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# **Rosecroft Raceway Gaming Market Assessment**

Fort Washington, Maryland

**Prepared for:**  
Penn National Gaming

September 2011



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# EXECUTIVE SUMMARY

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The Innovation Group was engaged by Penn National Gaming (“the client”) to provide a gaming market assessment for proposed Class III gaming operations at Rosecroft Raceway near Fort Washington, Maryland. The study forecasts top-line gaming revenue based on an optimal machine count with the objective of maximizing the gaming revenue. As part of this analysis, we shall evaluate the facility based on three potential market scenarios:

- Scenario I: Class III slot machines at Rosecroft Raceway and all other approved casino sites in Maryland.
- Scenario II: Class III slots and tables games at Rosecroft Raceway and all other approved casino sites in Maryland.
- Scenario III: Class III tables games (i.e. Blackjack, Baccarat, Roulette, Craps) at Rosecroft Raceway and Class III slots at all other approved casino sites in Maryland.

For each scenario, The Innovation Group shall utilize a drive time gravity model to forecast local market gamer visits and gaming revenue. In addition to the local market, The Innovation Group will assess revenue potential captured from tourists to the Washington DC Metro area.

## *Gaming Revenue Forecasts*

### **Scenario 1 – Slots Only**

Rosecroft Raceway is expected to generate approximately \$556 million in annual gaming revenues from approximately 6.4 million gaming visits in 2014. The following table summarizes the gaming visits, revenue, Win per Visit (WPV), gaming positions and Win per Position (WPP) for the first five years of operations. For the purpose of this analysis, an appropriate ramp-up period of 93% was considered for the first year of operations (2013), as it begins to market to existing gamers and the local population, establish a reputation within the market place and streamline operations. The proposed racino is expected to generate \$517 million in 2013 and increase to \$619 million in 2017. WPP is estimated at \$218 in 2013 based upon 6,500 positions. The number of positions was determined with the goal of maximizing gaming revenue. WPP is estimated to reach \$261 by 2017; assuming no change to the number of positions. Based on an effective tax rate of 67%, gaming tax revenue is estimated to be \$346 million in 2013 and increase to nearly \$415 million by 2017.

<b>Rosecroft Raceway 5-Year Revenue Projections and Recommended Sizing</b>					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Gaming Revenue (000s)</b>	\$516,930	\$555,838	\$583,630	\$601,139	\$619,173
Visitation (000s)	5,998	6,380	6,572	6,670	6,770
Win per Visit	\$86	\$87	\$89	\$90	\$91
Number of Slots	6,500	6,500	6,500	6,500	6,500
Win/Slot/Day	\$218	\$234	\$246	\$253	\$261
<b>Gaming Tax Revenue</b>	<b>\$346,343</b>	<b>\$372,412</b>	<b>\$391,032</b>	<b>\$402,763</b>	<b>\$414,846</b>

Source: The Innovation Group

## Scenario II – Slots and Table Games

Rosecroft Raceway is expected to generate \$670 million in annual gaming revenue generated from 7.5 million gaming visits during 2014. Again, we estimated that 2013 would reflect a ramp-up period and that the out years would grow at a conservative rate between 2.5% and 3.5%, with gaming revenue reaching \$747 million by 2017. The Innovation Group estimated that table game revenue would account for about 14.5% of total revenue based on metrics compiled from neighboring jurisdictions. We assumed that Rosecroft would offer 100 table games resulting in about \$2,700 in revenue per table per day. Based on a tax rate of 67% for slots and 10% on table games, total gaming taxes from slots and tables is estimated to be \$366 million 2013 and increase to \$439 million by 2017.

### Rosecroft Raceway 5 - Year Revenue Projections and Recommended Sizing

	2013	2014	2015	2016	2017
<b>Gaming Revenue (000s)</b>	\$623,534	\$670,467	\$703,990	\$725,110	\$746,863
<b>Visitation (000s)</b>	7,049	7,499	7,724	7,839	7,957
<b>Win per Visit</b>	\$88	\$89	\$91	\$92	\$94
<b>Number of Slots</b>	6,500	6,500	6,500	6,500	6,500
<b>Slot Revenue (000s)</b>	533,122	573,249	601,912	619,969	638,568
<b>Win/Slot/Day</b>	\$225	\$242	\$254	\$261	\$269
<b>Number of Tables</b>	100	100	100	100	100
<b>Table Revenue (000s)</b>	\$90,412	\$97,218	\$102,079	\$105,141	\$108,295
<b>Win/Table/Day</b>	\$2,477	\$2,663	\$2,797	\$2,881	\$2,967
<b>Positions</b>	7,100	7,100	7,100	7,100	7,100
<b>Win/Position/Day</b>	\$241	\$259	\$272	\$280	\$288
<b>Gaming Tax Revenue (Slots)</b>	\$357,192	\$384,077	\$403,281	\$415,379	\$427,841
<b>Gaming Tax Revenue (Tables)</b>	\$9,041	\$9,722	\$10,208	\$10,514	\$10,830
<b>Total Gaming Tax Revenue</b>	<b>\$366,233</b>	<b>\$393,799</b>	<b>\$413,489</b>	<b>\$425,893</b>	<b>\$438,670</b>

Source: The Innovation Group

## Scenario III – Table Games Only

During first year operations, Rosecroft is expected to generate revenues of \$177 million, increasing to \$212 million by 2017. Daily win per tables is estimated at just over \$3,000 in 2013 based on 160 table games. The number of positions was estimated based upon forecasted need in order to efficiently serve peak demand. WPT is estimated to reach \$3,638 by 2017 assuming no change to the number of positions. Gaming taxes from table games is expected to be \$17.7 million in 2013 and grow to \$21.2 million by 2017.

**Rosecroft Raceway 5 - Year Revenue Projections and Recommended Sizing**

	2013	2014	2015	2016	2017
<b>Gaming Revenue (000s)</b>	\$177,354	\$190,704	\$200,239	\$206,246	\$212,433
<b>Visitation (000s)</b>	1,711	1,820	1,875	1,903	1,932
<b>Win per Visit</b>	\$104	\$105	\$107	\$108	\$110
<b>Number of Tables</b>	160	160	160	160	160
<b>Win/Table/Day</b>	\$3,037	\$3,265	\$3,429	\$3,532	\$3,638
<b>Gaming Tax Revenue</b>	<b>\$17,735</b>	<b>\$19,070</b>	<b>\$20,024</b>	<b>\$20,625</b>	<b>\$21,243</b>

Source: The Innovation Group

# INTRODUCTION

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The Innovation Group was engaged by Penn National Gaming (“the client”) to provide a gaming market assessment for proposed Class III gaming operations at Rosecroft Raceway near Fort Washington, Maryland. The study forecasts top-line gaming revenue based on an optimal machine count with the objective of maximizing the gaming revenue. As part of this analysis, we shall evaluate the facility based on three potential market scenarios:

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- Scenario III: Class III tables games (i.e. Blackjack, Baccarat, Roulette, Craps) at Rosecroft Raceway and Class III slots at all other approved casino sites in Maryland.

For each scenario, The Innovation Group shall utilize a drive time gravity model to forecast local market gamer visits and gaming revenue. In addition to the local market, The Innovation Group will assess revenue potential captured from tourists to the Washington DC Metro area. Recommendations for ultimate casino sizing in each scenario will be based on demand projections and is determined based upon each casino’s revenue potential.

## *Property Description*

Rosecroft Raceway is located near Fort Washington, Maryland and is approximately six miles southeast of the Ronald Reagan National Airport. The three-story facility encompasses 149,000 square feet of building space and rests on approximately 106 acres of land. The raceway does not currently operate live racing or simulcast racing but does host large banquets periodically.





It is assumed that the necessary State legislation shall be passed in order to legalize Class III gaming as denoted in the three aforementioned scenarios. As such, the Rosecroft Raceway shall be fully renovated into a top-quality gaming facility offering first rate amenities and services. In addition to this, the following assumptions were made in the evaluation of the proposed property:

- The proposed casino will have a high standard of furniture, fixtures and equipment which is competitive in the comparable markets;
- An aggressive marketing program will be employed at the subject property and target high-caliber, property-appropriate gamers in the region;
- The level of competition in the local gaming market will grow in line with the assumptions made within the report;
- An experienced and professional management team will operate the gaming facility; and
- Any economic and visitation fluctuations will occur in line with assumptions herein.

For the purpose of the analysis, The Innovation Group first assessed the economic and demographic environment within the surrounding market. Next, we evaluated the tourist market to establish general visitor statistics and trends. We then evaluated the competitive environment in the regional market, assessing both existing and proposed casino facilities. Lastly, a gaming market analysis was then employed to forecast performance at the site with consideration for the varying scenarios and the competitive positioning of the facility.

# 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
Cecil 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%
<b>Total</b>	<b>100.0%</b>

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

Source: House Bill 4; The Innovation Group

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.

Currently there are two casinos operating out of the five approved jurisdictions. This includes Hollywood Perryville Casino in Cecil County and the casino at Ocean Downs in Worcester County. Both properties are discussed in greater detail in the Competitive Environment section.

# REGIONAL OVERVIEW

This section provides an overview of specific demographic and economic data for the market area surrounding Rosecroft Raceway, including key statistics associated with our analysis of the subject property. This information provides insights on the area’s economic health and its ability to support the local gaming market. The purpose of such an analysis is to evaluate the area’s ability to support existing and expanded gaming facilities in the area and attract new sources of leisure demand. The factors we analyzed include population figures, household income, labor statistics and a highway and traffic overview.

## Demographic Profile

### Total Population

For the purpose of the demographic analysis, the area surrounding Rosecroft Raceway was categorized into four segments defined by minutes of driving time to the location. The four segments were 0-30 minutes, 30-60 minutes, 60-90 minutes and 90-120 minutes. Population growth or decline is often described by using an average annual growth rate (A.A.G.). The most aggressive average annual growth rates can be seen in the outermost ring of 90-120 minutes of driving time. This ring covers less urban areas and the projected increase reflects faster growth outside of larger established cities such as Washington D.C. and Baltimore. These urban areas, however, are the reason that the 0-30, 30-60 and 60-90 minute drive time rings have such large populations. The chart below outlines the population in the given drive time rings along with the District of Columbia and Maryland (portions of which are captured in the rings) and the aggregate for the United States to serve as a comparison in terms of both actual and projected average annual growth rates.

The population within an hour and twenty minutes of drive time from the facility is quite large at over 8.4 million people and is projected to grow to over 8.8 million by 2015. This large population around the facility is beneficial as it stands to give Rosecroft a large base of patrons to draw from.

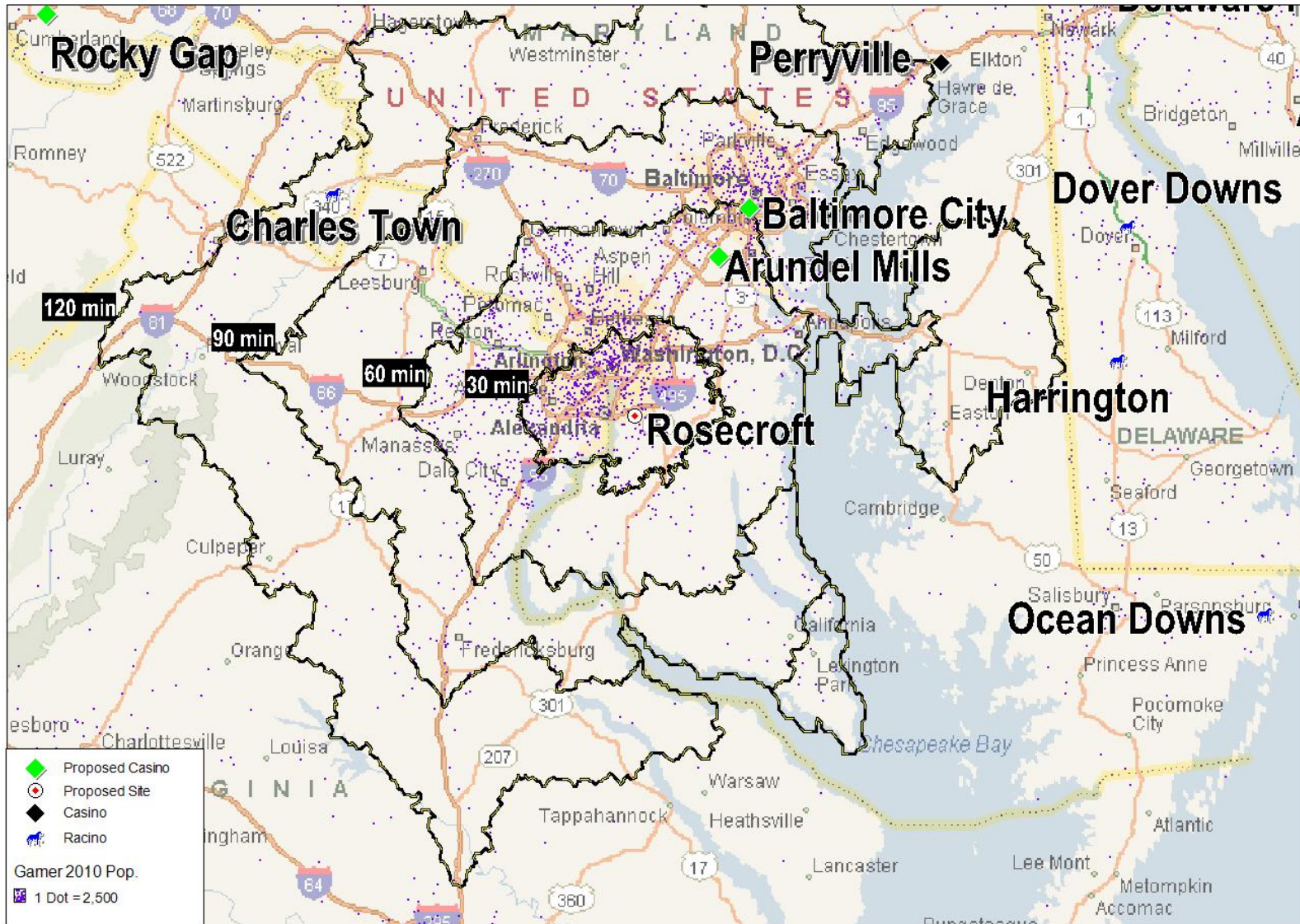
**Rosecroft Raceway Area Population**

Ring	2000	2010	2015	A.A.G. 2000-2010	A.A.G. 2010-2015
0 min - 30 min	1,928,433	2,004,631	2,028,135	0.39%	0.23%
30 min - 60 min	2,742,166	3,076,564	3,214,933	1.16%	0.88%
60 min - 90 min	2,126,257	2,410,622	2,517,098	1.26%	0.87%
90 min - 120 min	858,050	998,374	1,057,254	1.53%	1.15%
0 min - 120 min	7,654,906	8,490,191	8,817,420	1.04%	0.76%
District of Columbia	572,059	595,933	604,219	0.41%	0.28%
Maryland	5,296,486	5,665,977	5,785,525	0.68%	0.42%
United States	281,421,906	309,038,974	321,675,005	0.94%	0.80%

Source: IXPRESS/Claritas, The Innovation Group

The map below shows population density around Rosecroft through a dot density map, where each dot represents the number of residents as indicated in the legend.

