simkins' belief that one to three more Borgata-quality properties could prosper. Some operators could emerge in good shape after restructuring, Simkins argues, but others may become victims of their age and physical

see SHAKEOUT on page 9

## Benchmarking snapshot: Est. pct. of time Atlantic City gaming positions are occupied

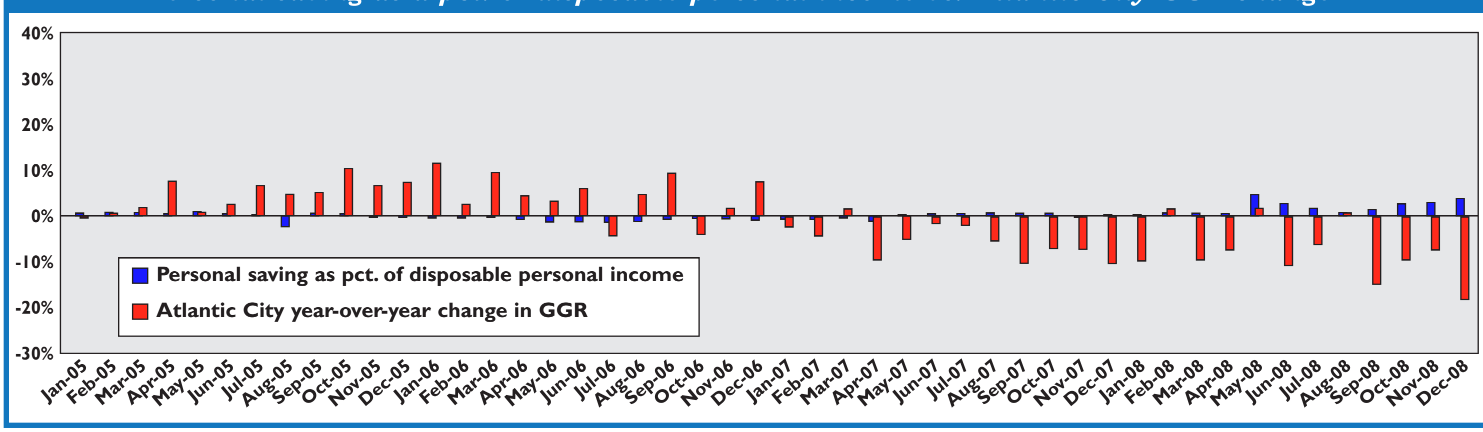



## Benchmarking snapshot: Est. pct. of time Atlantic City gaming positions are occupied

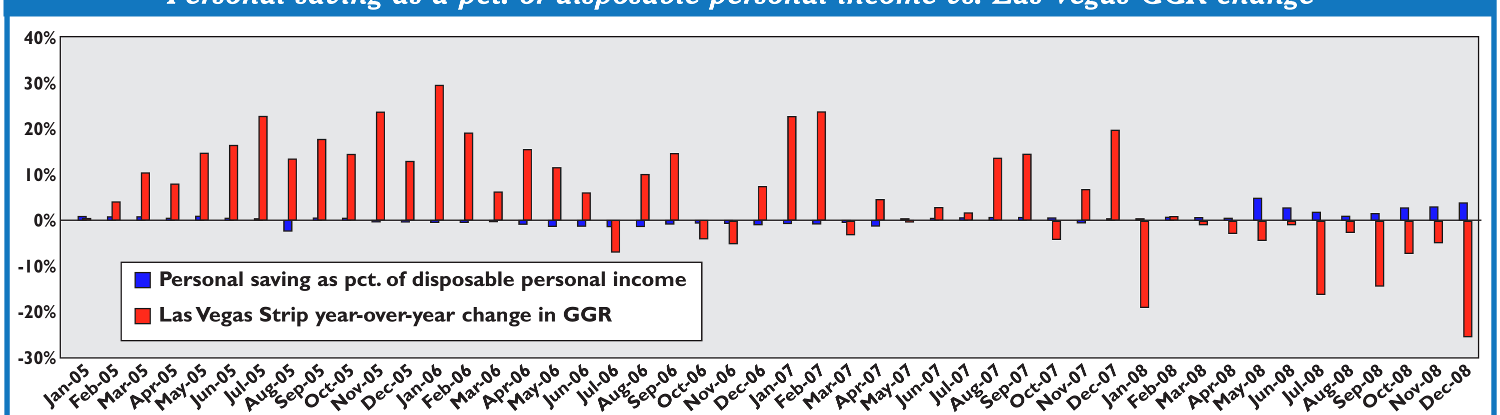



*The Sands closed on Nov. 11, 2006. Adjustments to model were made accordingly.

