



# GAMING MARKET ASSESSMENT:

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## Proposed Casino Resort in Catskills Region of New York

Prepared for Cappelli Enterprises  
April 11, 2014



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## Executive Summary

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Spectrum Gaming Group conducted an independent market analysis of the proposed Concord Resort to be located in Kiamesha Lake, NY, in the Catskill Mountains. Cappelli Enterprises (“Client”) proposes to build a resort at the historic site by the same name and have the property branded and managed by Mohegan Sun.

Geographically, the Concord Resort would be located within a 2.5-hour drive of a highly concentrated and growing population, with approximately 19 million adults within the catchment area. However, from a casino gaming standpoint, the Mid-Atlantic/Northeast US has become an intensely competitive environment over the past decade. The competitive set of casinos within a 2.5-hour drive of the proposed Concord Resort includes eight casinos and another 11 existing or near-term additions just outside that perimeter.<sup>1</sup> Atlantic City, which is beyond a 3.5-hour drive of the proposed Concord Resort, also draws substantial visitation from the customer bases that the proposed facility will target (i.e., northern New Jersey and in/around New York City). The competition will intensify with the opening of four additional casinos authorized in upstate New York.

Although there is significant competition, not all competition is created equal. While all competitors throughout the region (and within a 2.5-hour drive of the proposed Concord Resort) have slot machines, only some offer table games and most do not offer a fully integrated casino-resort experience. Research has found that customers desire an atmosphere that combines gaming with high-quality hotel, dining, nightlife, shopping and spa experiences.<sup>2</sup>

Based on our discussions with the Client, its proposed project (Concord Resort) would include the aforementioned elements that are important to customers, including gaming, dining, and a hotel. Based on these discussions, we believe significant competitive advantages could lie in the more robust experience (i.e., a casino-resort experience), a tax advantage over several competitors, and in the branding and customer database benefits related to Mohegan Sun.

Under our moderate-case scenario, we project gaming revenue for the proposed Concord Resort ranging from \$250 million to \$255 million, depending on the competitive environment during the first full year of operations (assumed to be 2018 and post-ramp-up).

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<sup>1</sup> Turning Stone, Vernon Downs, MGM Springfield, Mohegan Sun, Foxwoods, Parx Casino, SugarHouse Casino, Harrah’s Philadelphia, Valley Forge, Hollywood Casino, Finger Lakes Racetrack.

<sup>2</sup> Portrait of American Gamblers; Yesawich, Pepperdine, Brown & Russell/The Innovation Group; 2005.

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## Introduction

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Cappelli Enterprises (“Client”) retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) to prepare a gaming market assessment for a proposed casino resort facility (“Client’s proposed project,” or “Concord Resort”) to be located in Kiamesha Lake, NY, in the Catskills/Hudson Valley region.<sup>3</sup>

More than 19 million adults live within a 2.5-hour drive of the Concord Resort location, including the majority of adults in the relatively affluent New York City metropolitan area. While these potential customers have several existing casino gaming options, we believe the dynamics of the market including physical locations, supply and demand imbalance, and tax structures combine to form an opportunity for additional gaming facilities.

Spectrum has examined and evaluated the Client’s proposed project, including the following aspects:

- The market demographics and access to the proposed complex, including, but not limited to, population, distance and per-capita income.
- Possible demand constraints on the various resort business components, including, but not limited to, hotel, food and beverage, and lodging operations, including the observed performance of the casino gaming options in the region.
- Possible constraints on the whole facility.
- The experience, performance and per-capita spending at comparable facilities in New York and other jurisdictions.
- Existing and potential future competition in the market and estimate of the proposed casino’s gross gaming revenue (“GGR”).

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<sup>3</sup> The Upstate New York Gaming and Economic Development Act defines the Catskills/Hudson Valley region to include seven counties in southern New York: Columbia, Delaware, Dutchess, Greene, Orange, Sullivan, and Ulster.

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## Project Overview/Highlights

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The proposed Concord Resort would be located approximately one mile from State Route 17 (Southern Tier Expressway) at exit 105.<sup>4</sup> The property is reached northbound via State Route 42 and then navigating around Kiamesha Lake on either Concord Road (County Highway 182) or Kiamesha Lake Road (County Highway 109), where the latter is a slightly longer drive. Access, including ingress and egress at the site, is excellent, with increased roadway infrastructure including multiple lanes in each direction and turning lanes located in the more heavily used area near State Route 17. The property itself enjoys substantial lake frontage to the west and roadway frontage to its east, with an existing golf course located across the street.

The proposed Concord Resort may yield specific advantages over other nearby and/or competing gaming facilities in New York and Pennsylvania, including:

- The proposed Concord Resort represents a substantial investment and could be among the most attractive gaming facilities in New York and Pennsylvania, where the primary competition exists.
- New York's commercial gaming facilities operate under high tax rates that may suppress capital investment and/or reinvestment into their respective facilities and marketing activities.
- Per the Upstate New York Gaming Economic Development Act, the Concord Resort would have a tax rate of 39 percent on slot win and 10 percent on all other games. This compares to effective tax rates in New York video gaming machine ("VGM") facilities greater than 60 percent in most instances. The effective tax rate in Pennsylvania was 53.9 percent on slot revenue and 14.2 percent on revenue from live table games through their most recent fiscal year, ended June 2013 (however, the effective tax on live table games will drop to 12 percent by the time properties in the Catskills/Hudson Valley become operational). The additional cash flow (stemming from a lesser effective tax rate) not only helps support the aforementioned investments in facilities, but it also helps management to market their facilities and reward players on an ongoing basis. These efforts can be effective, as demonstrated in the Connecticut and South Florida markets, where Native American casinos with dramatically lower revenue-sharing agreements (in the economic sense, identical to a tax) significantly outperform racinos targeting the same customer base.

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<sup>4</sup> State Route 17 is currently being upgraded to conform to interstate highway standards and when completed will be an extension of Interstate 86 (to the New York State Thruway in Woodbury).

- Per our understanding, the Concord Resort will be operated by Mohegan Sun, and will have the advantage of its database of customers and a management team experienced in the region. Mohegan Sun's Connecticut gaming resort has been particularly effective in the New York City market, and with the addition of the Mohegan Sun at Pocono Downs property in Pennsylvania, the company has an existing customer base and extensive experience in the Mid-Atlantic/Northeast.
- The presence of live table games will be an advantage in New York, as only the five in-state Native American casinos currently offer such games. Meanwhile, casinos in Pennsylvania, New Jersey and Connecticut all offer live table games. The 10 percent tax on table games revenue should help to make the proposed Concord Resort competitive with similar casino locations in neighboring states – with a slight effective table games tax rate advantage over Pennsylvania and a slight disadvantage to both New Jersey (8 percent) and Connecticut (where there is no direct tax or revenue sharing applied to table games revenue).

While these are all significant points, the Mohegan Sun database and low tax rate could provide key substantial marketing advantages for the proposed Concord Resort.

Spectrum utilized the following salient assumptions for a proposed Concord Resort:

- A casino having 1,800 slots and 50 table games
- A 252-room integrated hotel, along with requisite non-gaming amenities
- Operations commence on January 1, 2017
- The operations are branded and managed by Mohegan Sun
- Mohegan Sun uses its database to market the facility
- The facility is managed and marketed by professionals experienced in casino gaming in the region
- The regional economy continues to recover
- Tourism to the Catskill region continues at the reported levels
- Competing casino resorts are developed as described herein

Per Client directive, we analyzed two development scenarios for the Catskills/Hudson Valley region. In addition to the Client's facility, we assume a casino resort in the Town of Liberty is also operational (in Scenario 1); alternatively, we assume a casino resort in the Town of Thompson (Scenario 2). In both cases, those casinos are assumed to introduce 1,800 slot machines and 50 table games.

## Overview of Gaming in New York State and Neighboring States

New York has state-sanctioned casino gaming at 14 locations throughout the state, including VGMs at nine racetracks and five tribal casinos. The nine VGM facilities currently offer more than 18,000 machines, with more than 10,000 located in the New York City area. Collectively, the VGM facilities generated more than \$2.1 billion in GGR in 2013, up 8.9 percent from a year earlier (more than two-thirds of this VGM revenue was generated by the two facilities in the New York City area).

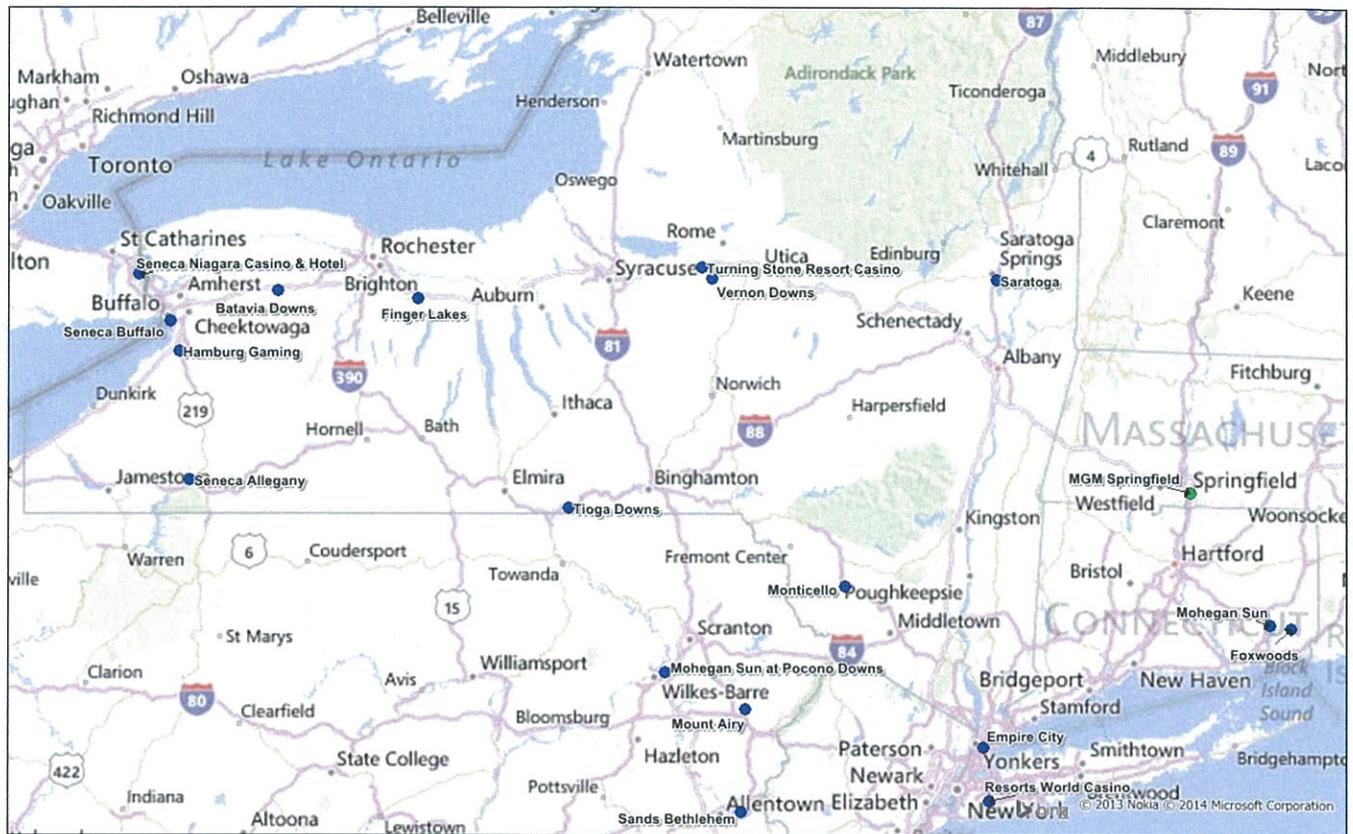
**Figure 1: New York VGM facility gross win and related metrics (2013 and 2012)**