# Rosecroft Market Area Population



## Gamer Population

In 2010, the gamer population, defined as 21 years of age or older, represented nearly 80% of the total population within the 120 minute drive-time from the facility. Deviation among individual drive time rings versus the aggregate was minimal with the 0-30 minute drive time ring having the lowest percentage of gamer population (77%). The 90-120 minute ring had the largest percentage at 83.8% and also had the most aggressive projected annual average growth rate from 2010 to 2015 at 1.37%. The chart below further shows gamer population and related projected growth.

Similar to the overall population, the 120 minute drive time area around Rosecroft has a very large and expanding gamer eligible population. Thus, Rosecroft has the potential to draw an abundance of individuals within a close proximity to the raceway.

**Rosecroft Raceway Population 21 Yrs. And Over**

Ring	2010	% of Total Population	2015	% of Total Population	A.A.G. 2010-2015
0 min - 30 min	1,485,107	77.01%	1,511,435	74.52%	0.35%
30 min - 60 min	2,188,895	79.82%	2,303,238	71.64%	1.02%
60 min - 90 min	1,715,616	80.69%	1,803,947	71.67%	1.01%
90 min - 120 min	719,241	83.82%	769,815	72.81%	1.37%
0 min - 120 min	6,108,859	79.80%	6,388,435	72.45%	0.90%
District of Columbia	449,129	78.51%	453,811	75.11%	0.21%
Maryland	4,081,155	77.05%	4,211,656	72.80%	0.63%
United States	220,820,181	78.47%	231,083,594	71.84%	0.91%

Source: Ixpress/Claritas, The Innovation Group

## Income

Income within the previously defined drive time rings ranges from 28% (30-60 minute ring) to 45% (60-90 minute ring) above the national average. In comparison to Maryland as a whole, all but the 60-90 minute ring and the 90-120 minute ring have superior AAHI's (average household incomes). In terms of growth, all drive time rings have a similar projected A.A.G, which is comparable to both Maryland and the District of Columbia. Notably these are all above the national projected growth rates. The chart below further outlines historic, current and projected AHHI.

**Rosecroft Raceway Average Household Income**

Ring	2000	2010	2015	A.A.G. 2000-2010	A.A.G. 2010-2015
0 min - 30 min	\$71,743	\$99,283	\$112,587	3.30%	2.55%
30 min - 60 min	\$88,398	\$118,163	\$132,095	2.94%	2.25%
60 min - 90 min	\$63,186	\$87,580	\$99,584	3.32%	2.60%
90 min - 120 min	\$62,446	\$84,306	\$95,082	3.05%	2.43%
0 min - 120 min	\$74,033	\$100,758	\$113,599	3.13%	2.43%
District of Columbia	\$64,355	\$88,708	\$100,733	3.26%	2.58%
Maryland	\$67,454	\$91,176	\$102,355	3.06%	2.34%
United States	\$56,644	\$71,071	\$77,465	2.29%	1.74%

Source: IXPRESS/Claritas, The Innovation Group

## *Economic Profile*

The economic profile is centered on the Washington D.C. MSA (containing Washington D.C., Arlington, Virginia and Alexandria, Virginia). We isolated factors such as the unemployment rate, labor force count, employment by industry sector and top employers.

### **Unemployment / Labor Force**

The unemployment rate for the Washington DC, MSA averaged about 6.2% in 2010; up sharply from the near-term low of 3.8% in 2008. 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 0.1% in 2010, compared to a 2.3% jump in 2009. Note that the number of unemployed persons increased about 66% between 2007 and 2010. The labor force count in the Washington DC MSA was relatively stagnant from 2009 to 2010 a period of fairly steady growth at approximately 1.8% per annum from 2005 through 2009. The following table displays employment statistics.

<b>Year</b>	<b>Unemployment</b>	<b>Employment</b>	<b>Labor Force</b>	<b>Unemployment Rate</b>
2003	107,702	2,672,546	2,780,248	3.9%
2004	103,978	2,729,977	2,833,955	3.7%
2005	100,153	2,803,085	2,903,238	3.4%
2006	91,579	2,870,753	2,962,332	3.1%
2007	89,402	2,909,600	2,999,002	3.0%
2008	114,340	2,930,304	3,044,644	3.8%
2009	185,028	2,870,153	3,055,181	6.1%
2010	190,293	2,873,874	3,064,167	6.2%
2-yr AAG	29.0%	-1.0%	0.3%	
5-yr AAG	13.7%	0.5%	1.1%	
7-yr AAG	8.5%	1.0%	1.4%	

Source: Bureau of Labor Statistics

The following table presents the unemployment rate for State of Maryland. Similar to the D.C. area, the state showed a decreasing trend in the unemployment rate from 2003 to 2007 before increasing year over year thereafter as result of the economic downturn.

<b>Year</b>	<b>Unemployment</b>	<b>Employment</b>	<b>Labor Force</b>	<b>Unemployment Rate</b>
2003	128,732	2,754,677	2,883,409	4.5%
2004	123,819	2,771,870	2,895,688	4.3%
2005	121,427	2,825,540	2,946,967	4.1%
2006	114,843	2,892,214	3,007,057	3.8%
2007	107,926	2,909,912	3,017,838	3.6%
2008	135,423	2,899,476	3,034,899	4.5%
2009	214,494	2,786,980	3,001,474	7.1%
2010	222,211	2,758,411	2,980,621	7.5%
<b>2-yr AAG</b>	<b>3.6%</b>	<b>-1.0%</b>	<b>-0.7%</b>	
<b>5-yr AAG</b>	<b>12.8%</b>	<b>-0.5%</b>	<b>0.2%</b>	
<b>7-yr AAG</b>	<b>8.1%</b>	<b>0.0%</b>	<b>0.5%</b>	

Source: Bureau of Labor Statistics

## Top Employers

The following section lists the largest employers in the State of Maryland and Washington D.C.

Maryland's top employers for 2010 included the Fort George G. Meade and University System of Maryland. Higher education and healthcare accounted for five out of the top 10 employers in the state. Military installations and federal agencies accounted for two of the top 10. Only two retailers made the list, Wal-Mart, employing approximately 17,700 and Giant Food with over 13,400 employees. The chart below outlines the top 20 employers in the state for 2010.

### Major Statewide Employers in Maryland – 2010

Employer	Employees	Product / Service
Fort George G. Meade	41,000	Military installation/intelligence
University System of Maryland	35,803	Higher education
Johns Hopkins University	27,000	Higher education
Johns Hopkins Hospital & Health System	20,273	Hospitals; health services
National Institutes of Health	17,842	Federal agency
Walmart	17,715	Consumer goods
University of Maryland Medical System	15,000	Hospitals; health services
MedStar Health	14,867	Hospitals; health services
Aberdeen Proving Ground	13,984	Military installation
Giant Food	13,403	Groceries
U.S. Social Security Administration	13,000	Federal agency
Verizon Maryland	11,253	Communication services
Naval Air Station Patuxent River	10,965	Military installation
Northrop Grumman	10,800	Electronic systems
Lockheed Martin	9,245	Aerospace and electronics
Marriott International	9,170	Food and lodging services
Adventist HealthCare	8,572	Hospitals; health services
National Naval Medical Center	8,108	Hospital; health services
Joint Base Andrews Naval Air Facility	8,057	Military installation
Constellation Energy Group	7,501	Energy services

Source: Maryland Department of Business & Economic Development Department

Similar to the State of Maryland, Washington D.C.'s top 10 employers are largely healthcare institutes such as Washington Hospital center and the Children's National hospital, as well as higher education facilities such as Georgetown and George Washington University. Other notable employers which help provide diversity in the labor force include the Washington Post, Hyatt Corporation and Marriot.

### **Top 20 Employers - Washington DC**

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1	GEORGTOWN UNIVERSITY
2	GEORGE WASHINGTON UNIVERSITY
3	WASHINGTON HOSPITAL CENTER
4	CHILDREN'S NATIONAL HOSPITAL
5	HOWARD UNIVERSITY
6	GEORGETOWN UNIVERSITY HOSPITAL
7	AMERICAN UNIVERSITY
8	FANNIE MAE
9	THE CATHOLIC UNIVERSITY OF AMERICA
10	PROVIDENCE HOSPITAL
11	HOWARD UNIVERSITY HOSPITAL
12	SIBLEY MEMORIAL HOSPITAL
13	THE GEORGE WASHINGTON HOSPITAL
14	ADMIRAL SECURITY SERVICE
15	THE WASHINGTON POST
16	HYATT CORPORATION
17	SAFEWAY INC.
18	GALLAUDET UNIVERSITY
19	COMPUTER SCIENCE CORPORATION
20	MARRIOTT HOTEL SERVICES

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Source: Department of Employment Services

While unemployment has risen due to the recession, Washington D.C., and the State of Maryland overall had unemployment rates significantly lower than the national average at 9.6% in 2010. These low rates result potentially from the area having large government and health care employers, two industry sectors that have continued to perform better than average in the economic downturn. The relatively low unemployment rate, in addition to high average household incomes surrounding the site, gives Rosecroft access to a large populous of working affluent individuals.

### ***Infrastructure***

The Washington D.C. metropolitan area (“D.C. metro area”) has a large network of surface streets and highways and air routes. It has also become well known for its congestion issues at peak traffic hours. These issues impact both the local and tourism markets in terms of accessibility and drive times and were considered in our analysis of overall demand. For this reason, it is important to note the city’s current infrastructure and any ongoing developments to expand its busy transit system.

### ***Airports***

The D.C. metro area is served by two major airports, the Ronald Reagan National (which is located in the center of D.C.) and Dulles International (located west of Washington D.C. outside the Beltway). While Dulles accommodates both international and domestic passengers, Reagan solely services domestic routes and thus sees fewer total passengers.

## Reagan National Airport

Reagan National is currently served by 12 airlines and several iterations of those airlines, including U.S. Airways Shuttle and Express. The airport was originally opened in 1941 and the main terminal (now denoted as Terminal A) is registered on the List of Historic Places. Expansion of the airport took place in 1997 with the incorporation of Terminal B/C, designed by Cesar Pelli; a new roadway, and a new parking garage. The airport is directly tied to D.C.'s metro underground transit system. The airport has over 40 gates and features over 77 nonstop routes.

Unlike Dulles, which is noted below, Reagan has seen growth in the number of domestic passengers with average annual growth of 3.1%. Reagan saw more domestic passengers in 2010 than Dulles, by approximately 4.1%. The chart below shows total passengers landing in Reagan from 2004 to 2010.

<b>Year</b>	<b>Total</b>
2004	15,944,542
2005	17,847,884
2006	18,550,785
2007	18,679,343
2008	18,028,287
2009	17,577,359
2010	18,118,713
<b>AAG</b>	<b>2.15%</b>

Source: Metropolitan Washington Airports  
Authority

## Washington Dulles International Airport

Ranked as one of the busiest airports in the nation, Washington Dulles, or Dulles is located 26 miles outside of downtown Washington D.C. in Chantilly, VA. The airport is comprised of five terminals on 12,000 acres of land. Unlike Reagan, the airport is not connected to underground metro system but instead serviced by bus and roadways. Construction is now underway to connect the airport to Washington DC area via the metro system with plans for completion in 2017.

The airport was first opened in 1962 after the location was selected in 1958 by then president Dwight D. Eisenhower. Today the airport is serviced by 32 different airlines, both domestic and international, and iterations of those airlines such as US Airways Express. Recent expansion happened in 2008 with the extension of Concourse B and the opening of a fourth runway. It is currently estimated that that airport covers over 40 international destinations amongst 23 carriers and averages approximately 458 international departures per week.

In January 2010, the airport opened the new AeroTrain System. The AeroTrain replaced most of the current Mobile Lounge system that were used to transport passengers between the Main Terminal and the Midfield Concourses. The train operates on an underground dual track system.

The AeroTrain carries passengers between the Main Terminal and the A, B, and C-Gates. The stations are located at convenient points along the concourses to minimize walking distances to the airline gates.

Over the last seven years the airport has had a negative annual average growth rate of nearly 1% for domestic travel with peak traffic occurring in 2005 with approximately 22 million passengers. Internationally, the airport traffic has grown annually by an average of 5.4% with nearly 6.4 million travelers visiting the airport. As international visitors historically make up an average of only 23.5% of total visitation, growth in this sector had a limited effect on totals and thus annual average growth rate of total travelers from 2004-2010 was only 0.6%. The chart below outlines visitation and is broken down into domestic and international passengers.

<b>Year</b>	<b>Domestic</b>	<b>International</b>	<b>Total</b>
2004	18,213,886	4,654,996	22,868,882
2005	22,128,747	4,923,371	27,052,118
2006	17,787,488	5,232,874	23,020,362
2007	18,792,173	5,945,355	24,737,528
2008	17,638,090	6,238,690	23,876,780
2009	16,964,895	6,248,446	23,213,341
2010	17,358,679	6,382,924	23,741,603
<b>AAG</b>	<b>-0.8%</b>	<b>5.4%</b>	<b>0.6%</b>

Source: Metropolitan Washington Airports Authority

Over 40 million tourists entered Washington D.C. via air traffic in 2010, with 18 million of those flying into Reagan National. While all of these tourists act as potential patrons to Rosecroft due to its location, Reagan National’s close proximity offers the most advantageous capture point for potential players. This potential only stands to increase in the future as Reagan national has had annual average growth of over 2% over the last seven years.