## Personal saving as a pct. of disposable personal income vs. Atlantic City GGR change*




## Personal saving as a pct. of disposable personal income vs. Las Vegas GGR change*




*See National ouitlook I on p.1

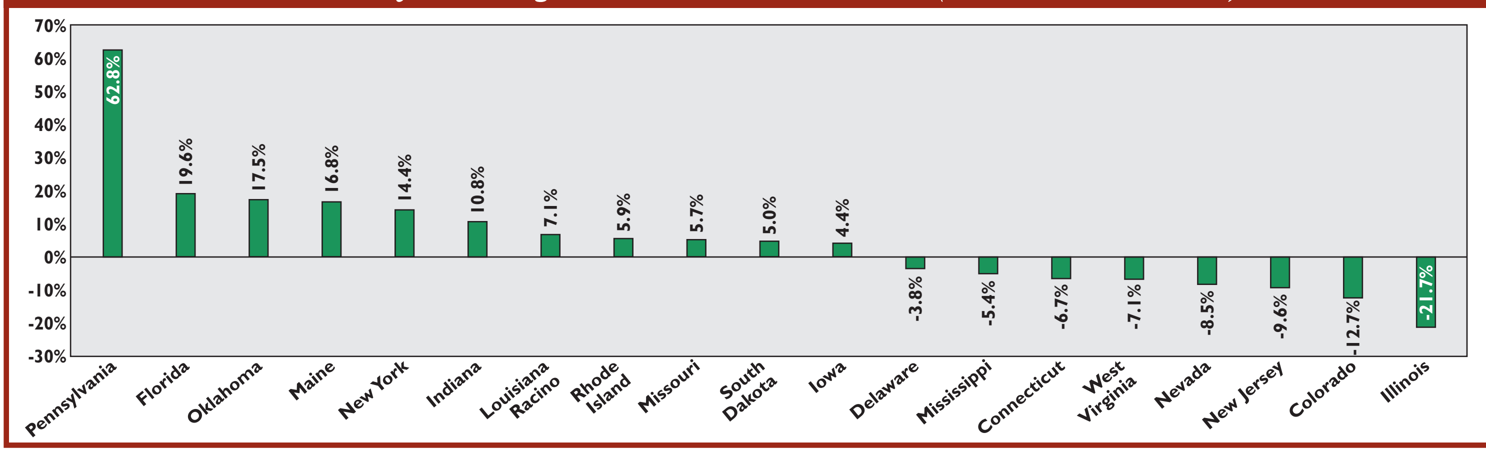
# *Statistical Focus ...* 2008 U.S. SLOT REPORT©

*Within this chart, year-over-year slot revenue among those properties in the Midwest (as we liberally define "Midwest") that publicly report results decreased by 3.5 percent, despite a 4.3 percent increase in supply. East Coast regional slot revenue increased 3.7 percent, despite a 5 percent increase in supply. Note that Nevada slot totals are likewise included, where revenue declined 8.5 percent and unit inventories were 1.7 percent lower overall.*

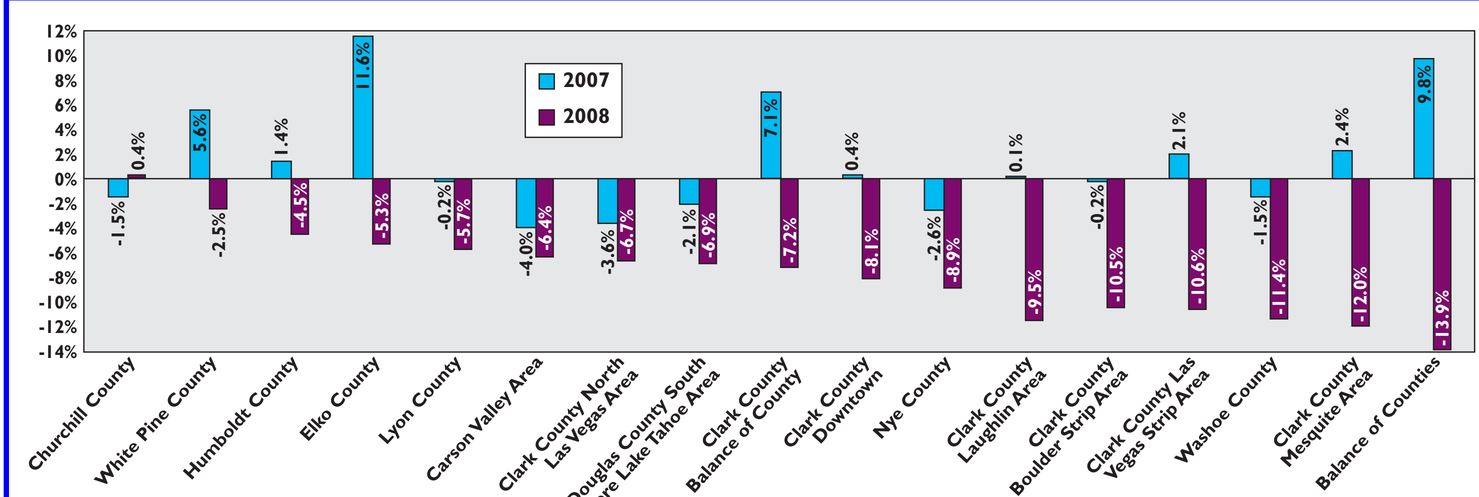
## 2008 U.S. SLOT REPORT (RANKED BY YOY CHANGE IN WIN)

