
Rocky Gap Gaming Feasibility Study

Allegany County, Maryland

Prepared for:
Maryland Economic Development Corporation (MEDCO)

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EXECUTIVE SUMMARY

The Innovation Group was engaged by the Maryland Economic Development Corporation (“MEDCO”) to conduct a Gaming Feasibility Study (“Study”) related to a proposed gaming development at the existing Rocky Gap Lodge and Golf Resort (“Resort”) in Allegany County, Maryland. The Resort is located in Rocky Gap State Park about 7 miles east of Cumberland, just off Interstate 68. The Study forecasts top-line gaming revenue based on an optimal machine count recommendation with the objective of maximizing the profitability potential of the project. We also prepared a detailed pro-forma operating statement and capital cost estimate. Finally, we assessed the impact of the gaming development on the existing Resort, such as the change in customer mix, demand levels and ancillary revenue. The ultimate goal is a cash flow summary that can be used to determine the financial feasibility of the cumulative enterprise from a state-owned perspective. We completed these tasks assuming two mutually exclusive scenarios: 1) Stand-Alone Facility; and 2) Machines Retrofitted in Conference Center.

Scenario 1 Summary – Stand-Alone Facility

The Scenario 1 assessment assumes a new stand-alone facility connected to the existing Rocky Gap Resort, opening in early 2013. We assumed the facility would be of sufficient size to accommodate the recommended number of gaming machines, and contain a dedicated food and beverage offering per our recommendation and various back-of-house support areas. We further assumed that the quality level would be 3+ stars in terms of décor and finish work.

We identified five potential sources of incremental gaming revenue based on the proposed location and building program, including the local market, overnight resort guests, regional tourists, meeting attendees and traffic intercept segment. In summary, we estimated potential gaming revenue at \$58.1 million (2014), with the local market accounting for 62% of the total.

Subject Total Gaming Revenue - Scenario 1 (2014)

Market Component	Gamer Visits	Win per Visit	Gaming Revenue	% of Total
Local Market	564,917	\$64	\$36,126,783	62.2%
Overnight Resort Guests	63,909	\$155	\$9,933,734	17.1%
Regional Tourists	109,941	\$75	\$8,203,698	14.1%
Meeting Attendees	2,221	\$85	\$188,802	0.3%
Traffic Intercept	66,530	\$55	\$3,659,174	6.3%
Total	807,518	\$72	\$58,112,191	100.0%

Source: The Innovation Group

We estimated total gross revenue at \$63.9 million (2014) after considering food and beverage and other revenue, while net revenue came in at \$61.0 million after deducting the promotional allowance or complimentary goods earned through player reward programs. Operating cash flow (Gross EBITDA) calculated to \$39.1 million reflecting an efficient operating margin of nearly 64%. However, after deducting state gaming taxes and fees and management fees, we are projecting an operating loss of about \$1.7 million, moderating somewhat through 2017, as displayed in the condensed version of the Pro-Forma Operating Statement below.

Pro-Forma Operating Statement - Scenario 1 (2014)

	2013	2014	2015	2016	2017
Gaming Revenue	\$54,334,899	\$58,112,191	\$59,855,557	\$61,351,946	\$62,885,744
Food and Beverage	4,730,080	5,027,880	5,168,923	5,340,280	5,517,507
Retail & Other	671,250	717,177	735,214	757,418	780,292
Total Gross Revenue	\$59,736,228	\$63,857,249	\$65,759,694	\$67,449,644	\$69,183,543
Promotional Allowances	-2,716,745	-2,905,610	-2,992,778	-3,067,597	-3,144,287
Net Revenues	\$57,019,483	\$60,951,639	\$62,766,917	\$64,382,047	\$66,039,256
Operating Expense	-21,104,148	-21,856,517	-22,257,036	-22,736,922	-23,185,180
Gross EBITDA	\$35,915,335	\$39,095,122	\$40,509,881	\$41,645,125	\$42,854,076
<i>Gross EBITDA Margin</i>	<i>63.0%</i>	<i>64.1%</i>	<i>64.5%</i>	<i>64.7%</i>	<i>64.9%</i>
State Taxes & Fees	-36,850,632	-39,381,418	-40,549,473	-41,552,054	-42,579,699
Management Fees	-1,358,372	-1,452,805	-1,496,389	-1,533,799	-1,572,144
Net EBITDA	-\$2,293,669	-\$1,739,101	-\$1,535,981	-\$1,440,728	-\$1,297,766

Source: The Innovation Group

We estimated the total capital cost for the Scenario 1 building program at \$34.6 million. This figure is needed to project the debt service payment for the gaming facility.

Capital Cost Summary - Scenario 1

	Costs	% of Total
Land	\$0	0%
Site Work	717,500	2%
Parking Garage	0	0%
Surface Parking	3,346,875	10%
Buildings - Gaming Facility	13,230,000	38%
Buildings - Back of House	2,756,250	8%
Buildings - Restaurants	3,460,487	10%
FF&E - Gaming	0	0%
FF&E - Back-of-House	689,063	2%
FF&E - Restaurant	1,038,146	3%
Soft Costs	6,982,742	20%
License Fee	0	0%
Financing Costs & Fees	2,384,359	7%
Total	\$34,605,422	100%

Source: The Innovation Group

A significant objective of the Study was to estimate the impact of the gaming facility on the operating performance of the Resort. A significant proportion of full-service gaming projects around the country offer amenities, such as a hotel, conference center, spa and golf course. These amenities help draw patronage from a wider market area. Hotels in particular attract a unique type of gamer that enjoy staying at the facility for extended periods and tend to have higher gaming budgets relative to the local market. These overnight gamers are also known to patronize various ancillary amenities such as spas, golf courses and entertainment.

The Innovation Group contends that the Resort would enhance the revenue potential of the gaming operation and vice versa. We estimated the impact relative to the baseline year of 2010 per the operating results provided by Resort management. We segregated our impact analysis by each major revenue component of the Resort including room, food & beverage, spa, meeting and

golf course. In summary, we estimated that total revenue and operating profit would increase by \$7.5 million and \$3.9 million, respectively, due mainly to the gaming facility.

Resort Impact Summary - Scenario 1

	2010	2014	Change	% Change
Revenues:				
Room	\$3,664,422	\$8,412,798	\$4,748,376	130%
F&B	3,757,382	5,743,345	1,985,963	53%
Spa	311,505	452,883	141,378	45%
Golf	938,659	1,239,089	300,430	32%
Other	476,310	841,280	364,970	77%
Total Revenue	\$9,148,278	\$16,689,394	\$7,541,116	82%
Departmental Expenses	\$5,675,082	\$8,503,720	2,828,638	50%
Overhead Expenses	\$3,387,250	\$4,154,138	766,888	23%
House Profit	\$85,946	\$4,031,536	3,945,590	NM
<i>House Profit %</i>	<i>0.9%</i>	<i>24.2%</i>		

Source: Rocky Gap Resort; The Innovation Group

The cash flow summary combines all aspects of our analysis in order to project the net cash flow to state from a cumulative enterprise perspective, including a projection of machine costs. Due to the significance of the state gaming taxes and fees, we estimated that the state would realize cash flow of \$32.5 million (Year 2). In other words, roughly \$6.9 million or 17% of the full-up gaming taxes and fees would be used to pay the debt service for the facility and machines. Note that the operating loss associated with the gaming facility was more than offset by the positive resort impact.

Cash Flow Summary - Scenario 1

	2013	2014	2015	2016	2017
Gaming Facility Gross EBITDA	\$35,915,335	\$39,095,122	\$40,509,881	\$41,645,125	\$42,854,076
Taxes & Fees	-36,850,632	-39,381,418	-40,549,473	-41,552,054	-42,579,699
Management Fee	-1,358,372	-1,452,805	-1,496,389	-1,533,799	-1,572,144
Gaming Facility Net EBITDA	-\$2,293,669	-\$1,739,101	-\$1,535,981	-\$1,440,728	-\$1,297,766
Ongoing Capital Expenditures		-\$410,494	-\$418,703	-\$427,078	-\$435,619
Gaming Facility Debt Service (a)	-3,670,917	-3,670,917	-3,670,917	-3,670,917	-3,670,917
Net Gaming Facility	-\$5,964,587	-\$5,820,511	-\$5,625,602	-\$5,538,722	-\$5,404,302
Resort EBITDA Impact (b)	\$3,544,593	\$3,938,437	\$4,017,206	\$4,097,550	\$4,179,501
Resort Cap Expenditures	-\$177,230	-\$196,922	-\$200,860	-\$204,877	-\$208,975
Machine Purchase Debt Service (c)	-\$3,667,446	-\$3,667,446	-\$3,667,446	-\$3,667,446	-\$3,667,446
Machine Replacement Costs		-\$1,124,676	-\$1,687,014	-\$2,249,352	-\$2,249,352
Gaming Taxes & Fees (d)	36,850,632	39,381,418	40,549,473	41,552,054	42,579,699
Net Cash Flow to State	\$30,585,963	\$32,510,299	\$33,385,756	\$33,989,205	\$35,229,124

(a) Capital Costs amortized over 30 years at 10%.

(b) Distribution of positive cash flow is dictated by established agreements with Investors.

(c) Based on a cost per machine of \$18,500 amortized over 7 years at 7.5%.

(d) Assumes all components of the tax benefit the state.

Source: The Innovation Group

Scenario 2 Summary – Machines in Conference Center

The Scenario 2 assessment assumes that the gaming facility would be retrofitted into the existing conference center, which measures about 15,000 square feet. From a qualitative perspective, this approach would **limit the number of slot machines** the gaming facility could offer. We estimated that only 650 machines could be housed comfortably in this space, and even then would not present an optimal environment in terms of circulation. In addition, the **quality, scope and efficiency of the gaming facility would be limited** as the design model would be constrained by the existing parameters of the conference center. Also, this approach would completely **eliminate the Resort's ability to accommodate meaningful group events**. As our analysis shows, the lack of group business would ripple through the operating performance of the Resort, including room, food and beverage, spa and golf course revenue. Recall, we assumed the Scenario 2 facility could open one year earlier; a benefit.

Generally the reduction in the size, (gaming position count), quality and scope of the facility would be the driving forces behind the decline in performance. The Scenario 2 facility would have 400 or 38% fewer positions. We further assumed that the quality level would decline by about 25% reflecting the limitations of the retrofit strategy. Finally, the gaming operation would be unable to offer additional food and beverage and entertainment venues. In summary, we estimated the gaming revenue potential of Scenario 2 would be \$20.5 million or 35% less than Scenario 1. We estimated Gross EBITDA at \$23.8 million, a decline of 39%, as the profit margin fell due to the loss of economies of scale. In other words, the substantial overhead cost of running a casino, such as internal controls, accounting, security and surveillance, would be leverage over the lower revenues.

On a bright note, the cost to develop the Scenario 2 building program would be much less. We estimated the total capital cost at \$13.9 million, reflecting a decline of 60% from Scenario 1. Site work costs would be significantly less due to the lack of need for extensive excavation. We estimated the retrofit cost at \$360 per square foot. Again, we determined that the space is not sufficient to add additional amenities, which detracts from the quality of the facility, but reduces costs.

Regarding the Resort impact, several factors would come into play. First, the loss of the conference facility eliminates the group segment, which represents a substantial portion of the Resort's business (52%). Relative to Scenario 1, we estimated that the room night demand would decline 37%, resulting in an occupancy rate of only 49%. While up from the current rate, it is well below the rate of 78% for Scenario 1. Also, lower gaming visitation means fewer overnight gamers, especially since the casino's reach into the outer markets would be cut. Gamer coming from longer distances are more apt to utilize the hotel. Resort F&B would also be down significantly due to the loss of catering revenue. In summary, we estimated total Resort revenue and house profit would decline 41% and 79%, respectively, relative to Scenario 1. The following table compares the key operating metrics of the two scenarios.

Assessment Comparison Summary

	Scenario 1	Scenario 2	Change	% Change
Gaming Positions	1,050	650	-400	-38%
Win / Position	\$152	\$158	\$7	4%
Gaming Revenue	\$58,112,191	\$37,564,566	-\$20,547,625	-35%
Gross EBITDA	\$39,095,122	\$23,788,332	-\$15,306,790	-39%
Gross EBITDA %	64.1%	60.4%	-3.8%	-6%
Capital Cost	\$34,605,422	\$13,947,653	-\$20,657,769	-60%
Occupancy	77.9%	49.0%	-28.9%	-37%
Resort Revenue	\$16,671,282	\$9,836,592	-\$6,834,690	-41%
Resort Profit	\$4,024,383	\$838,523	-\$3,185,860	-79%

Source: The Innovation Group

The following cash flow summary considers the negative aspects of Scenario 2 including the lower operating profit for the casino and Resort combined with the positive aspects of lower facility and machine costs. However, the main driver is the lower gaming revenue forecast which means proportionally lower gaming taxes. In summary, net state cash flow came in at \$19.2 million (Year 2), roughly 41% lower than Scenario 1.

Cash Flow Summary - Scenario 2

	2012	2013	2014	2015	2016
Gaming Facility Gross EBITDA	\$21,767,892	\$23,788,332	\$24,679,978	\$25,385,825	\$26,142,394
Taxes & Fees	-23,808,572	-25,444,509	-26,199,557	-26,847,640	-27,511,924
Management Fee	-878,072	-939,114	-967,288	-991,470	-1,016,257
Gaming Facility Net EBITDA	-\$2,918,753	-\$2,595,291	-\$2,486,867	-\$2,453,284	-\$2,385,787
Ongoing Capital Expenditures		-\$136,447	-\$139,176	-\$141,959	-\$144,798
Gaming Facility Debt Service (a)	-1,479,557	-1,479,557	-1,479,557	-1,479,557	-1,479,557
Net Gaming Facility	-\$4,398,309	-\$4,211,295	-\$4,105,599	-\$4,074,800	-\$4,010,142
Resort EBITDA Impact (b)	\$677,319	\$752,577	\$767,629	\$782,981	\$798,641
Resort Cap Expenditures	-\$33,866	-\$37,629	-\$38,381	-\$39,149	-\$39,932
Machine Purchase Debt Service (c)	-\$2,270,324	-\$2,270,324	-\$2,270,324	-\$2,270,324	-\$2,270,324
Machine Replacement Costs		-\$453,299	-\$679,948	-\$906,597	-\$906,597
Gaming Taxes & Fees (d)	23,808,572	25,444,509	26,199,557	26,847,640	27,511,924
Net Cash Flow to State	\$17,783,393	\$19,224,540	\$19,872,933	\$20,339,751	\$21,083,570

(a) Capital Costs amortized over 30 years at 10%.

(b) Distribution of positive cash flow is dictated by established agreements with Investors.

(c) Based on a cost per machine of \$18,500 amortized over 7 years at 7.5%.

(d) Assumes all components of the tax benefit the state.

Source: The Innovation Group

Conclusion

Based on the Study, we are recommending new stand-alone gaming facility connected to the existing Resort, initially offering 1,050 gaming machines on a roughly 31,500 square foot casino floor. We envision a facility with a 3+ star quality level in terms of décor, theme elements and finish work.

Based on the amenity review, we are recommending a new 150-seat buffet, quick-serve coffee shop (70 seats) and casino bar with lounge. The lounge should be capable of hosting live entertainment. The amenity review considered the amenity package associated with regional competitors as well as national trends in the gaming industry.

The long-term view with this building program recommendation would result in a gaming facility that can draw patronage from a wider market area, reaching into central Pennsylvania, the Morgantown area of West Virginia and northern Virginia. The extended market area reflects: 1) the size gaming facility in terms of gaming positions; 2) the attractiveness and utility of a new structure, especially from an exterior perspective; and 3) the ability to provide additional food and beverage amenities.

We believe eliminating the conference center would be a step in the wrong direction. Destination casino developments almost always have meaningful conference space. These developments spend considerable funds to develop this aspect of the project, so Rocky Gap would have a leg up as the conference center already exists. From a quantitative perspective, our analysis showed that the ability to attract the group tourist, substantially improves the operating performance of the casino and Resort.

INTRODUCTION

The Innovation Group was engaged by the Maryland Economic Development Corporation (“MEDCO”) to conduct a Gaming Feasibility Study (“Study”) related to a proposed gaming development at the existing Rocky Gap Lodge and Golf Resort (“Resort”) in Allegany County, Maryland. The Resort is located in Rocky Gap State Park about 7 miles east of Cumberland, Maryland and just off Interstate 68. The Study forecasts top-line gaming revenue based on an optimal machine count recommendation with the objective of maximizing the profitability potential of the project. We also prepared a detailed pro-forma operating statement and capital cost estimate. Finally, we assessed the impact of the gaming development on the Resort, such as the change in customer mix, demand levels and ancillary revenue. The ultimate goal is a cash flow summary that can be used to determine the financial feasibility of the cumulative enterprise from a state-owned perspective. We completed these tasks assuming two mutually exclusive scenarios: 1) Stand-Alone Facility; and 2) Machines Retrofitted in Conference Center.