### Highway Access

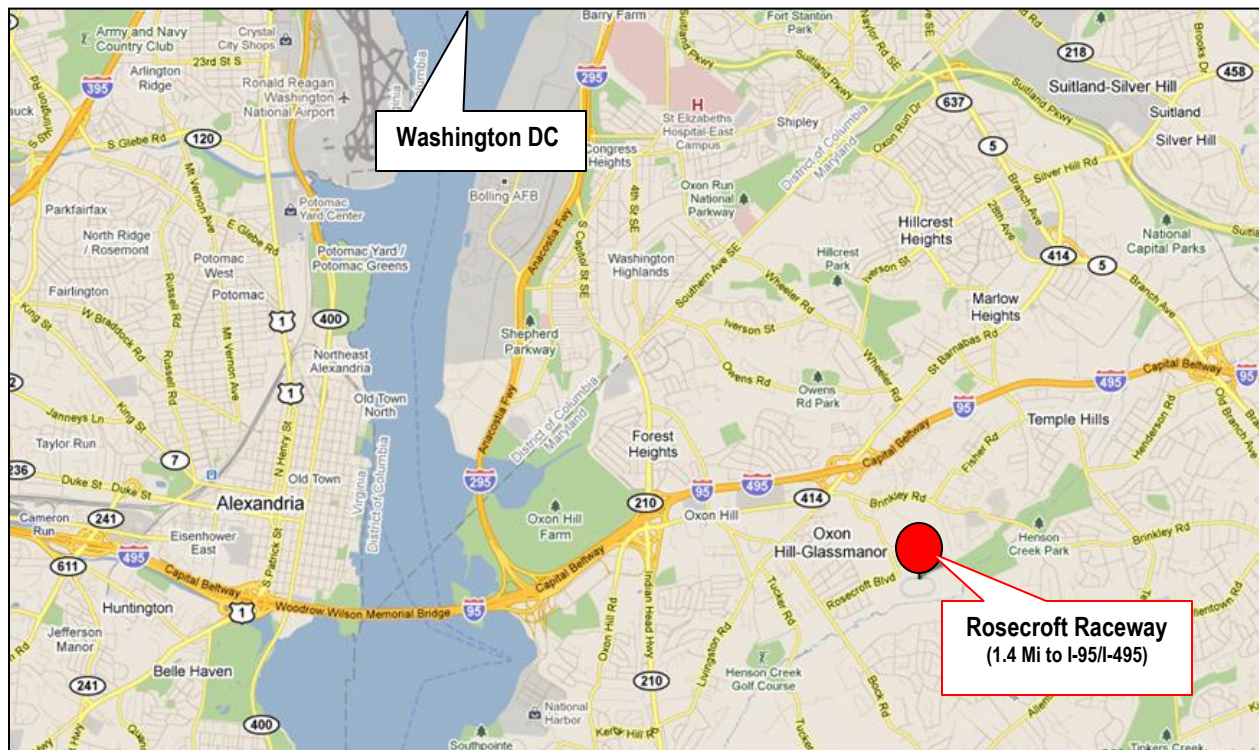
Washington D.C. has numerous interconnected toll-free highways that spread throughout the district. Some of the largest freeways that service this area include the following:

- Interstate 495 – Also known as the Capital Beltway, it is the main route encircling Washington D.C. The freeway is connected by 95 to the southwest and northeast, 270 to the northwest, 66 from the west and route 50 from the east.
- Interstate 95- Connecting to the Capital Beltway from both the Southwest and Northeast, Interstate 95 transverses the US’s Eastern coast running from Miami to Canada. In addition to passing through Washington D.C., the highway also passes through many of the east coast’s major cities, including New York, Boston and Richmond. The highway also runs in close proximity to cities such as Raleigh, North Carolina and Columbia, South Carolina.

- Interstate 270- Connecting from the northwest corner of the Capital Beltway, the interstate serves as an access highway to Interstate 70. The two merge northwest of D.C. in Fredrick, Maryland. The highway is also known as Washington National Pike and the Dwight D. Eisenhower Memorial Highway.
- Interstate 595- The interstate, also known as John Hanson Highway, connects to the Capital Beltway from the East. Inside the Beltway, the road changes designation to State Route 50 which continues through to the middle of D.C.
- Interstate 66- Also named the Custis Memorial Parkway; the highway enters into Washington D.C. from the West and serves as a connection highway to Interstate 81 which runs north and south well west of Washington D.C. The highway merges with the George Washington Memorial Highway and crosses the Potomac River to become the western portion of State Route 50. This highway also services Reagan National Airport.
- Interstate 295- Existing only inside the Capital Beltway, Interstate 295 runs from an area the south portion of the Capital Beltway near Forest Heights, Maryland north where it becomes State Route 295 which serves as access to Baltimore.
- State Route 267- Aptyly named the Dulles Airport Access and Toll Road, this interstate route connects Dulles Airport to the west with Washington D.C. to the East where it connects to the Capital Beltway

Rosecroft is most closely located to the southeastern portion of the Capital Beltway and can be easily accessed by both exits 3B and 4A depending on the direction of visitors.

The following is a map of the Capital Beltway relative to Rosecroft Raceway.



## Public Transportation

Transportation inside of Washington D.C. is heavily dependent on public transit. Both bus and rail are offered throughout the district and extend into both Maryland and Virginia. Average monthly bus ridership for 2008 was 441,013 while rail ridership was 735,518. Future expansions of public transit will come in the form of street cars which are projected to be operational in 2012 with the aim of connecting D.C.'s neighborhoods.

While the rail system, known as the Metro, services areas in Maryland, there is not a rail station near enough Rosecroft to allow access. Bus access is also limited from the city as the property is located quite a distance from a main road.

## Tourism Market

The following section provides a tourism overview of the D.C. metro area and includes visitor statistics and lodging market trends such as purpose of visit, spend per visit, age and origin of visitors. This information is used in our analysis to better understand capture rates, visitation and win per visit which drive projected revenues for at Rosecroft Raceway.

### Visitation Analysis

According to the Destination D.C., the official tourism site of Washington D.C., a total of 16.4 million visitors came to Washington D.C. (D.C.) in 2009, a 2% decrease over 2008. This includes patrons who stayed overnight and those that drove 50 miles or more to visit DC. The city has seen a growth in tourism since 2005 with an annual average growth rate (AAG) of 1.6%. Of the 16.4 million visitors that came to the area, 1.6 million were international visitor while 14.8 million were domestic visitors. International visitation in the last five years has had a higher AAG (5.3%) versus domestic visitors whose average annual growth rate is 1.2%. DC moved up to the 7th-most visited U.S. destination for international travelers in 2009.

### Purpose of Visit

Based on the latest visitor profile statistics captured by Destination D.C., in 2008 visitation to Washington D.C. was primarily for leisure purposes as 54% of tourists described that as their reason for travel to the location. Forty-one percent of visitors stated their purpose was for business while five percent stated they had a combined business and leisure objective. The table below further segments visitation purpose. The largest segment, Other Company Business makes up 27% of total visits with the Other Leisure category being responsible for 21%. Of the more defined categories, Conventions/Group Meetings was the reason given for 19% of visitation with 16% of visitors stating they were visiting friends/relatives. Average trip length for tourists was three days with an average party size of 2.6 people.

### **D.C. Visitation by Purpose of Visit**

Reason for Visitation	Percentage of Visitors
Visiting Friends/Relatives	16%
General Vacation	9%
Getaway Weekend	8%
Other Leisure	21%
Convention/Group Meeting	19%
Other Company Business	27%

Source: Destination D.C.

### **Origin of Visit**

Origin of visit by MSA is shown in the table on the following page. The largest concentration of visitation to Washington D.C. was from the nearby Richmond, VA MSA. Other notable visitor MSA's including New York, Los Angeles and Chicago.

### **Top 10 Origins for Washington D.C. Tourists**

Location	Percentage of Visitors
Richmond, VA MSA	8%
Washington-Arlington-Alexandria, D.C.-VA-MD-WV MD	6%
Baltimore-Towson, MD MSA	5%
New York-Wayne-White Plains, NY-NJ MD	4%
Los Angeles-Long Beach-Glendale, CA MD	3%
Atlanta-Sandy Springs-Marietta, GA MSA	3%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	3%
York-Hanover, PA MSA	2%
Bethesda-Frederick-Gaithersburg, MD	2%
Chicago-Naperville-Joliet, IL MD	2%

Source: Destination D.C.

Based on that nation breakdown by state, 80% of all domestic visitors are supplied by 14 states. This includes Massachusetts, New York, New Jersey, Pennsylvania, Ohio, Michigan, Maryland, Virginia, North Carolina, Georgia, Florida, Illinois, Texas and California.

### **Visitor Expenditure**

Visitor expenditure figures are used to better comprehend and estimate potential win per visit for Rosecroft. The forthcoming table and charts offer a calculated glimpse at average expenditures by both business and leisure tourists as well as where money was spent.

Total visitor spending in 2009 was \$5.25 billion representing a 6.5% decrease from 2008. Average annual growth from 2004 to 2009 was 1.7%. Visitor spending from 2004 through 2008 is broken down by year in the table below.

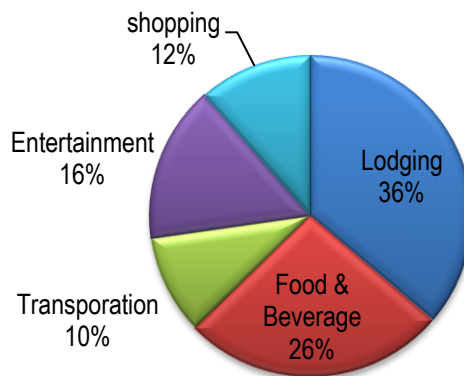
### Visitor Spending (Billions)

2004	2005	2006	207	2008	2009	AAG
\$4.83	\$5.05	\$5.18	\$5.57	\$5.64	\$5.25	1.7%

Source: Destination D.C.

The following pie chart demonstrates the breakdown of average expenditure per trip. Lodging generated the greatest percentage of the average trip expenditure accounting for 36% of the average tourist's expenditure. Notably, entertainment accounted for 16% of total expenditure per visit at \$54. The representation of entertainment during one's visit to Washington D.C. by percentage of total spend could be skewed as free entertainment, in the forms of monument and museums are prevalent in the city. Food and beverage expenditures for the average visitors were \$85 per trip representing approximately 26% of the total.

### Average Expenditure Per Trip



### Visitor Profile

The visitor profile provided by Destination D.C. evaluates overnight leisure visitors and shows that most are likely to be less than 50 years old. The split between those 18-34 and 35-49 are nearly identical at 31% and 32% respectively. Marital status of the D.C. tourist is heavily weighted to those individuals that are married as they account for 75% of visitors. Levels of education were spread amongst the four categories with those with college level educations or higher making up 58%. Household incomes were skewed to the extremes with 33% making \$25,000-\$49,000 and 58% making \$75,000 plus. The information provided paints an overall picture of the average D.C. tourist as less than 49 years of age, married, well educated and coming from a household making above the national average household income.

### **D.C. Overnight Leisure Visitor Profile**

<b>Age</b>	18 - 34	31%
	35 - 49	32%
	50 - 64	25%
	65+	11%
<b>Marital Status</b>	Married	75%
	Never Married	18%
	Div/Wid/ Sep	7%
<b>Education</b>	Grad High School	15%
	Attended College	26%
	Graduated College	33%
	College Post Grad	25%
<b>Household Income</b>	25,000 - 49,999	33%
	50,000 - 74,999	9%
	75,000+	58%

Source: Destination D.C.

The following presents the major characteristics of the average leisure visitor staying overnight in Washington D.C. relative to the other major nearby destination cities as well as the U.S. Major nearby competitive cities include Baltimore, Boston, Chicago, New York City, and Philadelphia. Comparatively, Washington DC has more visitors that are college graduates with high incomes and a willingness to fly and pay for lodging than any other major city destination in the competitive set. Not only are they also more likely to stay longer, they are less likely to be repeat visitor, resulting in greater % of induced visitation.

### **Overnight Leisure Guest Profile – Comparative Overview**

<b>Major Characteristics</b>	<b>Washington DC</b>	<b>Major City Destinations</b>	<b>U.S.</b>
% that are College Graduates	59%	49%	40%
% Annual Income in excess of \$100K	58%	29%	33%
% that Fly	30%	28%	14%
% that Pay for Accommodation	61%	57%	56%
% that Stay 3+ Nights	64%	47%	49%
% that are Repeat Visitors in past 3 years	61%	70%	70%

Source: Destination DC

While these profiles are made up over averages and thus does not represent every tourist, it does represent a potential target market for the Rosecroft facility and coupled with the extensive amount of tourists that enter Washington offers a vast pool of potential patrons.

## **Hotel Trends**

Based on data retrieved from Destination D.C., occupancy rates in Washington D.C. since 2000 have fluctuated within a 5% range, going from a low of 69% seen from 2001 to 2003 to a peak of 74% seen in years 2005, 2007 and 2008. While figures dipped in 2008 likely due to economic

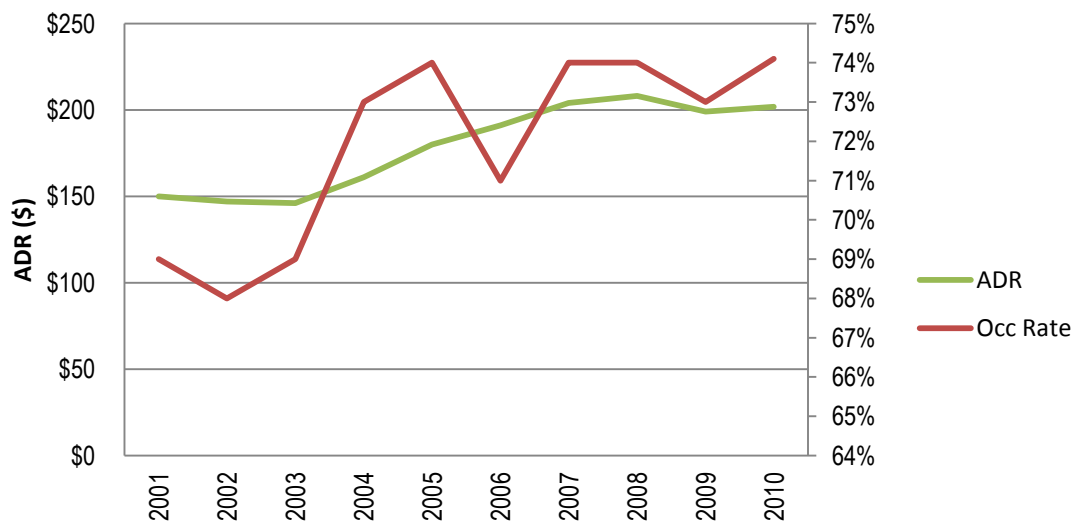
downtown, 2010 showed signs of recovery with occupancy rate of 74.1%, a 1.5% increase from 2009. ADR in the D.C. area has seen significant increase from 2003, going from \$146 and peaking at \$208 in 2008. Figures dip by 4.3% in 2009 to \$199 before rebounding to \$202 in 2010.