| | HANDLE | YEAR OVER YEAR CHANGE | WIN | YEAR OVER YEAR CHANGE | UNITS | YEAR OVER YEAR CHANGE | DAILY WIN PER UNIT | YEAR OVER YEAR CHANGE | HOLD | YEAR OVER YEAR CHANGE |
|---|---|---|---|---|---|---|---|---|---|---|
| Pennsylvania | $20,458,078,493 | 66.8% | $1,774,107,999 | 62.8% | 15,911 | 27.7% | $309 | -4.9% | 8.67% | -0.22% |
| Florida | $2,915,490,660 | 22.9% | $246,369,837 | 19.6% | 3,675 | 1.6% | $183 | 3.7% | 8.45% | -0.24% |
| Oklahoma | n/a | n/a | $92,476,585 | 17.5% | n/a | n/a | n/a | n/a | n/a | n/a |
| Maine | $626,556,658 | 2.8% | $50,515,382 | 16.8% | 739 | 55.6% | $187 | -25.1% | 8.06% | 0.97% |
| New York | $11,475,834,993 | 13.1% | $947,275,378 | 14.4% | 12,961 | 2.4% | $200 | 11.4% | 8.25% | 0.09% |
| Indiana | $26,159,553,208 | 8.0% | $2,245,308,577 | 10.8% | 22,396 | 21.5% | $296 | -8.8% | 8.58% | 0.21% |
| Louisiana Racino | n/a | n/a | $395,473,124 | 7.1% | 4,840 | 2.0% | $229 | 3.2% | n/a | n/a |
| Rhode Island | $2,273,278,829 | 21.9% | $475,040,438 | 5.9% | 5,992 | 12.8% | $217 | -6.3% | 20.90% | -3.15% |
| Missouri | $16,825,630,643 | 2.1% | $1,500,691,965 | 5.7% | 19,441 | -1.4% | $211 | -3.5% | 8.92% | 0.31% |
| South Dakota | $1,052,134,542 | 2.8% | $93,675,884 | 5.0% | 3,717 | 1.2% | $69 | 3.5% | 8.90% | 0.19% |
| Iowa | $14,839,714,396 | -0.1% | $1,289,465,489 | 4.4% | 17,436 | -0.4% | $202 | 1.2% | 8.69% | 0.38% |
| Delaware | $7,618,504,200 | -5.9% | $588,933,000 | -3.8% | 8,076 | 11.8% | $200 | -14.0% | 7.73% | 0.17% |
| Mississippi | $31,548,943,095 | -8.3% | $2,267,321,588 | -5.4% | 34,908 | 4.8% | $177 | -10.0% | 7.19% | 0.22% |
| Connecticut | $18,621,145,703 | -5.5% | $1,570,957,954 | -6.7% | 14,036 | 5.5% | $306 | -11.9% | 8.44% | -0.11% |
| West Virginia | $8,858,114,404 | -9.1% | $863,272,707 | -7.1% | 11,754 | -0.9% | $202 | -6.3% | 9.75% | 0.21% |
| Nevada | $125,584,496,753 | -8.9% | $7,736,005,000 | -8.5% | 171,693 | -1.7% | $123 | -7.1% | 6.16% | 0.03% |
| New Jersey | $35,948,330,034 | -12.3% | $3,132,775,749 | -9.6% | 34,798 | -3.1% | $246 | -6.9% | 8.71% | 0.27% |
| Colorado | $10,258,282,884 | -14.2% | $684,767,739 | -12.7% | 16,538 | -0.5% | $113 | -12.5% | 6.68% | 0.11% |
| Illinois | $18,152,603,000 | -24.6% | $1,369,056,000 | -21.7% | 9,946 | 0.0% | $376 | -21.9% | 7.54% | 0.28% |
| TOTAL | $353,216,692,494 | -5.2% | $27,323,490,395 | -2.6% | 408,857 | 1.8% | $183 | -5.7% | 7.60% | 0.19% |