Property	2013	2012	Change	No. Machines	WPU
Batavia Downs	\$51,082,656	\$48,949,630	4.4%	666	\$210
Empire City @ Yonkers	\$613,585,988	\$586,070,533	4.7%	5,327	\$316
Finger Lakes	\$144,285,830	\$140,761,529	2.5%	1,269	\$312
Hamburg	\$83,774,504	\$87,345,289	-4.1%	940	\$244
Monticello	\$70,230,491	\$69,011,874	1.8%	1,110	\$173
Resorts World NYC	\$861,926,603	\$718,198,055	20.0%	5,004	\$472
Saratoga	\$175,262,441	\$175,007,929	0.1%	1,782	\$269
Tioga Downs	\$65,618,883	\$67,652,682	-3.0%	802	\$224
Vernon Downs	\$48,148,719	\$48,099,321	0.1%	767	\$172
<b>New York Total</b>	<b>\$2,113,916,115</b>	<b>\$1,941,096,842</b>	<b>8.9%</b>	<b>17,667</b>	<b>\$328</b>

Source: New York State Gaming Commission

The following map shows these locations and existing locations in surrounding states, as well as the likely addition of a casino resort in Springfield, MA.

Figure 2: Gaming competitive landscape map



Source: State gaming commissions, Spectrum Gaming Group

## The Upstate New York Gaming Economic Development Act of 2013

The Upstate New York Gaming Economic Development Act of 2013 and a related amendment to the State constitution approved by voters in November 2013 enable the development of four casino resorts upstate and two VGM facilities on Long Island.<sup>5</sup> It is our understanding throughout this engagement that the Client intends to introduce a casino resort in the Catskills/Hudson Valley region under this legislation.

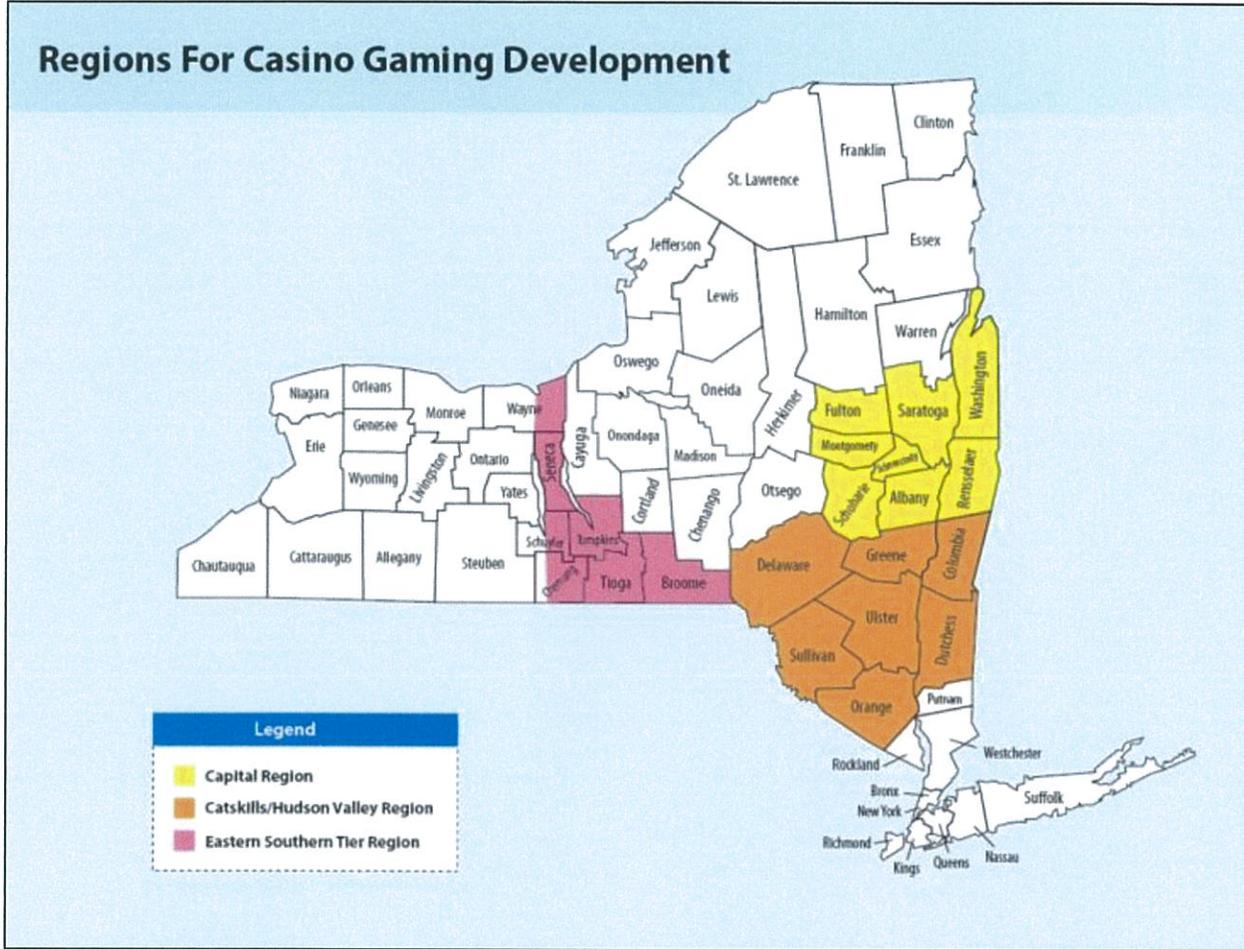
The legislation is intended to introduce at least one casino resort in each of three regions shown in the following map; we believe it is likely that two will be introduced in the Catskills/Hudson Valley region. Following are key provisions from the legislation:

- Successful bidders must commence operations within 24 months of being granted the license, which is valid for 10 years from the date of issue.
- Following a seven-year lockout period, up to three additional licenses can be awarded subject to legislative and voter approval.

<sup>5</sup> See <http://www.gaming.ny.gov/gaming/casinos.php> (accessed April 2, 2014).

- No smoking will be permitted in the facilities, and gamers will need to be 21 years of age or older.

**Figure 3: Regions for casino gaming development (per Upstate New York Gaming Economic Development Act of 2013)**



Source: New York Gaming Commission

The New York State Gaming Commission has established the New York State Gaming Facility Location Board (“Board”) to determine bidding procedures, evaluate applications, and select licensees. The Board has developed a request for proposals that requires financial disclosures, background checks, and details on its building and operating plans, among other things, from each applicant with the intention of awarding licenses in the fall of 2014. Criteria include economic activity and business development factors (70 percent weighting), local impact and citing factors (20 percent), and workforce enhancement factors (10 percent).

Licensing fees in the Catskills/Hudson Valley Region are \$70 million in Orange and Dutchess counties and \$50 million in the rest of the region. Should a resort be licensed in Orange or Dutchess county, the license fee in the other regions drops to \$35 million. In addition, taxes

on GGR are 39 percent in the Catskills, 45 percent in the Albany region, and 37 percent in the Eastern Southern Tier. All other GGR, which should largely be comprised of gross table game revenue, will be taxed at 10 percent. Additional payments to maintain 2013 payment levels to the racing industry, adjusted for the consumer price index, are required.

While these tax rates are higher than in other gaming jurisdictions, they are far lower than those paid by the existing VGM facilities in New York. On the other hand, revenue-sharing agreements with Native American tribes are at lower rates (Turning Stone, the closest property, pays 25 percent of its net slot win to the State) and seemingly provide them with a competitive advantage.

Additionally, the proposed Concord Resort would be competing to some extent with up to three other upstate casinos to be developed under the Upstate New York Gaming Economic Development Act. While the location, size and operation of these potential competitors is unknown, the Client has advised that the proposed Concord Resort would focus marketing efforts toward the more populated New York metropolitan area (i.e., to the south and east of the location); this could help to mitigate the impact of competition from other New York regions.

## **New Jersey Casinos**

Casino gaming in New Jersey commenced in 1978 and for more than a decade enjoyed a monopoly on gaming in the Northeast US. Over that time, and even while competition was introduced, the casino hotels located in Atlantic City drove impressive GGR growth. Proximity to major cities in the Northeast US and densely populated suburbs attracted visitation, increasing the attractiveness of the city as a destination and broadening its appeal. Investment in hotels and other amenities was substantial as the casino resorts competed to attract customers from throughout the Mid-Atlantic/Northeast US. Gross gaming revenue reached \$5.2 billion in 2006 before increased competition started to decline as the dual impact of increased competition and an economic recession took its toll; today GGR for the 11 casino resorts in Atlantic City is approximately half of what it was at its peak.<sup>6</sup>

The largest casino in Atlantic City, by gaming positions, is Borgata.<sup>7</sup> The property benefits from a modern, high-quality environment, layout and design, and superior amenities. Many other Atlantic City casinos are under pressure from the city's declining revenue levels brought on by competition that is more proximate to its historic customer base. Nonetheless, Atlantic City remains a popular tourist destination and a formidable competitor.

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<sup>6</sup> GGR for the last 12 months ended February 2014 was \$2.83 billion; however, adjusted for inflation (at 2006 dollars) this GGR is \$2.45 billion.

<sup>7</sup> One slot machine is one gaming position and one table games is six gaming positions.