### Washington D.C. - Annual Occupancy & ADR

Year	Occ Rate	ADR
2001	69%	\$150
2002	68%	\$147
2003	69%	\$146
2004	73%	\$161
2005	74%	\$180
2006	71%	\$191
2007	74%	\$204
2008	74%	\$208
2009	73%	\$199
2010	74%	\$202
<b>AAG</b>	<b>0.8%</b>	<b>3.3%</b>

Source: Destination D.C.

### Washington D.C. Hotel Market Trends



The chart below shows the recent hotel pipeline in and around Washington D.C. The chart illustrates the combination of recently opened hotels in addition to planned facilities which will

increase the greater D.C. hotel supply by approximately 3,100 rooms within the next two to three years.

### Recently Opened and Under Construction Hotels

Proposed Facilities	Location	Rooms	Opening Year
Doubletree Dulles Airport Sterling	Sterling, VA	171	Apr 2010
Hilton Garden Inn Waldorf	Waldorf, MD	130	Apr 2010
Homewood Suites Rockville Gaithersburg	Rockville, MD	87	Apr 2010
Hilton Garden Inn Rockville Gaithersburg	Rockville, MD	112	Apr 2010
Holiday Inn Express & Suites	Alexandria, VA	86	Apr 2010
Springhill Suites Alexandria	Alexandria, VA	91	May 2010
Mason Inn Conference Center & Hotel	Fairfax, VA	148	Jun 2010
Holiday Inn Express & Suites Fredericksburg	Fredericksburg, VA	120	Jun 2010
Hilton Garden Inn Silver Spring North	Silver Spring, MD	107	Jul 2010
Springhill Suites Potomac Mills Woodbridge	Woodbridge, VA	98	Aug 2010
Renaissance Arlington Capital View Hotel	Arlington, VA	300	Mar 2011
Residence Inn Arlington Capital View	Arlington, VA	325	Mar 2011
Springhill Suites Alexandria Tech Center	Alexandria, VA	155	Mar 2011
Hilton Garden Inn Washington DC US Capitol	Washington, DC	204	U/C
1 Hotel Washington	Washington, DC	180	U/C
Salamander Resort & Spa	Middleburg, VA	168	U/C
Home2 Suites Dulles Airport	Sterling, VA	124	U/C
Staybridge Suites Greenbelt	Greenbelt, MD	118	U/C
Residence Inn Prince George Largo	Landover, MD	96	U/C
Courtyard Prince George Largo	Landover, MD	104	U/C
Residence Inn Fairfax City	Fairfax, VA	155	U/C
Candlewood Suites Fredericksburg	Fredericksburg, VA	84	U/C
<b>Total Rooms</b>		<b>3,163</b>	

Source: Smith Travel Research/ The Innovation Group

# COMPETITIVE ENVIRONMENT

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One of the first steps in developing a gravity model is to define the competitive environment in which the facility will be operating. The gravity model is a distribution model and as such allocates the potential universe of gaming visitors among the existing and proposed gaming facilities. (A more detailed discussion of the model is presented in the Gaming Market Analysis section of this report).

The Innovation Group has identified a total of only 2 casinos within about 2 hours of the subject property: the Charles Town casino in West Virginia and the Hollywood Casino in Perryville, MD. In addition, there are approximately six gaming facilities just outside the market area that are likely to compete with the subject property. They include Ocean Downs in southeast Maryland, the three racino facilities in Delaware, and Harrah's Chester and Hollywood casino at Penn National racecourse in Pennsylvania. Furthermore, we understand that 3 more casinos are proposed in Maryland with a site in Baltimore City, Arundel Mills and Rocky Gap. For the purpose of this analysis, we consider all existing and proposed Maryland casinos as well as the Hollywood Charles Town casino in West Virginia to be primary competition. Those residing in Delaware & parts of the Pennsylvania market are considered secondary competition. In 2010, Pennsylvania, Delaware and Jefferson County in West Virginia all approved house-banked table games at existing facilities. Table games operations have since begun amongst competitors and are discussed below.

## *Maryland Casinos*

### **Existing Casino**

The following provides a description of the two existing casinos in Maryland. Both facilities are a result of the approved referendum in 2008. Hollywood Casino in Perryville opened in September 2010 while the casino at Oceans Downs racetrack opened in January 2011. Though the racetrack was the first facility in the state approved for slots, construction delays prevented it from opening before Hollywood Casino Perryville. Both facilities are considered inferior in size and scope to what is being proposed at Rosecroft Raceway.

### **Hollywood Perryville Casino**

The ground up facility is located in Perryville, Maryland, in the northeast region of the state near the state border of Pennsylvania and Delaware. The Penn National facility, which is decorated with Hollywood movie marketing paraphernalia, offers 1,500 slot machines as well as electronic table games including Blackjack, 3-Card Poker and Roulette. For dining, the casino has a buffet as well as grill restaurant opened from 8am to nearly 4am every day.

### **Casino at Ocean Downs**

The casino at Oceans Downs is located in Berlin, Maryland. The 34,000 square foot gaming floor features 750 slot machines and is adjacent to the racetrack. Food and Beverage offerings include two restaurants: Dine N' Dash which serves food all day and Pacers which is open for dinner.

The following presents gaming revenue at Hollywood and Ocean Downs casino in Maryland. While Hollywood had a shaking start with revenue growth in 2010, both properties have had an upward trend in revenue since January 2011.

### Maryland State Gaming Revenue

Months	Hollywood			Ocean Downs			Total State		
	Revenue	# of Slots	W/U/D	Revenue	# of Slots	W/U/D	Revenue	# of Slots	W/U/D
Sep-10	\$2,075,839	1,500	\$346				\$2,075,839	1,500	\$346
Oct-10	\$11,394,698	1,500	\$245				\$11,394,698	1,500	\$245
Nov-10	\$7,588,769	1,500	\$169				\$7,588,769	1,500	\$169
Dec-10	\$6,537,122	1,500	\$141				\$6,537,122	1,500	\$141
Jan-11	\$7,717,144	1,500	\$166	\$3,035,422	750	\$145	\$10,752,566	2,250	\$154
Feb-11	\$9,021,413	1,500	\$215	\$3,132,927	750	\$149	\$12,154,340	2,250	\$193
Mar-11	\$9,834,849	1,500	\$212	\$3,250,934	750	\$140	\$13,085,783	2,250	\$188

Source: The Innovation Group

## Proposed Area Developments

There are currently three undeveloped casino sites per the State legislation in Maryland and two have proposed plans for development. Below provides a description of the latest public announcements on each site. For the purpose of this analysis, it is assumed that all three sites will begin casino operations during the timeline projected for the subject property.

### Arundel Mills

The Ann Arundel county casino site is situated approximately 20 minutes south of Downtown Baltimore in the suburban area of Hanover, Maryland. The proposed casino is slated to be located next to the Arundel Mills Mall, just off of Highway 100 and the Baltimore-Washington Parkway (“Route 295”). The site is also close to the Anne Arundel Community College which is next to the mall and is surrounded by a number of select-service hotels (about six hotels in the immediate area with over 600 rooms). The proposed location for the casino is approximately five miles south of Interstate 95 and only seven miles from the Baltimore/Washington International Thurgood Marshall Airport (“BWI”). According to the Baltimore Business Journal, the Arundel Mills Mall was the most visited tourist attraction in the city in 2009 with more than 14 million visitors.

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.

In May 2011, Cordish announced plans to open its casino in stages, beginning June 2012 with 2,750 slot machines. The company then plans to add the rest of the machines with a total 4,750 slots on the gaming floor by October 2012.

### **Baltimore City**

The Baltimore City casino site is located near the heart of Downtown Baltimore, between Interstate 95 and Interstate 395, which ends near the site. The proposed casino is slated to be located on Russell Street and sites a highly urban, industrial area directly across the street from a Holiday Inn. The site is walking distance (>1/2 mile) from the M&T Bank Stadium and less than one mile from Oriole Park in Camden Yards. In addition, the proposed location of the casino is situated approximately two miles from the University of Maryland Baltimore, The Baltimore Convention Center and Harbor Place & the Gallery. According to the Baltimore Business Journal, this festival marketplace located at the Inner Harbor is the second most visited attraction in the City in 2009 drawing 13 million visitors. The site is within five miles of over 20 hotels and 4,200 hotel rooms sitting in the heart of the Downtown area.

Per the Maryland gaming legislation, this gaming facility must be located 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, Baltimore City Entertainment Group was found to be unqualified due to the inability to fund the upfront license fee. The company had been appealing the rejection and filed a countersuit against the city of Baltimore. On May 4, 2011, however, this request was dropped, allowing the City the ability to start the bidding process again.

### **Rocky Gap**

Located at the Rocky Lodge and Golf Resort within the Rocky Gap State Park, the potential casino site is the only one of the five State sites that has not had a serious development prospect. As a result state slots commissioners have been urging lawmakers to loosen the requirements for developers by offering tax breaks and various incentives to purchase the state-funded lodge. In May 2011, Governor Martin O'Malley signed legislation reducing the tax rate at the site to 50% and waiving the initial \$3 million licensing fee.

### ***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 4,600 slot machines and 85 table games and 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 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 slot 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 – Slot Revenue**

	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

In December 2009, Jefferson County approved the operation of table games at the Hollywood casino at Charles Town Races. The following table shows table game revenue since introducing the 85 tables in July 2010. Table game offerings include blackjack, mini-baccarat, craps and roulette as well as a full-service poker room. In April 2011, win per day exceeded \$4,000 per table. Table revenue accounts for approximately 20% of total gaming revenue.

**Hollywood Casino at Charles Town Races -  
Table Game Revenue**

Month	Table Revenue	Tables	Win/ Table/ Day
Jul-10	\$4,417,992	85	\$1,677
Aug-10	\$7,166,986	85	\$3,011
Sep-10	\$8,769,797	85	\$2,948
Oct-10	\$7,868,821	85	\$3,306
Nov-10	\$8,123,040	85	\$3,413
Dec-10	\$10,712,312	85	\$3,601
Jan-11	\$7,438,872	85	\$3,126
Feb-11	\$8,431,225	85	\$3,543
Mar-11	\$11,539,313	85	\$3,879
Apr-11	\$9,577,147	85	\$4,024

Source: West Virginia Gaming Commission; The Innovation Group

## *Delaware Casinos*

The Delaware market includes three gaming facilities (Delaware Park, Dover Downs, and Harrington Raceway) that operate video lottery terminals at a horse track. Each racino is anticipated to be competition for the Rosecroft facility with both Dover Downs and Harrington residing near the Maryland-Delaware state line. In January 2010, Delaware Governor Jack Markell approved a bill adding table games to all existing racinos in the State. The legislation, which established the regulatory framework, sanctioned all Class III table games including blackjack, craps, roulette, baccarat. Based on a horse racing purse subsidization of 4.5% and a tax rate of 29% to the state, the effective tax rate on table game revenue is approximately 46%. This includes a combined annual licensing fee of \$13.5 million paid to the state by the casinos, and is split proportionally according to their earnings.

Dover Downs is the largest facility amongst the three racinos and features over 2,800 slots and 40 table games as well as 500-room hotel. Delaware Park is the second largest with nearly 2,500 slots and 42 table games, followed by Harrington which has 1,800 slots and 40 table games.

Slot revenue is highest at Delaware Park, with revenue just over \$216 million in 2010. Dover Downs was a close second at \$200 million. Harrington was a distant third at \$116.5 million. The combined Delaware market generated \$532.8 million in slot revenue. Gaming revenues have followed similar trends at each of the facilities over the last 12 years, with the exception of Delaware Park experiencing a more significant drop in revenue due its proximity to Philadelphia Park Racino and Chester Downs in Pennsylvania.

The following table presents slot revenue in the State of Delaware. From 2000 to 2010, slot revenue grew approximately 1% year over year. Figures peaked in 2006 at \$651 million before declining every year thereafter due to the legalization of gaming in Pennsylvania and effects of the global economic downturn. After years of increasing the number of machines, in 2010, the number of slots were decreased by 11%, likely in response to declining revenue. As a result, the win per unit per day in 2010 saw an increase for the first time in three years, reaching \$203.

### Delaware State Slot Revenue

Year	Slot Revenue	% Change	Units	% Change	Win/ Unit/ Day	% Change
2000	\$485,104,300	17.6%	4,899	35.5%	\$271	-13.2%
2001	\$526,939,900	8.6%	5,200	6.1%	\$278	2.3%
2002	\$565,909,900	7.4%	5,339	2.7%	\$290	4.6%
2003	\$501,999,700	-11.3%	5,463	2.3%	\$252	-13.3%
2004	\$553,318,700	10.2%	6,337	16.0%	\$239	-5.0%
2005	\$579,546,000	4.7%	6,542	3.2%	\$243	1.5%
2006	\$651,733,800	12.5%	6,991	6.9%	\$255	5.2%
2007	\$612,407,100	-6.0%	7,225	3.3%	\$232	-9.1%
2008	\$588,923,000	-3.8%	8,069	11.7%	\$200	-13.9%
2009	\$564,239,300	-4.2%	8,077	0.1%	\$191	-4.3%
2010	\$532,846,710	-5.6%	7,174	-11.2%	\$203	6.3%
<b>A.A.G. 2000-2010</b>		<b>0.9%</b>		<b>3.9%</b>		<b>-2.8%</b>
<b>A.A.G. 2005-2010</b>		<b>-1.7%</b>		<b>1.9%</b>		<b>-3.5%</b>

Source: Delaware Gaming Control Board

As of the first four months of 2011, revenue figures were below that of 2010 during the same time period. With slightly fewer machines in 2011, the win per unit per day for slots in 2011 is estimated at approximately \$200.