## Year over year change in 2008 U.S. slot revenue (ranked best to worst)




## Year over year change in 2008 Nevada gaming revenue (ranked best to worst)




Source: Nevada Gaming Control Board

presidents, 37 percent directors, 31 percent managers and 11 percent professionals. In summary, 58 percent were directors or above and 89 percent were managers or above.

A quick glance at the results reflects that managers are taking it on the chin, or more aptly, in their wallets.

The survey reflects a strong correlation between loss of employment and length of service in the industry. Eighty-six percent of those who have lost their jobs had 10 or more years of service in the industry; however, the longer length of service correlates with their management role.

We also learned through the survey that ...

• Terminations affected all casino/hospitality divisions.

• Fifty-one percent of the respondents had more than 20 years of service and 49 percent had 20 or less years of service (of whom more than 50 percent had less than 15 years of service).

• The respondents were from various cultures, with almost 30 percent speaking more than one language, including Spanish (30 percent), Hindu, German, Dutch, Russian, Arabic, Romanian, Italian, French, Chinese and Afrikaans.

• Over 83 percent of all respondents said they would consider an international assignment, with the Caribbean being the leading choice, followed by Australia/Oceania.

• Respondents indicated a willingness to seek employment outside of the gaming/hospitality industry in food and beverage, travel and tourism, arts, entertainment, recreation and marketing services and with government agencies.

• The majority of the respondents (58 percent) held a bachelor's degree and 18 percent held a master's degree, PhD, or JD. Historically, the gaming/hospitality industry has placed equal or more value on business experience, professional networking and human relations skills than education; however, education may be a critical factor as displaced job seekers seek employment outside of the gaming industry.

• Sixty-five percent of the respondents have been in the job market six months or less and 15 percent reported that they have been looking for more than a year.

So how are displaced employees trying to find new jobs? Respondents indicated that they first reach out to their contacts in the industry and then turn to other recruitment professionals. Their most frequently used vehicles to identify new positions are:

• Networking

• Executive search firms (used by over 60 percent of respondents)

• Job-posting boards (top three: Casino Careers Online, CareerBuilder and Monster).

Since severance pay can be used as a strategic tool to differentiate an organization in the tough war for talent and is often aligned with a company's business strategy, it was interesting to learn that 47 percent of the respondents reported that they received no severance pay. Of the 53 percent who did receive severance, the average severance period was for four months.

Over 92 percent gaming executives indicated that they expect to work beyond age 65.

To place these statistics in perspective, a recent global study across 28 countries by Right Management found that employees laid off in the United States earned the least amount of severance pay worldwide — no matter what level of employee or amount of tenure with the organization. Top executives in the United States earned as little as 2.76 weeks of severance per year of service, compared to a worldwide mean of 3.39 weeks per year of service.

A slim majority (51 percent) of the executives responding to the Casino Careers Online survey noted their willingness to pay a percentage of their first year's salary for assistance in placement. Services for which they were willing to pay included resume writing (23 percent), resume distribution to executive recruitment firms (23 percent), training in another occupation (22 percent) and posting their resume on numerous job sites (17 percent).

According to the US Bureau of Labor Statistics, 29 percent of those in their late 60s, which is the generation ahead of the baby boomers (those born between 1946 and1964), were still employed in 2006, up from 18 percent in 1985.

Thirty-two percent of those who belong to the first batch of the baby boom years said they will defer their planned retirement age because of financial concerns.

Possibly due to a lack of retirement programs in the gaming industry, over 92 percent of the respondents to our survey indicated they expect to work beyond age 65, with 78 percent planning to work fulltime and 58 percent indicating they may need to work at least five to 10 or more additional years. The unfortunate reality for many is that retirement is not financially viable and they will need to continue working, at least part time, to support themselves.

What are the greatest concerns of displaced executives in the gaming industry? Primarily it is the state of the economy and age. Their specific responses included:

• Impact of world economic financial problems on the job market, resulting in fewer opportunities that pay less.