**Figure 4: New Jersey casino performance, gaming positions, 2013**

Property	Slot Win	No. Slots	Slot WPU	Table Win	No. Tables	Table WPU
Atlantic Club	\$124,925,490	1,574	\$217	\$16,935,421	51	\$910
Bally's	\$163,416,180	2,248	\$199	\$78,351,617	109	\$1,969
Borgata	\$418,407,600	3,199	\$358	\$176,035,298	183	\$2,635
Caesars	\$209,421,964	2,131	\$269	\$124,630,811	145	\$2,355
Golden Nugget	\$95,605,199	1,430	\$183	\$28,862,753	76	\$1,040
Harrah's	\$269,851,423	2,410	\$307	\$82,197,718	136	\$1,656
Resorts	\$104,551,454	1,664	\$172	\$26,251,715	72	\$999
Revel	\$96,835,844	2,360	\$112	\$57,534,421	112	\$1,407
Showboat	\$151,986,130	2,232	\$187	\$38,134,809	90	\$1,161
Tropicana	\$180,858,101	2,609	\$190	\$44,539,283	105	\$1,162
Trump Plaza	\$61,542,210	1,598	\$106	\$12,412,023	64	\$531
Trump Taj Mahal	\$186,424,133	2,529	\$202	\$68,369,482	131	\$1,430
<b>New Jersey Total</b>	<b>\$2,063,825,728</b>	<b>25,985</b>	<b>\$218</b>	<b>\$754,255,351</b>	<b>1,274</b>	<b>\$1,622</b>

Source: New Jersey Division of Gaming Enforcement

The following table shows a year-over-year comparison for Atlantic City casinos, demonstrating the competitive pressure that the market is experiencing. Three of the 12 casinos experienced an increase in GGR – Borgata, Revel, and Resorts. Aside from the aforementioned Borgata’s competitive advantages, specific dynamics help explain the other two properties’ improved performance. Resorts is being managed by Mohegan Sun, benefiting from its customer database, branding, and rewards program extending across its Pennsylvania and Connecticut facilities. In the case of Revel, the property is relatively new and continues to hone its marketing strategies and mature within the market – as well as benefiting from easy comparisons to its low-performing first year.

**Figure 5: New Jersey casino performance, 2013 vs. 2012**

Property	Slot Win		Table Win	
	2013	2012	2013	2012
Atlantic Club	\$124,925,490	\$110,677,038	\$16,935,421	\$16,468,746
Bally's	\$163,416,180	\$197,915,229	\$78,351,617	\$94,750,352
Borgata	\$418,407,600	\$417,234,016	\$176,035,298	\$172,288,883
Caesars	\$209,421,964	\$229,462,232	\$124,630,811	\$125,788,203
Golden Nugget	\$95,605,199	\$97,278,949	\$28,862,753	\$32,731,478
Harrah's	\$269,851,423	\$297,882,399	\$82,197,718	\$95,843,719
Resorts	\$104,551,454	\$99,136,427	\$26,251,715	\$31,691,937
Revel	\$96,835,844	\$80,264,208	\$57,534,421	\$41,227,577
Showboat	\$151,986,130	\$180,807,068	\$38,134,809	\$41,578,197
Tropicana	\$180,858,101	\$190,371,544	\$44,539,283	\$55,986,523
Trump Plaza	\$61,542,210	\$83,118,505	\$12,412,023	\$19,387,100
Trump Taj Mahal	\$186,424,133	\$206,902,415	\$68,369,482	\$82,352,346
<b>New Jersey Total</b>	<b>\$2,063,825,728</b>	<b>\$2,191,050,030</b>	<b>\$754,255,351</b>	<b>\$810,095,061</b>

Source: New Jersey Division of Gaming Enforcement, Casino Control Commission

## Pennsylvania Casinos

The most immediate out-of-state competition for any new casinos in the Catskills/Hudson Valley will originate from properties located in Pennsylvania, which commenced casino gaming

in 2006. The properties are subject to an effective tax rate on slot revenue of 54 percent and a tax rate on table games poised to drop to 12 percent. The most proximate facilities to the proposed Concord Resort – Mohegan Sun at Pocono Downs, Mount Airy, and Sands Bethlehem – draw visitation from southern New York and northern New Jersey and will therefore most likely compete directly against the proposed Concord Resort (while each location offers lodging and other amenities to accommodate customers and enhance their experience). Combined, those three gaming resorts generated revenue in excess of \$1.1 billion in 2013.

**Figure 6: Eastern Pennsylvania casino performance, gaming positions, 2013**

Property	Slot Win	No. Slots	Slot WPU	Table Win	No. Tables	Table WPU
Harrah's Philadelphia	\$304,046,757	2,786	\$299	\$67,268,296	88	\$2,094
Hollywood at Penn National	\$254,564,516	2,458	\$284	\$32,384,211	53	\$1,674
Mohegan Sun at Pocono Downs	\$292,450,935	2,332	\$344	\$40,004,291	66	\$1,661
Mount Airy	\$174,376,208	1,929	\$248	\$38,628,442	63	\$1,680
Parx	\$486,829,944	3,363	\$397	\$102,421,178	120	\$2,338
Sands Bethlehem	\$433,084,762	3,014	\$394	\$165,129,737	146	\$3,099
SugarHouse	\$216,108,624	1,603	\$369	\$84,797,896	58	\$4,006
Valley Forge	\$80,265,634	600	\$367	\$33,046,232	50	\$1,811
<b>Eastern Pennsylvania Total</b>	<b>\$2,241,727,381</b>	<b>18,086</b>	<b>\$340</b>	<b>\$563,680,283</b>	<b>643</b>	<b>\$2,402</b>

Source: Pennsylvania Gaming Control Board, Note: Slot figures include slot promotional credits and free play.

Gross gaming revenue in eastern Pennsylvania grew from 2012 to 2013, with an increase in table play offsetting a decline in slot play. The Philadelphia area experienced additional competition as Valley Forge Casino Resort matured (it opened in early 2012) and led to a redistribution of revenue, with overall revenue levels being effectively flat between 2012 and 2013. While there were some changes in market share among the three northeast Pennsylvania properties, Mohegan Sun at Pocono Downs was relatively flat in 2013 compared to 2012. This demonstrates the relatively insulated nature of the market as it extends north into New York and near the Concord Resort. Additional competition from the final proposed Pennsylvania facility to be located in Philadelphia will largely compete for gamers residing further south, with competition in the Catskills being dependent on the licensees' locations and development and operating strategies.

**Figure 7: Eastern Pennsylvania casino performance, 2013 vs. 2012**

Property	Slot Win		Table Win	
	2013	2012	2013	2012
Harrah's Philadelphia	\$304,046,757	\$335,615,811	\$67,268,296	\$71,009,986
Hollywood at Penn National	\$254,564,516	\$269,624,948	\$32,384,211	\$34,108,323
Mohegan Sun at Pocono Downs	\$292,450,935	\$294,367,278	\$40,004,291	\$38,826,117
Mount Airy	\$174,376,208	\$187,856,754	\$38,628,442	\$37,316,187
Parx	\$486,829,944	\$491,594,241	\$102,421,178	\$93,168,307
Sands Bethlehem	\$433,084,762	\$416,369,427	\$165,129,737	\$135,136,749
SugarHouse	\$216,108,624	\$225,699,513	\$84,797,896	\$83,941,814
Valley Forge	\$80,265,634	\$45,671,791	\$33,046,232	\$21,419,728
<b>Eastern Pennsylvania Total</b>	<b>\$2,241,727,381</b>	<b>\$2,266,799,764</b>	<b>\$563,680,283</b>	<b>\$514,927,211</b>

Source: Pennsylvania Gaming Control Board. Note: Slot figures include slot promotional credits and free play.

## Connecticut Casinos

Two Native American casino complexes, Mohegan Sun and Foxwoods, are located in eastern Connecticut. The properties' relatively rural locations and effective tax on total GGR of approximately 18 percent have driven substantial investments in lodging and other amenities in order to attract and accommodate guests.<sup>8</sup> The two casino resorts are located approximately 15 minutes apart and combined offer more than 3,000 hotel rooms and more than 11,000 slot machines and 750 table games. In addition, live entertainment, meeting and convention facilities, food and beverage outlets, retail promenades, and spas are incorporated into the complexes to broaden their appeal.

The two Connecticut casinos opened approximately 20 years ago, giving them a chance to develop their customer bases prior to the opening of casinos in New England, New York and Pennsylvania. Only slot machine win is reported in Connecticut, where 25 percent of such slot revenue is allocated to revenue sharing with the State. Table play, which is not subject to revenue sharing, makes up about 28 percent to 30 percent of gross gaming revenue.<sup>9</sup> Gross gaming revenue in Connecticut has been under increased competition from expanding offerings in Rhode Island and New York, with further competition coming from expanded offerings in Massachusetts and New York. Slot win in Connecticut declined by 7.1 percent in 2013 vs. 2012.

**Figure 8: Connecticut casino slot performance, 2013 vs. 2012.**

Property	2013	2012	Change	No. Slots	2013 WPU
Foxwoods	\$591,517,504	\$654,417,002	-9.6%	5,920	\$274
Mohegan Sun	\$682,765,316	\$717,390,512	-4.8%	5,533	\$338
<b>Connecticut Total</b>	<b>\$1,274,282,820</b>	<b>\$1,371,807,514</b>	<b>-7.1%</b>	<b>11,453</b>	<b>\$305</b>

Source: Connecticut Gaming Division

## Northeast Gaming Synopsis

Over the past decade, casino expansion combined with the recent economic downturn served to intensify competition for casino visitation (and GGR) in many gaming markets throughout the Mid-Atlantic/Northeast US. In most cases, casino openings have been more proximate to population centers (i.e., New York City, Philadelphia, Pittsburgh and Baltimore), driving some overall GGR growth but also cannibalizing business that may have accrued at relatively rural locations such as Connecticut's Native American properties and to casino resorts in Atlantic City.

<sup>8</sup> Spectrum estimate based on 25 percent effective tax (or revenue sharing) on slot revenue and no such rate applied to table games revenue.