The following table presents table game revenue in the State of Delaware. Once the legislation passed, operations began in May 2010, with the first table games opening up at Harrington, followed by Delaware Park and Dover Downs in June. Since July, average table game revenue per month has been approximately \$6 million with a win per table per day of \$1,500. In 2010, total table games revenue in the State was \$38 million. Based on figures trending through to April 2011, we estimate annualized table game revenue would be approximately \$73 million. Amongst each facility, Delaware Park generates the highest win per table per day, averaging \$2,000 since beginning table game operations. Dover Down has an average win of \$1,200 followed by Harrington at about \$900.

### Delaware State Table Game Revenue

Month	Table Revenue	# of Tables	Win Per Table Per Day
May 2010	\$146,120	39	
June 2010	\$2,346,934	119	
July 2010	\$5,797,095	121	\$1,545
August 2010	\$6,842,539	121	\$1,824
September 2010	\$5,774,576	121	\$1,591
October 2010	\$6,743,852	121	\$1,798
November 2010	\$5,604,577	127	\$1,471
December 2010	\$5,277,300	124	\$1,373
January 2011	\$6,494,075	123	\$1,650
February 2011	\$5,842,178	123	\$1,439
March 2011	\$6,696,641	123	\$1,601
April 2011	\$5,590,499	119	\$1,342

Source: The Innovation Group

## Pennsylvania Casinos

The Pennsylvania market anticipated to compete with Rosecroft comprises of two gaming entities: Harrah's Chester Casino and Racetrack and Hollywood Casino at Penn National racecourse.

### Harrah's Chester Casino & Racetrack

Harrah's Chester Casino & Racetrack is located in the City of Chester near Interstate 95 and approximately 15 miles southeast of Philadelphia. The facility is open 24 hours day and features more than 2,900 slots and video poker machines as well as 106 table games offering blackjack, craps, roulette, and baccarat. In addition facility has seasonal live racing, simulcast racing and a 35-table poker room. Dining options include the Temptations Buffet, End Zone Sports Bar & Grill and The Cove at Riverview which features steak and seafood. The facility recent opened Mien, which features various Asian-style dishes. There are also several bars and concessions on the property. In addition the facility boasts 14,000 square feet of meeting space and a 2,600-space parking garage.

### Hollywood Casino

Hollywood Casino at Penn National Race Course is located in Grantville, Pennsylvania and situated approximately one north of the Maryland state border and two hours west of Philadelphia. The Penn National owned facility offers approximately 2,400 slots and over 50 table games as well as seasonal live thoroughbred racing and simulcast racing seven days a week. Hollywood casino has a variety dining options include the Final Cut steakhouse, Epic buffet, Mountain view terrace lounge opened during live racing, Skybox sports bar and a food court featuring range of food from deli items to Asian cuisine. In addition, in the center of the casino floor is the bar *Hollywood On The Roof*, which features various musical acts weekly.

The following table displays historical gaming revenue at Harrah's Chester casino and Hollywood Casino. Both facilities added table games in July 2010 after State legislation was approved in January 2010. Table game offerings include blackjack, roulette, craps and mini-baccarat.

#### Pennsylvania Properties Gaming Revenue

Harrah's Chester Casino								
	Slot Revenue (000s)	# of Slots	Slot W/U/D	Table Revenue (000s)*	# of Table Games	Table Game W/U/D	Total Revenue (000s)	Gaming Positions W/U/D
2007	\$285,979	2,765	\$299				\$285,979	\$299
2008	\$328,444	2,816	\$319				\$328,444	\$319
2009	\$315,938	2,915	\$297				\$315,938	\$297
2010	\$296,492	2,912	\$279	\$30,020	106	\$1,548	\$298,040	\$230
Hollywood Casino								
2008	\$171,118	2,120	\$247				\$171,118	\$247
2009	\$237,722	2,318	\$281				\$237,722	\$281
2010	\$253,404	2,433	\$285	\$15,062	54	\$1,523	\$254,927	\$253

Source: The Innovation Group

\*July-December 2010

# GAMING MARKET ASSESSMENT

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The Innovation Group conducted a gaming market assessment to determine market potential for Class III gaming operations at Rosecroft Raceway. As denoted at the beginning of the report, analysis for the gaming operations at Rosecroft raceway was evaluated under three possible scenarios:

- Scenario I: Class III slot machines at Rosecroft Raceway and all other approved casino sites in Maryland.
- Scenario II: Class III slots and tables games at Rosecroft Raceway and all other approved casino sites in Maryland.
- Scenario III: Class III tables games (i.e. Blackjack, Baccarat, Roulette, Craps) at Rosecroft Raceway and Class III slots at all other approved casino sites in Maryland.

This section describes our process and overall findings for potential demand and revenue estimates for the proposed facility given these scenarios. For the purpose of this analysis, the below assumptions have been made in preparing the gaming revenue forecasts:

- The first full year of operations, Year 1, of The Innovation Group's projections will be the year 2013. The projection period shall be Year 1 to Year 5;
- The property will be fully developed as a quality facility offering top-rated amenities and services with similar FF&E to other developments in the comparable markets;
- It is assumed that the other three casino sites in Maryland shall begin gaming operations as denoted under each scenario by 2013. Otherwise, it is assumed that local gaming market shall remain static with no new developments anticipated to come online throughout the projection period;
- An aggressive marketing program will be employed targeting certain property-appropriate gamers in the region; and
- An experienced and professional management team will operate the gaming facility.

## *Methodology*

In evaluating market demand, The Innovation Group identified two potential sources for gaming revenue: The Local market and transient tourist market. The methodologies used to analyze each market are described below.

### **Local Market**

In order to project potential gaming revenue from the local market for Rosecroft Raceway a drive time gravity model was developed. This model is used to project gaming revenue for the market taking into account current estimated gaming factors that have been derived from primary research on gamers in the local market and across the United States as well as comparisons to other markets for which we have data available.

A gravity model is typically employed to calibrate the market behavior of residents living within reasonable driving distance of a proposed development. The model is sensitive to the accessibility of a proposed development from each postal code within the market area, and the subsequent distribution of gaming visits within the market is thus based on empirical evidence that has been observed in other gaming markets. Gravity models are commonly used in location studies for commercial developments, public facilities, and residential developments. The general form of the equation is that attraction is directly related to a measure of availability such as 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 a potential patron and considers the impact of competing venues.

The drive time gravity model used for the proposed casino included the identification of distinct market areas. Using our GIS software and Claritas database, the gamer population, latitude and longitude, and average household income is collected for each postal code.

Each of these market areas is assigned a unique set of propensity and frequency factors (These factors are defined in the following pages). Surveys and analysis of player databases from operating casinos and studies of gaming behavior in numerous gaming jurisdictions have shown that both propensity and frequency are inversely related to travel time to a casino. In other words, as travel times increase, both the percentage of persons who gamble and the number of times they visit a casino tend to decrease. Gaming behavior also varies based on the availability and quality of the gaming experience. Alternative forms of entertainment are also a factor in determining gaming behavior. For this analysis, propensity and frequency rates for each market area are based on current gaming behavior.

Gamer visits are then generated from postal codes within each of the market areas based on these factors and distributed among the competitors based upon the size of each facility, its attractiveness, and the relative distance from the postal code in question. The gravity model then calculates the probabilistic distribution of gamer visits from each market area to each of the gaming locations in the market.

The basic formulation is that the interaction between two or more gaming venues is based on Newton's Law of Universal Gravitation: two bodies in the universe attract each other in proportion to the product of their masses and inversely as the square distance between them. Thus, expected interaction between gaming venue *i* and market area *j* is shown as:

$$k \times \frac{P_i \times P_j}{d_{ij}^2}$$

where  $P_i$  = the gaming positions in gaming venue *i*,  $P_j$  = the population in market area *j*,  $d_{ij}$  = the distance between them, and  $k$  = an attraction factor relating to the quality and amenities to be found at each gaming venue in comparison to the competing set of venues. When this formulation is applied to each gaming venue, gaming trips generated from any given postal code are then distributed among all the competing venues.

The following section describes the various components of the model.

- **Propensity.** Propensity measures the proportion of the gamer population within a market that is likely to participate in gaming. Generally this factor decreases with distance from the market center. For full service casinos this can be as high as 60% in fully developed casino markets such as the Mississippi Gulf Coast, or in markets where competitive entertainment and food and beverage options are extremely limited. This measure is type dependent in that it refers to the propensity of individuals who are likely to participate in that form of gaming.
- **Frequency.** This measures the average number of visits that an adult with a propensity to gamble will make annually to a gaming venue in the subject market. Frequency is a function of annual gaming budget as indicated by income variations, the number of venues in the market, and the quality and type of gaming facility. The frequency of visitation is inversely related to distance from a gaming venue, as fewer trips are made as convenience declines. However, the length of the average gaming trip increases with distance, such that an annual gaming budget for those living relatively far from a gaming venue may approach that of those living close by, for whom short gaming trips are typical.
- **Gamer Visits.** This measure is used to specify the number of patron trips to a gaming market, where an individual can make any number of separate visits in the course of a year. In order to estimate the gamer visits, market penetration rates, made up of the separate measures of propensity and frequency, are applied to the adult population in each postal code.
- **Win per Visit.** This variable is the average win per visit for all gaming visits within a market or market segment. This tends to increase with distance as the individual gamer makes fewer trips per year and is likely to maximize his or her participation for the trips that are made. It also varies based on income and inflation and on specific facility characteristics such as the degree of overcrowding and the mix of machine denominations. Publicly available statistics on win per admission and other primary research conducted by The Innovation Group is used as the foundation for this analysis.
- **Attraction Factors.** Attraction factors measure the relative attraction of one casino in relation to others in the market. Attraction factors are applied to the size of the casino as measured by the number of positions it has in the market. Positions are defined as the number of gaming machines, plus the number of gaming seats at the tables. A normative attraction factor would be one. When this is applied to the number of positions in a casino, there is no change in the size of the casino as calculated by the model and hence its attraction to potential patrons. A value of less than one adjusts the size of the casino downwards and therefore makes it less attractive. Conversely, a value greater than one indicates that the casino has characteristics that makes it more attractive and hence adjusts its calculated size upwards. Due to the complexity of the issues involved, attraction factors in this case are composed of a number of components; each assessed individually, and then combined in an average. This provides for explicit consideration of each of these factors. The sensitivity of the model to changes in the factors is not in the nature of a direct multiplication. For example, a doubling of the attraction factor will not lead to a doubling of the gamer

visits attracted to the site. It will however cause a doubling of the attractive power of the casino, which is then translated via non-linear equations into an increase in the number of gamer visits attracted to the casino. This is based upon the location, size and number of competing casinos and their relationship to the market area to which the equation is applied. The variation of these factors is based upon The Innovation Group's experience in developing and applying these models, and consideration of the existing visitation and revenues. While this does not provide directly convertible measures to calculate the attraction factors, it does provide guidance on the direction and degree of variation. This represents the "art" rather than the science of modeling.

The demand analysis process is composed of the following steps:

- **Market Area Definition.** This step defined the geographic market region analyzed. This area is subdivided into sub-markets which reflect patterns of visitation and the influence of existing and potential future competition. Demographic data is obtained by postal code for each of the sub-markets for input into the demand model. This data is obtained for current year estimates and future projections and takes into account the future possible locations of competition and potential new sites; then market areas are defined. These reflect access to gaming opportunities and provide sufficient flexibility to model future demand patterns. The distribution of these gamer visits coupled with considerations of equality of access to gaming opportunities, natural boundaries, travel distance and potential future gaming sites and competition drives the development of sub markets. The model is then geographically segmented to allow us to address changing market dynamics as new competitors come on line.
- **Trip Generation.** The next step in the analysis is to generate gamer visits from each of the geographic market segments. This is done initially based upon our experience and follows the typical pattern of declining propensity and frequency the further away from a casino venue a market area is. Propensity and frequency factors are assigned for each market area and are combined into a participation rate that is applied to the adult population in each of the postal codes within that geographic market segment.
- **Trip Distribution.** Through application of the gravity model, the generated gamer visits in each postal code are distributed among the various competing locations. This distribution is dependent upon the driving distance from the postal code in question and the size and attractiveness of the competing casinos.
- **Revenue Estimation.** A win per visit is then applied by sub-market to the generated gamer visits based on income variations and frequency of visit, thus, deriving the total gaming revenue for each competing location.
- **Model Calibration & Future Year Normative Projections.** To ensure that the model is accurately representing the dynamics of the market, it is calibrated to mirror existing revenues at each facility and its competitors, and the distribution pattern of gamer visits among the geographical market segments. This entails adjusting the total number of gamer visits by changing propensity and frequency factors until the universe of gamer visits approaches that which is required to generate observed regional revenues. Next, an iterative process of adjustments is made to attractions factors and friction factors.

Attraction factors refer to the overall attraction value of the casino and incorporate such elements as the presence and size of amenities, location, access, and gaming type. Friction factors work at the individual geographic market level making it harder or easier to travel from that market to a specific casino venue. These reflect the observed patterns of visitation and account for elements such as geographic boundaries, ease of access, congestion, speed of travel and other idiosyncrasies of the market place. Projections for future years are derived by replacing current year demographics with future year demographics, inflating the win per visit, and adjusting gaming participation rates incrementally to account for growing acceptance.