Regarding the gaming revenue forecast, we identified five potential sources of incremental gaming revenue based on the proposed location and building program, including the local market, overnight resort guests, regional tourists, meeting attendees and traffic intercept segment. We utilized a unique forecasting model for each potential source of gaming revenue. For the purpose of forecasting the local market component, The Innovation Group employed a complex gravity model. Gravity models are commonly used in location studies for commercial and residential developments and public facilities.

The report begins with a background discussion on the Allegany County region, including a demographic analysis, economic profile and status of the tourism industry. The demographic analysis mainly addresses population counts and income levels, while the economic profile focuses on employment. Our research into the tourism industry guided our assumptions with regarding to tourist gaming participation. Also critical to the Study was through review of gaming competition in the region.

Assumptions

- The quality and scope of the facility will be consistent with our recommendation;
- An experienced casino management team and/or a management company will operate the facility;
- The casino will implement an aggressive marketing program targeting high worth gamers in the local market and tourists;
- The stand-alone facility (Scenario 1) could open in early 2013, while a gaming facility in the conference center (Scenario 2) could open in early 2012;
- The proposed Arundel Mills and Baltimore City gaming facilities will be open;
- No new competition, that has not been accounted for in the Study, will open during the timeframe of the report;
- While the current economic climate has been taken into account with regards to the assessment, we assumed that the regional economy will continue to rebound, marked by notably lower unemployment rates.

Rocky Gap Resort

Location

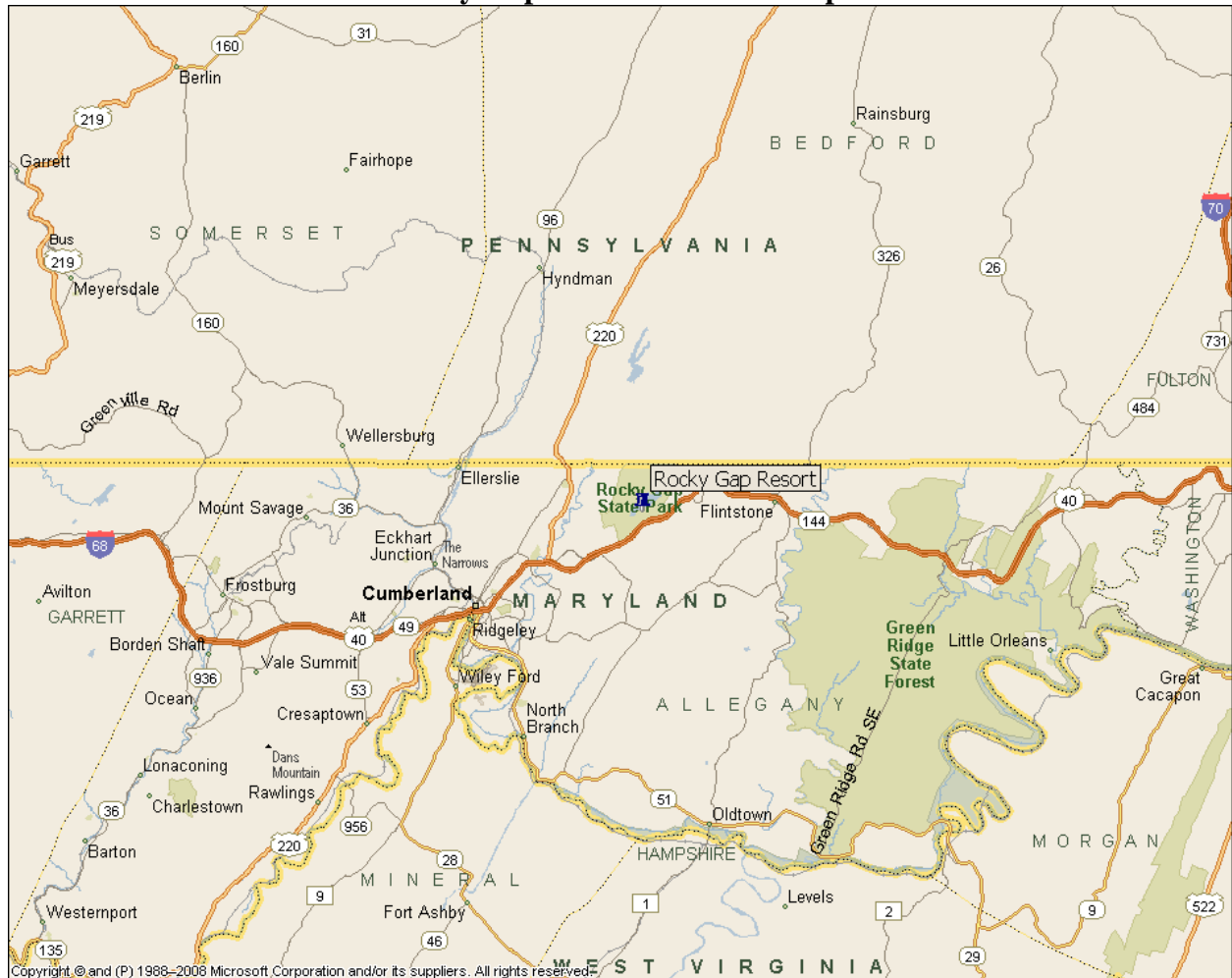
The Rocky Gap Lodge and Golf Resort (“Resort”) is located in northwestern Maryland in Allegany County, about 7 miles east of Cumberland. The Resort is situated just off Interstate 68 (“I-68”) which traverses the northern Maryland panhandle, connecting Cumberland to Morgantown (WV) to the west and Interstate 70 (“I-70”) to the east. I-70 connects the Allegany County area to Hagerstown, Fredrick and Baltimore to the east, and to the Washington D.C. area via Interstate 270 (“I-270”). Highway 220, situated just a few miles west of the Resort, connects the area to I-70 to the north, which continues on to the Pittsburgh metro area. Bedford and Altoona, Pennsylvania also have easy access to Allegany County via Highway 220. Due to the extensive highway system in the region, the Resort is within roughly two hours of the major cities of Pittsburgh, Baltimore, Harrisburg and Washington D.C. The following map shows the location of the Resort from a regional perspective.

Rocky Gap Regional Market Map



From a close-in perspective, the Resort is situated at a major crossroad servicing the northwestern Maryland and southern Pennsylvania region. The Resort is visible from I-68 and ample signage is present to direct patrons from the highway to the property. We found I-68 to be uncongested in this area. The area surrounding the Resort is very scenic as it is situated on the shore of Lake Habeeb in the heart of Rocky Gap State Park. This 243-acre lake is set among a backdrop of wooded rolling hills. Just to the east is the Green Ridge State Forest. Ample surface parking is available.

Rocky Gap Close-In Market Map



Project Description

This full-service recreation resort features a 215-room hotel with conference center, championship golf course, pool pavilion, and exercise room and spa; all supported by numerous food and beverage venues. The six-story, four-diamond rated hotel offers 192 standard rooms and 23 suites all with views of the lake or golf course. The oversized standard rooms are nicely appointed and furnished with either two queen beds or one king bed. Both formats come equipped with upgraded bedding, Wi-Fi internet access and flat-screen TVs. The bath area contains two separate basins and a tub and shower combination. The junior suites exhibit a two-room format featuring a living room area with a sofa that converts into a queen bed. The Presidential Suite and Governor's Suite feature a sitting room and separate bedroom with one king bed and a full bathroom, a half bath in the living area, a kitchenette, wet bar, and 8-person dining/conference table.

The roughly 15,000 square foot conference center features the 5,270 square foot Cumberland Ballroom and a 3,700 square foot junior ballroom (Greenridge). The Cumberland and Greenridge can accommodate 550 and 370 people, respectively, in a theater-style setting. The Greenridge Ballroom is supported by a deck area (980 square feet) overlooking the lake. The conference space also contains several smaller breakout rooms ranging from 425 to 1620 square feet. The ballrooms and meeting rooms are nicely decorated and well maintained. Other meeting facilities include a tent (available during the summer months) which can hold 150 people, a 12-seat board room and a 20-seat private dining room. The conference center is supported by a meeting planning team, audio/visual equipment rentals and full-service catering.

The pool pavilion offers a year around swimming pool contained in a glass enclosed deck area. The windows and roof can be opened providing an outdoor experience during the summer months. The pool area contains a nice deck area which is connected to the Signature's Bar & Grill patio area.

The full-service Garden Spa exhibits a back-to-nature theme with various water elements and decorative foliage, and is situated in a secluded area of the resort. The spa contains numerous private treatment rooms including a couple's room. The spa offers massage treatments, body treatments, facials, and pedicures/manicures. The complimentary exercise room offers several cardio vascular machines.

The 18-hole championship golf course is the only Jack Nicklaus Signature Golf Course in Maryland. The golf course takes advantage of rolling hills, meandering creeks and wooded areas to create a challenging golf environment that is very ascetically pleasing. This 7,000-plus yard course received a 4-star rating from Golf Digest. The course is supported by a full-service pro-shop (connected to the Resort), driving range and putting green.

The food and beverage offering includes two full-service venues: Lakeside Restaurant & Lounge and Signature's Bar & Grill. Utilizing large windows, both restaurants overlook the lake. Lakeside is somewhat more formal and presents American cuisine with a Maryland influence. Signature's is situated off the pool pavilion and specializes in more casual fare. Room service is also available for hotel guests.

The Resort facilities are surrounded by extensive landscaping including Gazebos, gardens and fountains. The Innovation Group found the synergy between the components of the resort to be excellent, while taking advantage of the Lake views. In summary, we found that the Resort exhibits a true resort-style ambience.

The larger Rocky Gap State Park offers several beach areas and campgrounds with playgrounds, tennis courts, basketball courts, and walking and biking trails. Resort and park activities include fishing, horseback riding, canoeing, rock climbing, biking and rafting. Several pavilion's are available for group events.

Rocky Gap Lodge and Golf Resort



Gaming Legislative Background - Maryland

In November 2007, Maryland passed House Bill 4 (“HB4”), a constitutional amendment allowing for a referendum on the legalization of Video Lottery Terminals (VLTs). The bill permits a maximum of 15,000 VLTs at five predetermined locations. The State Lottery Commission will own/lease the VLTs and the related central monitoring system. The VLT Facility Location Commission (seven appointed members) may change the allocation of the 15,000 machines if warranted by market and factors, but no more than 4,750 VLTs may be placed at any one location. The following is a list of the locations, the number of allotted VLTs and other location stipulations.

Maryland Operator License Locations		
Location	# Units	Stipulations
Ann Arundel County	4,750	Within two miles of MD Route 295
Baltimore City	3,750	Within ½ mile of MD Rt. 295 on property owned by the City
Cecile County	2,500	Within two miles of Interstate 95
Allegany County	1,500	Located within the Rocky Gap State Park
Worcester County	2,500	Within one mile of the intersection of Route 50 and Route 589

Source: Maryland House Bill 4

VLT operators must pay an initial license fee of \$3.0 million and invest at least \$25.0 million for every 500 VLTs in operation. VLT revenue is distributed as follows:

Maryland VLT Revenue Distribution	
Education Trust Fund	48.5%
Horse Racing Purses	7.0%
Local Impact Grants	5.5%
Racetrack Facility Renewal *	2.5%
Lottery Agency	2.0%
Small, Minority and Women-Owned Businesses	1.5%
VLT Operator	33.0%
Total	100.0%

* Distribution expires after 8 years (maximum of \$40 million annually)

Source: House Bill 4; The Innovation Group

Therefore, the effective tax rate was set at 67%. Note that after eight years the Education Trust Fund distribution increases to 51.0% as the Racetrack Facility Renewal fund expires. In addition, the legislation imposes an annual fee of \$425 per VLT and directs the funds to a problem gambling fund.

Other Provisions:

- VLTs must payout a minimum annual average of 87%.
- Minimum gaming age is 21 years.
- Prohibits consumers from cashing paychecks at VLT facilities.

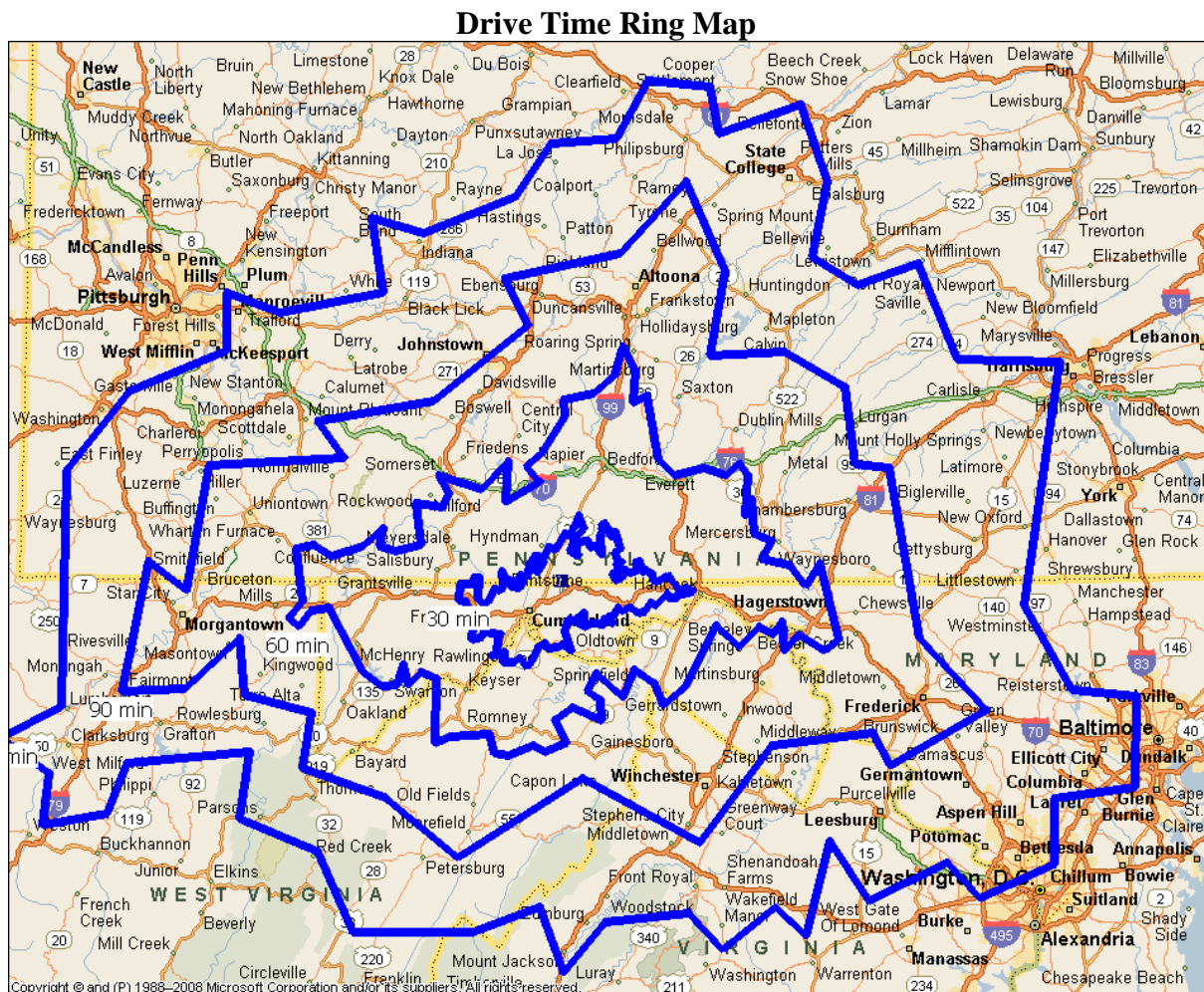
- Complimentary food and beverage is generally prohibited unless distributed through a players reward program.
- In the interest of mitigating problem gaming, Lottery Commission may place limits on the dollar amount accepted by VLTs; place limits on ATM counts, locations and maximum withdrawals; require payouts to be made by check; require conspicuous disclosure of VLT payouts and odds; and require player tracking to identify excess play.

REGIONAL OVERVIEW

A market's size, economic health and growth potential are indicative of its ability to support a casino development. As the subject development is expected to accommodate both local residents and tourists, the analysis focuses on the variables that support the gaming and hospitality industry, including demographics, economic data, and tourism statistics. The demographic data includes total population, gamer population and average annual household income, while the economic analysis focuses on employment. The information presented in this section of the report provides the building blocks for the Study and supports the estimates and assumptions contained therein.

Demographic Profile

For the purpose of the demographic analysis, the population within 120 minutes of the proposed development site was assessed using four concentric rings: 0-30 minutes, 30-60 minutes, 60-90 minutes, and 90-120 minutes. The outer ring stretches into the Baltimore, Pittsburgh and Washington D.C. metro areas. The ring also stretches north into central Pennsylvania and south into Virginia, as shown on the following map.



Total Population

The total population within 120 minutes of the subject development site was estimated at nearly 2.33 million in 2010. The total market population is expected to reach 2.39 million by 2015; reflecting an average annual growth (“AAG”) rate of 0.5%. This growth rate is somewhat lower than the national average of 0.8%.