<sup>9</sup> Based on Mohegan Tribal Gaming Authority financial reports

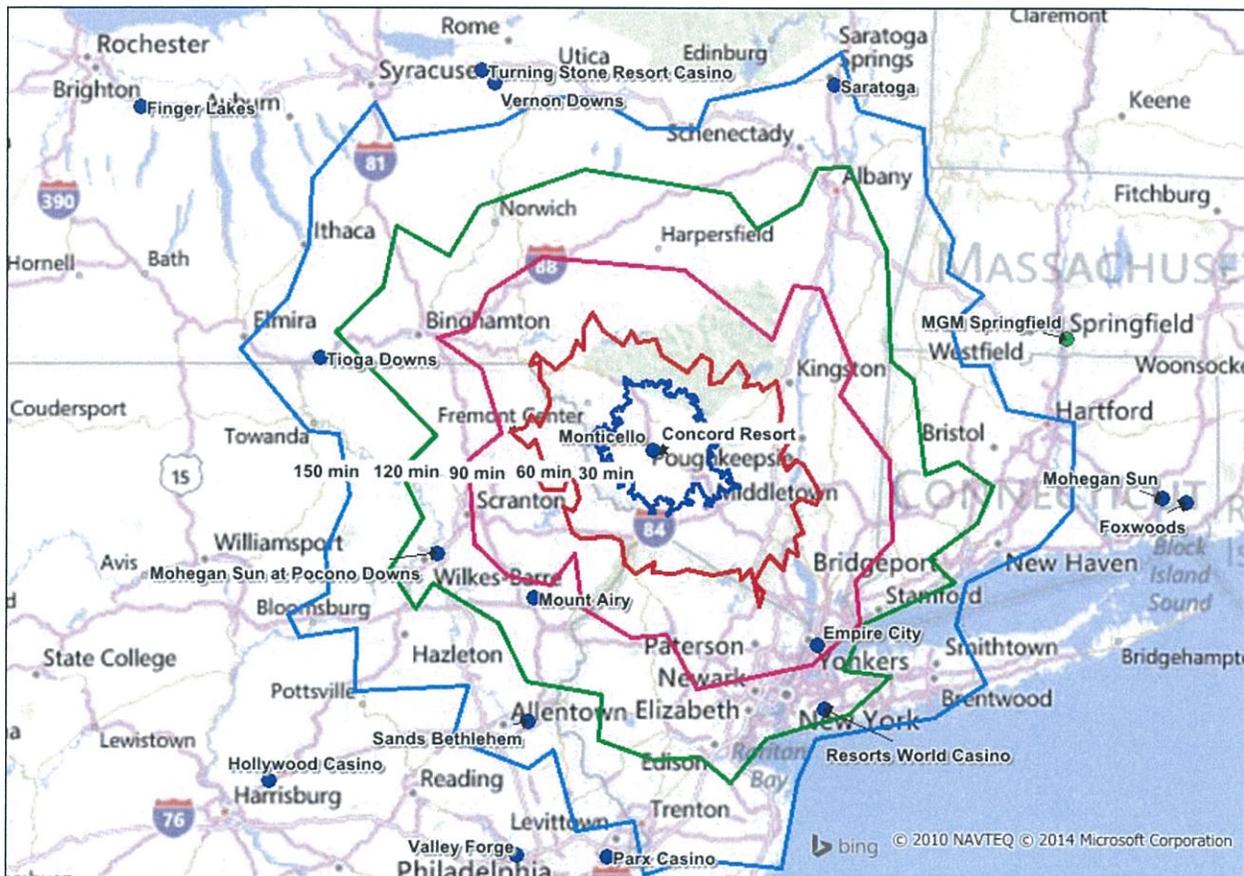
The proposed Concord Resort is comparable to the three northeastern Pennsylvania casinos in terms of the drive time from midtown Manhattan, and these casinos in addition to the possibility of another casino to be located in the Catskills/Hudson Valley will be in direct competition. The proposed Concord Resort (or any casinos in the Catskills/Hudson Valley region) will have a gaming tax advantage compared to the Pennsylvania properties for both slots and tables. More importantly, the three Pennsylvania casinos are located west of the New York metropolitan area along two major interstate highways, whereas the Concord Resort is located to the northwest along State Highway 17, which is in the process of being upgraded to an interstate highway. Other competition for a proposed Concord Resort includes the existing Monticello Casino and Raceway (a VGM-only facility) in nearby Monticello (less than a 10-minute drive) and two other VGM facilities in the New York City market (and elsewhere in New York), as well as more distant options throughout the Mid-Atlantic/Northeast.

## Demographic Analysis

The Catskills region had traditionally been a vacation destination for residents of the New York City area for decades. Consequently, we believe that there is an untapped population, predominately in New York State, that would choose a modern resort in the Catskills as a vacation destination. It is our understanding per dialogue with Client that casino gaming would be one of several amenities offered at the proposed Concord Resort, which would offer access to the natural beauty of the area and help to revive its reputation for leisure travelers. However, regional casino players already have attractive options including full-service casinos in Atlantic City, Pennsylvania and Connecticut, as well as at VGM facilities in New York.

From our experience, most Northeast US gaming facilities attract the vast majority of their visitation from day-trippers. The following map shows the proposed Concord Resort site and estimated driving distances from that location. Competing locations are also shown in the map. Aside from the nearby Monticello Casino and Raceway, there is currently a lack of competition in the immediate area.

Figure 9: Drive-time distances (in 30-minute increments) from Concord Resort



Source: Microsoft, NAVTEQ

The vast majority of the roughly 19 million adults that reside within a 2.5-hour drive of the proposed Concord Resort live outside a 60-minute drive from the site. The New York metropolitan area, including parts of New Jersey and Connecticut, lies between a one- and two-hour drive from the proposed location. The 60- to 120-minute drive-time band had more than 13.2 million adults in 2013 and is projected to grow to nearly 13.7 million in 2018.<sup>10</sup> Like other parts of the United States, the adult population in this market area is growing faster than the total population (i.e., reflecting an overall aging population). The existing and forecasted population for the five indicated drive-time bands in the preceding map and within a 2.5-hour drive of the proposed location is shown in the following table.

**Figure 10: Concord Resort area demographics**

Drive-Time Ring	2013		2018		Total	21+
	Population	21 and Over	Population	21 and Over	CAGR	CAGR
0 min - 30 min	86,204	62,131	89,451	64,171	0.74%	0.65%
30 min - 60 min	577,538	412,525	593,577	431,564	0.55%	0.91%
60 min - 90 min	4,968,587	3,610,397	5,092,599	3,751,678	0.49%	0.77%
90 min - 120 min	12,984,560	9,611,708	13,333,791	9,943,065	0.53%	0.68%
120 min - 150 min	7,385,867	5,428,575	7,535,298	5,630,933	0.40%	0.73%
0 min - 150 min	26,002,772	19,125,343	26,644,689	19,821,399	0.49%	0.72%

Source: Applied Geographic Solutions

We believe that the Catskills region’s ability to generate casino visitation (and gaming revenue from this visitation) will be largely dependent on visitation from adults from the New York City metropolitan area, as with several other gaming facilities in the region.

The New York metropolitan statistical area (“MSA”) is the largest in the US, with more than 19 million residents spread across four states. Unemployment in the New York MSA was 6.6 percent (preliminary estimate from US Department of Labor) in December 2013, identical to the national level. The diversity of the economy drives high AAHI (which may equate to more disposable income for casino participation), further enhancing the opportunity for the Concord Resort.

<sup>10</sup> Forecasted by Applied Graphic Solutions.

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## Tourism in the Catskills

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Several of the largest, legacy Catskills resorts closed in the face of declining visitation over the past few decades, although new attractions and marketing campaigns have helped reposition the market offering. The Sullivan County Visitors Association notes that its marketing effort within the LGBT community has existed for more than a decade, that dining has become more popular, and that Bethel Woods Performing Arts Center and the Monticello Motor Club represent new generators of tourism. The Association also reports increased visitation from customers that recall visiting the region in its heyday, an older demographic which also tends to frequent casinos.

The Longwoods International New York State 2011 Visitor Report provides details on 76.2 million overnight trips and 113.2 million day trips taken in New York during 2011. Respondents to the survey indicated that visiting a casino was the purpose for 2 percent of all overnight trips in New York that year, compared to 5 percent nationwide. However, 8 percent of overnight tourists in New York and 11 percent nationwide visited a casino during their trip. Day tourists in New York and nationwide cited casino gambling as the purpose of their trip 5 percent of the time, while 7 percent to 8 percent report actually participating in casino gambling.

In 2011, 3.8 million overnight trips were made to the Catskills, up from 3.5 million in 2009. Nearly half (48 percent) were from New York. The next-largest source of visitation was New Jersey, with 13 percent, while both Florida and Pennsylvania accounted for 6 percent of visitors. In terms of Designated Market Areas, 53 percent of all visitors came from the New York area, 7 percent from Philadelphia, 6 percent from Albany, and 4 percent from both Boston and Tampa/St. Petersburg. The average overnight visitor was 43.6 years old and 49 percent had salaries above \$75,000.

The Catskills' tourism market has adjusted to the modern competitive environment and developed new marketing campaigns and attractions. These efforts have been effective, and following a global slowdown in tourism the market the region experienced 4 percent compounded annual growth in tourism between 2009 and 2011. An additional opportunity exists in the casino industry, where New York lags the United States in its ability to attract casino gaming trips to commercial facilities largely due to its casino product, where most gaming facilities lack lodging due to the high tax rates. Spectrum believes that the introduction of new casino resorts will help modernize the hospitality product in the Catskills and attract more overnight trips.

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## Catskills Opportunity and the Concord Resort

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At the Client's request, Spectrum considered two casino development scenarios with respect to its plans in the Catskills. In both scenarios, the Client's proposed casino resort would be located at Concord Resort; however, each scenario assumes a second casino in the Catskills that would be operated by another party:<sup>11</sup>

- **Scenario 1:** The second casino would be in the Town of Liberty, approximately a 20-minute drive to the north of the proposed Concord Resort. While limited information is available, public information indicates that the second casino would be similar in scale, although with 350 hotel rooms (compared to 252 for the Concord), and would be operated by Foxwoods.
- **Scenario 2:** The second casino would be in or near the Town of Thompson, about a 10-minute drive to the south of the proposed Concord Resort.

As it is our belief (and consistent with Client's plans for the proposed Concord Resort) the Catskills casinos would target residents of the New York metropolitan area, the Concord's location closer (in the case of Liberty) or farther away (in the case of Thompson) relative to the competition is an important dynamic to explore. Casino gaming has proven to be highly dependent on convenient access, and the gravity model used to forecast these scenarios incorporates distances into the analysis accordingly. The model is based on empirical evidence, which shows that potential customers are less likely to visit a property if they must travel farther. Competing against this dynamic is the ability of a more attractive facility to attract people greater distances. In our experience, more attractive can mean larger but it is ultimately a combination of the number and variety of gaming options available, the number and capacity of the amenities, and the quality of the facility, its customer service, and its promotional offers.

Several markets in the United States exemplify this dynamic. In Connecticut, where Mohegan Sun and Foxwoods have their flagship properties, Mohegan Sun lies closer to New York while Foxwoods is more convenient to eastern Massachusetts. The two properties are similar in size, although Mohegan Sun offers a more modern and cohesive product that ultimately has a higher quality appearance and experience. Nonetheless, each property attracts a similar number of visitors. Mohegan Sun reports that approximately 20 percent of its visitors come from New York compared to 10 percent for Foxwoods. Conversely, 31 percent of visitors to Foxwoods come from Massachusetts compared to 18 percent for Mohegan Sun.<sup>12</sup>

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<sup>11</sup> Our designated locations are for modeling purposes only and do not assume that proposals for these locations are superior to those proposed in other locations

<sup>12</sup> Mohegan Tribal Gaming Authority, multiple earnings and investor presentations

Within the Catskills, competition will be focused between the prospective two new casino resorts (per our two scenarios), with the existing Monticello Casino and Raceway (a VGM-only facility) being at a competitive disadvantage due to its inability to offer table games and the higher tax rate. With two casino resorts located relatively close to each other, they will likely share many customers who enjoy the variety and take advantage of specific amenities and promotions. Given the amount of latent demand in the market, and the demand at existing facilities on weekends, midweek demand is likely to inspire the most competition. This is likely most similar to the situation in Connecticut, where their relative proximity enables customers to visit both casinos in one day. This competition benefits the community and customers, where the value created by the introduction of casino gaming are reinvested or given to customers through marketing promotions.