### *Local Market Carve-out*

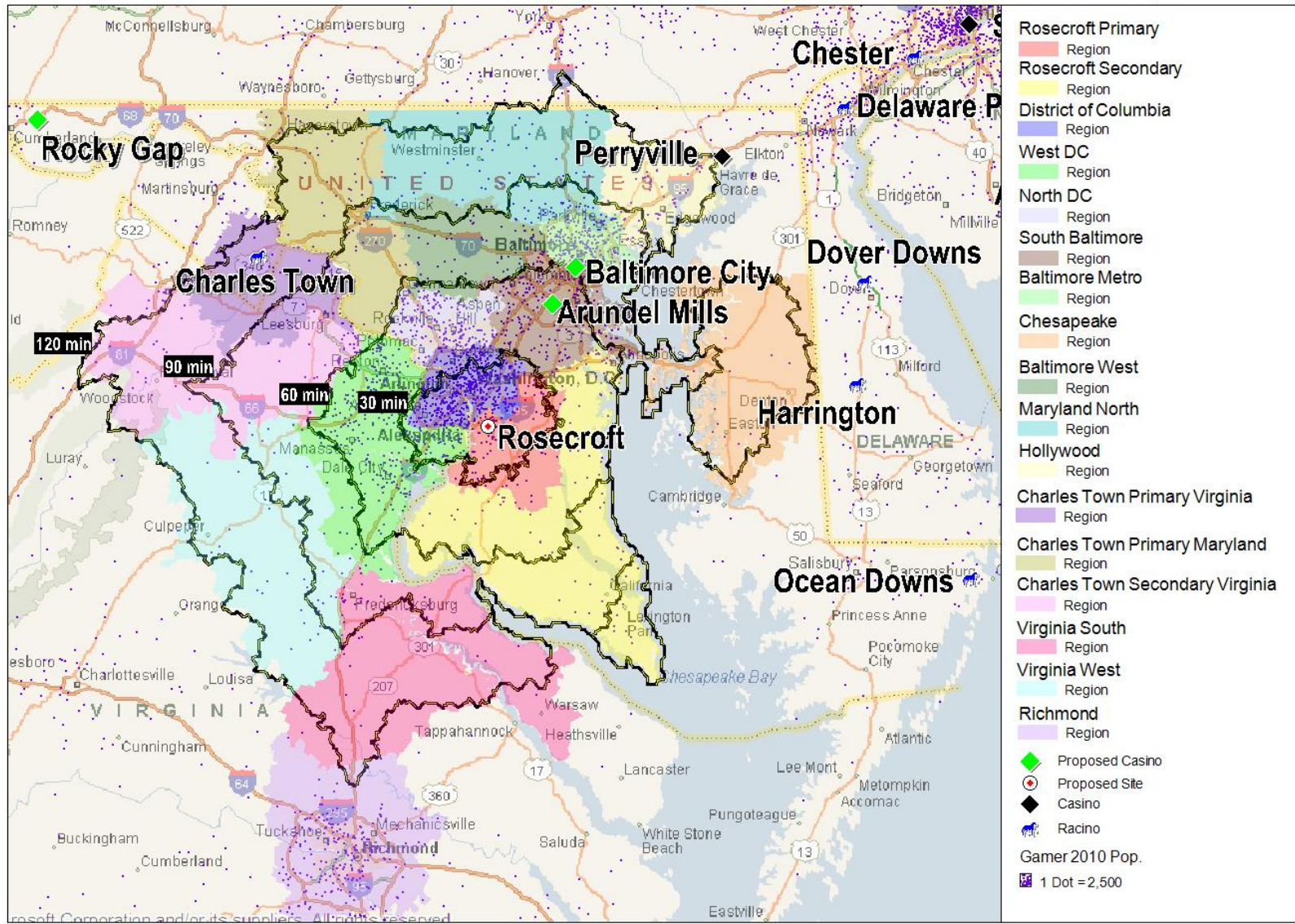
In order to utilize the gravity model, it is necessary to segment – or carve – the market into distinct geographic sub-markets that may have different gaming participation rates depending on various factors. This includes differences in drive time patterns, demographic characteristics, highway access, general accessibility, location to competitive alternatives and distinctive geographical features.

Given our experience in the market and evaluation of various player databases, we have determined that local patrons comfortably travel as much as two hours to visit a casino. Therefore, we began our evaluation of the market within a 120-minute drive time of the subject sites. Next, heavy consideration was given to the uniqueness of the traffic concerns and infrastructure of the Washington D.C. area just east of the proposed site and accessible though and between surrounding states in general. Given this analysis, we identified 17 discrete segments in the market, encompassing most all of the state of Maryland as well as parts of Pennsylvania, Delaware, West Virginia and Virginia. Using our GIS software and CLARITAS database<sup>1</sup>, the adult population (21 and over) and average household income is collected for each zip code.

The following maps are presented to demonstrate the boundaries of each of the defined markets, the location of existing and proposed casino facilities, and major population centers.

<sup>1</sup>The GIS software used was MapInfo. This software allows for custom data generally in a tabular format with a geographic identification code (census tract, zip code, latitude and longitude, or similar identifier) to be mapped or displayed and integrated with other geographic census based information such as location of specific population or roadways. MapInfo is one of the most widely used programs in the geographic information systems industry. CLARITAS is a vendor of demographic information located in the United States. CLARITAS provides census demographic and psychographic data on a variety of geographic levels of detail ranging from census block groups and counties to postal zip codes. Their information is updated every six months and includes a current year estimate and provides a five year forecast for the future. The Innovation Group has utilized this data for inputs to its models for the last six years and has purchased full access to their demographic database for the entire United States.

# Rosecroft Market Carve with 2010 Gamer Pop.



The following table displays the adult gamer population for the total market area from 2010 and 2015.

In total, The Innovation Group estimated the gamer population (21+) base for this market area was nearly 6.8 million in 2010. Estimates show that population expanding to over 7.1 million by 2015 reflecting an average growth rate of 0.9%. Rosecroft Primary market segment contained 3.6% of the total markets with approximately 243,500 people in 2010. The 2015 population is projected to be 254,000 people with an A.A.G of 0.8%, slightly lower than the overall market A.A.G. The District of Columbia, which is the largest segment with 1.3 million residents, is anticipated to have relatively stagnant growth (0.3%) from 2010 to 2015. By contrast, the second largest segment, West DC, has an estimated A.A.G five times that of DC, growing at 1.5% per annum to reach nearly 1.1 million by 2015.

#### **Market Carve-out Gamer Population Summary**

<b>Market Segments</b>	<b>2010</b>	<b>2015</b>	<b>% Change</b>
Rosecroft Primary	243,518	254,038	0.8%
Rosecroft Secondary	298,242	316,436	1.2%
District of Columbia	1,315,248	1,332,208	0.3%
West DC	1,006,465	1,082,444	1.5%
North DC	470,300	490,582	0.8%
South Baltimore	619,958	637,537	0.6%
Baltimore Metro	664,543	661,373	-0.1%
Chesapeake	86,199	91,533	1.2%
Baltimore West	196,519	211,175	1.4%
Maryland North	323,091	334,941	0.7%
Hollywood	209,724	220,699	1.0%
Charlestown Primary Maryland	203,093	214,761	1.1%
Charlestown Primary Virginia	97,627	113,317	3.0%
Charlestown Secondary Virginia	191,954	217,794	2.6%
Virginia South	113,366	124,609	1.9%
Virginia West	163,839	184,925	2.5%
Richmond	595,547	625,577	1.0%
<b>Total Market</b>	<b>6,799,233</b>	<b>7,113,949</b>	<b>0.9%</b>

Source: Claritas, The Innovation Group

The following table displays the Average Annual Household Income (“AAHI”) for the market from 2010 and 2015. Overall, the market has an estimated AAHI of \$96,989 in 2010. This is projected to increase by 2.4% per annum to reach approximately \$116,000 in Year 2015.

AAHI for Rosecroft Primary market was \$102,402 in 2010. This figure is expected to grow at an average annual rate of 2.5% over the next five years, reaching about \$115,884 by 2015. The

Primary market segment's AAHI for 2010 was slightly below the total market's average. The North DC market had the highest AAHI of any of the markets for 2010 at \$133,697. Projections show AAHI growing by an average rate of 2.2% annually to approximately \$149,000 in 2015.

### Market Carve-out AAHI

Market Segments	2010	2015	% Change
Rosecroft Primary	\$102,402	\$115,884	2.5%
Rosecroft Secondary	\$103,313	\$120,030	3.0%
District of Columbia	\$103,927	\$116,772	2.4%
West DC	\$130,375	\$145,583	2.2%
North DC	\$133,697	\$148,911	2.2%
South Baltimore	\$101,787	\$115,976	2.6%
Baltimore Metro	\$64,261	\$70,584	1.9%
Chesapeake	\$80,647	\$92,510	2.8%
Baltimore West	\$137,439	\$155,490	2.5%
Maryland North	\$102,466	\$113,936	2.1%
Hollywood	\$97,431	\$110,353	2.5%
Charlestown Primary Maryland	\$100,545	\$114,557	2.6%
Charlestown Primary Virginia	\$105,965	\$121,576	2.8%
Charlestown Secondary Virginia	\$97,023	\$109,780	2.5%
Virginia South	\$74,031	\$84,518	2.7%
Virginia West	\$91,301	\$103,950	2.6%
Richmond	\$81,410	\$89,138	1.8%
<b>Average</b>	<b>\$103,110</b>	<b>\$116,092</b>	<b>2.4%</b>

Source: Claritas, The Innovation Group

### *Local Market Calibration*

The first step in the forecasting process was to calibrate the gravity model to 2010 gaming revenue. The Innovation Group estimated the gaming factors for the different market segments based on public data reported by the State Gaming Commissions and Control Boards of Maryland, Delaware, West Virginia and Pennsylvania. Numerous gaming studies conducted by The Innovation Group as well as independent third parties have provided valuable insight into expected propensity, frequency, and win per visit. Again, propensity and frequency show a strong correlation to drive time. Win per visit is generally based on AAHI, adjusted for drive time as gamers tend to spend more per trip for longer drives. This forecast represents the baseline from which we will forecast the impact of adding the subject project. The Innovation Group estimates that the local market area has generated approximately \$908 million in gaming revenue from 8.9 million visits in 2010.

## Local Market Summary - 2010 Calibration

Market	Gamer Adults	Propensity	Gamers	Frequency	Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	243,518	18.1%	44,100	4.9	215,509	\$113	\$24,408,857
Rosecroft Secondary	298,242	14.9%	44,539	3.9	172,527	\$122	\$21,049,254
District of Columbia	1,315,248	19.1%	251,787	5.3	1,323,486	\$111	\$146,515,652
West DC	1,006,465	19.1%	192,328	5.3	1,012,859	\$127	\$128,620,346
North DC	470,300	22.3%	104,660	6.3	662,252	\$122	\$80,498,798
South Baltimore	619,958	23.0%	142,447	6.5	927,440	\$103	\$95,431,040
Baltimore Metro	664,543	23.3%	154,864	6.6	1,025,606	\$80	\$81,552,024
Chesapeake	86,199	29.9%	25,773	9.0	232,802	\$79	\$18,291,825
Baltimore West	196,519	22.4%	44,084	6.4	281,647	\$123	\$34,760,330
Maryland North	323,091	25.5%	82,458	7.5	621,951	\$95	\$58,900,349
Hollywood	209,724	26.5%	55,556	7.9	438,278	\$90	\$39,605,444
Charlestown Primary Maryland	203,093	31.7%	64,441	9.7	625,277	\$87	\$54,223,895
Charlestown Primary Virginia	97,627	37.8%	36,919	12.2	449,741	\$79	\$35,382,141
Charlestown Secondary Virginia	191,954	27.0%	51,734	8.0	412,336	\$92	\$37,738,790
Virginia South	113,366	14.8%	16,798	3.9	65,105	\$100	\$6,481,695
Virginia West	163,839	20.0%	32,724	5.6	181,764	\$100	\$18,189,493
Richmond	595,547	12.5%	74,433	3.2	234,987	\$111	\$26,091,466
<b>Total</b>	<b>6,799,233</b>	<b>20.9%</b>	<b>1,419,641</b>	<b>6.3</b>	<b>8,883,568</b>	<b>\$102</b>	<b>\$907,741,399</b>

Source: The Innovation Group

### Future Local Market Calibration

The next step is to grow the market out to the first year of stabilized results. The following table details the local market gaming revenue estimated for 2014 segregated by market segment. Growth in the market is a factor of population and household income trends, which both noted positive growth into 2015. In addition, increased market demand can be attributable to the opening of Ocean Downs in 2011 along with the assumed opening of Rocky Gap, Arundel Mills and Baltimore City casinos. Note that the lion-share of the growth reflects the addition of the Arundel Mills and Baltimore City casinos which tap new, major markets. The additional gaming venues would enhance the convenience of gaming, and thus increase the propensity and frequency factors for the market segments in close proximity to the new properties. Given these assumptions, the market is estimated to generate nearly \$1.5 billion from 16.8 million visits in 2014.

## Local Market Summary – 2014 Base Forecast (Slots)

Market	Gamer Adults	Propensity	Gamers	Frequency	Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	251,898	24.1%	60,628	7.9	479,708	\$93	\$44,399,891
Rosecroft Secondary	312,711	23.1%	72,166	7.5	542,785	\$96	\$52,125,402
District of Columbia	1,328,799	27.2%	361,034	9.2	3,305,948	\$88	\$291,118,413
West DC	1,066,803	22.9%	244,130	7.3	1,770,179	\$111	\$195,938,277
North DC	486,457	29.5%	143,718	8.9	1,282,203	\$104	\$133,455,657
South Baltimore	633,982	33.2%	210,744	11.7	2,460,736	\$79	\$195,015,294
Baltimore Metro	662,006	33.3%	220,695	11.7	2,585,899	\$60	\$156,269,478
Chesapeake	90,440	30.0%	27,142	8.6	232,678	\$79	\$18,296,555
Baltimore West	208,159	28.1%	58,592	9.3	545,228	\$105	\$57,355,840
Maryland North	332,537	29.6%	98,530	9.0	882,129	\$88	\$77,292,225
Hollywood	218,459	29.9%	65,230	9.0	589,449	\$85	\$50,367,273
Charlestown Primary Maryland	212,375	31.8%	67,548	9.4	635,634	\$86	\$54,641,621
Charlestown Primary Virginia	109,989	38.3%	42,138	13.0	546,981	\$78	\$42,556,342
Charlestown Secondary Virginia	212,362	27.0%	57,236	7.4	421,350	\$92	\$38,748,230
Virginia South	122,275	16.1%	19,712	4.3	84,749	\$95	\$8,011,679
Virginia West	180,501	20.0%	36,134	5.1	183,804	\$101	\$18,525,141
Richmond	619,452	12.8%	79,446	3.3	259,271	\$106	\$27,442,550
<b>Total</b>	<b>7,049,203</b>	<b>26.5%</b>	<b>1,864,824</b>	<b>9.0</b>	<b>16,808,731</b>	<b>\$87</b>	<b>\$1,461,559,868</b>

Source: The Innovation Group

### Transient Tourist Segment

This segment reflects traditional tourists to the area that patronize the casino as a secondary attraction. This segment generally includes leisure tourists, business travelers and pass-through travelers. The Innovation Group assessed tourist volume based on the room count and occupancy rate associated with the non-casino hotels in the area.