The innermost ring (0-30 minutes) was estimated to contain about 77,000 persons (2010), or 3% of the total market, generally reflecting the Cumberland market area. This segment is expected to lose population over the next five years. The 30-60 minute ring segment adds 170,100 persons as it captures Hagerstown (MD) and Bedford (PA). This segment is expected to grow slightly through 2015. The 60-90 minute with 811,100 persons captures some significant towns such as Altoona (PA), Morgantown (WV), Winchester (VA) and Frederick (MD). This segment accounts for about 35% of the total market, and is expected to grow at a rate of 0.6% per year, closing in on the national average. The outer ring (the largest ring segment) with 1.27 million persons, or 55% of the market, encroaches into the major metro areas of Pittsburgh, Baltimore and Washington D.C. The table below details the total population data for the greater Allegany County market, as defined.

Allegany County Market Total Population					
Ring	2000	2010	2015	AAG (2000-2010)	AAG (2010-2015)
0-30 minutes	79,357	77,022	75,508	-0.5%	-0.4%
30-60 minutes	164,078	170,103	171,661	0.5%	0.2%
60-90 minutes	748,521	811,138	835,765	1.1%	0.6%
90-120 minutes	1,184,210	1,273,629	1,307,577	1.0%	0.5%
Total	2,176,166	2,331,892	2,390,511	0.9%	0.5%
The United States	281,421,906	309,038,974	321,675,005	1.3%	0.8%

Source: Ixpress/Claritas, The Innovation Group

Gamer Population

The gamer population within 120 minutes of the subject site was estimated at 1.73 million in 2010, or 74.1% of the total population. The proportion is expected to increase to 74.6% by 2015, resulting in 1.78 million gamer adults, as the population ages. This aging of the population is in line with the national average. Note that the gamer population base is expected to increase at a rate of 0.6% per year over the next five years, compared to 0.5% for the total population. This market is considerably older than the nation as a whole. The adult proportion for the nation was only 71.5% (2010).

The innermost ring (0-30 minutes) displayed the oldest population with gamer population to total population ratio of 76.1%, compared to the youngest population (30-60 minute ring) with a proportion of 73.7%. The innermost ring is also expected to age the most over the next five years. The following table displays the gamer population statistics for the greater Allegany County market.

Allegany County Market Gamer Population (21+)

Ring	2010	% of Total Population	2015	% of Total Population	AAG (2010-2015)
0-30 minutes	58,627	76.1%	58,367	77.3%	-0.1%
30-60 minutes	128,699	75.7%	131,190	76.4%	0.4%
60-90 minutes	597,694	73.7%	617,067	73.8%	0.6%
90-120 minutes	943,327	74.1%	976,007	74.6%	0.7%
Total	1,728,347	74.1%	1,782,631	74.6%	0.6%
The United States	220,820,181	71.5%	231,083,594	71.8%	0.9%

Source: Ixpress/Claritas, The Innovation Group

Income

The Average Annual Household Income (“AAHI”) for the greater Allegany market was estimated at about \$63,100 in 2010. The figure is about 11% below the national average of \$71,100. The AAHI for the market is expected to grow 2.4% per year over the next five years, reaching approximately \$71,000 by 2015. The growth rate is well above the national average of 1.7% per year.

The innermost ring, reflecting the Cumberland area, showed the lowest AAHI level of \$50,400 (2010). This segment also showed the lowest expected growth rate of 1.8% per year, although roughly equal to the national average. Note that the income levels and the expected growth rates increase as the size of the market increases. On the high end, the 90-120 minute ring segment showed an income level of \$67,400 and an expected growth rate of 2.5% per year. Again, this segment contains a portion of the Pittsburgh, Baltimore and Washington D.C. metro areas.

Allegany County Market Average Household Income

Ring	2000	2010	2015	AAG (2000-2010)	AAG (2010-2015)
0-30 minutes	\$39,970	\$50,431	\$55,090	3.3%	1.8%
30-60 minutes	\$40,542	\$52,782	\$58,607	3.8%	2.1%
60-90 minutes	\$44,884	\$59,844	\$66,926	4.1%	2.3%
90-120 minutes	\$49,550	\$67,358	\$76,176	4.4%	2.5%
Total	\$46,888	\$63,075	\$70,958	4.2%	2.4%
The United States	\$56,644	\$71,071	\$77,465	3.2%	1.7%

Source: Ixpress/Claritas, The Innovation Group

Economic Profile

The economic profile is centered on Allegany County and generally focuses on employment. We isolated factors such as the unemployment rate, labor force count, employment by industry sector and top employers.

Regarding Allegany County employment, we are projecting new employment associated with the gaming facility at 280 persons, assuming Scenario 1. We also estimated new employment associated with the Resort at 36 based mainly on the expected increase in room night demand and food and beverage demand. For Scenario 1, the employment gains fall to 135 for the gaming facility, while the impact on the Resort would be minimal.

Unemployment / Labor Force

The unemployment rate for Allegany County averaged about 9.3% in 2010; up sharply from the near-term low of 5.2% in 2007. The increase reflects the national recession brought on by the turmoil in the housing market and the subsequent crisis in the financial sector. On a bright note, the growth in the unemployment rate has moderated, increasing only by 0.8% in 2010, compared to a 2.6% jump in 2009. Note that the number of unemployed persons increased about 74% between 2007 and 2010.

The labor force count in Allegany County fell moderately in 2010 following a period of stability from 2005 through 2009. The labor for count declined by roughly 1,000 or 2.9% in 2010, while the count ranged from 35,400 and 35,600 from 2005 through 2009. The following table displays employment statistics for Allegany County.

Allegany County - Employment Summary				
	Unemployment	Employment	Labor Force	Unemployment Rate
2005	2,164	33,421	35,585	6.1%
2006	1,975	33,663	35,638	5.5%
2007	1,845	33,573	35,418	5.2%
2008	2,091	33,545	35,636	5.9%
2009	3,027	32,510	35,537	8.5%
2010	3,215	31,280	34,494	9.3%
1-yr AAG	6.2%	-3.8%	-2.9%	
3-yr AAG	20.3%	-2.3%	-0.9%	
5-yr AAG	8.2%	-1.3%	-0.6%	

Source: Bureau of Labor Statistics

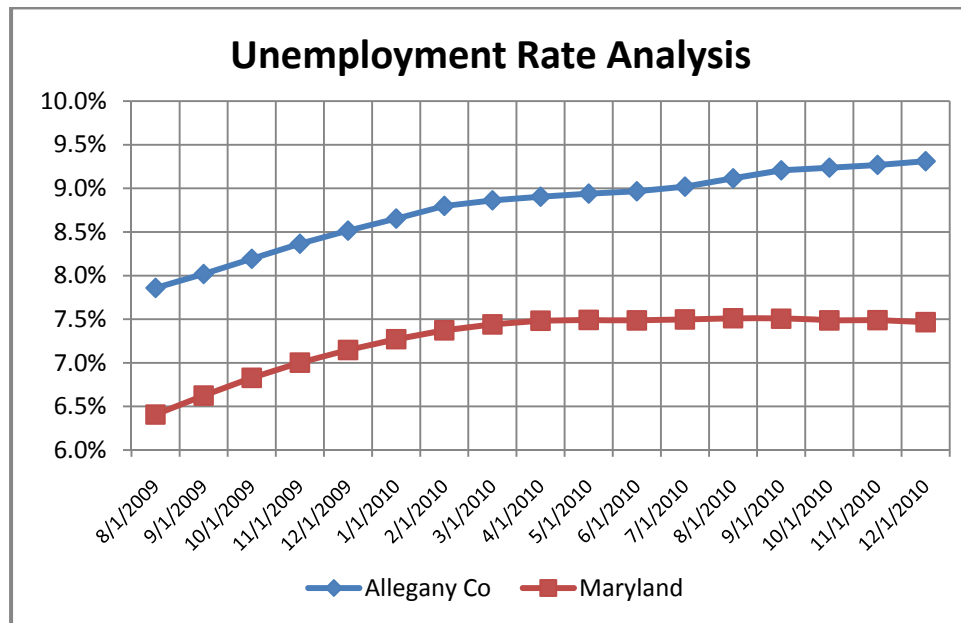
Recall that The Innovation Group assumed a continued economic rebound leading up to the expected opening date of the subject project. Therefore, the table below highlights the monthly unemployment rate over the last year as we put unemployment under a microscope. The data shows that unemployment began to stabilize somewhat in the spring of 2010, after peaking in February 2010 at 11.1%. On a year over year basis, the growth in the unemployment from April through December 2010 was 0.5% or less, with the exception of August and September which showed a spike.

Monthly Unemployment Rate Analysis

	2009	2010	Change
Jan	9.2%	10.9%	1.7%
Feb	9.3%	11.1%	1.7%
Mar	9.2%	9.9%	0.8%
Apr	8.1%	8.6%	0.5%
May	8.2%	8.6%	0.4%
Jun	8.9%	9.3%	0.3%
Jul	8.3%	9.0%	0.6%
Aug	8.2%	9.4%	1.1%
Sep	7.6%	8.7%	1.1%
Oct	8.1%	8.5%	0.4%
Nov	8.3%	8.7%	0.4%
Dec	8.7%	9.2%	0.5%
Average	8.5%	9.3%	0.8%

Source: Bureau of Labor Statistics; The Innovation Group

The graph below displays the Allegany County unemployment rate using a twelve month rolling average. The trend line for Allegany County shows that unemployment rate growth began moderating in the spring of 2010. Nonetheless, the unemployment rate continues to edge upward. In contrast, the statewide rate for Maryland stabilized in the spring of 2010, and has since improved slightly. Therefore, the data suggests that while the Allegany County economy has stabilized, the economic recovery in this rural area will be slower, relative to the major cities.



Employment by Sector

Based on information obtained from the BLS, we found that about 15% of Allegany County's workforce falls in the goods production sector compared to 85% in the service providing sector. In 2005, the goods producing sector accounted for 17% of the workforce. The labor force count in goods producing sector has fallen from 6.6 million in 2005 to 5.8 million in 2010, or an average of 2.4% per year. Employment in the service providing sector has decline slightly over the last five years. Note that employment in the government sector, which is part of the service providing sector, has increased from 8.1 million (2005) to 8.6 million (2010); an increase of 1.3% per year. The government sector now accounts for 23% of the workforce. The following table displays the employment statistics by sector for Allegany County.

Allegany County Employment by Sector (000's)

Industry	2005	2006	2007	2008	2009	2010	5-yr AAG	% of Total (2010)
Good Producing	6.6	6.5	6.4	6.1	6.0	5.8	-2.4%	15.3%
Service Providing	33.1	33.1	33.1	33.6	33.2	32.2	-0.5%	84.7%
Total Nonfarm	39.7	39.6	39.5	39.7	39.2	38.0	-0.8%	100.0%
<i>Memo: Government</i>	<i>8.1</i>	<i>8.2</i>	<i>8.2</i>	<i>8.7</i>	<i>8.9</i>	<i>8.6</i>	<i>1.3%</i>	<i>22.7%</i>

Source: Bureau of Labor Statistics

Top Employers

The following table displays some of the top employers in Allegany County, according to the Allegany County Department of Economic Development. The top employer is Western Maryland Health System with about 2,400 employees. For the next highest employer, ATK Tactical Systems, the count falls to about 1,300 employees. The list contains several manufacturing companies including Hunter Douglas Northeast and American Woodmark as well as several prison facilities. Note that the list also includes the Rocky Gap Lodge employing about 320 persons.

Top Employers Allegany County

Company	Industry Sector	Employee Count
Western Maryland Health System	Health Care	2,396
ATK Tactical Systems	Manufacturing - Propulsion Motors	1,279
New Page	Fine Papers	970
CSX Transportation	Rail Service	925
Frostburg State University	Education	891
ACS	Telecommunications	615
Hunter Douglas Northeast	Manufacturing - Window Coverings	538
Western Correctional Institution	Maryland Correctional Services	503
Allegany College	Education	455
Info Spherix	Telecommunications	405
Rocky Gap Lodge	Hospitality	318
Federal Correctional Institution	Federal Bureau of Prisons	294
North Branch Correctional Institution	Maryland Correctional Services	227
Superfos Packaging	Plastic Injection Molding	202
The Belt Group	General Contractors	200
Cumberland Times News	Newspaper	170
American Woodmark	Manufacturing - Wood Cabinets	167

Source: Allegany County Department of Economic Development

Tourism

Allegany County is home to the Maryland Mountains and thus presents a vibrant and diversified tourist offering. The offering is centered on outdoor recreational activities, capitalizing on the scenic beauty of the area as America's First Frontier. Allegany County boasts of rugged terrain with lakes, woods, streams, and trails. Outdoor activities include kayaking, whitewater rafting, canoeing, rappelling, fly fishing, bass fishing, horseback riding, rock climbing, biking, shooting and caving. In addition, the area is known for American heritage points of interest, historical attractions, visual arts and small town celebrations.

Attractions

Major attractions include the Rocky Gap Lodge and Golf Resort, Rocky Gap State Park, Canal Place, Western Maryland Scenic Railroad, Downtown Cumberland, and the Green Ridge State Forrest. The Rocky Gap Resort is a full-service resort featuring a hotel, conference center, spa, golf course and various food and beverage venues as described in great detail earlier in the report. The greater Rocky Gap State Park expands on this offering with several beach areas and campgrounds with playgrounds, biking and hiking trails, tennis and basketball courts and pavilions.

Canal Place is a certified heritage area featuring numerous historical attractions and a large recreation area. Canal Place is located at the historic western terminus of the C&O Canal in Cumberland. Activities include canal boat replica tours, scenic rail excursions, the Shops at Canal Place, unique galleries, major festivals like C&O CanalFest, and hiking/biking along the canal.

The Western Maryland Scenic Railroad originates in Cumberland and terminates at the the "Old Depot" in Frostburg. Patrons ride on a classic 1916 Baldwin Steam Locomotive or vintage GP30's Diesel Powered engines for a unique 3 1/2 hour round trip scenic excursion. The trains offer dining in a first class car or standard seating. The railroad also offers Murder Mystery Theater, Dinner/Club Service, The Santa Train, and North Pole Express Excursions. Ridership is up in 2010 versus 2009 as about 14,900 tickets were sold through August 2010, representing a 18% increase.

Downtown Cumberland features numerous boutique art museums and exhibits, restaurants and bars, and festivals in a nicely renovated and well maintained walking district. The Allegany Museum and Heritage Days Festival are a couple of the key attractions. Cumberland is an excellent staging location for the regional attractions as it hosts numerous full-service hotels.

The Green Ridge State Forrest, in eastern Allegany Count offers camping, hiking, biking, fishing and boating as well as a shooting range. Green Ridge is Maryland's second largest state forest consisting of 46,000 acres of oak and hickory. Forrest elevation varies from 475 feet at the Potomac River to 2,039 feet on Town Hill, proving excellent views of the surrounding landscape. The forest was once the site for the Carroll Furnace, originally built as part of a steam powered saw mill in the 1830's.

Lodging

Allegany County lodging alternatives range from full-service hotels, to bed & breakfast boutiques and campgrounds. According to Allegany County Tourism, there are about 20 hotels/motels, 3 extended stay hotels, 10 bed & breakfast boutiques and 7 campgrounds. In summary, we estimated a total of 40 lodging venues in Allegany County, as displayed in the table below.

Allegany County Lodging Summary		
Segment	Venue Count	% of Total
B&Bs	10	25%
Hotels/Motels	20	50%
Business Extended-Stays	3	8%
Camping	7	18%
Total	40	100%

Source: Allegany County Tourism; The Innovation Group

The hotel offering includes a mix of branded and independently-owned hotels. The majority of the branded rooms fall into the mid-range class, while there are no upscale brands. The mid-range brands include Best Western, Holiday Inn and Fairfield Inn and the economy brands include Red Roof Inn, Days Inn and Super 8. The largest branded hotel in the market is the 130-room Holiday Inn in downtown Cumberland. The independently-owned group includes the Rocky Gap Resort and several historical hotels such as Failingers Hotel Gunter, Trail Inn and Café, and Folck's Mill Inn.