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## GGR Projections for Proposed Concord Resort

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As indicated earlier, the proposed Concord Resort is expected to have significant advantages in the regional gaming market, including a tax advantage, a superior facility, and a regional database and brand. To forecast revenue, Spectrum made the following assumptions:

- Operations at Concord Resort start on January 1, 2017
- Concord Resort will have 1,800 slots and 50 table games, along with a 252-key integrated hotel
- The operations are branded and managed by Mohegan Sun
- Mohegan Sun uses its database to market the facility
- The facility is managed and marketed by professionals experienced in casino gaming in the region
- The regional economy continues to recover
- Tourism to the Catskills region continues at the reported levels

Per Client directive, we assume two development scenarios for the Catskills/Hudson Valley region. As noted in the previous chapter, the scenarios are as follows:<sup>13</sup>

- **Scenario 1:** The second casino would be in the Town of Liberty, approximately a 20-minute drive to the north of the proposed Concord Resort. While limited information is available, public information indicates that the second casino would be similar in scale, although with 350 hotel rooms (compared to 252 for the Concord), and would be operated by Foxwoods.
- **Scenario 2:** The second casino would be in or near the Town of Thompson, about a 10-minute drive to the south of the proposed Concord Resort.

Importantly, under both scenarios, the competing casinos are assumed to introduce 1,800 slot machines and 50 table games.

Several new casinos are expected to open in the region between now and January 2017. Outside of New York, a casino is expected to open in Springfield, MA, and another casino is expected to open in Philadelphia. In New York, beyond our outlined development scenarios in the Catskills/Hudson Valley region, we assume casino resorts are located in Tyre (in the Eastern Southern Tier Region) and in the Albany/Rensselaer area (in the Capital region).<sup>14</sup> We assume all casinos in our modeling will introduce supply commensurate with demand in their area.

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<sup>13</sup> Our designated locations are for modeling purposes only and do not assume that proposals for these locations are superior to those proposed in other locations.

<sup>14</sup> Ibid.

The aforementioned assumptions support our moderate case, which is detailed below. In a later section other cases will be presented to account for potential impairments or enhancements to revenue.

## Local Market GGR

Spectrum used a gravity model to forecast GGR of the proposed Concord Resort. The major components incorporated into the gravity model include the proposed size of the subject casino and its competitors, the amenities available at each casino, the regional adult population, and the distance those people live from each casino alternative. In part due to its ability to include all of these elements, and due to support from empirical evidence, the gravity model is widely seen as the most accurate modeling tool available to analysts forecasting casino gaming revenue.

In fact, as gravity models quantify both the effects of size and distance, they are widely utilized in a number of applications. These include international trade, migration, trip distribution (transportation planning), and retail applications. In each instance, a function of mass is directly proportional to the attractiveness of each subject element. These can include the natural resources of a region, level of economic activity, or square footage of a proposed retail development. In addition, an inversely proportional relationship exists between visitation and distance. In other words, a greater distance makes visitation from any particular region less likely. This relationship has been shown to be exponential, such that the effects of a doubling in distance is amplified through a series of non-linear equations and leads to a precipitous loss in visitation.

Gravity models have been in use in these various economic and social applications since the late 1920s and are named for Newton's law of universal gravitation, after which the model is factored. This physical law states that the attraction between two masses is directly proportional to their size and inversely proportional to the distance that separates them. Isaac Newton's law takes the form:

$$F=G * \frac{m_1*m_2}{d^2}$$

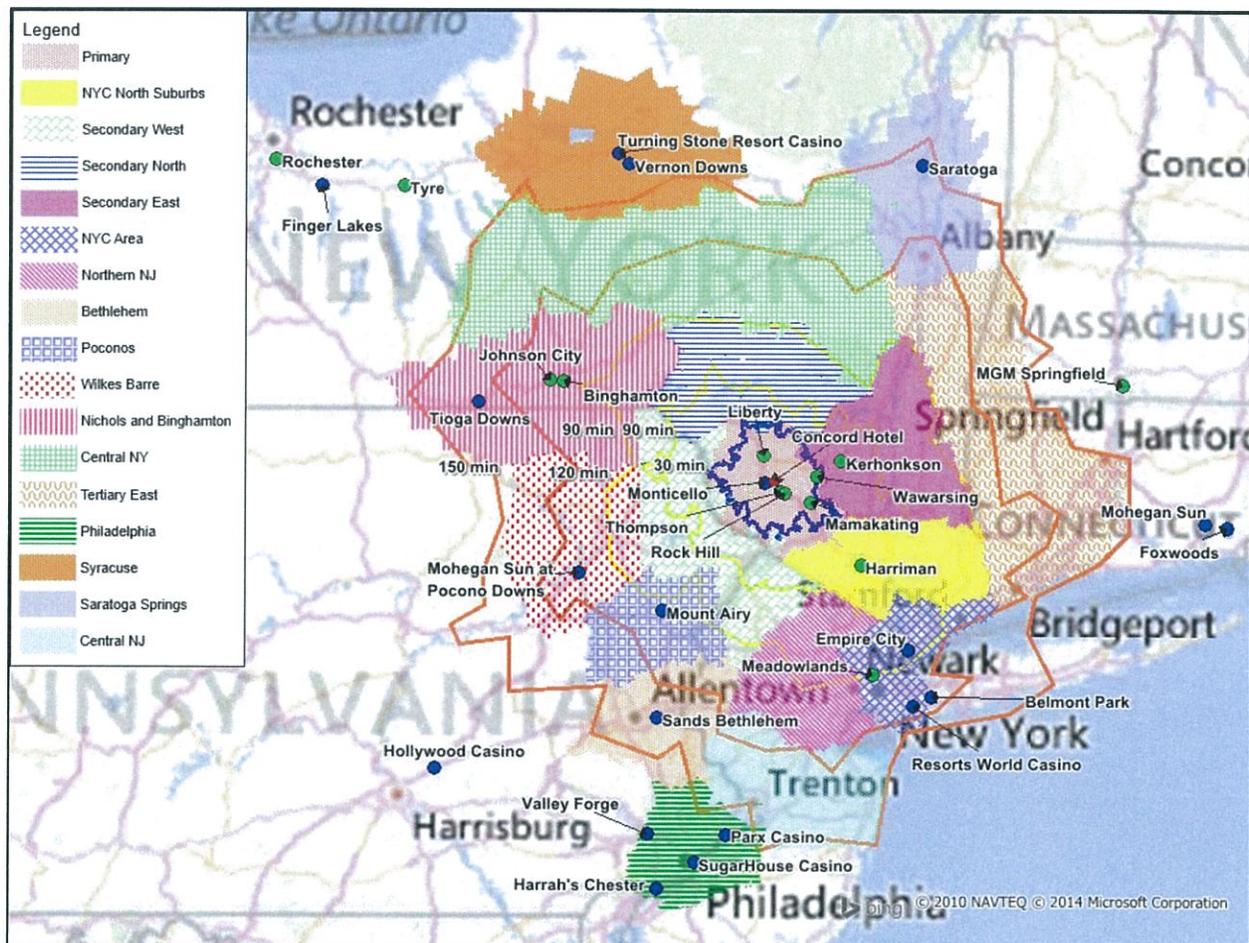
Where:

- F= the force attracting two objects
- G= the gravitational constant
- $m_1$  = the mass of the first object
- $m_2$  = the mass of the second object
- d = the distance separating the two masses

In its application to casino gaming, the force is visitation, the gravitational constant is an attractiveness factor, the two masses reflect the size of the facility and the population, and the distance separates the two masses.

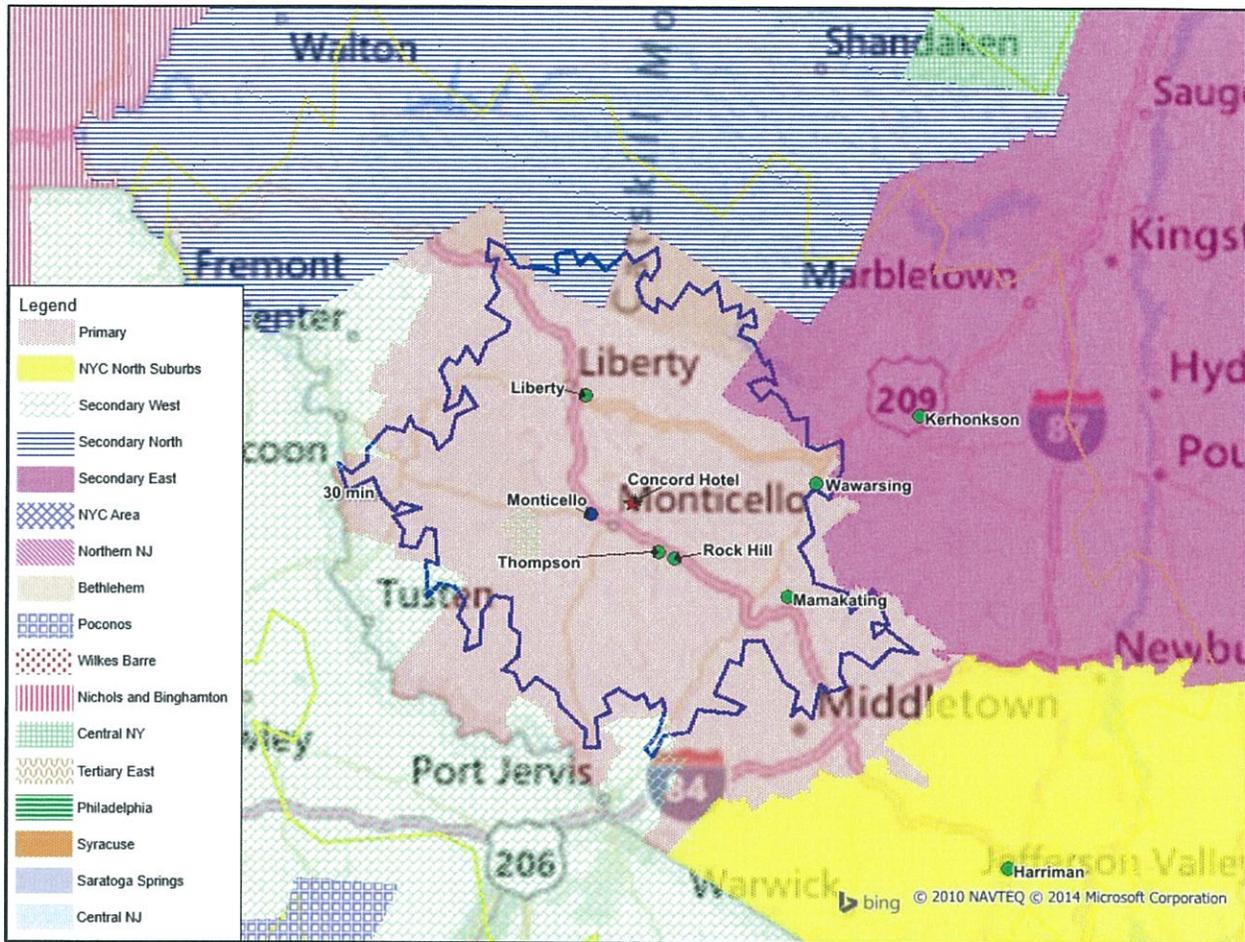
The first step in developing the gravity model is to define market areas. The catchment area of the model was designed to include the population living within a day trip of the proposed Concord Resort, estimated to be up to a 2.5-hour drive, and we further segmented into 17 market areas. Each market area is defined to incorporate a number of factors including competition in the region, distance, the transportation network, accessibility, income levels, and competing forms of entertainment. Each market area was defined using a geographic information system; maps are provided below to show our defined market areas. Primary market areas surrounding each existing and proposed gaming facility generally incorporate 30-minute drive-time zones, depending on the level of performance of the facility as reflected in publicly available information, the level of amenities available at the property, and our experience and subsequent understanding of the market dynamics.