The Innovation Group analyzed the current hotel room inventory in the market to determine the current room night demand. The room night demand is a function of the total available rooms multiplied by the prevailing occupancy rate. The Innovation Group also estimated the gaming factors associated with the overnight segment, including the capture rate and win per room. The basic formula for forecasting overnight gaming revenue is as follows:

$$\begin{aligned} \text{Available Room Nights} \times \text{Occupancy Rate} &= \text{Room Night ("RN") Demand} \\ \text{Room Night Demand} \times \text{Capture Rate} \times \text{Win per RN} &= \text{Overnight Gaming Revenue} \end{aligned}$$

The Innovation Group forecasted incremental gaming revenue associated with the transient tourist component. Again, the transient tourist component reflects traditional tourists to the area that patronize the casino as a secondary attraction. The tourists include business travelers, pass-through travelers and leisure tourists. We generally assessed the tourist volume using the hotel room inventory in close proximity to the proposed casino. Therefore, we defined the primary market area as including Alexandria, VA; Springfield, VA; Camp Springs, MD and Oxon Hill, MD. In addition to the primary market area, The Innovation Group defined a secondary market

area of Washington D.C. While the property is not located directly in D.C., Rosecroft will represent the closest gaming to individuals staying in the city.

Based on information obtained from Smith Travel Research and information regarding the primary market area described above, the proposed casino would potentially capture visitation from 70 hotels comprised of 12,486 rooms. Size of these hotels ranged significantly from less than 30 to nearly 2,000 at the Gaylord National Resort & Convention Center in Oxon Hill. This hotel is part of a larger development in Oxon Hill known as National Harbor. This area includes other hotels such as Aloft, Residence Inn, Hampton Inn and others along with various F&B and retail outlets. Capture rates discussed below assume heavy marketing in this area to maximize capture from the hotel guests staying in close proximity to the proposed casino.

The secondary hotel market of Washington D.C. contains, according to Smith Travel Research, approximately 27,800 hotel rooms. Hotels range in size from 16 rooms to over 1,300 at the Marriott Washington Wardman Park Hotel.

### *Scenario I- Slots*

Scenario I represents the introduction of gaming at Rosecroft in the form of slot machines. We were directed by the Client to assume a slot count that maximizes gaming revenue. In the end, we concluded that the facility should offer roughly 6,500 slot machines.

In order to estimate potential market revenue, The Innovation Group inserted the subject property into the 2014 baseline model. As a result of the addition of gaming at Rosecroft, propensity is forecasted to increase. The increase in propensity is based upon the decreased drive time, assumed increase in marketing due to the elevation of competition in the market and the overall expansion of gaming in the market. In addition to increase in propensity, frequency also increased as average drive times for markets became shorter, especially markets in close proximity to the subject and to the south such as Richmond and Virginia South. The Innovation Group estimates that the entire local market with 7.0 million gamer adults will grow to approximately 19.9 million gamer visits in 2014, an increase of approximately 18.6% compared to the baseline forecast. Total market revenue is projected to be \$1.7 billion and is displayed in the table below.

### Local Market Summary - With Subject Property (2014)

Market	Gamer Adults	Propensity	Gamers	Frequency	Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	251,898	32.9%	82,929	11.1	923,612	\$82	\$75,643,064
Rosecroft Secondary	312,711	28.1%	87,851	8.6	752,395	\$92	\$69,377,044
District of Columbia	1,328,799	31.6%	419,992	10.5	4,410,237	\$84	\$370,635,753
West DC	1,066,803	28.8%	306,852	8.6	2,650,732	\$104	\$275,057,092
North DC	486,457	29.8%	145,074	9.0	1,309,028	\$104	\$135,653,037
South Baltimore	633,982	34.7%	219,924	11.7	2,570,780	\$80	\$204,944,368
Baltimore Metro	662,006	34.8%	230,346	11.7	2,702,501	\$61	\$164,272,010
Chesapeake	90,440	29.9%	27,040	8.5	230,931	\$79	\$18,308,359
Baltimore West	208,159	30.2%	62,850	9.3	584,241	\$106	\$61,843,927
Maryland North	332,537	29.5%	98,215	8.9	876,374	\$88	\$77,328,753
Hollywood	218,459	29.8%	65,057	9.0	586,314	\$86	\$50,440,655
Charlestown Primary Maryland	212,375	31.7%	67,332	9.4	631,008	\$87	\$54,649,465
Charlestown Primary Virginia	109,989	39.0%	42,944	13.1	564,512	\$78	\$43,965,480
Charlestown Secondary Virginia	212,362	27.0%	57,306	7.5	427,379	\$92	\$39,329,467
Virginia South	122,275	20.1%	24,606	5.6	138,195	\$87	\$12,013,417
Virginia West	180,501	20.2%	36,428	5.3	194,697	\$99	\$19,315,243
Richmond	619,452	15.2%	94,360	4.0	378,891	\$100	\$37,792,915
<b>Total</b>	<b>7,049,203</b>	<b>29.4%</b>	<b>2,069,105</b>	<b>9.6</b>	<b>19,931,828</b>	<b>\$86</b>	<b>\$1,710,570,050</b>

Source: The Innovation Group

### Subject Property Capture

The following table shows revenue for second year of operations (2014) at the proposed casino. The subject capture rates for a given property are generally based on drive time and adjusted to consider the quality and size of the subject facility relative to the competition. As discussed earlier, we assume that the proposed casino would exhibit a quality and scope level comparable to major slots-only facilities in Maryland such as the proposed Ann Arundel and Baltimore City facilities. The proposed racino is projected to capture approximately 6.3 million, or about 32% of local gamer visits, and generate \$548 million in gaming revenue, based on an average win per visit of \$87.

### Subject Local Market Gaming Revenue (2014)

Market Segments	Market Gamer Visits	Subject Capture	Subject Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	923,612	80.5%	743,193	\$79	\$58,944,108
Rosecroft Secondary	752,395	50.5%	380,087	\$88	\$33,623,106
District of Columbia	4,410,237	56.7%	2,499,107	\$81	\$202,343,594
West DC	2,650,732	53.8%	1,427,212	\$98	\$139,627,759
North DC	1,309,028	24.0%	314,221	\$102	\$32,110,425
South Baltimore	2,570,780	6.0%	153,455	\$87	\$13,369,404
Baltimore Metro	2,702,501	3.9%	105,124	\$70	\$7,308,857
Chesapeake	230,931	8.7%	20,067	\$86	\$1,727,069
Baltimore West	584,241	9.8%	57,150	\$112	\$6,396,010
Maryland North	876,374	5.7%	50,135	\$98	\$4,933,618
Hollywood	586,314	5.4%	31,406	\$96	\$3,024,791
Charlestown Primary Maryland	631,008	7.0%	44,153	\$95	\$4,201,144
Charlestown Primary Virginia	564,512	0.3%	1,693	\$104	\$176,905
Charlestown Secondary Virginia	427,379	23.4%	100,033	\$92	\$9,226,111
Virginia South	138,195	60.6%	83,684	\$82	\$6,860,199
Virginia West	194,697	35.2%	68,529	\$96	\$6,599,065
Richmond	378,891	49.8%	188,627	\$94	\$17,654,434
<b>Total</b>	<b>19,931,828</b>	<b>31.4%</b>	<b>6,267,876</b>	<b>\$87</b>	<b>\$548,126,601</b>

Source: The Innovation Group

### Transient Tourist Segment

Rosecroft's primary hotel market, consisting of 12,486 hotel rooms within about 15 minutes, is estimated to have market occupancy of 73% based upon information from the Washington D.C. CVB. The adults per room, estimated at 1.2, reflect the commercial nature of the hotels surrounding the proposed property. Capture for these individuals is expected to be 5%. The capture rate reflects the fact that the area hotels are in close proximity to the proposed facility; the estimated demand mix favors business clientele and the proposed offerings at the facility. WPV is estimated at \$69 based upon local market spend and the perceived demand mix. This market is forecasted to generate approximately \$5.5 million in gaming revenue.

The secondary market, comprised of approximately 28,000 rooms, is estimated to generate nearly 3 million adult guests. It is estimated that Rosecroft can capture 1% of these guests. Based upon a \$65 WPV, it is estimated that the secondary market will generate approximately \$2.2 million, resulting in total transient tourist gaming revenue of \$7.7 million. The chart below highlights the statistics regarding revenue generated from tourists.

### Transient Tourist Revenue

	Rooms	Occupancy Rate	Room Demand	Adult Guests	Capture	Frequency	Gamer Visits	Win Per Visit	Revenue
Primary	12,486	73%	3,326,895	1,330,758	5.0%	1.2	79,845	\$69	\$5,475,403
Secondary	27,815	73%	7,411,307	2,964,523	1.0%	1.1	32,610	\$69	\$2,236,214
<b>Total/Average</b>	<b>40,301</b>	<b>73%</b>	<b>10,738,201</b>	<b>4,295,281</b>	<b>2.2%</b>	<b>1.2</b>	<b>112,455</b>	<b>\$69</b>	<b>\$7,711,617</b>

Source: The Innovation Group, Smith Travel Research

## Total Gaming Revenue Forecast

Combining both revenue sources, Rosecroft Raceway is expected to generate approximately \$556 million in annual gaming revenues from approximately 6.4 million gaming visits in 2014. Again, we assumed that the facility could offer an unlimited number of machines.

### Rosecroft Raceway 2014 Revenue & Demand

	Gamer Visits	Win per Visit	Gaming Revenue
Local Market	6,267,876	\$87	\$548,126,601
Transient Tourist	112,455	\$69	\$7,711,617
<b>Total</b>	<b>6,380,331</b>	<b>\$87</b>	<b>555,838,218</b>

Source: The Innovation Group

The following table summarizes the gaming visits, revenue, Win per Visit (WPV), gaming positions and Win per Position (WPP) for the first five years of operations. For the purpose of this analysis, an appropriate ramp-up period of 93% was considered for the first year of operations (2013), as it begins to market to existing gamers and the local population, establish a reputation within the market place and streamline operations. The proposed racino is expected to generate \$517 million in 2013 and increase to \$619 million in 2017. WPP is estimated at \$218 in 2013 based upon 6,500 positions. The number of positions was determined with the goal of maximizing gaming revenue. WPP is estimated to reach \$261 by 2017; assuming no change to the number of positions. Based on an effective tax rate of 67%, gaming tax revenue is estimated to be \$346 million in 2013 and increase to nearly \$415 million by 2017.

### Rosecroft Raceway 5-Year Revenue Projections and Recommended Sizing

	2013	2014	2015	2016	2017
Gaming Revenue (000s)	\$516,930	\$555,838	\$583,630	\$601,139	\$619,173
Visitation (000s)	5,998	6,380	6,572	6,670	6,770
Win per Visit	\$86	\$87	\$89	\$90	\$91
Number of Slots	6,500	6,500	6,500	6,500	6,500
Win/Slot/Day	\$218	\$234	\$246	\$253	\$261
<b>Gaming Tax Revenue</b>	<b>\$346,343</b>	<b>\$372,412</b>	<b>\$391,032</b>	<b>\$402,763</b>	<b>\$414,846</b>

Source: The Innovation Group

## Scenario II – Slots and Table Games

Scenario II considers the introduction of table games at the proposed casino and other venues in the state of Maryland. This includes Ocean Downs, Perryville, Arundel Mills, Baltimore City and Rosecroft. Note that we assumed a gaming tax rate for table revenue of 10%.

The addition of table games is anticipated to increase the overall attractiveness of each facility and induce new demand from table-oriented players in the local market. As a result, weighting or “attraction” factors of each of the facilities were revised to include table games and amenity upgrades to accompany table games where appropriate. As a result of adding table games to the market, overall propensity is expected to increase to 32.4% with frequency increasing 9.7 trips in the aggregate market area. The Innovation Group estimates that the entire local market with 7.0 million gamer adults will grow to over 22.2 million gamer visits in 2014, an increase of 12% compared to forecast in the first scenario. Total market revenue is projected at over \$1.94 billion based on a average win per visit of \$87; an increase of about 2% over the slots-only scenario. The gain reflects our contention that the table player spends more per visit on average.

### Local Market Summary - With Subject Property - Slots and Tables (2014)

Market	Gamer Adults	Propensity	Gamers	Frequency	Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	251,898	37.5%	94,523	11.2	1,057,944	\$84	\$88,933,722
Rosecroft Secondary	312,711	31.7%	99,185	8.6	856,266	\$94	\$80,814,582
District of Columbia	1,328,799	35.7%	474,881	10.6	5,031,570	\$86	\$432,174,357
West DC	1,066,803	31.1%	331,528	8.6	2,852,900	\$106	\$301,855,750
North DC	486,457	32.8%	159,316	9.2	1,462,923	\$106	\$154,488,636
South Baltimore	633,982	39.2%	248,263	11.8	2,940,949	\$82	\$240,563,225
Baltimore Metro	662,006	39.3%	259,917	11.9	3,090,059	\$62	\$192,624,535
Chesapeake	90,440	31.1%	28,160	8.5	239,461	\$81	\$19,317,499
Baltimore West	208,159	33.4%	69,434	9.4	651,249	\$108	\$70,184,816
Maryland North	332,537	31.6%	105,145	9.0	941,251	\$90	\$84,430,155
Hollywood	218,459	32.8%	71,747	9.1	652,740	\$87	\$57,085,648
Charlestown Primary							
Maryland	212,375	33.3%	70,642	9.4	661,579	\$88	\$58,288,527
Charlestown Primary Virginia	109,989	39.1%	43,028	13.0	557,756	\$78	\$43,511,982
Charlestown Secondary							
Virginia	212,362	28.3%	60,196	7.4	447,168	\$94	\$42,026,118
Virginia South	122,275	21.6%	26,447	5.6	146,834	\$89	\$13,024,989
Virginia West	180,501	21.5%	38,837	5.4	208,972	\$102	\$21,224,044
Richmond	619,452	16.3%	101,057	4.0	401,289	\$102	\$40,846,333
<b>Total</b>	<b>7,049,203</b>	<b>32.4%</b>	<b>2,282,306</b>	<b>9.7</b>	<b>22,200,910</b>	<b>\$87</b>	<b>\$1,941,394,920</b>

Source: The Innovation Group

### Subject Property Capture

The following table shows revenue for the first stabilized year of operations (2014) at the proposed casino. The proposed casino is projected to capture approximately 7.3 million, or 33% of local gamer visits, and generate nearly \$658 million in gaming revenue. Note win per visit increased about 3% for each market (relative to the slots-only scenario) as the facility benefits from the higher-caliber table player.