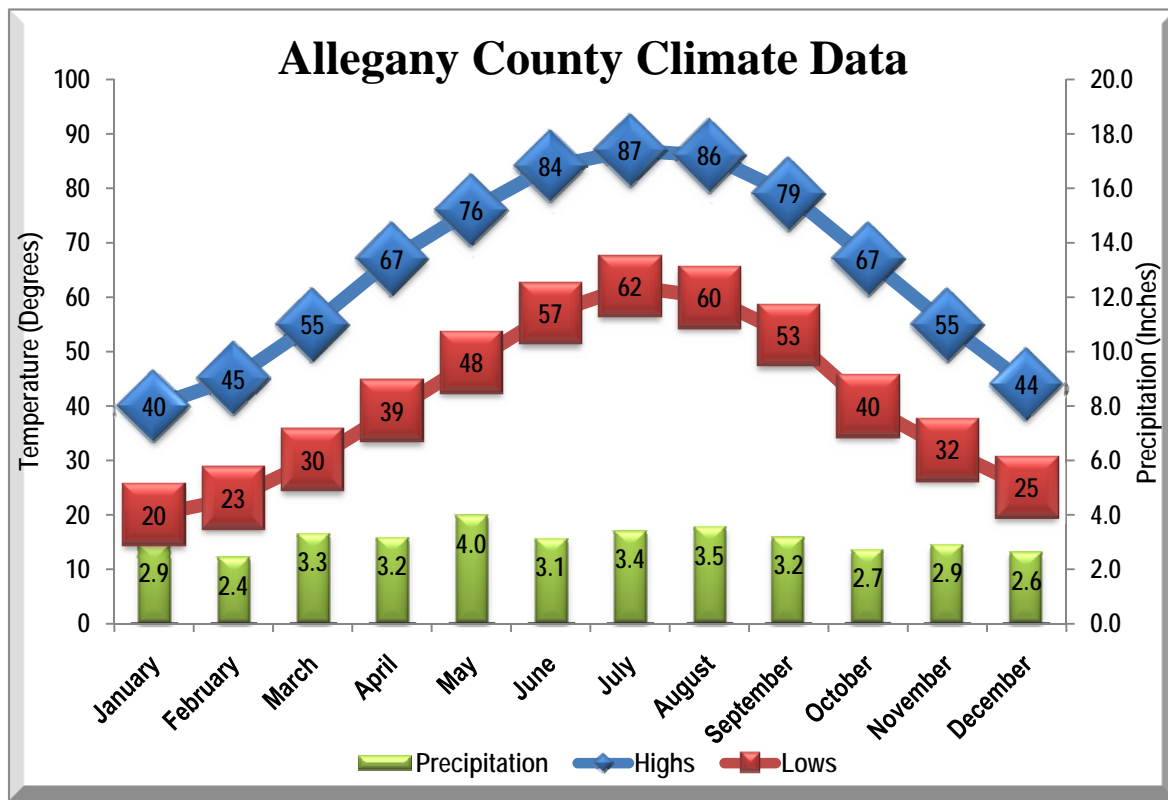
The bed & breakfast segment features The Castle, Alpacas at River's Edge and Bruce House Inn. The Castle offers six guest rooms and a three-bedroom family-friendly cottage. This venue hosts Murder Mystery shows, private teas/luncheons, and wedding receptions. Alpacas is a working farm suitable for quiet retreats. The historic Bruce House was built in 1840 exhibiting the romance of the past, but updated for convenience. Camping is centered on the Rocky Gap State Park and the Green Ridge State Forest.

Based on information obtained from Allegany County Tourism, the hotels realized an occupancy rate and average daily rate of about 55% and \$84 in 2010. Both metrics were down slightly from 2009. Nonetheless, Allegany County Tourism believes the industry is recovering as visitation associated with the Scenic Railroad and Allegheny Passage Bike Trail and bus tour bookings are all up sharply in 2010.

Weather

The climate for Allegany County features four distinct seasons. Summers are warm with average high temperatures in the mid to high 80s. Evenings during the summer are pleasant with average low temperatures in the low 60s. Winters are cold with average low temperatures in the low 20s with highs in the low to mid 40s during the day.

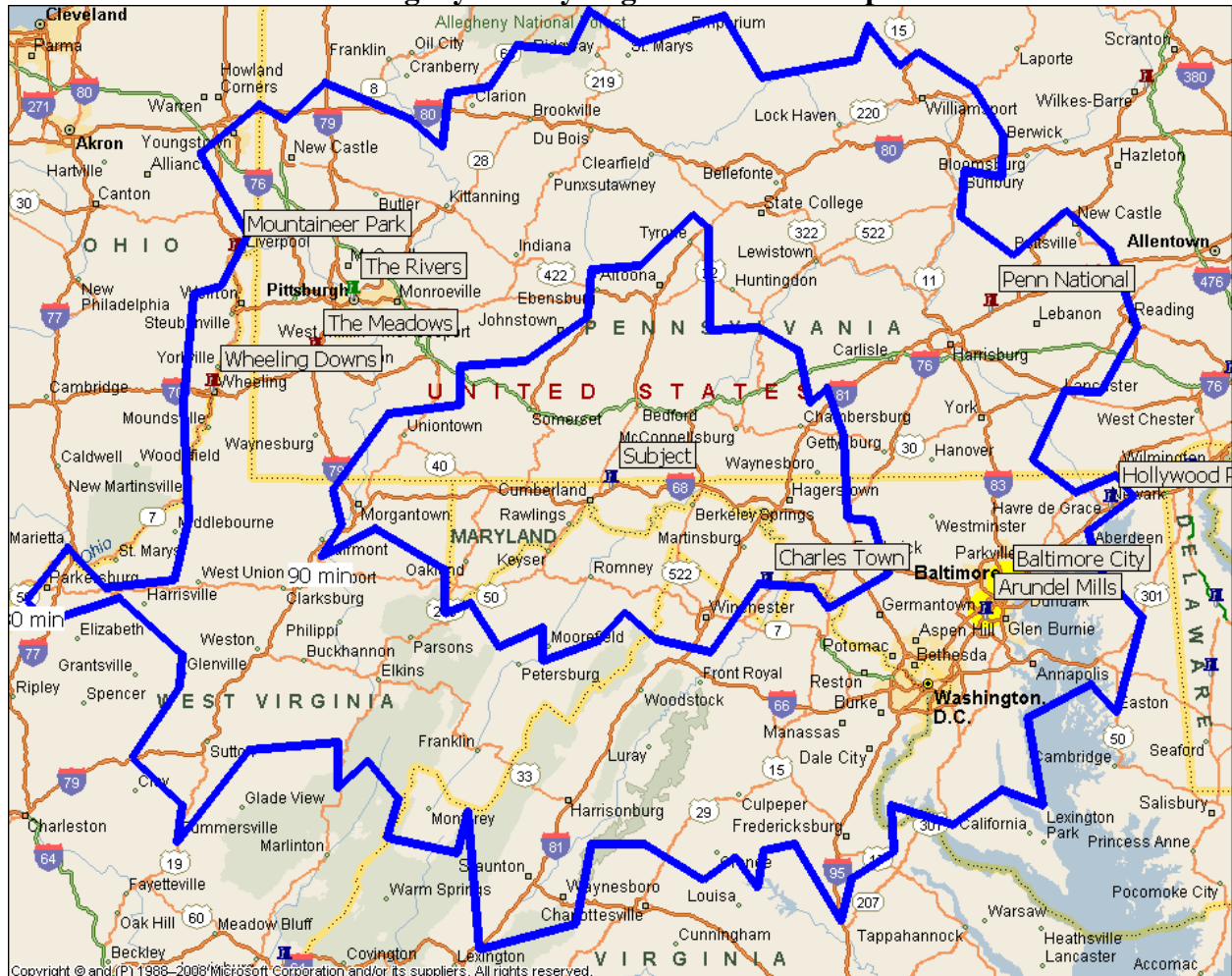
The area receives decent rainfall year around, averaging about 3.1 inches per month. The wettest month is May with an average of 4.0 inches of precipitation. The winter months are somewhat drier, with precipitation averaging 2.4 to 2.9 inches per month. Nonetheless, the area boasts about 165 sunny days per year. The following charts summarize the area's climate patterns.



COMPETITIVE ENVIRONMENT

Gaming competition in greater Allegany County region is minimal. We identified a total of only 7 casinos within about 3 hours of the subject, including the Charles Town casino roughly 90 minutes to the southeast; 4 in the western Pennsylvania market; one in Grantville (PA), about 2 ½ hours to the northeast; and the newest one in Perryville (MD), nearly 3 hours to the east. The closest existing casino to the subject development is the Charles Town casino. We further understand that 2 more casinos are proposed for Baltimore metro area in Baltimore City and Arundel Mills; both of which would be over 2 hours from the subject. The following map displays the area gaming competition.

Allegany County Regional Market Map



We consider the Charles Town casino to be primary competition, with the casinos in the Western Pennsylvania market and the proposed casinos in the Baltimore area to be secondary competition.

Hollywood Casino at Charles Town Races

The Hollywood Casino at Charles Town Races is located about 90 minutes southeast of Rocky Gap in Charles Town, West Virginia; situated at the intersection of Highway 9 and Highway 340. The facility is easily accessible from Frederick and Hagerstown, Maryland and Winchester and Leesburg, Virginia. The facility is also about 75 minutes from downtown Baltimore and Washington D.C. Ingress/egress can be a problem as the area is often traffic congested. Patrons are directed to one of two parking garages. There is minimal surface parking.

This racetrack casino is one of the largest casinos in the country with about 4,500 slot machines and 112 table games, including 27 poker tables. With this volume of slots, the selection is extensive. The table games were only recently added in July 2010, but the selection is good with Blackjack, Craps, Roulette, Pai Gow, Let it Ride, Three Card Poker and Four Card Poker. The casino also features a full-service simulcast parlor and live thoroughbred racing year around, generally in the evenings Tuesday through Saturday. The Hollywood casino brand is evident throughout the interior of the property. The only unfavorable attribute is the lack of synergy between the numerous gaming areas due to the sprawling nature of the property and the phased approach to development.

The food and beverage offering at this property is extensive, including a steakhouse, buffet, full-service grill, and a 5-outlet food court. Also available is the Skyline Terrace, a full-service restaurant overlooking the racetrack. This venue is only open during live racing. The food court, which is open 24/7, offers the Zen Noodle, Tuscany, Hot City Subs, Café USA and The Creamery (ice cream and desserts). There are numerous bars and lounges scattered throughout the property, but only open based on demand.

The property offers the Inn at Charles Town, a 153-room mid-range hotel exhibiting a colonial style décor. The hotel is located across the main business thoroughfare from the property and requires a shuttle to access casino. The standard room offers a 42-inch plasma TV, wireless internet access, and upgraded bedding. The rooms are nicely appointed with a warm color scheme. The hotel features 18 suites of various sizes and types; ranging from a Junior Suite to the VIP Suite. Hotel amenities include a complimentary hot breakfast and fitness center. Standard room rates average approximately \$130 during the week (Sunday – Thursday) and between \$170 and \$250 on weekends.

Charles Town posted slot gaming revenue of \$397 million in 2010, down 6.4% from the prior year, and down 14% from the peak of \$463 million in 2007. The weak results reflect the nationwide recession and new competition in Pennsylvania. Based on an average count in 2010 of 4,645 machines, win per position came in at \$236 per day. Note that win per position has been stable over the last few years as the facility has reduced its slot count in response to declining demand.

Hollywood Casino at Charles Town Races Summary

	Slot Revenue	Slot Positions	Win / Position
2005	\$414,124,376	4,028	\$277
2006	\$448,022,619	4,120	\$299
2007	\$463,367,841	4,739	\$269
2008	\$454,010,812	5,012	\$244
2009	\$424,334,013	4,976	\$234
2010	\$397,124,594	4,645	\$236
AAG 1-yr	-6.4%	-6.6%	0.5%
AAG 3-yr	-5.0%	-0.7%	-4.3%
AAG 5-yr	-0.8%	2.9%	-3.2%

Source: West Virginia Gaming Commission; The Innovation Group

Northern West Virginia / Western Pennsylvania

The northern West Virginia / western Pennsylvania market comprises three full-service racetrack casinos and one stand-alone casino. The competitive set includes two racetrack casinos in the West Virginia panhandle, a downtown Pittsburgh casino and The Meadows in the southern portion of the Pittsburgh metro area. Note that all these facilities offer both slot machines and table games. West Virginia and Pennsylvania incorporated table games in late 2007 and mid 2010, respectively. These casinos generally thrive off of the Pittsburgh metro area, but also realize significant patronage from various Ohio markets such as Youngstown, Canton, Akron and Cleveland. The West Virginia facilities are at a competitive disadvantage in terms of location relative to the Pittsburgh area casinos.

In total, these facilities offer about 10,800 slot machines and 290 table games. The West Virginia facilities have been downsizing since the opening of The Meadows (Jun 2007) and Rivers (Aug 2009). Nonetheless, the West Virginia properties benefit by offering casino hotels, and thus cater to the overnight gamer segment. These properties exude more of a destination feel with spas and a golf course. The northern West Virginia / Western Pennsylvania competitive set is summarized in the table below.

Gaming Competitive Summary - Western PA / Northern WV

Property	Location	Gaming Sqft	Slots	Tables *	Hotel Rooms
Rivers	Pittsburgh, PA	400,000	3,000	86	0
The Meadows	Meadow Lands, PA	350,000	3,500	64	0
Mountaineer	Chester, WV	80,000	2,500	75	359
Wheeling Downs	Wheeling, WV	90,000	1,800	64	151
Total		920,000	10,800	289	510

* Includes Poker Tables

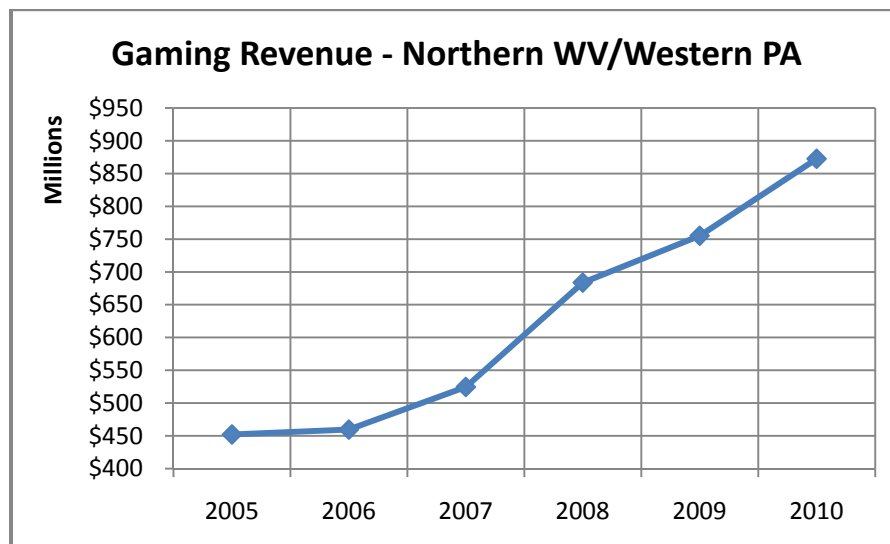
Source: Casino City; Property Websites; The Innovation Group

Gross gaming revenue associated with the northern West Virginia / western Pennsylvania market totaled approximately \$865 million in 2010. Revenue is up sharply over the last several years due to the opening of The Meadows and Rivers, nearly doubling over the last five years. Note that win per position has decline from a peak of \$229 in 2006 to \$190 in 2010 due to dilution associated with the additional capacity.

Northern WV / Western PA Market Summary

	Gaming Revenue	Positions	Win / Position
2005	\$452,068,655	5,424	\$228
2006	\$459,562,944	5,488	\$229
2007	\$524,562,050	6,498	\$221
2008	\$683,740,926	8,020	\$234
2009	\$755,204,101	10,137	\$204
2010	\$864,954,721	12,469	\$190
AAG 1-yr	14.5%	23.0%	-6.9%
AAG 3-yr	18.1%	24.3%	-4.9%
AAG 5-yr	13.9%	18.1%	-3.6%

Source: PGCB; West Virginia Gaming Commission; The Innovation Group



The Meadows and Rivers shared the market leader position with near identical gaming revenue of about \$263 million in 2010. With fewer positions, Rivers showed a higher Market Share Ratio (“MSR”) and win per position of 1.19 times and \$227, respectively. Mountaineer holds the third place spot with just under \$200 million in revenue at it benefits from the most hotel rooms in the market, supported by various resort amenities. Mountaineer’s location is also superior to Wheeling at it relates to the Pittsburgh market. Wheeling, with the fewest gaming positions, generated gaming revenue of \$142 million; a modest discount to fair share.

Northern WV / Western PA - Gaming Revenue by Property

Property	Gaming Positions	Market Share	Gaming Revenue	Market Share	Market Share Ratio	Win per Position
Rivers	3,177	25.5%	\$263,103,751	30.4%	1.19	\$227
The Meadows	3,756	30.1%	\$262,423,561	30.3%	1.01	\$191
Mountaineer	3,309	26.5%	\$197,449,855	22.8%	0.86	\$163
Wheeling	2,227	17.9%	\$141,977,554	16.4%	0.92	\$175
Total	12,469	100.0%	\$864,954,721	100.0%	1.00	\$190

Source: PGCB; West Virginia Gaming Commission; The Innovation Group

Proposed Baltimore Area Developments

There are currently two Maryland casinos proposed for the greater Allegany County market. Per the Maryland gaming legislation, the casinos are slated for Arundel Mills in Anne Arundel County and Baltimore City.

Arundel Mills

The Cordish Company was selected to develop this project. The development site is located near the intersection of Highway 295 and Highway 100, in the southern portion of the Baltimore metro area. The site is adjacent to the Arundel Mills Mall and only a few miles west of the Baltimore Washington International Airport.