**Figure 11: Assumed market/catchment areas surrounding Concord Resort**



Source: Spectrum Gaming Group

Figure 12: Close-up of Primary Market Area



Source: Spectrum Gaming Group

Each of these market areas is evaluated using block groups, a sub-postal code designation used to compile the census. The model calculates the distance from each block group to each existing and proposed facility, enabling a specific, detailed analysis of visitation across the region. Each block group is further defined by the adult population and income levels as reflected by the US Census Bureau, with further estimates and forecasts completed by demographers. This enables a fluid capture of the originating visits for each facility based on its specific appeal to the population on a detailed basis.

**Figure 13: Market areas and adult population for gravity model (2013)**

Market	Population
Primary	124,755
NYC North Suburbs	705,814
Secondary West	186,680
Secondary North	30,018
Secondary East	870,315
NYC Area	7,866,519
Northern NJ	2,331,369
Bethlehem	655,554
Poconos	179,849
Wilkes Barre	400,528
Nichols and Binghamton	311,801
Central NY	289,100
Tertiary East	1,754,584
Philadelphia	2,851,587
Syracuse	575,007
Saratoga	644,357
Central NJ	1,467,936
<b>Total</b>	<b>21,245,775</b>

Source: Applied Geographic Solutions

Gaming behavior is defined for each market area by propensity and frequency. **Propensity** (also known as participation) is defined as the percentage of adults that will visit a casino over a year; propensity increases with the number and accessibility of facilities. In its most recent survey,<sup>15</sup> Harrah's Entertainment Inc. (now Caesars Entertainment) found that 25 percent of American adults had gambled during 2005, making an average of 6.1 casino visits over the year. More recently, the American Gaming Association reported in its 2013 *State of the States* publication that 34 percent of Americans had visited a casino and 32 percent had gambled at a casino over the past year. Surveys conducted by the Las Vegas Convention and Visitors Association indicate that 65 percent of adult residents of Las Vegas play casino games regularly and 44 percent play casino games at least once per week.

US casino participation is typically a function of the proximity, accessibility, and breadth of casino games available to any population, and nationwide participation in gaming has increased with the number of facilities available and the regulatory limits on the number of games permitted, types of games permitted, wagering limits, hours of operations, and other limiting factors. The national and Las Vegas statistics exemplify these factors. The Las Vegas market is arguably the most competitive in the world, with educated players choosing to play at facilities offering better odds, better player rewards, and better benefits. On a national basis, many other jurisdictions feature less-accessible options and less competition among operators, making casino gaming a less attractive entertainment alternative and leading to lower

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<sup>15</sup> Harrah's Survey: Profile of the American Gambler; 2006

participation rates. The Harrah's Survey indicated that 28 percent of adults in the Northeast and 33 percent of New York City Designated Market Area adults participate in casino gaming.

**Frequency** is the average number of times an adult will visit a casino in a year. Like propensity, frequency is influenced by the number and accessibility of facilities available to any particular market area. Nationwide, The Harrah's Survey indicated that, among adults that do participate in gaming, that the average frequency is 6.1. In Las Vegas, average frequency appears to be approximately once per week, or 52 visits annually. When facilities are a greater distance, players in a region will make fewer trips to a casino over a given period. However, all other things being held constant, such as incomes and cost of living, those individuals will have higher gaming budgets on those occasions, thus offsetting to some degree less frequent visitation. While our model was used to forecast only day trips, it is important to note that more-distant guests are more likely to take advantage of lodging, leading to increased overall spending as well as the lodging and food and beverage amenities, at a minimum.

The adult population, propensity, and frequency are used to calculate the number of gamer visits generated by each postal code over a given year. This is based on these assumed averages from which any one player may deviate. These visits are then distributed throughout the market based on the distance from that population to each property, with closer facilities receiving a greater share of visits than more distant ones, all other things being constant. In attracting gamer visits, facilities are distinguished from one another by two metrics. The first is the number of ***gaming positions*** offered by each facility. The number of gaming positions is the number of players that can be accommodated at one time and is calculated by adding the number of slot machines and the number of seats at table games. For the purposes of this model, we assume that each table game can accommodate six players. Thus, casinos with a greater number of gaming positions become more attractive to the players. This is reflected in surveys of gamers, where it is confirmed that a higher number of games is preferred, as many players appreciate selecting from a variety of games.<sup>16</sup>

The second element distinguishing each facility when distributing gamer visits is the ***attraction factor***. Attraction factors are applied to the number of gaming positions to adjust for differences in facilities. They adjust for a number of factors beyond the number of gaming positions and can account for differences in the amenities available at a facility, the appeal of the facility within the market, branding, management's effectiveness marketing to and rewarding players, the variety of games, odds, and other factors. Attraction factors differentiate between the facilities in the market, and a facility with an attraction factor lower than the average is considered, overall, to be less attractive based on these factors, whereas a facility with an attraction factor greater than the average is deemed to be above average.

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<sup>16</sup> Portrait of American Gamblers, Yesawich, Pepperdine, Brown & Russell/The Innovation Group; 2005

Each of these factors – adult population, propensity, frequency, gaming positions, and attraction factors – is used to distribute gamer visits originating in each region to each facility. The distribution of gamer visits therefore incorporates and quantifies information including the size of a facility, its amenities, its marketing efforts, rewards programs, and appeal to calculate and distribute gamer visits within the catchment area.

For each market area, and specific to each facility, an *average win* is then applied. Average win (also referred to as win per visit) is the average revenue generated from each gamer visit and is estimated based on public reports in other jurisdictions, gamer surveys, and our cumulative knowledge and experience in this and other market areas. Based on our knowledge of proprietary databases, average win tends to increase with disposable income levels and distance traveled. Projected GGR is then calculated by multiplying the estimated number of visits and the average win.

Calibration is the initial step in preparing the model for forecasting future performance. Calibration integrates the recently observed dynamics in the catchment area by incorporating visitation patterns to form a basis for further analysis. These visitation patterns are estimated using public surveys, financial reports, and Spectrum's knowledge of and experience in the gaming industry. Gaming behavior is adjusted to forecast the total number of gamer visits originating within each market area. Next, gamer visits are distributed to the existing facilities based on adjustments to attraction factors, with minute adjustments enabled by attraction factors that are specific to each market for each facility. An iterative process of adjustments is undertaken to all of these factors to hone the model's forecasts to reflect the existing visitation patterns and revenue levels.

**Figure 14: Market areas – calibrated gaming behavior estimates**

Market	Propensity	Frequency
Primary	32%	12.0
NYC North Suburbs	29%	10.0
Secondary West	30%	12.0
Secondary North	24%	8.0
Secondary East	24%	9.0
NYC Area	27%	9.5
Northern NJ	28%	11.0
Bethlehem	32%	13.0
Poconos	33%	13.0
Wilkes Barre	33%	13.0
Nichols and Binghamton	33%	13.0
Central NY	27%	10.0
Tertiary East	26%	9.0
Philadelphia	32%	12.0
Syracuse	32%	12.0
Saratoga	30%	10.5
Central NJ	29%	10.5

Source: Spectrum Gaming Group

Following calibration, the model can be used for forecasting by adjusting the year to account for changes in population and increases in win due to inflation and economic growth. We then add additions to supply, including planned and announced additions at competing facilities and the opening of any new facilities, including the proposed Concord Resort.

As in other markets, the addition of casino resorts in the region is expected to lead to an increase in gaming propensity, frequency and spending. These increases are expected to affect market areas within proximity to the additions in supply, including market areas that will be targeted through marketing efforts. Therefore, the overall market will grow with the addition of the new facilities and subsequent accessibility, supply, and marketing efforts. The expansion of gaming behavior is an estimate based on our experience and observations. In similar markets, expansion is observed in the primary market area surrounding a property, in surrounding markets on a diminished basis, and in markets that are effectively targeted via marketing efforts. When compared to other jurisdictions, a relatively modest increase was forecasted based on the current gaming behavior and expected operating environment. The following table shows our assumed propensity and frequency in the market area.

**Figure 15: Market areas – assumed/forecasted gaming behavior**

Market	Propensity	Frequency
Primary	36.2%	13.6
NYC North Suburbs	30.5%	11.0
Secondary West	31.5%	12.6
Secondary North	25.2%	8.4
Secondary East	26.4%	9.9
NYC Area	27.5%	9.7
Northern NJ	28.6%	11.2
Bethlehem	32.0%	13.0
Poconos	33.0%	13.0
Wilkes Barre	33.0%	13.0
Nichols and Binghamton	33.7%	13.3
Central NY	27.5%	10.2
Tertiary East	28.6%	9.9
Philadelphia	35.2%	13.2
Syracuse	35.2%	13.2
Saratoga	33.0%	11.6
Central NJ	29.0%	10.5

Source: Spectrum Gaming Group

The following table shows the subsequent estimated gaming visits, average win, and total GGR by market and in total for day visits from the local market (the defined market areas within a day trip of the proposed location) for the first full year of operations, 2017. The growth rate for the adult population between 2013 and 2018 across the market areas is estimated at 0.3 percent by Applied Geographic Solutions. As the table shows, the factors discussed above, primary factors being the superior facility, branding, and tax advantage, will enable an experienced management team with an existing database of players to develop a strong and loyal customer base. In an effort to be conservative, we assume that average win between 2013 and 2018 will grow by 0.4

percent annually. Overall GGR projected from the local market is forecasted at nearly \$229 million for the first full year of operations under assumptions for our moderate case.