### Subject Local Market Gaming Revenue - Slots & Tables (2014)

Market Segments	Market Gamer Visits	Subject Capture	Subject Gamer Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	1,057,944	80.6%	853,114	\$82	\$69,692,073
Rosecroft Secondary	856,266	50.5%	432,182	\$91	\$39,378,391
District of Columbia	5,031,570	60.6%	3,046,708	\$83	\$254,081,315
West DC	2,852,900	55.9%	1,594,240	\$101	\$160,647,518
North DC	1,462,923	24.9%	363,858	\$105	\$38,298,280
South Baltimore	2,940,949	5.8%	171,730	\$90	\$15,410,414
Baltimore Metro	3,090,059	3.8%	117,889	\$72	\$8,442,314
Chesapeake	239,461	10.2%	24,431	\$89	\$2,165,791
Baltimore West	651,249	10.1%	65,746	\$115	\$7,578,786
Maryland North	941,251	6.3%	59,631	\$101	\$6,044,094
Hollywood	652,740	5.5%	36,174	\$99	\$3,588,558
Charlestown Primary Maryland	661,579	8.1%	53,609	\$98	\$5,253,887
Charlestown Primary Virginia	557,756	0.4%	2,159	\$108	\$232,388
Charlestown Secondary Virginia	447,168	26.8%	119,715	\$95	\$11,372,603
Virginia South	146,834	62.8%	92,156	\$84	\$7,781,398
Virginia West	208,972	38.1%	79,657	\$99	\$7,900,791
Richmond	401,289	52.0%	208,658	\$96	\$20,115,021
<b>Total</b>	<b>22,200,910</b>	<b>33.0%</b>	<b>7,321,657</b>	<b>\$90</b>	<b>\$657,983,620</b>

Source: The Innovation Group

### Transient Tourist Segment

Under this scenario, the hotel market was again broken down in the two segments with the same basic assumptions applied from Scenario 1. Capture for patrons within the primary market is estimated at 7%. The increased capture rate reflects the added attraction of table games at the facility. The primary market is forecasted to generate approximately \$7.8 million in revenue. It is estimated that Rosecroft can now capture 2% of guests from the secondary market. Based upon an approximate \$71 WPV, it is estimated that the secondary market will generate approximately \$4.6 million resulting in over \$12.4 million in total incremental gaming revenue. The chart below highlights the statistics regarding revenue generated from tourists.

### Transient Tourist Revenue

Market	Rooms	Occupancy Rate	Room Demand	Adult Guests	Capture	Frequency	Gamer Visits	Win Per Visit	Revenue
Primary	12,486	73%	3,326,895	1,330,758	7.0%	1.2	111,784	\$71	\$7,883,543
Secondary	27,815	73%	7,411,307	2,964,523	2.0%	1.1	65,219	\$71	\$4,599,605
<b>Total/Average</b>	<b>40,301</b>	<b>73%</b>	<b>10,738,201</b>	<b>4,295,281</b>	<b>3.5%</b>	<b>1.2</b>	<b>177,003</b>	<b>\$71</b>	<b>\$12,483,148</b>

Source: The Innovation Group, Smith Travel Research

## Total Gaming Revenue Forecast

Combining both revenue sources, Rosecroft Raceway is expected to generate \$670 million in annual gaming revenue generated from 7.5 million gaming visits during 2014.

### Rosecroft Raceway 2014 Revenue & Demand

	Gamer Visits	Win per Visit	Gaming Revenue
Local Market	7,321,657	\$90	\$657,983,620
Transient Tourist	177,003	\$71	\$12,483,148
<b>Total</b>	<b>7,498,660</b>	<b>\$89</b>	<b>\$670,466,768</b>

Source: The Innovation Group

Again, we estimated that 2013 would reflect a ramp-up period and that the out years would grow at a conservative rate between 2.5% and 3.5%, with gaming revenue reaching \$746 million by 2017. The Innovation Group estimated that table game revenue would account for about 14.5% of total revenue based on metric compiled from neighboring jurisdictions. We assumed that Rosecroft would offer 100 table games resulting in about \$2,700 in table revenue per unit per day. Based on a tax rate of 10% on table games, Total gaming tax revenue from slots and tables is estimated to be nearly \$366 million 2013 and increase to \$438 million by 2017.

### Rosecroft Raceway 5-Year Revenue Projections and Recommended Sizing

	2013	2014	2015	2016	2017
Gaming Revenue (000s)	\$623,534	\$670,467	\$703,990	\$725,110	\$746,863
Visitation (000s)	7,049	7,499	7,724	7,839	7,957
Win per Visit	\$88	\$89	\$91	\$92	\$94
Number of Slots	6,500	6,500	6,500	6,500	6,500
Slot Revenue (000s)	533,122	573,249	601,912	619,969	638,568
Win/Slot/Day	\$225	\$242	\$254	\$261	\$269
Number of Tables	100	100	100	100	100
Table Revenue (000s)	\$90,412	\$97,218	\$102,079	\$105,141	\$108,295
Win/Table/Day	\$2,477	\$2,663	\$2,797	\$2,881	\$2,967
Positions	7,100	7,100	7,100	7,100	7,100
Win/Position/Day	\$241	\$259	\$272	\$280	\$288
Gaming Tax Revenue (Slots)	\$357,192	\$384,077	\$403,281	\$415,379	\$427,841
Gaming Tax Revenue (Tables)	\$9,041	\$9,722	\$10,208	\$10,514	\$10,830
<b>Total Gaming Tax Revenue</b>	<b>\$366,233</b>	<b>\$393,799</b>	<b>\$413,489</b>	<b>\$425,893</b>	<b>\$438,670</b>

Source: The Innovation Group

### *Scenario 3—Table Games Only*

The following scenario represents the introduction of table game operations at Rosecroft Raceway in 2013. While all other Maryland sites shall be permitted to operate slots, it is assumed that the subject property shall be the only facility in the State of Maryland that will be able to operate table games. Again, we assumed a gaming tax rate for table revenue of 10%.

Given the Rosecroft would have a monopoly with regard to table games, The Innovation Group utilized a carve model, instead of a gravity model, to evaluate demand and revenue potential. The first step in conducting this analysis was to review the experiences at select properties in other jurisdictions where table games have been introduced. While it is difficult to statistically isolate the impact of tables, we evaluated the effects of table installation on visitation and gaming revenue overall. In conjunction with primary research conducted by The Innovation Group and third parties on consumer gaming behavior, we were able to determine an approximate market penetration for table games. This analysis helped serve as a benchmark to drive our estimates for propensity, frequency and average win per visit during our modeling process.

In addition, the analysis provided general trends and characteristics specific to table game players. For examples, studies found that table game players' trend to be more purposeful and skilled than the typical slot player. Their gaming needs differ from a slot player in the types of amenities demanded and the kind of marketing that attracts them. This type of more sophisticated player typically makes up a smaller percentage of overall gamers, but with a frequency of visits at the high end. Table game players have a tendency to stay longer, taking more time to play in the social setting of table gaming. In terms of specific game preference, according to the 2007 *National Casino Games Report* from Gaming & Resort Development, Inc., blackjack has been the most popular table game nationwide with baccarat and mini-baccarat attracting a large number of Asian players. All these factors are expected to play a role in determining gaming propensity and frequency at Rosecroft Raceway.

Our next step was to create the carve model in *Map Info*, a Geographic Information Systems program. Similar to a gravity model, the market was carved into the same market segments as noted above in the other two scenarios. Market data was then inputted into the model which estimates market revenue potential based on a number of factors. These factors include propensity and frequency which are estimated vis-à-vis comparable characteristics observed by typical table game players, and spend per player which is derived from industry trends and demographic characteristics of the income eligible gaming population in each designated market area. In addition, we considered the relative conceptual attractiveness of the subject facility, time-distance of the facility from locals and tourists, and the presence of competing gaming/entertainment/leisure alternatives within each market. Lastly, consideration was also given to our prior experience in Maryland and the surrounding states, in similar markets across the globe and the proprietary data collected in these markets. The product of these factors yields the projection of annual gamer visits and revenue, where gaming revenue is then projected for the specific facility by applying anticipated capture rates for each market area and win per patron. As the only facility anticipated to offer table games in the state of Maryland, Rosecroft will likely enjoy high capture rates within immediate (and heavily populated) markets. In contrast, in markets located near table game alternatives available outside the state, which will have full-scale table game offerings (i.e. craps and roulette as well), these captures are

anticipated to be much lower. Based on our experience in various markets, table game players tend to spend more per visit than slot players.

The following table presents our analysis and findings. Under this scenario, we estimate that there are approximately 2.6 million visits for table game play in the local market. Rosecroft Raceway is projected to capture 67% of these visits and generate \$186.2 million in revenue.

### Subject Local Market Gaming Revenue (2014) - Table Games Only

Market Segments	Gamer Pop	Prop of Table Players	Freq of Table Players	Total Market Visits	Rosecroft Visits	Win per Visit	Gaming Revenue
Rosecroft Primary	251,898	11.0%	5.7	158,075	150,171	\$96	\$14,421,094
Rosecroft Secondary	312,711	10.0%	5.5	172,036	154,832	\$107	\$16,583,977
District of Columbia	1,328,799	9.0%	5.2	621,141	496,912	\$98	\$48,714,350
West DC	1,066,803	8.0%	4.7	403,927	302,945	\$118	\$35,885,523
North DC	486,457	6.6%	4.0	128,737	102,990	\$124	\$12,743,160
South Baltimore	633,982	7.8%	4.4	220,571	176,457	\$105	\$18,614,126
Baltimore Metro	662,006	7.9%	4.5	231,754	173,816	\$84	\$14,632,251
Chesapeake	90,440	10.0%	5.5	49,989	9,998	\$104	\$1,041,865
Baltimore West	208,159	6.7%	4.1	57,310	42,982	\$136	\$5,824,454
Maryland North	332,537	8.0%	4.9	130,981	39,294	\$119	\$4,681,953
Hollywood	218,459	8.0%	4.9	85,860	25,758	\$117	\$3,003,788
Charlestown Primary Maryland	212,375	10.0%	5.6	119,336	23,867	\$115	\$2,749,643
Charlestown Primary Virginia	109,989	11.0%	5.8	70,574	7,057	\$127	\$892,958
Charlestown Secondary Virginia	212,362	10.0%	5.6	118,315	23,663	\$112	\$2,642,516
Virginia South	122,275	4.3%	2.8	14,683	7,342	\$99	\$728,729
Virginia West	180,501	4.3%	2.7	20,897	6,269	\$117	\$730,957
Richmond	619,452	3.3%	2.0	40,129	20,064	\$113	\$2,273,783
<b>Total/Average</b>	<b>7,049,203</b>	<b>7.8%</b>	<b>4.8</b>	<b>2,644,316</b>	<b>1,764,419</b>	<b>\$106</b>	<b>\$186,165,127</b>

Source: The Innovation Group

### Transient Tourist Segment

Similar to the first 2 scenarios, the hotel market was once again broken down in the two segments with the same basic assumptions applied. Given the trend for higher win averages amongst table game players, win per visit for tourists is estimated to be slightly higher than projected in Scenario I and II. Capture for patrons within the primary market is estimated at 3% and reflects the attractiveness of table game only facility in the market. The primary market is forecasted to generate approximately \$3.9 million in revenue. It is estimated that Rosecroft can capture 0.25% of guests from the secondary market and generate \$660,000. This totals nearly \$4.5 million in incremental gaming revenue. The chart below highlights the statistics regarding revenue generated from tourists.

### Transient Tourist Revenue

Markets	Rooms	Occupancy Rate	Room Demand	Adult Guests	Capture	Frequency	Gamer Visits	Win Per Visit	Revenue
Primary	12,486	73%	3,326,895	1,330,758	3.0%	1.2	47,907	\$81	\$3,878,574
Secondary	27,815	73%	7,411,307	2,964,523	0.3%	1.1	8,152	\$81	\$660,021
<b>Total/Average</b>	<b>40,301</b>	<b>73%</b>	<b>10,738,201</b>	<b>4,295,281</b>	<b>1.1%</b>	<b>1.2</b>	<b>56,060</b>	<b>\$81</b>	<b>\$4,538,595</b>

Source: The Innovation Group, Smith Travel Research

### Total Gaming Revenue Forecast

Combining both revenue sources, Rosecroft Raceway is expected to generate nearly \$191 million in annual revenue from 1.8 million gaming visits during 2014.

#### Rosecroft Raceway 2014 Revenue & Demand

	Gamer Visits	Win per Visit	Gaming Revenue
Local Market	1,764,419	\$106	\$186,165,127
Transient Tourist	56,060	\$81	\$4,538,595
<b>Total</b>	<b>1,820,479</b>	<b>\$105</b>	<b>\$190,703,722</b>

Source: The Innovation Group

For the purpose of this analysis, an appropriate ramp-up period of 93% was considered for the first year of operations at the racino as it begins to market to existing gamers and the local population, establish a reputation within the market place and streamline operations. In 2013, Rosecroft is expected to generate \$177 million, increasing to \$212 million by 2017. Daily win per unit is estimated at just over \$3,000 in 2013 based on 160 table games. The number of positions was estimated based upon forecasted need in order to efficiently serve peak demand. WPP is estimated to reach \$3,638 by 2017 assuming no change to the number of positions. Gaming tax revenue from table games is expected to be \$17.7 million in 2013 and grow to \$21.2 million by 2017.

#### Rosecroft Raceway 5-Year Revenue Projections and Recommended Sizing

	2013	2014	2015	2016	2017
Gaming Revenue (000s)	\$177,354	\$190,704	\$200,239	\$206,246	\$212,433
Visitation (000s)	1,711	1,820	1,875	1,903	1,932
Win per Visit	\$104	\$105	\$107	\$108	\$110
Number of Tables	160	160	160	160	160
Win/Table/Day	\$3,037	\$3,265	\$3,429	\$3,532	\$3,638
Gaming Tax Revenue	\$17,735	\$19,070	\$20,024	\$20,625	\$21,243

Source: The Innovation Group

## DISCLAIMER

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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.