The Cordish Company is planning a high-end full-service venue comprising roughly 300,000 square feet. The casino floor is expected to offer 4,750 gaming machines including electronic table games such as blackjack, roulette, craps and poker. Regarding food and beverage, 5 nationally branded restaurants and entertainment venues are planned, including Bobby Flay, The Cheesecake Factory, Ruth's Chris Steak House, and Obrycki's Seafood. Regarding entertainment, a live music venue named Rams Head is planned. This facility is expected to open in mid 2012.

Baltimore City

Per the Maryland gaming legislation, this gaming facility must be located in a nonresidential area within one-half mile of Interstate 95 and Route 295, on city-owned land that is not adjacent to or within one-quarter mile of residential property. It is anticipated that this facility will offer 3,750 slots. The timing of this project is uncertain as it needs to be rebid. The initial winning bidder was found to be unqualified due to the inability to fund the upfront license fee.

GAMING MARKET ASSESSMENT

The Gaming Market Assessment section of the report forecasts gamer visits, top-line gaming revenue, and win per machine for the proposed Rocky Gap casino, assuming two mutually exclusive development scenarios: 1) Stand-Alone Facility; and 2) Machines Retrofitted into Conference Center. The objective of the Gaming Market Assessment is to quantify the gaming revenue potential of the market area and proposed development assuming a specific building program and an optimal machine count that maximizes the profitability of the operation.

Gaming Market Assessment Methodology

The Innovation Group identified five potential sources of incremental gaming revenue based on the proposed location and building program, including the local market, overnight resort guests, regional tourists, meeting attendees and traffic intercept segment. We utilized a unique forecasting model for each potential source of gaming revenue. The following discussion outlines the methodology for each of these components.

Local Market

For the purpose of forecasting the local market component, The Innovation Group employed a complex drive-time gravity model. Gravity models are commonly used in location studies for commercial and residential developments and public facilities. First formulated in 1929 and later refined in the 1940s, the gravity model is an analytical tool that defines the behavior of consumers based on travel distance and the availability of goods or services at various locations. The general form of the equation is that attraction is directly related to a measure of availability such as square feet (or for casinos, gaming positions) and inversely related to the square of the travel distance. Thus, the gravity model quantifies the effect of distance on the behavior of potential patrons, while considering quality, scope and the impact of competing venues.

A constrained gravity model was used for projecting local market gaming activity for the greater Allegany County market area using various discrete market segments. For this study, we defined the market using a roughly 90-minute drive-time ring emanating from the subject development site. Within this ring, unique market segments were established to account for variations in highway access, population centers, gaming competition and demographics. Each of these market segments was assigned a unique propensity and frequency factor, which were applied to the adult population counts to yield gamer visits. These factors were generally derived based upon primary research in other gaming markets. The gamer visits were then distributed among the competitors based upon the size, quality and scope of each facility and the relative distance from each market segment. Other competitors outside the market are treated as external competitors siphoning off a portion of gaming trips from the region. The model was constructed to include only alternative venues that are considered to be within a reasonable travel time. The following section provides a description of the various components of the model.

Propensity - Propensity refers to the percentage of the adult population within a market that is likely to participate in gaming. Generally, propensity decreases as the distance from the market center increases. In fully developed casino markets, such as the local Las Vegas market, propensity can reach 60%, while in single venue or slots-only markets it can be as low as 20%. This measure geared to a specific form of gaming.

Frequency - Frequency is a measure of the average number of times per year that individuals with a propensity to participate in gaming within a market will actually do so. Like propensity, frequency tends to decline as the distance from the market center increases.

Win Per Visit (“WPV”) - WPV reflects the casino’s average gaming win for each customer visit for a given market or market segment. Win per visit tends to increase in proportion to distance traveled as the gamers make fewer trips per year with a higher budget. Win per visit also varies based on income and the specific facility characteristics such as the degree of overcrowding and the gaming product.

Attraction Factors - Attraction factors measure the relative attraction of one gaming venue to the competition. Attraction factors are applied to the size of the gaming venue as measured by the number of positions. The market average attraction factor would be one. A value of less than one adjusts the size of the gaming venue downwards and conversely a value greater than one indicates that the gaming venue has characteristics that make it more attractive. Attraction factors can be based on a number of attributes including branding, the level and effectiveness of marketing efforts, the quality level and amenity package.

Overnight Resort Guest

This segment reflects overnight patrons of the Resort. We estimated room night demand based on a resort impact analysis, presented later in the report. The Innovation Group applied gaming factors to room night demand in order to forecast the incremental gaming revenue associated with this customer component. The gaming factors include the gamer capture rate and win per room night. The basic formula is as follows.

Available Room Nights x Occupancy Rate = Room Night Demand

Room Night Demand x Capture Rate x Win per Room Night = Guest Gaming Revenue

Regional Tourist (Overnight / Transient / RV Park Patron)

The regional tourist segment includes three unique components, including regional overnight tourists, transient tourists and RV park patrons. Generally, this segment reflects tourists to the area that might patronize the subject casino as a secondary attraction, including leisure tourists, business travelers and pass-through travelers. The leisure tourists are generally attracted to the ambience and scenic nature of the area.

For the **Overnight** component, The Innovation Group analyzed the existing hotel room inventory within about 30 minutes of the proposed development. We estimated room night demand by multiplying available room nights by an estimated occupancy rate. We then estimated the gaming factors associated with the overnight segment, including the capture rate and win per room. The basic formula is as follows:

Available Room Nights x Occupancy Rate = Room Night Demand

Room Night Demand x Capture Rate x Win per Room Night = Overnight Tourist Revenue

The **Transient** component reflects day-trip visitors to the area that do not ultimately spend the night. For the Transient component, we estimated visitor volume based on our analysis of the Allegany County tourism industry. Next, we estimated a capture rate and a win per gamer as outlined in the formula below:

Day-Trip Tourist Volume x Capture Rate x Win per Gamer = Transient Tourist Revenue

Incremental gaming revenue from guests staying overnight at existing **RV parks** in the region was also considered in the evaluation of the tourist segment. The region surrounding the proposed development site contains several RV parks. We estimated the occupancy rate and average length of stay for these venues. We then applied gaming factors to the number of adults staying at these parks to arrive at incremental gaming revenue.

Available Sight Nights x Occupancy Rate / Average Length of Stay = RV Households
RV Households x Adults per Household x Capture Rate x Visits per Stay = Gamer Visits
Gamer Visits x Win per Visit = RV Park Gaming Revenue

Event/Meeting Attendee

This source of gaming revenue reflects the incremental revenue associated with attracting patrons to the facility via events and meetings. We only considered day-trip event attendees as to avoid double counting overnight event patrons. We then estimated the gaming factors for this component of revenue including a capture rate in win per visit. The basic formula for forecasting event/meeting center gaming revenue is as follows.

Attendees x Day-Trip % x Capture Rate x Win per Visit = Event/Meeting Gaming Revenue

Traffic Intercept Segment

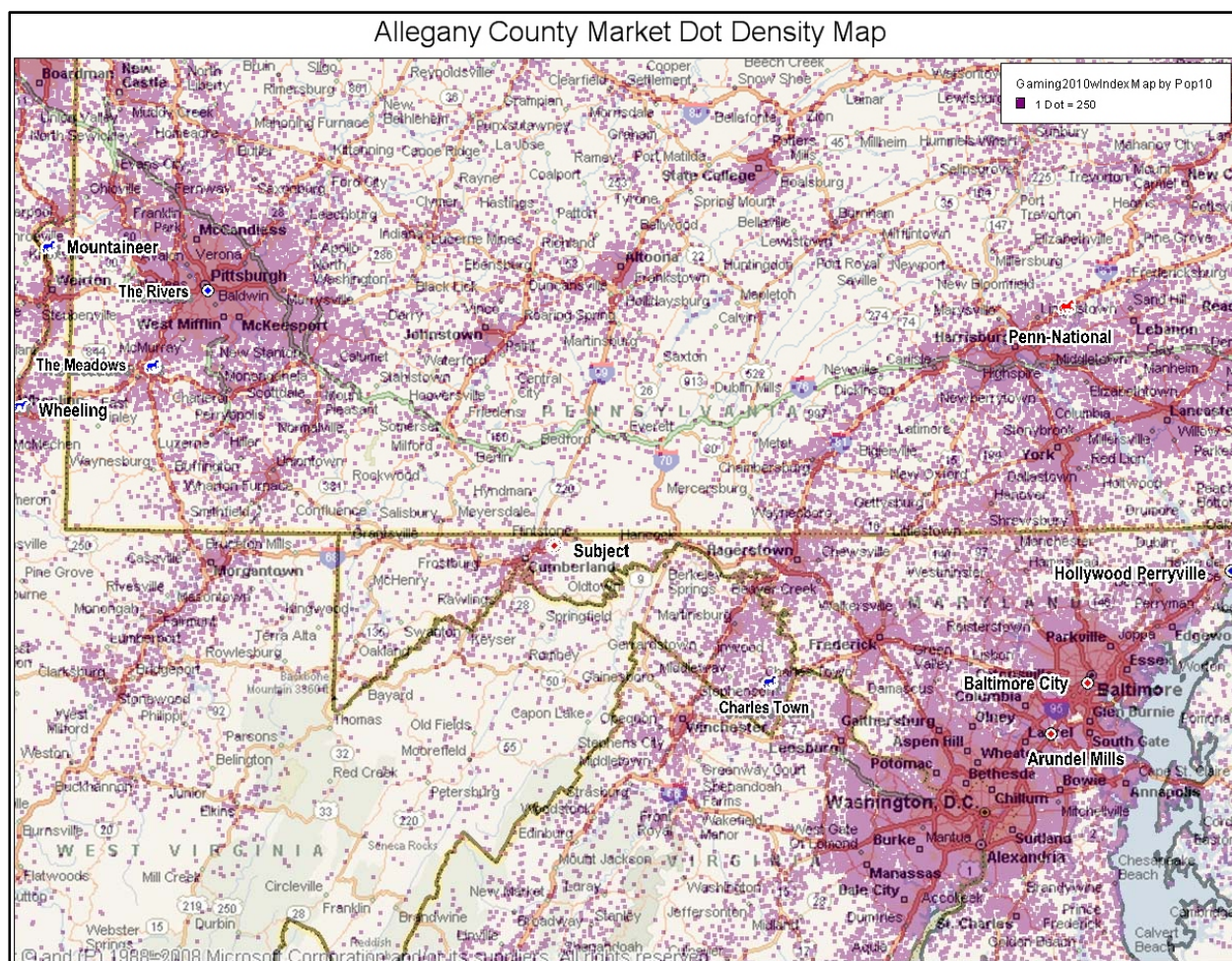
The traffic intercept segment reflects potential customers that are passing through the area on major highways that decide to stop and patronize the casino. The Innovation Group believes that the subject casino would realize material traffic intercept gaming revenue, due to access from Interstate 68. The key variable in assessing this customer segment is the vehicle count traversing this highway in the area of the casino. The vehicle count estimates were based on information obtained from the Maryland Department of Transportation and adjusted to reflect only pass-through vehicles.

Capture rates for adults passing through gaming markets are typically very low, likely between 1% and 3%. The average win per gamer visit for this segment is also generally lower than the local market, as the visit was likely spontaneous as opposed to planned and budgeted. The traffic intercept formula is as follows:

Pass-Through Vehicles x Gamer Capture Rate x Adults per Vehicle = Gamer Visits
Gamer Visits x Win per Visit = Traffic Intercept Gaming Revenue

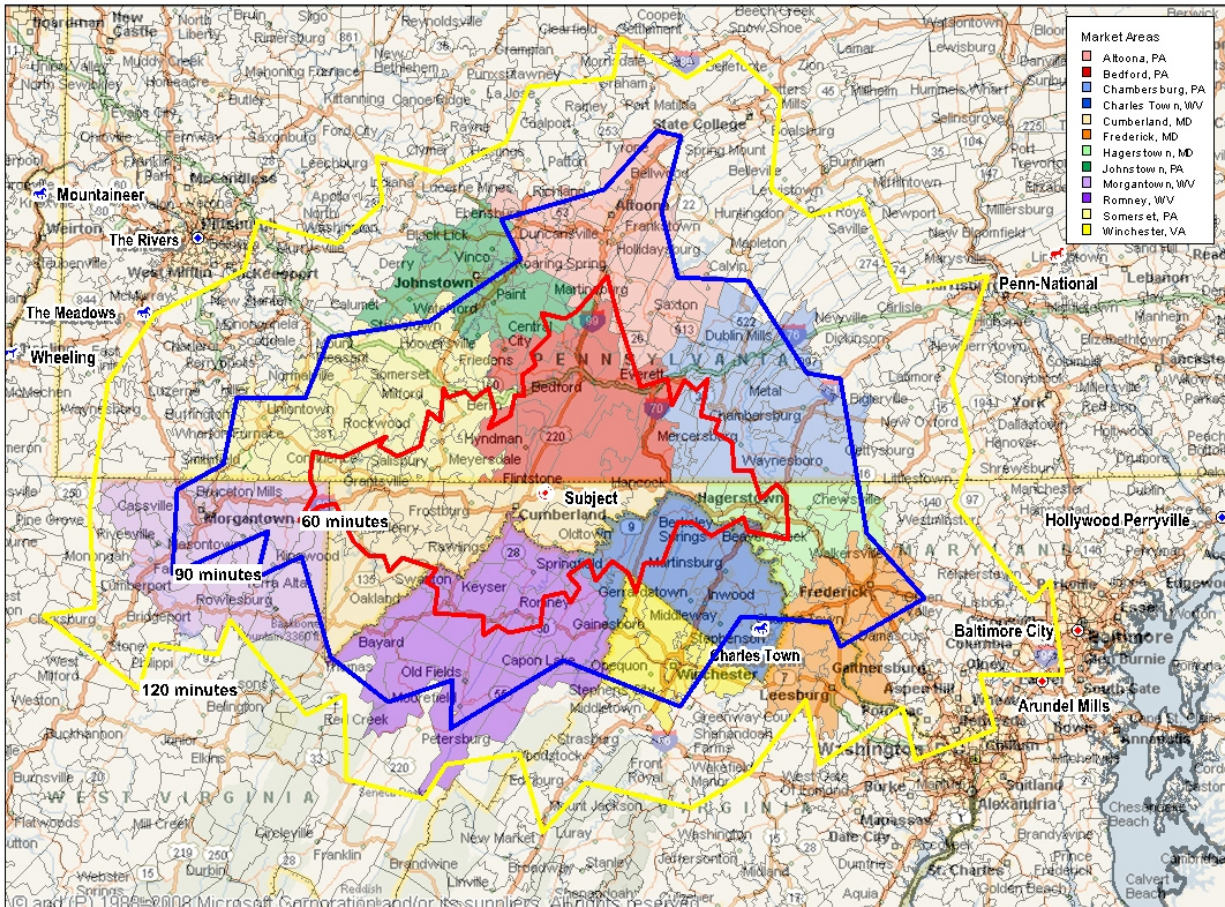
Local Market Definition

The Innovation Group defined the local market using a roughly 90-minute drive-time ring emanating from the subject development site. Within this ring, numerous unique market segments were established to account for variations in highway access, population centers, gaming competition and demographics. The following dot density map provided the starting point for market definition.



The following map displays our market segmentation. The goal was to identify population centers that would exhibit similar habits with regard to gaming behavior, such as propensity to visit a casino, frequency of visits, budget per casino trip and selection of gaming alternatives. In general, each segment is centered on one of the larger towns in the area, such as Cumberland, Frederick, Hagerstown, Johnstown and Altoona. The numerous gaming alternatives in the Pittsburgh area and the proposed casinos in the Baltimore area, truncate this market to the northwest and southeast. Note that the market area is elongated when facilitated by a major highway.

Allegheny County Market Segments



Gamer Population by Market Segment

The gamer population (21+) count for the greater Allegany County market totaled 1.22 million in 2010. The gamer population is expected to grow to 1.26 million by 2015, reflecting an average annual growth rate of 0.7%. The overall growth rate is in line with the national average of 0.9%.

The population is derived from four states with Pennsylvania contributing the most at approximately 468,000 (38% of the total), followed closely by Maryland at 402,000 (33%). West Virginia and Virginia contributed about 271,000 (22%) and 78,000 (6%) gamer adults, respectively.

The Cumberland market, comprising Allegany and Garrett Counties, is a significant submarket with about 80,100 gamer adults, accounting for 6% of the total market. This submarket is the subject's home market and is expected to remain flat over the next several years.

The largest submarket is Frederick, comprising Fredrick and Leesburg, Maryland, with approximately 205,000 gamer adults. This submarket is expected to grow at the fastest pace of 2.3% per year over the next five years; well above the national average.

There are several other significant market segments centered on notable cities, including Altoona, Hagerstown, Morgantown and Somerset/Uniontown, with gamer populations ranging from about 117,000 to 132,000. Altoona and Somerset/Uniontown are expected to contract slightly over the next few years, while Hagerstown and Morgantown are expected to show decent growth of about 0.8% and 0.6% per year, respectively. In summary, the gamer population demographics for the local market are strong, as displayed below.