• Age is viewed negatively — resulting in inability to get an interview to discuss qualifications.

• Due to the unfavorable job market, available positions are receiving more than 200 qualified applicants, making it more difficult to get noticed.

• The economy will continue to take a downward turn and the timeframe required to find employment will exceed the ability to sustain financial responsibilities.

• Considered to be overqualified, which is detrimental to getting an interview.

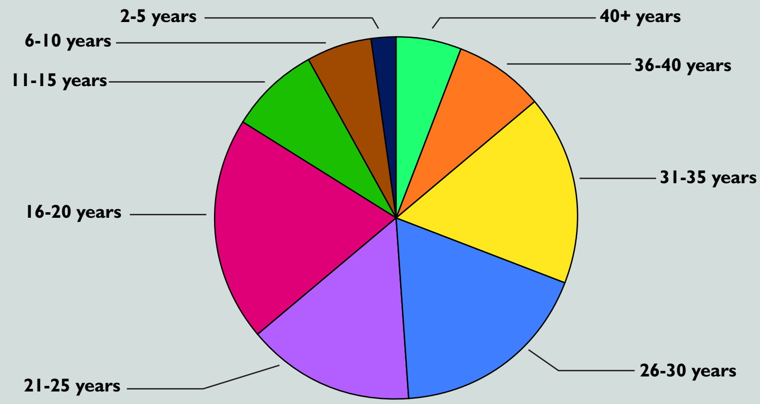
• Companies can pay younger, inexperienced managers less money while they train them, reducing the value of experience.

• The gaming industry is using the economy to get rid of older workers.

• Will not be able to secure a position in chosen field at the rate of pay equivalent to previous employment.

see EMPLOYMENT on page 7

### Length of industry service by survey respondents




Source: Casino Careers Online

# Cluster analysis

*The cluster analysis used in this newsletter breaks down as follows: The Route 40/Exit 2 Cluster is the Atlantic City Hilton and Tropicana; the Midtown Cluster is Trump Plaza, Caesars, Bally's and the Sands (which closed in November, and thus is still reflected in this data); the Inlet Cluster is Trump Taj Mahal, Resorts and Showboat, while the Marina cluster is Borgata, Harrah's Atlantic City and Trump Marina.*

**ATLANTIC CITY CLUSTER ANALYSIS**

| | NO. OF BUS PASSENGERS, 2008 | CHANGE FROM 2007 | ESTIMATED NO. OF CARS PARKED, 2008 | CHANGE FROM 2007 | ESTIMATED NO. OF VISITORS, 2008 | CHANGE FROM 2007 | CHANGE FROM 2006 | ESTIMATED WIN PER VISITOR, 2008 | CHANGE FROM 2007 | CHANGE FROM 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Route 40/Exit 2 cluster | 1,284,289 | -3.7% | 1,467,736 | -12.8% | 4,660,081 | -10.5% | -18.8% | $130 | -4.4% | -5.4% |
| Midtown cluster | 1,938,870 | -10.4% | 3,187,036 | -1.6% | 9,269,053 | -3.6% | -19.5% | $149 | -5.3% | 1.4% |
| Inlet cluster | 1,622,629 | -11.6% | 2,498,506 | -10.6% | 7,369,193 | -10.8% | -10.5% | $146 | 1.1% | -3.1% |
| Marina cluster | 105,814 | -14.2% | 4,309,030 | 1.7% | 10,016,582 | 1.5% | 11.5% | $149 | -3.1% | -11.4% |
| Total | 4,951,602 | -9.3% | 11,462,307 | -4.1% | 31,314,909 | -5.0% | -9.1% | $145 | -2.8% | -4.1% |

E M P L O Y M E N T

*continued from page 6*

• Not having the required higher-education degree.

• Inexperienced recruiters do not understand expertise required for jobs and therefore do not forward resumes.

• Casino employees usually have more job changes on their resume than the average person outside of the gaming industry, making transition difficult.

• Organizational streamlining has resulted in fewer executive opportunities.

• Inability to transition from gaming to other industries, which are experiencing the same reduction in opportunities and a surplus of job seekers.

• Finding a position where growth is available.

• Politics within tribal gaming.

So, what advice or hope can we give the displaced gaming industry executives and managers? The unemployment picture for 2009 looks bleak. Housing is still stuck in a quagmire; banks are tightening up on loan money; and it is uncertain how the economic recovery plan will impact the gaming industry, since discretionary dollars will no doubt be spent for necessities rather than gambling and entertainment.