**Figure 16: Scenario 1 – local market areas: gaming visits, average GGR per visit, and GGR (first full year of operations)**

Market	Gamer Visits	Average Win	Total Win
Primary	293,625	\$79	\$23,061,323
NYC North Suburbs	372,996	\$112	\$41,850,144
Secondary West	235,084	\$79	\$18,463,512
Secondary North	18,065	\$79	\$1,418,851
Secondary East	198,726	\$84	\$16,722,806
NYC Area	586,789	\$79	\$46,086,370
Northern NJ	377,604	\$95	\$36,012,087
Bethlehem	13,456	\$84	\$1,132,364
Poconos	18,985	\$75	\$1,427,179
Wilkes Barre	37,227	\$77	\$2,882,016
Nichols and Binghamton	69,927	\$73	\$5,099,810
Central NY	71,591	\$73	\$5,221,106
Tertiary East	140,700	\$94	\$13,260,657
Philadelphia	40,975	\$73	\$2,988,312
Syracuse	71,465	\$73	\$5,211,935
Saratoga	15,256	\$79	\$1,198,225
Central NJ	79,825	\$90	\$7,165,064
<b>Total/Average</b>	<b>2,642,296</b>	<b>\$87</b>	<b>\$229,201,761</b>

Source: Spectrum Gaming Group

Changes in gaming behavior estimated for Scenario 1 are forecasted to be identical in Scenario 2 due to the proximity of the three locations and broad similarities in assumed building plans, access, and customer bases. The more proximate location in the Town of Thompson will be a competitive advantage compared to the Concord Resort, although overall the two properties are near each other. Reaching the Concord Resort takes about an extra 10 minutes for traffic coming from the New York City area using State Highway 17 (as motorists would have to drive past Thompson to visit the Concord); however, travel between the two resorts would not require a motorist to get back on the highway. This, in particular, could enhance visitation between the two customer bases.

Many regional gaming resorts operate at capacity on weekends, with our analysis indicating that there is some room in the market for growth based on well-positioned and proximate casino resort locations. For this reason, we believe that demand will be high on weekends, with more competitive dynamics taking hold during mid-week periods.

These dynamics protect the proposed Concord Resort, to a certain extent, from being impacted by the change in competing locations. In this analysis, gaming behavior and the number of gaming positions at the competing facility were kept constant, further isolating the impact of the change in location. The following table shows the win from the local market for the subject facility. While the Town of Thompson location does compete more effectively for the New York MSA markets, some of the lost demand is offset by being the more proximate option for markets

located to the north and west. Revenue from the local market is expected to reach nearly \$224 million, a 2.5 percent drop when compared to the first scenario.

**Figure 17: Scenario 2 – local market areas: gaming visits, average GGR per visit, and GGR (first full year of operations)**

Market	Gamer Visits	Average Win	Total Win
Primary	231,020	\$79	\$18,144,336
NYC North Suburbs	341,843	\$112	\$38,354,776
Secondary West	215,006	\$79	\$16,886,573
Secondary North	22,328	\$79	\$1,753,644
Secondary East	205,127	\$84	\$17,261,458
NYC Area	583,477	\$79	\$45,826,288
Northern NJ	371,138	\$95	\$35,395,388
Bethlehem	13,423	\$84	\$1,129,549
Poconos	18,900	\$75	\$1,420,786
Wilkes Barre	37,423	\$77	\$2,897,244
Nichols and Binghamton	71,241	\$73	\$5,195,594
Central NY	80,616	\$73	\$5,879,356
Tertiary East	155,172	\$94	\$14,624,634
Philadelphia	40,952	\$73	\$2,986,632
Syracuse	72,765	\$73	\$5,306,721
Saratoga	42,728	\$79	\$3,355,847
Central NJ	79,845	\$90	\$7,166,890
<b>Total</b>	<b>2,583,004</b>	<b>\$87</b>	<b>\$223,585,715</b>

Source: Spectrum Gaming Group

## Hotel Win

Through its player rewards program and casino hosts, it is our belief that Concord Resort management will expect to host casino guests in the 252-room hotel. Integrated hotels have proven to be excellent marketing tools for casinos, enabling casinos to retain guests on the property for longer periods, enabling more time for guests to take advantage of the offered amenities, including the casino. Based on information and belief regarding similar operations, between 2 percent and 8 percent of local market casino guests may be captured in a hotel. In the case of the Concord Resort, some lower capture rates are forecasted due to the limited capacity of the hotel at peak times. The following table shows that players will be captured based on the distance and convenience of the casino hotel relative to their homes. Furthermore, management’s targeted promotions are assumed to focus on high-value players. Accordingly, we have assumed that the average win during an overnight stay will be three times the win for a day trip. This leads to an estimate that casino guests staying at the hotel may add an incremental \$12 million in GGR annually in Scenario 1, as shown in the following table.

**Figure 18: Scenario 1 – local market casino guests: expected hotel capture to Concord Resort (first full year of operations)**

Market	Gamer Visits	Hotel Capture	Annual Visitors	Average Win	Win
Primary	293,625	1/week	52	\$236	\$12,252
NYC North Suburbs	372,996	1%	3,730	\$337	\$1,255,504
Secondary West	235,084	1%	2,351	\$236	\$553,905
Secondary North	18,065	1%	181	\$236	\$42,566
Secondary East	198,726	1%	1,987	\$252	\$501,684
NYC Area	586,789	2%	11,736	\$236	\$2,765,182
Northern NJ	377,604	2%	7,552	\$286	\$2,160,725
Bethlehem	13,456	3%	404	\$252	\$101,913
Poconos	18,985	2%	380	\$226	\$85,631
Wilkes Barre	37,227	2%	745	\$232	\$172,921
Nichols and Binghamton	69,927	3%	2,098	\$219	\$458,983
Central NY	71,591	3%	2,148	\$219	\$469,900
Tertiary East	140,700	3%	4,221	\$283	\$1,193,459
Philadelphia	40,975	4%	1,639	\$219	\$358,597
Syracuse	71,465	4%	2,859	\$219	\$625,432
Saratoga	15,256	4%	534	\$236	\$125,814
Central NJ	79,825	4%	2,794	\$269	\$752,332
<b>Total</b>	<b>2,642,296</b>		<b>45,408</b>	<b>\$256</b>	<b>\$11,636,800</b>

Source: Spectrum Gaming Group

Under Scenario 2, we used identical assumptions with regard to the hotel’s ability to capture guests. The shift in visitation from the New York MSA to the north and west is expected to drive some hotel demand from more distant markets, diminishing the overall impact for the hotel casino segment.

**Figure 19: Scenario 2 – local market casino guests: expected hotel capture to Concord Resort (first full year of operations)**

Market	Gamer Visits	Hotel Capture	Annual Visitors	Average Win	Win
Primary	231,020	1/week	52	\$236	\$12,252
NYC North Suburbs	341,843	1.0%	3,418	\$337	\$1,150,643
Secondary West	215,006	1.0%	2,150	\$236	\$506,597
Secondary North	22,328	1.0%	223	\$236	\$52,609
Secondary East	205,127	1.0%	2,051	\$252	\$517,844
NYC Area	583,477	2.0%	11,670	\$236	\$2,749,577
Northern NJ	371,138	2.0%	7,423	\$286	\$2,123,723
Bethlehem	13,423	3.0%	403	\$252	\$101,659
Poconos	18,900	2.0%	378	\$226	\$85,247
Wilkes Barre	37,423	2.0%	748	\$232	\$173,835
Nichols and Binghamton	71,241	3.0%	2,137	\$219	\$467,603
Central NY	80,616	3.0%	2,418	\$219	\$529,142
Tertiary East	155,172	3.0%	4,655	\$283	\$1,316,217
Philadelphia	40,952	4.0%	1,638	\$219	\$358,396
Syracuse	72,765	4.0%	2,911	\$219	\$636,807
Saratoga	42,728	3.5%	1,495	\$236	\$352,364
Central NJ	79,845	3.5%	2,795	\$269	\$752,523
<b>Total</b>	<b>2,583,004</b>		<b>46,566</b>	<b>\$255</b>	<b>\$11,887,040</b>

Source: Spectrum Gaming Group

The hotel at the Concord Resort is also expected to capture guests from the existing, base tourism that currently visits the Catskills region. As the following table shows, assuming 1.2

casino guests per room and an average stay of 1.2 nights, the casino guests will require 112 hotel rooms (365 days per year) to meet their demand. This demand may be skewed toward weekends, although management will almost certainly offer mid-week promotions to drive hotel utilization. We estimated that the remaining hotel rooms will be occupied 50 percent of the time they are available, leading to an overall occupancy of approximately 72 percent. This is a conservative estimate and accounts for the expected seasonal nature of leisure travel to the region. On a room-night basis, these non-casino rooms are assumed to drive average win of approximately 40 percent of the GGR driven by those of casino hotel guests, based on our knowledge of other, similar situations. This leads to an estimated \$2.4 million in additional GGR annually.

**Figure 20: Scenario 1 – non-casino guest win at Concord Resort (first full year of operations)**

Casino Guests	45,408
Guests per Room	1.2
Nights/Party	1.2
Room Nights of Demand	45,408
Required Rooms for Players	124
Total Rooms	252
Remaining Rooms	128
Assumed Occupancy	50%
Win/Room Night of Demand	\$103
Non-Casino Guest Win	\$2,386,973

Source: Spectrum Gaming Group

A similar calculation was undertaken for the hotel under Scenario 2, where hotel guests are expected to demand fewer hotel rooms overall. This leads to more hotel inventory available to the broader public and a subsequent slight increase in revenue from non-casino hotel guests.

**Figure 21: Scenario 2 – non-casino guest win at Concord Resort (first full year of operations)**

Casino Guests	46,566
Guests per Room	1.2
Nights/Party	1.2
Room Nights of Demand	46,566
Required Rooms for Players	128
Total Rooms	252
Remaining Rooms	124
Assumed Occupancy	50%
Win/RND	\$102
Non-Casino Guest Win	\$2,318,585

Source: Spectrum Gaming Group

## Tourism Win

As indicated earlier, there are an estimated 3.8 million overnight person-trips to the Catskills annually. In an effort to be conservative, and to make an exception for the assumption that a small percentage of these guests will stay at the Concord Resort, this estimated level of visitation was not assumed to grow between 2011 and 2018. We believe some of these visitors will consider casino gaming as an entertainment alternative (i.e., with a new casino, or casinos,

in the Catskills), particularly since it can be undertaken at night, in contrast to many of the traditional recreational activities available in the area. For many casinos, where the gaming option is comparable to the proposed Concord Resort, the hotel inventory is more dispersed, and the customer base is broad, we believe a capture between 3 percent and 6 percent is reasonable. This was recently observed in California (5.6 percent) by TNS TravelsAmerica,<sup>17</sup> and this range is also reflected in other industry surveys and proprietary casino databases. In an effort to be conservative, we estimate that 3 percent of visitors to the Catskills region will be captured by the Concord Resort, which is assumed to be one of three casino gaming options in the region, and that each guest will visit the casino an average of 1.1 times during their stay. Win per visit is estimated to be 10 percent higher than win from local market visitors, a ratio supported by our knowledge of other, similar operations, leading to an estimated \$12 million in GGR annually.

**Figure 22: Tourism GGR at Concord Resort (first full year of operations)**

<b>Tourists</b>	<b>3,810,000</b>
Capture	3%
Casino Guests	114,300
Casino Visits/Guest	1.1
Win/Visit	\$95
<b>Total Win</b>	<b>\$11,996,873</b>

Source: Longwoods International, Spectrum Gaming Group

The ability to capture tourists visiting the region at the casino is not expected to materially change between the two scenarios.