Market Carve-out Gamer Population Summary

Market Segments	2010	2015	% Change
Johnstown, PA	92,275	89,269	-0.7%
Altoona, PA	132,094	130,283	-0.3%
Bedford, PA	36,166	36,173	0.0%
Chambersburg, PA	80,058	82,654	0.6%
Somerset/Uniontown, PA	127,655	125,977	-0.3%
Romney, WV	46,048	47,187	0.5%
Cumberland, MD	80,080	79,781	-0.1%
Hagerstown, MD	116,932	121,635	0.8%
Frederick, MD	204,620	228,984	2.3%
Winchester, VA	77,875	84,383	1.6%
Morgantown, WV	129,493	133,272	0.6%
Charlestown, WV	95,495	104,817	1.9%
Total Market	1,218,791	1,264,415	0.7%

Source: Claritas, The Innovation Group

Average Annual Household Income by Market Segment

In total, Average Annual Household Income (“AAHI”) for the market area was estimated at \$65,400 in 2010. This figure is expected to reach \$74,200 by 2015, reflecting an average annual increase of 2.6%. The area AAHI level is about 8% below the national average of \$71,100, but the expected growth rate is above the national average of 1.7% per year.

The area exhibited a wide range of income levels ranging from a low of \$47,100 for Somerset/Uniontown to a high of \$107,100 for Frederick in 2010. Excluding Frederick, the next highest income level was \$73,400 associated with the Winchester, Virginia submarket. Note generally that the larger markets showed a higher income level. The subject’s home market (Cumberland) showed an income level of \$51,900, on the low end of the range.

The market segments also showed a wide range of expected grow rates from a low of 1.5% per year for the Somerset/Uniontown market to a high of 2.8% for Charlestown. The income level for the Cumberland market is expected to grow at 2.0% per year, generally in the middle of the range. The following table details AAHI stats for the greater Allegany County market.

Market Carve-out AAHI

Market Segments	2010	2015	% Change
Johnstown, PA	\$51,570	\$56,183	1.7%
Altoona, PA	\$52,092	\$56,973	1.8%
Bedford, PA	\$49,651	\$53,694	1.6%
Chambersburg, PA	\$60,636	\$65,816	1.7%
Somerset/Uniontown, PA	\$47,149	\$50,908	1.5%
Romney, WV	\$48,073	\$52,640	1.8%
Cumberland, MD	\$51,936	\$57,425	2.0%
Hagerstown, MD	\$67,633	\$75,389	2.2%
Frederick, MD	\$107,103	\$122,459	2.7%
Winchester, VA	\$73,424	\$82,690	2.4%
Morgantown, WV	\$53,825	\$61,143	2.6%
Charlestown, WV	\$68,513	\$78,481	2.8%
Average	\$65,422	\$74,234	2.6%

Source: Claritas, The Innovation Group

SCENARIO 1 ASSESSMENT

The Scenario 1 assessment assumes a stand-alone facility connected to the existing Rocky Gap Resort. We assumed that the facility would be of sufficient size to accommodate the recommended number of gaming machines, and provide a dedicated food and beverage offering per our recommendation and various back-of-house support areas. We further assumed that the quality level would be 3+ stars, generally in line with Hollywood Charles Town in terms of décor and finish work. Finally, we assumed that the gaming operation would be up and running in early 2013.

Gaming Revenue Forecast – Scenario 1

Recall, we identified five potential sources of incremental gaming revenue based on the proposed location and building program, including the local market, overnight resort guests, regional tourists, meeting attendees and traffic intercept segment.

Local Market

The first step in the forecasting process was to estimate potential gaming revenue for the entire local market by applying gaming factors to the gamer population outlined earlier. The estimated gaming factors reflect our knowledge of the performance of the existing casinos in the region. In addition, numerous gaming studies conducted by us and independent third parties have provided valuable insight into the expected propensity, frequency and win per visit. As discussed, propensity and frequency factors within a market generally fluctuate based on drive time and the quality and scope of the convenient gaming alternatives.

In summary, we estimated that the entire local market (as defined) would generate roughly 3.01 million gamer visits related to the 8 casinos expected to be operating in the area. The weighted average propensity and frequency calculated to 25.2% and 9.5 times, respectively. Market segments that have or will have convenient access to gaming facilities, such as Cumberland, Winchester and Charlestown, showed propensity in the 32% to 34% range and frequency in the 12 to 13 times range.

We also estimated win per visit by market segment, based primarily on income levels. The win per visit factor is also influenced by drive time, as gamers driving longer distances tend to spend more per trip, but take fewer trips. The weighted average win per visit calculated to \$79, resulting in local market gaming revenue of \$238 million. Cumberland showed the lowest win per visit factor of \$57 due to a short drive time to the subject property and a relatively low income level. In contrast, Frederick showed the highest win per visit factor of \$97 mainly reflecting the higher income level for this market segment.

The Cumberland segment is expected to generate gaming revenue of approximately \$20 million or 9% of the total. On the high end, Frederick is expected to generate gaming revenue of \$58 million or 25% of the total, compared to only about \$5 million for the Bedford and Romney markets. The following table displays estimated local market gamer visits and gaming revenue by market segment for 2014.

Local Market Summary - Scenario 1 (2014)

Market	Gamer Adults	Propensity	Gamers	Frequency	Gamer Visits	Win per Visit	Gaming Revenue
Johnstown, PA	89,862	17.5%	15,696	5.6	88,198	\$87	\$7,682,491
Altoona, PA	130,643	16.9%	22,074	5.4	118,760	\$89	\$10,531,288
Bedford, PA	36,172	22.9%	8,296	7.9	65,160	\$73	\$4,739,184
Chambersburg, PA	82,128	22.2%	18,257	8.0	146,402	\$83	\$12,169,082
Somerset/Uniontown, PA	126,311	21.7%	27,440	7.2	198,238	\$77	\$15,289,545
Romney, WV	46,957	19.9%	9,358	6.6	62,224	\$79	\$4,903,791
Cumberland, MD	79,841	34.5%	27,565	12.9	356,073	\$57	\$20,443,598
Hagerstown, MD	120,680	26.1%	31,537	9.6	302,096	\$80	\$24,315,257
Frederick, MD	223,889	26.9%	60,132	9.9	592,560	\$97	\$57,718,670
Winchester, VA	83,039	32.4%	26,876	12.3	331,298	\$75	\$24,910,459
Morgantown, WV	132,507	27.0%	35,784	9.7	347,366	\$74	\$25,856,477
Charlestown, WV	102,882	31.9%	32,782	12.3	402,673	\$73	\$29,443,650
Total	1,254,912	25.2%	315,797	9.5	3,011,048	\$79	\$238,003,493

Source: The Innovation Group

Next, we estimated the subject's capture of the local market based on its relation to the market segments in terms of drive time, while considering the size, quality and scope of the facility relative to the competition. In other words, the larger the facility in terms of gaming positions and the higher the quality level, the more pull it will have relative to the competition, notwithstanding drive time.

The Innovation Group estimated that the subject would capture about 19% of the local market or 564,900 gamer visits based on its location relative to the major population centers and the level of competition in the market. As one might expect, the subject would capture a high proportion (93%) of its home market – Cumberland. We also estimated strong capture rates for the Altoona, Bedford and Romney markets, again as it would be one of the primary gaming options for the residents of these markets. Note that these markets are connected to the subject via interstate highways and are void of competition. Markets where competition is an issue, such as Charlestown, Winchester and Frederick, the capture rates decline severely. The large Hollywood Casino at Charles Town pulls strongly on these markets.

Based on an average win per visit of \$64, subject local market revenue calculated to about \$36.1 million in 2014. The average win per visit is somewhat lower than the market average due to the high proportion of revenue originating from the home market. We estimated that \$18.3 million or 50% of the subject's revenue would come from its home market of Cumberland. The secondary markets of Altoona, Bedford and Romney contribute \$8.2 million or 23% of the total, and yielded a win per visit in the \$62 to \$76 range. Frederick, with the highest income level, showed the highest win per visit factor \$121. In addition, guests coming from the Frederick market would be driving about 80 minutes. The following table details the subject's local market gaming revenue by market segment.

Subject Local Market Gaming Revenue - Scenario 1 (2014)

Market Segments	Market Gamer Visits	Subject Capture	Subject Gamer Visits	Win per Visit	Gaming Revenue
Johnstown, PA	88,198	19.3%	17,028	\$82	\$1,392,105
Altoona, PA	118,760	42.1%	50,000	\$76	\$3,810,267
Bedford, PA	65,160	62.1%	40,456	\$62	\$2,511,192
Chambersburg, PA	146,402	9.1%	13,336	\$84	\$1,124,682
Somerset/Uniontown, PA	198,238	11.5%	22,840	\$73	\$1,674,211
Romney, WV	62,224	44.1%	27,448	\$68	\$1,879,078
Cumberland, MD	356,073	93.3%	332,163	\$55	\$18,262,814
Hagerstown, MD	302,096	8.3%	25,222	\$81	\$2,041,702
Frederick, MD	592,560	1.4%	8,407	\$121	\$1,017,000
Winchester, VA	331,298	1.4%	4,595	\$96	\$441,970
Morgantown, WV	347,366	5.0%	17,498	\$81	\$1,424,471
Charlestown, WV	402,673	1.5%	5,925	\$92	\$547,291
Total	3,011,048	18.8%	564,917	\$64	\$36,126,783

Source: The Innovation Group

Resort Guests

Next, we estimated the gaming revenue associated with overnight guests of the Resort. Based on the resort impact analysis (presented later), we estimated that the Resort would achieve an occupancy rate of about 80% in 2014, resulting in 61,100 room nights of demand. After applying the gaming capture rate of 60% and win per room night of \$270, incremental gaming revenue associated with the hotel calculated to \$9.93 million. The gaming factors reflect a weighted average considering conservative participation from the traditional tourist segment combined with full participation from the casino segment.

Resort Guests Gaming Revenue

	Room Inventory	Occupancy	Room Night Demand	Gamer Capture Rate	Gamer Room Nights	Win / Room Night	Gaming Revenue
Resort Hotel	215	77.9%	61,102	60%	36,725	\$270	\$9,933,734

Source: The Innovation Group

Regional Tourists

Next, The Innovation Group forecasted incremental gaming revenue associated with the tourist components, including overnight tourists, transient tourists and RV park patrons.

Overnight

We compiled a hotel summary for the region (0-30 miles) based on information obtained from Smith Travel Research. We identified a total of 52 hotels offering roughly 3,330 rooms. We segregated the rooms by market area including Cumberland, Secondary (scattered) and Bedford. We assumed that the room count would grow modestly between now and 2014, reaching about 3,530 rooms. We further assumed that these hotels would achieve an occupancy rate of 60.0%, resulting in about 773,800 room nights of demand. We estimated the gamer capture rate would range from a high of 10.5% for the Cumberland market to a low 3.2% for Bedford, due mainly to the difference in convenience. The win per room night also varies by market as patrons driving

further would naturally stay longer. After compiling these factors, we estimated gaming revenue associated with the overnight tourist component at about \$5.0 million. The following table details the calculation for the overnight component of tourist demand.

Overnight Tourist Gaming Revenue (2014)

Hotel Market	Room Inventory	Occupancy	Room Night Demand	Gamer Capture Rate	Gamer Room Nights	Win per Room Night	Gaming Revenue
Cumberland	932	60.0%	204,081	10.5%	21,429	\$95	\$2,035,709
Secondary	351	60.0%	76,937	5.0%	3,847	\$135	\$519,326
Bedford	2,250	60.0%	492,770	3.2%	15,769	\$155	\$2,444,139
Total	3,533	60.0%	773,788	5.3%	41,044	\$122	\$4,999,174

Source: The Innovation Group

Day-Trip

Again, day-trip tourists reflect visitors to Allegany County that only stay for the day, likely originating from towns and cities within about 2 hours of the county. These tourists are either visiting friends or family or are drawn by the attractions discussed in the Tourism section of the report, such as Rocky Gap State Park and the scenic railroad in Cumberland. We believe a portion of these visitors would also patronize the subject casino as a secondary attraction. Based on our research, we estimated the visitor volume at 360,100 for 2014. We estimated that approximately 9.5% of these visitors would patronize the casino and spend an average of \$68 per visit, resulting in incremental gaming revenue of \$2.3 million, as displayed below.

Day-Trip Tourist Gaming Revenue (2014)

Visitor Volume	Gamer Capture Rate	Gamer Visits	Win per Visit	Gaming Revenue
360,143	9.5%	34,214	\$68	\$2,326,525

Source: The Innovation Group

RV Park

We also estimate potential gaming revenue from guests staying overnight at existing RV parks in the area, representing the third and final component of tourist demand. The Allegany County region contains 3 RV parks (600 spaces), including one just north of the subject in Clearville (PA) and two near Bedford (PA). We assumed that these RV parks would achieve a 65% occupancy rate in 2014. Further assuming an average stay of 14.0 nights and 2 adults per RV household, the number of potential gamer adults calculated to approximately 21,000 adults. We estimated that 22.5% of these adults would patronize the casino, yielding 3.0 visits per stay. Based on a win per visit of \$62 (roughly a \$370 gaming budget per RV household), incremental gaming revenue attributable to the RV parks calculated to \$878,000 in 2014.

RV Park Incremental Gaming Revenue (2014)

RV Pads	Occupancy Rate	Avg Length of Stay	Households	Adults / Household	Total Adults	Gaming Capture Rate	Visits / Stay	Gamer Visits	Win / Visit	Gaming Revenue
619	65%	14.0	10,490	2.0	20,980	22.5%	3.0	14,161	\$62	\$878,000

Source: The Innovation Group

Conference Center Attendees

This source of gaming revenue reflects the incremental revenue associated with attracting patrons to the facility for group events such as meetings, conferences, and social gatherings. We only considered attendees that are visiting for the day as to avoid double counting with the overnight resort guest segment. We estimated that about 22% of attendees (in total) are day-trip attendees based on information provided by the Resort. We then estimated the capture rate and win per visit at 55% and \$85, respectively, resulting in about 2,200 gamer visits and gaming revenue of \$188,800 in 2014.

Meeting Attendees Gaming Revenue (2014)

	Attendees	Day Trip %	Day Trip Attendees	Gamer Capture Rate	Gamer Visits	Win / Gamer	Gaming Revenue
Meeting Center	18,357	22%	4,039	55%	2,221	\$85	\$188,802

Source: The Innovation Group

Traffic Intercept

The traffic intercept segment reflects travelers that are passing through the area that decide to stop and patronize the casino. These travelers are often truckers and other travelers generally traversing I-68 between major cities to the west of Allegany County such as Cleveland, Columbus and Pittsburgh and major cities to the east such as Baltimore and Washington D.C. The Innovation Group believes that the subject casino would realize significant traffic intercept revenue as it is situated just off I-68. Nonetheless, the penetration of this segment would require the use of billboard advertising strategically placed along the interstate.

In determining traffic intercept for the facility, traffic counts were obtained from the Maryland Department of Transportation. We estimated the daily traffic count at about 22,300 in 2014. To avoid double-counting with the local market, the vehicle count estimate was adjusted to reflect only pass-through vehicles. We estimated the pass-through percentage at about 45% as many of the travelers are residents of Cumberland or the surrounding towns. The Innovation Group conservatively estimated the gamer capture rate at 1.3%. After compiling these factors, The Innovation Group estimated gamer visits at about 66,500, equating to gaming revenue of \$3.7 million, based on a conservative win per visit of about \$55. The traffic intercept calculation is outlined below.

Traffic Intercept Gaming Revenue (2014)

Highway	AADT	Pass-through %	Adults / Vehicle	Capture %	Gamer Visits	Win per Visit	Gaming Revenue
Interstate 68	22,256	45.0%	1.4	1.3%	66,530	\$55.00	\$3,659,174

Source: Maryland Department of Transportation, The Innovation Group

Total Gaming Revenue

Combining revenue from all sources, total gaming revenue for the subject casino assuming the Scenario 1 building program summed to \$58.1 million in 2014, comprising 807,500 gamer visits and an average win per visit of \$72. We estimated that the local market component would account for about 62% of the total, as the operation would rely heavily on drawing tourists to the area by utilizing the destination nature of the Resort. Note that the overnight guests of the Resort would be a major driver of gaming revenue, accounting for about 17% of the total. The following table summarizes our top-line gaming revenue forecast for the Rocky Gap casino.

Subject Total Gaming Revenue - Scenario 1 (2014)

Market Component	Gamer Visits	Win per Visit	Gaming Revenue	% of Total
Local Market	564,917	\$64	\$36,126,783	62.2%
Resort Guests	63,909	\$155	\$9,933,734	17.1%
Tourist Segments	109,941	\$75	\$8,203,698	14.1%
Conference Center Attendees	2,221	\$85	\$188,802	0.3%
Traffic Intercept	66,530	\$55	\$3,659,174	6.3%
Total	807,518	\$72	\$58,112,191	100.0%

Source: The Innovation Group

Gaming Revenue Forecast (2013 – 2017)

The Innovation Group forecasted gaming revenue for the five-year timeframe of the report (2013–2017). We assumed that 2013 would reflect a ramp-up period as local market residents and tourists become familiar with the new facility and as the casino operation establishes its player database. We further assumed a conservative annual growth rate of 2.5% from 2015 through 2017, resulting in gaming revenue of \$62.9 million by 2017.