By next year, despite the many employees deferring retirement, a large percentage of the workforce will be retiring. This is causing what is referred to as a "huge knowledge gap." This outflow of competent workers, however, does open many new job opportunities, even during a time when the economy is not growing.

Displaced executives should take advantage of resources that will better position themselves by:

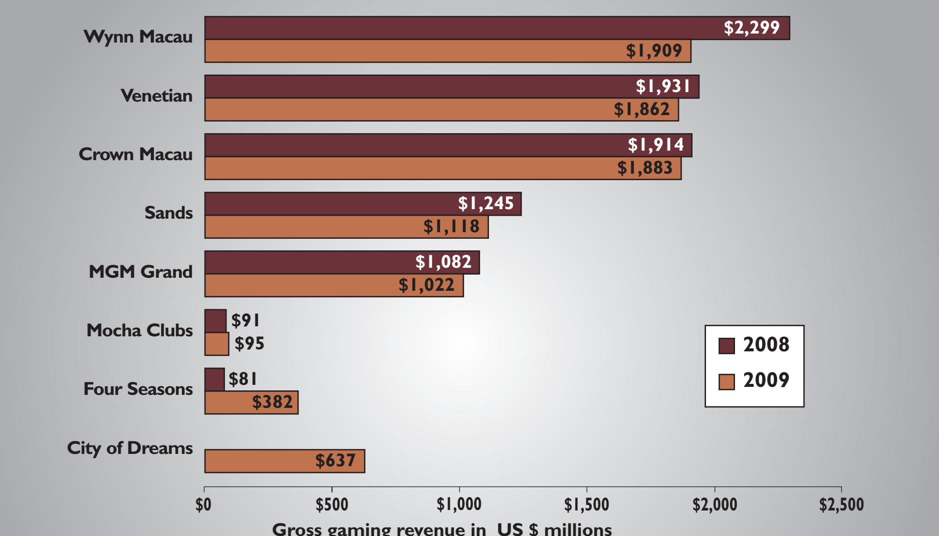
• Highlighting their skills and accomplishments.

• Differentiating themselves from the competition.

• Participating in training programs to keep their skills current and relevant to the changes in technology.

In these challenging times, take credence in the words of Benjamin Franklin, "An investment in knowledge always pays the best interest." ■

## *Jefferies & Co. Macau gross gaming revenue forecasts by property*




Source: Jefferies & Co.; Lawrence Klatzkin, analyst

*Like Atlantic City, Las Vegas and other US jurisdictions, Macau casinos are expected to feel pain in 2009. Jefferies & Co. is predicting gross gaming revenue declines at the five largest casinos, due to economic conditions, visa restrictions, and the opening of the Cityof Dreams.*

## *Atlantic City visitation …*

Amid all the tumult in Atlantic City, is there good news on the visitation front? Sure, there is, if you look hard enough. Note that the estimated GGR per visitor was down 2.8 percent year over year, while visitation was down 5 percent. This means that the "decremental" visitation (get used to that term; It is the inverse of "incremental" — which makes it very much a sign of the times) is weighted more toward the lower-end customer. This is supported also by the continuing drop in bus visits, which finished lower than 5 million for the year. The detailed table on visitation appeared on p. 4 last issue. ■

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# Pennsylvania outlook ...

## RETAIL VIDEO POKER PLAN RAISES MANY QUESTIONS IN QUEST FOR FAST DOLLARS

Pennsylvania Governor **Ed Rendell** surely looked at the results of his southwestern neighbor when he proposed legalizing video poker machines in bars and private clubs. And why not? The West Virginia Limited Video Lottery in fiscal year 2008 generated $411.6 million in gross gaming revenue — almost as much as the Mountaineer, Tri-State and Wheeling Island racinos combined.

Such top-line numbers could easily convince any state facing a budget shortfall — which these days is almost all of them — that retail slots (a catchall term) can be the public-sector equivalent of a bake sale: Fast generators of high-margin revenues.

States with an established gaming industry, however, should think twice before following the lure of easy top-line dollars. We suggest that they start by consulting the accompanying chart, which plainly shows that West Virginia's Limited Video Lottery (it is currently "limited" to 8,164 VLTs in 1,627 liquor-licensed establishments) sucked the growth out of the state's very own gaming industry.