## Total GGR and GGR per Unit

The following table shows the estimated number of casino visits and a total GGR for both scenarios. In Scenario 1, GGR of \$255.2 million in the first full year of operations is forecasted from all sources. In Scenario 2, the competing Catskills property is assumed to be closer to the New York MSA, and an advantage in capturing visitors from that area is partially offset by capturing the majority of the visitation from the north and west. GGR in Scenario 2 is forecasted to reach \$249.8 million in the first full year of operations, as is shown in the following table.

<sup>17</sup> 2012 Domestic Travel to California, TNS TravelsAmerica; 2012

**Figure 25: Scenarios 1 and 2 – forecasted GGR at Concord Resort (first full year of operations)**

Scenario 1	Visits	Average Win	Total Win
Local Market	2,642,296	\$87	\$229,201,761
Casino Hotel Guests	45,408	\$256	\$11,636,800
Other Hotel Guests	34,133	\$73	\$2,386,973
Tourists	125,730	\$95	\$11,996,873
<b>Total Win</b>	<b>2,847,568</b>	<b>\$90</b>	<b>\$255,222,407</b>
Scenario 2	Visits	Average Win	Total Win
Local Market	2,583,004	\$87	\$223,585,715
Casino Hotel Guests	46,566	\$255	\$11,887,040
Other Hotel Guests	33,323	\$73	\$2,318,585
Tourists	125,730	\$95	\$11,971,555
<b>Total Win</b>	<b>2,788,623</b>	<b>\$90</b>	<b>\$249,762,894</b>

Source: Spectrum Gaming Group

The estimated win per unit is calculated in the following table. The performance of table games in other markets serves as the foundation for this analysis of table games. In Mississippi, Indiana and Illinois, table games account for approximately 12 percent to 15 percent of total GGR. The Mohegan Sun in Connecticut generates approximately 28 percent to 30 percent of GGR from table games, similar to Atlantic City, but those markets feature many more hotel rooms, an important amenity for table games players. In Pennsylvania, table games play is averaging in the low-20 percent range as a percentage of total win. The comparison to Pennsylvania and other markets is therefore a more reasonable foundation for this analysis. The Concord Resort is expected to be one of two casinos in the local market offering table games. Overall, we estimate that table games will perform comparable to properties in Pennsylvania, comprising 21 percent of GGR. This leads to an estimated \$307 win per slot per day and \$2,937 win per table per day in Scenario 1 and \$300 win per slot per day and \$2,874 win per table per day in Scenario 2.

**Figure 23: Scenarios 1 and 2 – estimated win/unit/day for Concord Resort**

	Scenario 1	Scenario 2
Total Win	\$255,222,407	\$249,762,894
Slot Win at 79%	\$201,625,702	\$197,312,687
Slot Count	1,800	1,800
Win/Slot/Day	\$307	\$300
Table Win at 21%	\$53,596,706	\$52,450,208
Table Count	50	50
Win/Table/Day	\$2,937	\$2,874

Source: Spectrum Gaming Group

## Ten-Year Forecasts

The forecasted performance of the Concord Resort is for the first full year of operations. While many residents of the region are familiar with gaming due to the existing options in the region, and the casino will have access to an existing database of clients in the area, a short rampup period is likely while management builds awareness in the region and hones its operations. We expect such rampup period would be marginal, as many casino gamers in the region are familiar with casino gaming due to the existing operations and the proposed Concord

Resort will be marketed to the existing Mohegan Sun database. Therefore, the second year of operations (2018) is expected to be the first year of ramped-up, or mature, operations. Growth in GGR is forecasted to mature quickly, with growth in years 3 and 4 moderating towards a long-term growth rate in years 5 through 10. In those later years, growth is forecasted based on the forecasted growth in the Consumer Price Index (2.02 percent per year) and the growth rate of the adult population in the market area (0.72 percent), leading to an overall growth rate of 2.74 percent.

**Figure 24: Scenarios 1 and 2 – forecasted 10-year GGR for Concord Resort (2017-26)**

Scenario 1	2017	2018	2019	2020	2021
Slot Win	\$181,463,132	\$201,625,702	\$209,690,730	\$215,981,452	\$221,899,344
Table Win	\$47,165,101	\$53,596,706	\$55,740,574	\$57,412,791	\$58,985,901
Gross Gaming Revenue	\$228,628,233	\$255,222,407	\$265,431,304	\$273,394,243	\$280,885,245
Growth		11.6%	4.0%	3.0%	2.7%
	2022	2023	2024	2025	2026
Slot Win	\$227,979,386	\$234,226,021	\$240,643,814	\$247,237,454	\$254,011,760
Table Win	\$60,602,115	\$62,262,613	\$63,968,609	\$65,721,349	\$67,522,114
Gross Gaming Revenue	\$288,581,501	\$296,488,634	\$304,612,422	\$312,958,803	\$321,533,874
Growth	2.7%	2.7%	2.7%	2.7%	2.7%
Scenario 2	2017	2018	2019	2020	2021
Slot Win	\$177,581,418	\$197,312,687	\$205,205,194	\$211,361,350	\$217,152,651
Table Win	\$46,156,183	\$52,450,208	\$54,548,216	\$56,184,663	\$57,724,122
Gross Gaming Revenue	\$223,737,601	\$249,762,894	\$259,753,410	\$267,546,012	\$274,876,773
Growth		11.6%	4.0%	3.0%	2.7%
	2022	2023	2024	2025	2026
Slot Win	\$223,102,633	\$229,215,646	\$235,496,154	\$241,948,749	\$248,578,145
Table Win	\$59,305,763	\$60,930,741	\$62,600,244	\$64,315,490	\$66,077,735
Gross Gaming Revenue	\$282,408,397	\$290,146,387	\$298,096,398	\$306,264,239	\$314,655,879
Growth	2.7%	2.7%	2.7%	2.7%	2.7%

Source: Spectrum Gaming Group

## Forecast Comparisons

Comparisons of New York to other markets in the region were conducted to demonstrate the existing market opportunity and gauge the magnitude of the projected changes. Philadelphia, Pittsburgh and Cincinnati were chosen as comparable markets due to the presence of casino gaming options both within the city limits and additional casinos within a two-hour drive that also target the metropolitan area. The facilities are listed in the following table, and in some cases adjustments were made to account only for the revenue attributable to that metropolitan statistical area (“MSA”). Estimated MSA populations for 2013 as forecasted by the US Census Bureau were used in order to account for the economic and communal relationship to those cities and their surrounding suburbs. Those populations were used to normalize the analysis for

comparison purposes. In 2013 the three comparable cities had GGR per person ranging from a low in Philadelphia of \$274 to a high in Pittsburgh of \$408. This drove an average of \$336 in GGR per person compared to \$168 for the New York MSA.

Compounded annual growth in GGR of 2.5 percent was forecasted for the existing market between 2013 and 2018, the first full year of operations. The assumed growth rate for the population is identical to recent US Census Bureau estimates. For illustrative purposes only, as modeling the Catskills market as a whole was beyond the scope of this study, we assume that the two Catskills casinos would drive \$500 million, approximately double our forecast for the Concord Resort. These assumptions lead to an estimated GGR per person in the New York MSA of \$209, or 30 percent behind Philadelphia’s 2013 performance. These statistics are shown in the following table.

**Figure 25: 2013 Metropolitan Statistical Area gaming revenue comparisons**

<b>Cincinnati</b>		<b>Pittsburgh</b>	
Horseshoe Cincinnati	\$228.0	Rivers	\$352.0
Hollywood Lawrenceburg	\$269.7	Meadows	\$264.3
Rising Star	\$69.9	Mountaineer	\$223.6
Belterra	\$129.8	Wheeling Island	\$124.1
Total	\$697.4	Total	\$964.0
Population	2,137,406	Population	2,360,867
Revenue/Person	\$326	Revenue/Person	\$408
<b>Philadelphia</b>		<b>New York</b>	
Sugarhouse	\$265.6	Empire City	\$613.6
Parx	\$487.7	Resorts World	\$861.9
Sands @ 7.5%	\$34.9	Mohegan Sun Pocono	\$263.4
Harrah’s Chester	\$311.2	Mount Airy	\$183.4
Valley Forge	\$96.3	Sands @ 30%	\$139.5
Delaware Park	\$167.9	Connecticut @ 26%	\$429.1
Atlantic City @ 10%	\$287.5	Atlantic City @ 30%	\$862.5
Total	\$1,651.1	Total	\$3,353.4
Population	6,034,678	Population	19,949,502
Revenue/Person	\$274	Revenue/Person	\$168
NOTE: All \$ in millions, except revenue/person figures.	<b>New York Estimated Changes</b>		
	Growth in GGR		2.5%
	Population Growth		0.6%
	Additional Catskills Revenue		\$500.0
	Estimated Revenue/Person		\$209

Source: Spectrum Gaming Group

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## Conclusion

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The Client's proposed project (Concord Resort) has an opportunity to take advantage of changing economic and demographic trends, while leveraging its inherent advantages to build a successful casino resort. Just as the increased diversification in amenities has turned Las Vegas into a major entertainment and shopping destination, other gaming communities can emulate some of that success.

Casino resorts essentially surround New York City, but are largely located to the east, south, and west of the city. The most competitive existing properties for the proposed Concord Resort, in terms of location, distance and amenities are those in northeastern Pennsylvania. Their locations along interstates 78 and 80 make them most accessible from northern New Jersey. This leaves an opportunity for locations north of New York City along State Highway 17 and the associated highway network in that region. The Concord Resort would open as that State Highway 17 is being improved to become part of the interstate system, further improving the ability of motorists to reach the property.

The Client's Concord Resort project would enhance the attractiveness of the Catskills as a destination by broadening the regions' tourism product. In addition, as casino gaming tends to be an evening activity, the proposed casino resort would complement many other activities that tourists currently enjoy. In turn the resort would drive a substantial increase in visitation to the region, helping to drive visitation to those surrounding attractions and businesses. These dynamics would improve the overall economic impact that will benefit the surrounding community.

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## About This Report

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This report was prepared by Spectrum Gaming Group, an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. Our principals have backgrounds in operations, economic analysis, law enforcement, regulation and journalism.

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In addition, our principals have testified before the following government bodies:

- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Indiana Gaming Study Commission
- International Tribunal, The Hague
- Iowa Gaming and Racing Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- New Hampshire Gaming Study Commission
- New Jersey Assembly Tourism and Gaming Committee
- National Gambling Impact Study Commission
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- Ohio House Economic Development Committee
- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- Puerto Rico Horse Racing Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Select Committee on Indian Gaming
- US Senate Subcommittee on Organized Crime

We maintain a network of leading experts in all disciplines relating to the gaming industry, and we do this through our offices in Atlantic City, Bangkok, Guangzhou, Harrisburg, Hong Kong, Las Vegas, Macau, Manila and Tokyo.

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