The win per position metric calculated to \$152 (2014) based on our goal to balance slot selection with operational efficiency. Therefore, we are recommending 1,050 gaming positions. At this level, the casino could operate efficiently, and would have sufficient capacity during peak times and the ability accommodate future growth without adding capacity.

Subject Gaming Revenue – Scenario 1 (2013-2017)

	2013	2014	2015	2016	2017
Gaming Revenue	\$54,334,899	\$58,112,191	\$59,855,557	\$61,351,946	\$62,885,744
Visitation	767,143	807,518	815,594	823,750	831,987
Win per Visit	\$71	\$72	\$73	\$74	\$76
Number of Positions	1,050	1,050	1,050	1,050	1,050
Win/Position/Day	\$142	\$152	\$156	\$160	\$164

Source: The Innovation Group

Pro-Forma Operating Statement – Scenario 1

The pro-forma operating statement projects the potential Earnings before Interest, Taxes, Depreciation & Amortization (“EBITDA”) for the subject gaming facility (excluding Resort). The estimates outlined in the operating statement were based on a detailed analysis of the income and cost elements associated with the project and take into consideration the operating characteristics of comparable casinos. Existing and future market dynamics were also taken into consideration during the analysis. This component of the study projects one of the key cash flow figures needed to analyze the overall feasibility of the Rocky Gap enterprise.

We estimated Gross EBITDA (before gaming taxes and management fees) at \$39.1 million in 2014, reflecting a profit margin of 64% relative to Net Revenue. This is an optimal margin at this revenue level and assumes an efficient operation balancing customer satisfaction with operating costs. Next, we factored in statutory gaming taxes and fees and a management fee, which resulted in negative operating cash flow of \$1.7 million in 2014; improving to a loss of \$1.3 million by 2017, as displayed below.

Pro-Forma Operating Statement - Scenario 1 (2014)

	2013	2014	2015	2016	2017
Revenues:					
Gross Gaming	\$54,334,899	\$58,112,191	\$59,855,557	\$61,351,946	\$62,885,744
Food and Beverage	4,730,080	5,027,880	5,168,923	5,340,280	5,517,507
Retail & Other	671,250	717,177	735,214	757,418	780,292
Total Gross Revenue	\$59,736,228	\$63,857,249	\$65,759,694	\$67,449,644	\$69,183,543
Less: Promotional Allowances	2,716,745	2,905,610	2,992,778	3,067,597	3,144,287
Net Revenues	\$57,019,483	\$60,951,639	\$62,766,917	\$64,382,047	\$66,039,256
Operating Expenses:					
Slots Operations	2,649,317	2,713,167	2,757,068	2,807,853	2,859,727
Cage/ Count	1,407,765	1,443,693	1,469,707	1,500,598	1,532,143
Food & Beverage	3,784,064	3,961,970	4,012,015	4,103,569	4,154,958
Retail & Other	402,750	423,852	427,994	436,510	445,196
General and Administration	5,623,646	5,764,284	5,867,310	5,990,343	6,115,978
Facilities and Maintenance	2,303,294	2,397,089	2,450,479	2,505,474	2,561,719
Marketing	3,247,403	3,429,417	3,520,084	3,603,953	3,689,836
Security and Surveillance	1,685,908	1,723,046	1,752,378	1,788,623	1,825,623
Total Operating Expenses	\$21,104,148	\$21,856,517	\$22,257,036	\$22,736,922	\$23,185,180
Gross EBITDA	\$35,915,335	\$39,095,122	\$40,509,881	\$41,645,125	\$42,854,076
<i>Gross EBITDA %</i>	<i>63.0%</i>	<i>64.1%</i>	<i>64.5%</i>	<i>64.7%</i>	<i>64.9%</i>
State Gaming Tax	36,404,382	38,935,168	40,103,223	41,105,804	42,133,449
Machine Fee	446,250	446,250	446,250	446,250	446,250
Total Taxes & Fee	\$36,850,632	\$39,381,418	\$40,549,473	\$41,552,054	\$42,579,699
Management Fee	\$1,358,372	\$1,452,805	\$1,496,389	\$1,533,799	\$1,572,144
Net EBITDA	-\$2,293,669	-\$1,739,101	-\$1,535,981	-\$1,440,728	-\$1,297,766
<i>Net EBITDA %</i>	<i>-4.0%</i>	<i>-2.9%</i>	<i>-2.4%</i>	<i>-2.2%</i>	<i>-2.0%</i>

Source: The Innovation Group

Pro-Forma Assumptions

Gaming Revenue

The assumptions with regard to the gaming revenue forecast are detailed in the Gaming Market Assessment section of the report.

Food & Beverage Revenue

The food & beverage revenue estimate assumes the subject implements our recommended offering outlined earlier as well as a beverage service on the casino floor. The check count forecast was based on the expected admissions times a participation rate. We estimated the average check at about \$10 (2014) per food and beverage patron.

Retail & Other

The retail & other revenue generally reflect revenue associated with entertainment and check cash/ATM charges. The estimate was based on results in comparable markets.

Promotional Allowance

The promotional allowance (contra revenue), or the retail value of goods provided to gaming customers, was forecasted at 5.0% of gross gaming revenues, reflecting the level of gaming competition in the region.

Slot Operation Expense

The gaming component includes the costs of operating the slot floor, including the cage and cashier stations. The expenses are generally associated with labor, supplies, equipment and outside services. The estimates assume an efficient slot operation featuring ticketing technology with staffing levels that would foster a service oriented casino operation. The labor burden associated with payroll taxes and benefits was estimated at 35% of salaries and wages.

Food & Beverage Expense

Food & beverage expenses were estimated at 80% of food and beverage revenues in the first year of operation, improving to approximately 75% by Year 5, as efficiencies take hold. The low profit margin reflects the nature of food & beverage operations in competitive gaming markets.

General & Administrative

General & administrative expenses include all administrative salaries and wages for the casino and were based on an analysis of necessary labor positions and wage rates. Included in this figure are the general manager and support staff, purchasing, human resources, information systems, and finance and accounting. This overhead expense also includes office supplies, travel and entertainment, outside professional fees, insurance costs, and energy.

Facilities & Maintenance

Maintenance expenses reflect the cost of maintaining and repairing the facility and related grounds as well as the cost of cleaning the facility on a daily basis. Figures assume the maintenance workers are on staff thereby eliminating the need for any significant outside services and that management will have an ongoing capital expenditure policy to reserve for significant capital expenditure items.

Marketing

Marketing expenses include staffing costs as well as all advertising and promotional costs (exclusive of promotional allowance). The figures are consistent with a marketing program for slots-only casino in an effort to provide a year around flow of customers. Aggressive marketing programs for slot patrons as well as on-floor promotions and giveaways were assumed in order to create an atmosphere of excitement and to position the property to capture the market share assumed in the Gaming Market Assessment.

Security & Surveillance

Security and surveillance costs reflect payroll and other expenses associated with these key overhead functions. The cost figure assumes one director for both functions and considers the internal controls mandated by a typical gaming regulatory environment.

Gaming Taxes / Machine Fees

The Innovation Group assumed the statutory gaming tax rate of 67.0% against gross gaming revenue, per our understanding of the Maryland gaming legislation. We also considered the statutory machine fee equal to \$425 per slot machine.

Management Fee

We assumed that a third-party management company would manage the gaming facility, taking the place of a parent company in a typical privately run gaming operation. We estimated that the management company would be compensated at a rate of 2.5% of gross gaming revenue.

Capital Cost Estimate – Scenario 1

This task estimates the total capital cost of Scenario 1 building program, per our recommendation outlined earlier. From a quality level perspective, we assumed the operator would strive for a 3+ star rating. The Innovation Group segregated the estimate by various components as displayed in the table below. The estimates and assumptions were based on our knowledge of existing and proposed comparable gaming developments. This capital cost estimate is needed to forecast the interest payment associated with the gaming operation; a key cash flow component of the proposed Rocky Gap enterprise. **Note that the estimate does not include the purchase of the Resort.**

Capital Cost Summary - Scenario 1		
	Costs	% of Total
Land	\$0	0%
Site Work	717,500	2%
Parking Garage	0	0%
Surface Parking	3,346,875	10%
Buildings - Gaming Facility	13,230,000	38%
Buildings - Back of House	2,756,250	8%
Buildings - Restaurants	3,460,487	10%
FF&E - Gaming	0	0%
FF&E - Back-of-House	689,063	2%
FF&E - Restaurant	1,038,146	3%
Soft Costs	6,982,742	20%
License Fee	0	0%
Financing Costs & Fees	2,384,359	7%
Total	\$34,605,422	100%

Source: The Innovation Group

Capital Cost Assumptions

Site Work

Includes significant excavation associated with leveling the proposed development site as well as the cost of extending utilities to the site.

Surface Parking

Includes the cost of paving, lighting and landscaping an 890-space surface parking lot. This parking lot reflects additional parking needed for the gaming operation and would not accommodate employee parking, which we assumed would be off site.

Buildings – Gaming Facility

We projected the size of the gaming facility at 31,500 square feet, based on 1,050 slot machines and 30 square feet per slot machine. We estimated construction costs at \$420 per square foot, which would yield a 3+ star facility in terms of the quality of the ascetics and finish work.

Buildings – Back-of-House

The back-of-house area would house various gaming related support operations, such as the count room, surveillance room, accounting, IT and human resources as well as an employee

lounge. We projected the size of this area at 15,750 square feet and a cost per square foot of \$175, reflecting a basic office environment.

Buildings – Restaurant / Entertainment

Per our amenity recommendation, we projected the size of the ancillary space at 10,000 square feet, which could accommodate rough 275 restaurant seats. We assumed a construction cost of about \$360 per square foot.

FF&E – Back-of-House

This cost component mainly reflects the necessary furniture, cash handling equipment and computer equipment to support the back-of-house functions discussed earlier.

FF&E – Restaurant / Entertainment

This cost component mainly reflects the necessary furniture and kitchen equipment needed to support the restaurant and entertainment area, including the construction of two bar / lounge areas.

Soft Costs

Soft costs include: 1) design, architecture, engineering and project management fees; 2) pre-opening expenses such as training and marketing; 3) initial bank cash to stock the cage; and 3) an amount for contingencies.

Financing Costs and Fees

Includes accrued interest associated with the construction period and a placement fee associated with the permanent debt. We estimated that construction period interest rate at 10%.

Rocky Gap Resort Impact – Scenario 1

This section of the report estimates the impact of the gaming operation on the existing Rocky Gap Resort. The impact is incorporated into the cash flow summary in order to analyze feasibility from a cumulative perspective.

From a qualitative perspective, a significant proportion of full-service gaming operations around the country offer amenities such as hotels, spas and golf courses. These are often described as destination developments and draw patronage from wider market relative to casinos without these amenities. Most of the top gaming destinations around the country have significant conference facilities. Hotels in particular attract a unique segment of gamer that enjoy staying at the facility for extended periods and tend to have higher gaming budgets relative to the day-trip gamer. The overnight gamers are known to patronize various ancillary amenities such as a spa and entertainment.

The Innovation Group contends that the existing Rocky Gap Resort would enhance the revenue potential of the gaming operation and in turn the gaming operation would enhance the revenue potential of the Resort. We estimated the impact relative to the baseline year of 2010 and the operating results provided by Resort management. We segregated our impact analysis by each major revenue component of the Resort including room, food & beverage, spa, meeting and golf course.

Room Revenue

For the impact analysis, we segregated room night demand into two components: 1) traditional tourist demand; and 2) casino demand. The former relates to the traditional Resort guest, including group, leisure and golf group tourists. The latter relates to overnight gamers, whose primary purpose for the visit is gaming, patronizing the hotel either out of convenience or for a short gaming vacation. We estimated that traditional tourist demand would increase due to the gaming availability as it represents an additional entertainment option. Generally, we believe each segment of tourist demand would appreciate the gaming facility and associated amenities, but especially the group tourist and golf tourist in search of unique destinations with multiple entertainment options.

Using 2010 as the baseline year, we estimated that traditional tourist demand would increase by 13% to approximately 36,500 room nights. We further estimated casino demand at 24,600 room nights as a small percentage of gamers would spend the night, and assumes that marketing efforts would be used to induce roughly 25% of demand. Therefore, the balance of tourists to gamers in the hotel would be about 60% to 40%.

Total demand summed to about 61,100 room nights, equating to an occupancy rate of about 78%, up from 41% in 2010. Based on an ADR of \$137, room revenue calculated to \$8.40 million, reflecting an increase of 129% compared to 2010. We estimated that the ADR would increase by about 21% due to a rate premium on weekends as casino demand is skewed towards the weekends. The following table summarizes the impact of the gaming operation on Resort room revenue.

Room Revenue Impact Summary (Scenario 1)

	2010	2014	Change	% Change
Available Room Nights	78,475	78,475	0	0.0%
Occupancy Rate	41.1%	77.9%	37%	89.6%
Room Night Demand	32,222	61,102	28,880	89.6%
ADR	\$114	\$137	\$24	20.9%
Room Revenue	\$3,664,422	\$8,398,502	\$4,734,080	129.2%

Source: The Innovation Group

Food & Beverage Revenue

This section estimates the impact of the proposed gaming operation on the existing food and beverage operation at the Resort. The Innovation Group contends that the two existing Resort restaurants (Lakeside and Signatures) would be an integral part of the overall food and beverage offering at the expanded enterprise. However, we are recommending several new venues to fill gaps in the offering as it relates to casino demand. Therefore, some resort guests would patronize the new venues and some casino guests would patronize the existing venues.

For the purpose of the analysis, we segregated food & beverage into transient demand and catering demand. We estimated that the check count associated with transient demand would increase 87% relative to the baseline year (2010) to about 172,900 covers. This gain should be viewed relative to the expected growth in room night demand of 90% over the same period. We also estimated that the average check would increase 6% to nearly \$20 (including beverage) due mainly to expected inflation. In summary, we estimated that transient food and beverage revenue would increase 98% to \$3.45 million in 2014.

We further estimated that catering revenue would increase 14% to \$1.68 million due to the expected increase in group business. Again, we believe the Resort would be more attractive to group seeking unique destinations with numerous entertainment options. The following table summarizes our F&B impact analysis, as we expect total revenue to increase by \$1.92 million or 60%.

F&B Revenue Impact Summary (Scenario 1)

	2010	2014	Change	% Change
Check Count	92,493	172,920	80,427	87.0%
Average Check	\$18.78	\$19.93	\$1.15	6.1%
Transient F&B Rev	\$1,737,070	\$3,446,809	\$1,709,739	98.4%
Catering	\$1,467,610	\$1,675,961	\$208,351	14.2%
Total F&B	\$3,204,680	\$5,122,769	\$1,918,089	59.9%

Source: The Innovation Group

Meeting Revenue

Meeting revenue relates to meeting space rental, AV equipment rental and professional service fees. We estimated that group business would increase by about 6% or 16 events per year relative to 2010. Combined with a higher pricing structure, we estimated that meeting revenue would increase by \$66,200 to approximately \$619,000, as displayed in the table below.

Meeting Revenue Impact Summary (Scenario 1)

	2010	2014	Change	% Change
Events / Year	290	306	16	5.5%
Attendance / Event	60	60	0	0.0%
Annual Attendance	17,400	18,357	957	5.5%
GSFD	2,737,500	2,888,063	150,563	5.5%
Meeting Revenue	\$552,702	\$618,882	\$66,180	12.0%

Source: The Innovation Group

Spa Revenue

This section estimates the impact of the proposed gaming operation on the existing spa operation. The increase in room night demand (outlined earlier) would translate into an increase in spa visits. However, the overall participation rate would decline as gamers are less likely to utilize the spa relative to group and leisure tourists. In addition, a small percentage of day-trip gamers would also utilize the spa. For instance, if a couple is visiting the gaming facility for the day, the wife may use the spa.

The spa demand is primarily based on the hotel guest count, which is expected to roughly double from 2010 to 59,300 guests in 2014. We estimated that roughly 8% of hotel guests would patronize the spa, resulting in about 4,800 visits; an increase of 36% relative to the baseline. We also estimated that the average spend per visit would increase 8% to nearly \$84 (including product purchases) due mainly to expected inflation. In summary, we estimated that spa revenue would increase 45% to \$452,700 in 2014.