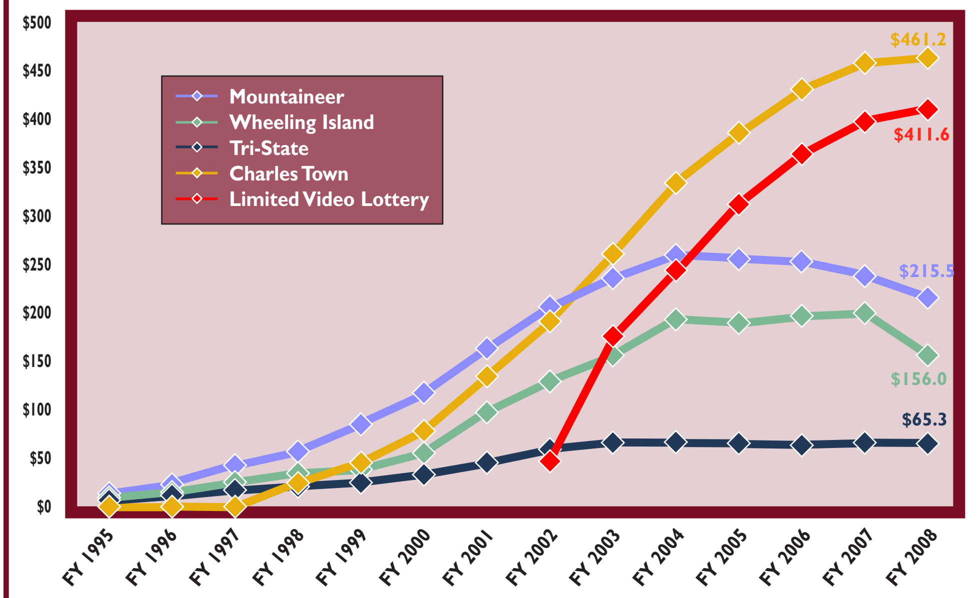
Note that Charles Town Slots was largely unscathed by the Limited Video Lottery, primarily because the added retail slots in its host and nearby counties represented only a 14 percent supply increase of the racino's inventory. The supply increases to the local markets of three other racinos have been much more significant: Mountaineer 54 percent, Tri-State 101 percent, and Wheeling Island 81 percent.

Overall, 63 percent of the West Virginia retail slots are directly competing against racino slot machines. In West Virginia's case, however, all gaming — the lottery, the racinos and the retail slots — are lottery products, thus net overall growth would supersede concerns of cannibalization.

This underscores the need for Pennsylvania to consider the impacts of retail slots, which apparently (the legislation has not yet been introduced) would be neither a gaming nor a Lottery product, but maybe a Department of Revenue or even a Liquor Control Board product. Pennsylvania's $1.8 billion gaming industry still is very much in a growth mode — and five casinos have yet to open.

Under Rendell's proposal, 14,000 potential locations would be eligible for five retail slots each — a 350 percent supply increase to the current slot inventory statewide. Even at Rendell's estimate that there would actually be 8,800 locations with four units each, that represents a 175 percent supply increase.

### Impact of West Virginia Limited Video Lottery




Source: West Virginia Lottery

As demonstrated in West Virginia, such supply increases would represent a threat to Pennsylvania's casino industry. At the Pennsylvania Gaming Congress, **Alex Picou**, Managing Director of Gaming, Travel & Leisure for KeyBanc Capital Markets, made the essential point that capital markets crave certainty in their investments. Changing the rules in Pennsylvania creates uncertainty, which translates into greater risk. That, in turn, translates into a higher cost of capital (investors need to be compensated for assuming greater risk), which means that capital investments in any area — from restaurants to hotels to almost anything else — might become more costly, and would be less likely to be built.

The state should be concerned about the uneven playing field created by retail slots. The casino licensees paid a $50 million privilege fee (see footnote) and further invested tens or hundreds of millions into their facilities, which employ hundreds. Installing four or five retail slots in an erstwhile coat closet would result in no capital investment or incremental employment. Without the attendant capital investment and operating costs, the state and/or tavern operators may be able to offer an optimal jacks-or-better 9/6 poker game whereas casinos may find it feasible to offer only an 8/6 or even 6/5 game.

Pennsylvania casinos are stringently regulated by the Gaming Control Board. Would four video poker machines receive the same level of compliance and monitoring? And by whom — Liquor Control Board agents? Would such a level of monitoring be perceived as an opening for, say, loan sharks seeking new customers?

Indeed, there are myriad questions. Others that come to mind: Would there be camera coverage on the machines? How would underage gambling be enforced? If a patron is deemed too intoxicated to be served, would he also be denied access to the video poker machine? Who will have access to the machines to clear a jam? Will the whole bar face closure, or just the machines, if the tavern operator is not compliant?

And then there are the games themselves. Will "video poker" be strictly limited to poker games, or will there be multigame options that also include blackjack and slot games?

One of the most important questions — and, quite often, one that is rarely contemplated by state legislators anywhere — is: What would this mean for the cost of capital for existing and future casino operators?

These and other questions should be answered before proceeding.

**Footnote:** The Commonwealth of Pennsylvania faces legal exposure — potentially hundreds of millions of dollars — if it were to authorize video poker. The gaming act mandates a full or partial refund of the $50 million one-time license fee if the commonwealth were to "increase the statutory maximum number of permissible licensed facilities" beyond the 12 specifically allowed.

Whether retail slots constitute "licensed facilities" would be at the heart of any court case, but the state's gaming operators are convinced the video poker proposal violates at least the intent of this clause, and they would file suit in short order.

The Act requires a full $50 million refund for each licensee if more slots are authorized within five years of initial licensure. After year five, there is a graduated refund schedule going down to $8.3 million in year 10. Beyond 10 years, there is no refund. ■

SHAKEOUT
continued from page 3

limitations.

"While Harrah's AC, Caesars, Bally's, and even Showboat as well as the Trump Taj Mahal remain very popular and economically viable buildings (minus large debt burdens), the reality is that several of the original casinos that emerged in the late 1970s like Resorts, AC Hilton, and the Claridge may not be viable in today's competitive environment," he wrote.

The riverboat markets, meanwhile, should fare relatively well due to the license protections.

MACRO SPENDING

The charts at the bottom of p. 4 have an eerily similar quality, with bars seeming to move in opposite directions in tandem. Indeed, these charts — designed to enlighten, not frighten — offer visible support to our various notes of caution issued over the past two years that casinos benefit strongly from the demise of consumer saving. That, in itself, is not surprising. The degree of correlation, however, is noteworthy. It also portends a rather dismal, short-term forecast.

The charts juxtapose the percentage of disposable personal income that consumers save, on a monthly basis, to the year-over-year changes in gross gaming revenue for two markets that are the most hip-joined with the economy: Atlantic City and the Las Vegas Strip.

Savings rates declined in recent years for several reasons, most notably the seemingly inexorable rise in housing values. Homeowners viewed their dwellings as a savings account with a picket fence. Why bother salting away the historic standard 7 to 9 percent of savings in a bank? Rather, spend the money and let the homestead handle the saving.

Recent events have rocked everything, from that way of thinking to the bank itself. The shift in recent months shows that consumers are paying down debt and saving again. From a societal standpoint, those are not unwelcome trends. For industries that rely on discretionary income, however, it is watching a horror story unfold.

We fully expect that savings rate will ultimately regress to the mean. That translates into lower expectations for casinos. The percentage of personal income going to casinos will not return to 2006 levels any time soon, if ever. Casinos will have to find new adults by expanding either demographically or geographically. That, of course, would require new capital investment (good luck on that) or new ways of thinking.

The challenges faced today are the most complex our industry has ever encountered. The issues span domestic and international borders and there no readily available answers that previous experiences would teach us. The foundation of industry's rapid expansion, unfettered increases in disposable income accompanied by a domestically undersupplied market have come to a grinding immediate halt. Consumers are hunkering down for the long haul and are being extremely frugal. This frugality is driven by fear.

Fear is a tough foe, no matter what the product. The "Poseidon Adventure," for example, was a great film in its day. It did boffo box office, but probably did not do much for the cruise industry. Fear causes a 180-degree flip in all behaviors; spending, vacation time, family dinners, movie nights, dates and recreation.

As a first step to reengineering business processes to address our current economy, the industry leaders should consider the following:

- Throw away conventional wisdom.
- Dispose of any market research data that was gathered during the boom years, or at the very least, eye it through the new prism of frugality.
- Old thinking is just old thinking. Create new paradigms for today's world.
- Yesterday's influential consumer attributes may not be today's.
- Don't rely on the same individuals who built the business to reengineer the business.

*(Harvey Perkins, senior vice president of Spectrum Gaming Group, parent company of this publication, played an important role in the development of this analysis. Perkins is leading a Spectrum initiative to offer Restructurings, Distressed Properties/Acquisition Services for bondholders, creditors and others who require independent evaluations or other services. For more information, see http://www.spectrumgaming.com/services/#distressed.)* ■

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