Spa Impact Summary

	2010	2014	Change	% Change
Guest Count	29,353	59,338	29,985	102.2%
Participation Rate	12.0%	8.1%	-3.9%	-32.6%
Resort Spa Visits	3,527	4,805	1,279	36.3%
Local Spa Visits	273	296	23	8.2%
Total Spa Visits	3,800	5,101	1,301	34.2%
Spend / Visit	\$81.98	\$88.73	\$6.76	8.2%
Spa Revenue	\$311,505	\$452,653	\$141,148	45.3%

Source: The Innovation Group

Golf Revenue

From a qualitative perspective, we believe the presence of the golf course extends the reach of the gaming operation as potential gamers living in the outer markets would view the facility as a destination. From a quantitative perspective, the increase in room night demand (outlined earlier) would translate into an increase in golf rounds. Again, the overall participation rate would decline as gamers are less likely to utilize the golf course relative to leisure tourists. We also expect that a small percentage of day-trip gamers would utilize the golf course.

Using the guest count as the basis for our forecast, we estimated that roughly 10.7% of hotel guests would patronize the golf, resulting in about 6,400 resort golf rounds, an increase of 87% relative to the baseline. We assumed the local component would grow over the next few years as the area rebounds from the recession. Note currently local rounds comprise 85% of total rounds. We also estimated that the average spend per round would increase 8% to nearly \$45 (including

driving range and product purchases). In summary, we estimated that golf revenue would increase 32% to \$1.24 million in 2014, as displayed in the table below.

Golf Course Impact Summary

	2010	2014	Change	% Change
Guest Count	29,353	59,338	29,985	102.2%
Participation Rate	11.6%	10.7%	-0.9%	-7.6%
Resort Golf Rounds	3,409	6,369	2,960	86.8%
Local Rounds	19,198	21,191	1,993	10.4%
Total Rounds	22,607	27,560	4,953	21.9%
Spend / Round	\$41.52	\$44.94	\$3.42	8.2%
Golf Revenue	\$938,659	\$1,238,625	\$299,966	32.0%

Source: The Innovation Group

Resort Impact Summary

This section summarizes the resort impact analysis, combining all the components of revenue. In summary, we estimated that Resort revenue would increase by 82% to \$16.7 million. We also estimated the expense elements in order to project operating profit on a pro-forma basis. We estimated that departmental and overhead expenses would increase 50% and 23%, respectively. The lower growth in overhead expenses reflects the leveraging associated with the economies of scale. Therefore, operating profit increase from roughly breakeven in 2010 to \$4.02 million in 2014, resulting in a profit margin of approximately 24%, as displayed below.

Resort Impact Summary - Scenario 1

	2010	2014	Change	% Change
Revenues:				
Room	\$3,664,422	\$8,398,502	\$4,734,080	129%
F&B (inclds meeting)	3,757,382	5,741,651	1,984,269	53%
Spa	311,505	452,653	141,148	45%
Golf	938,659	1,238,625	299,966	32%
Other	476,310	839,850	363,540	76%
Total	\$9,148,278	\$16,671,282	\$7,523,004	82%
Expenses:				
Room	\$940,787	\$1,856,069	\$915,282	97%
F&B	2,996,509	4,392,363	1,395,854	47%
Spa	231,384	294,225	62,841	27%
Golf	936,377	1,114,762	178,385	19%
Other	570,025	839,850	269,825	47%
Total	\$5,675,082	\$8,497,269	\$2,822,187	50%
Overhead:				
Administrative	\$893,497	\$1,016,948	\$123,451	14%
Credit Card	163,835	298,563	134,728	82%
Advertising	953,132	1,000,277	47,145	5%
R&M	554,165	750,208	196,043	35%
Utilities	822,621	1,083,633	261,012	32%
Total	\$3,387,250	\$4,149,629	\$762,379	23%
House Profit	\$85,946	\$4,024,383	\$3,938,437	
House Profit %	0.9%	24.1%	52.4%	

Source: Rocky Gap Resort; The Innovation Group

SCENARIO 2 ASSESSMENT

The Scenario 2 assessment assumes that the gaming facility will be retrofitted into the existing conference center. As discussed, the existing conference facility measures about 15,000 square feet and is segregated into 7 rooms of various sizes. From a qualitative perspective, this approach would limit the number of slot machines the gaming facility could offer. We estimated that only 650 machines could be housed comfortably in this space, and even then would not present an optimal environment in terms of circulation. In addition, the quality, scope and efficiency of the gaming facility will be limited as the design model would be constrained by the existing parameters of the conference center. Also, this approach would completely eliminate the Resort's ability to accommodate meaningful group events, which currently represents a substantial part of its business. As our analysis shows that the lack of group business would ripple through the operating performance of the Resort, including room, food and beverage, spa and golf course revenue. Recall, we assumed the Scenario 2 facility could open one year earlier; a benefit.

Gaming Revenue Forecast – Scenario 2

Recall, we identified seven potential sources of incremental gaming revenue based on the proposed location and building program, including the local market, overnight resort guest, overnight regional tourist, transient tourist, RV park patron, meeting attendee and traffic intercept segment. While the Scenario 2 building program would impact each revenue source differently relative to Scenario 1, generally the reduction in the size, (gaming position count), quality and scope of the facility would be the driving forces. The recommended position count declines by 400 or 38% from Scenario 1 to Scenario 2. We further assumed that the quality level would decline by about 30% reflecting the limitations of the retrofit strategy. Finally, the gaming operation would be unable to offer additional food and beverage and entertainment venues per our Scenario 1 building program recommendation.

Total Gaming Revenue

In summary, we estimated the gaming revenue potential for the Scenario 2 building program at \$37.6 million, reflecting a decline of 35% or \$20.5 million relative to the Scenario 1. The local market component decline 37% as the Scenario 2 facility would have limited reach into the outer markets. Fewer resort guests, due in large part to the loss of the group segment, pushed gaming revenue associated with the Resort segment down by 40%. The tourist and the traffic intercept components would be less affected as these potential patrons are already in the area due to other attractions. The following table summarizes our top-line gaming revenue forecast for the proposed Rocky Gap casino, comparing Scenario 1 to Scenario 2.

Total Gaming Revenue Comparison (Year 2)

Market Component	Scenario 1	Scenario 2	Change	% Change
Local Market	\$36,126,783	\$22,803,451	\$13,323,332	-36.9%
Resort Guests	9,933,734	6,003,004	3,930,730	-39.6%
Tourists	8,203,698	5,918,591	2,285,106	-27.9%
Meeting Center Attendees	188,802	0	188,802	-100.0%
Traffic Intercept	3,659,174	2,839,519	819,655	-22.4%
Total	\$58,112,191	\$37,564,566	\$20,547,625	-35.4%

Source: The Innovation Group

Gaming Revenue Forecast (2012 – 2016)

We assumed that 2012 would reflect a ramp-up period as local market residents and tourists become familiar with the new facility and as the casino operation enhances its player database. We further assumed a conservative annual growth rate of 2.5% from 2014 through 2016, resulting in gaming revenue of \$40.7 million by 2016.

The win per position figure calculated to about \$158 (2013) based on our goal to balance selection with operational efficiency. At this level, the casino could operate efficiently and would have sufficient capacity during peak times and the ability accommodate future growth without adding capacity.

Subject Gaming Revenue - Scenario 2 (2012-2016)

	2012	2013	2014	2015	2016
Gaming Revenue	\$35,122,869	\$37,564,566	\$38,691,503	\$39,658,791	\$40,650,260
Visitation	513,833	540,877	546,285	551,748	557,266
Win per Visit	\$68	\$69	\$71	\$72	\$73
Number of Positions	650	650	650	650	650
Win/Position/Day	\$148	\$158	\$163	\$167	\$171

Source: The Innovation Group

Pro-Forma Operating Statement – Scenario 2

We updated the pro-forma operating statement based on the Scenario 2 gaming revenue forecast. We estimated that Gross EBITDA (before state gaming taxes and fees and management fees) at \$23.8 million (Year 2), reflecting a decline of 39% relative to Scenario 1. Note also that the Gross EBITDA Margin fell to 60.4% due to the loss of economies of scale. In other words, the substantial overhead cost of running a casino, such as internal controls, accounting, security and surveillance, would be leverage over lower revenues.

Pro-Forma Operating Statement - Scenario 2

	2012	2013	2014	2015	2016
Revenues:					
Gross Gaming	\$35,122,869	\$37,564,566	\$38,691,503	\$39,658,791	\$40,650,260
Food and Beverage	3,455,352	3,675,059	3,776,925	3,900,856	4,028,979
Retail & Other	449,604	480,366	492,447	507,319	522,640
Total Gross Revenue	\$39,027,825	\$41,719,991	\$42,960,876	\$44,066,966	\$45,201,880
Less: Promotional Allowances	2,177,618	2,329,003	2,398,873	2,458,845	2,520,316
Net Revenues	\$36,850,207	\$39,390,988	\$40,562,003	\$41,608,121	\$42,681,564
Operating Expenses:					
Slots Operations	1,884,741	1,928,748	1,959,902	1,996,484	2,033,847
Cage/ Count	1,035,032	1,060,132	1,078,851	1,101,396	1,124,415
Food & Beverage	2,764,282	2,895,947	2,931,574	2,997,489	3,034,022
Retail & Other	269,762	283,896	286,671	292,375	298,193
General and Administration	3,960,639	4,056,431	4,127,983	4,214,219	4,302,271
Facilities and Maintenance	1,544,916	1,606,387	1,641,752	1,678,456	1,715,991
Marketing	2,264,864	2,385,006	2,446,137	2,503,765	2,562,764
Security and Surveillance	1,358,079	1,386,109	1,409,155	1,438,112	1,467,667
Total Operating Expenses	\$15,082,316	\$15,602,656	\$15,882,025	\$16,222,296	\$16,539,170
Gross EBITDA	\$21,767,892	\$23,788,332	\$24,679,978	\$25,385,825	\$26,142,394
<i>Gross EBITDA %</i>	<i>59.1%</i>	<i>60.4%</i>	<i>60.8%</i>	<i>61.0%</i>	<i>61.2%</i>
State Gaming Tax	23,532,322	25,168,259	25,923,307	26,571,390	27,235,674
Machine Fee	276,250	276,250	276,250	276,250	276,250
Total Taxes & Fee	\$23,808,572	\$25,444,509	\$26,199,557	\$26,847,640	\$27,511,924
Management Fee	\$878,072	\$939,114	\$967,288	\$991,470	\$1,016,257
Net EBITDA	-\$2,918,753	-\$2,595,291	-\$2,486,867	-\$2,453,284	-\$2,385,787
<i>Net EBITDA %</i>	<i>-7.9%</i>	<i>-6.6%</i>	<i>-6.1%</i>	<i>-5.9%</i>	<i>-5.6%</i>

Source: The Innovation Group

Capital Cost Estimate – Scenario 2

On a bright note, the cost to develop the Scenario 2 building program would be much less. We estimated the total capital cost at \$13.9 million, reflecting a decline of 60% from the Scenario 1 building program.

Site work costs would be significantly less due to the lack of need for extensive excavation. We estimated the retrofit cost of the conference center at \$360 per square foot. Again, we determined that the space is not sufficient to add additional amenities, which detracts from the quality of the facility, but reduces costs. **Note that the estimate does not include the purchase of the Resort.**

Capital Cost Comparison				
Cost Component	Scenario 1	Scenario 2	Change	% Change
Land	\$0	\$0	\$0	0%
Site Work	717,500	102,500	-615,000	-86%
Parking Garage	0	0	0	0%
Surface Parking	3,346,875	2,071,875	-1,275,000	-38%
Buildings - Gaming Facility	13,230,000	5,382,000	-7,848,000	-59%
Buildings - Back of House	2,756,250	1,308,125	-1,448,125	-53%
Buildings - Restaurants	3,460,487	0	-3,460,487	-100%
Buildings - Hotel	0	0	0	0%
FF&E - Gaming	0	0	0	0%
FF&E - Back-of-House	689,063	457,844	-231,219	-34%
FF&E - Restaurant	1,038,146	0	-1,038,146	-100%
FF&E - Hotel	0	0	0	0%
Soft Costs	6,982,742	3,664,297	-3,318,445	-48%
License Fee	0	0	0	0%
Financing Cost & Fees	2,384,359	961,011	-1,423,347	-60%
Total	\$34,605,422	\$13,947,653	-\$20,657,769	-60%

Source: The Innovation Group

Rocky Gap Resort Impact – Scenario 2

From a qualitative perspective, The Innovation Group determined that several factors would come into play regarding the impact on the existing Rocky Gap Resort. First, the loss of the conference facility eliminates the group segment, which represents a substantial portion of the Resort's business. Based on information provided by Resort management, roughly 52% of rooms were occupied by the group segment in 2010. This figure was 56% in 2009. On a positive note, overnight gamers would be attracted to the resort. These are gamers that would utilize the hotel out of convenience or for a short gaming vacation. These guests would also utilize the Resort amenities to some extent. Finally, leisure tourist would generally find the Resort to be more attractive as it would contain an additional entertainment alternative. However, to a lesser extent, some households with children would find the gaming availability to be a negative attribute.

Relative to Scenario 1, we estimated that the Resort guest count and room night demand would decline 38%, due again to the loss of the group segment offset by the capture of overnight gamers and a few more leisure tourists. However, the lower gaming visitation means fewer overnight gamers, especially since the casino reach into the outer markets would be cut. Gamer coming from longer distances are more apt to utilize the hotel. Factoring in a modest reduction in ADR, room revenue potential fell by approximately 42% to \$4.9 million for Scenario 2.

The F&B estimate fell 47% due to the elimination of catering revenue and the decline in room night demand. This impact was offset in part by the lack of a food and beverage venue in the casino, so more gamers would patronize the existing venues at the resort. Spa revenue generally fell in line with room night demand. The impact on golf revenue was much less as the local resident market drives golf rounds to a large extent as opposed to Resort guests.

While departmental expenses would decline generally in line with revenue, we estimated that overhead expenses would only fall 16%; reflecting economies of scale in reverse. Therefore, the overall house profit margin for Scenario 2 came in at 9% resulting in a \$3.2 million decline in house profit, as displayed below.

Resort Impact Comparison				
	Scenario 1	Scenario 2	Change	% Change
Resort Guests	59,338	37,475	-21,862	-37%
Room Night Demand	61,102	38,458	-22,644	-37%
Occupancy Rate	78%	49%	-29%	-37%
ADR	\$137	\$127	-11	-8%
Room Revenue	\$8,398,502	\$4,868,017	-\$3,530,486	-42%
F&B Revenue	\$5,741,651	\$3,050,894	-\$2,690,758	-47%
Spa Revenue	\$452,653	\$292,045	-\$160,609	-35%
Golf Revenue	\$1,238,625	\$1,090,155	-\$148,470	-12%
Other Revenue	\$839,850	\$535,482	-\$304,368	-36%
Total	\$16,671,282	\$9,836,592	-\$6,834,690	-41%
Departmental Expenses	\$8,497,269	\$5,516,812	-\$2,980,457	-35%
Overhead Expense	\$4,149,629	\$3,481,257	-\$668,373	-16%
House Profit	\$4,024,383	\$838,523	-\$3,185,860	-79%
<i>Profit Margin</i>	<i>24%</i>	<i>9%</i>	<i>-16%</i>	<i>-65%</i>

Source: The Innovation Group

TABLE IMPACT

The Innovation Group was also tasked with assessing the impact of the legalization of table games in Maryland on our gaming revenue forecast. From a Rough Order of Magnitude (“ROM”) perspective, we estimate the incremental gaming revenue associated with adding table games. We assumed an offering (in terms of product mix) and tax structure similar to Pennsylvania and West Virginia. The estimate would gauge both the incremental table revenue as well as an increase in slot revenue.

Based on our site visit and analysis of the available space in conference center and broader Resort, we determined that it would not be feasibility to add table games to the Scenario 2 building program without taking the slot count well below an optimal level.

Our analysis utilized data from Pennsylvania and West Virginia focusing on the properties in the greater Allegany County market, such as The Meadows (PA), Rivers (PA), Mountaineer (WV), Wheeling (WV) and Charles Town (WV). These properties provided a nice cross-section as to the potential impact of table games.

In addition to tapping an additional gaming sector (tables), the subject casino would realize higher slot revenue, as the facility would now attract the crossover player and couples and group looking for both forms of gaming. In addition, we assumed overall quality and scope of the facility would increase as the higher revenue potential could support a larger amenity package with more food and beverage and entertainment.

In summary, we estimated that the addition of table would increase the gaming revenue potential of the project by about 25% to \$72.4 million (2014). Note that the gain reflects a 6.5% increase in slot revenue. We estimated that the operation would need 24 table games to tap projected demand, resulting in a daily win per table unit of about \$1,200. In the end, table revenue would account for about 14.5% of total revenue, as displayed below.

Table Impact Summary - Scenario 1 (2014)

	Baseline	Growth	Pro Forma	% of Total
Slot Revenue	\$58,112,191	6.5%	\$61,889,484	85.5%
Table Revenue	\$0		\$10,495,877	14.5%
Total	\$58,112,191	24.6%	\$72,385,361	100.0%

Source: The Innovation Group

DISCLAIMER

Certain information included in this report contains forward-looking estimates, projections and/or statements. The Innovation Group has based these projections, estimates and/or statements on our current expectations about future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," "project," or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, The Innovation Group accepts no liability in relation to the estimates provided herein.