

Nevada regulators watching JVs, p. 7

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

Our 15th year

A SPECTRUM GAMING GROUP PUBLICATION

Online outlook ...

PATH TO INTERNET GAMING
STREWN WITH OPPORTUNITIES
— AND SERIOUS QUESTIONS

Prior to the invention of the telegraph, information — like armies — could move at a speed no faster than that of the fastest horse. Battles would be waged, and soldiers would die, long after wars had ended, simply because the information of a truce or surrender had not yet reached the battlefield. After Samuel Morse sent his famous message, “What Hath God Wrought,” in 1844, such problems dissipated, but new issues emerged.

As it turns out, Morse’s question should have been: “What hath the telegraph wrought?” Quite a bit, it seems. Newspapers, which had never had to compete on the basis of speed, were forced to adopt a new business model. In his book, *What Hath God Wrought*, author Daniel Walker Howe wrote:

“Many newspapers of the time were the organs of a political party, existing to propagate its point of view; influential policymakers might be former journalists. The newspapers quickly enlisted the tele-
see INTERNET on page 4

Save the date

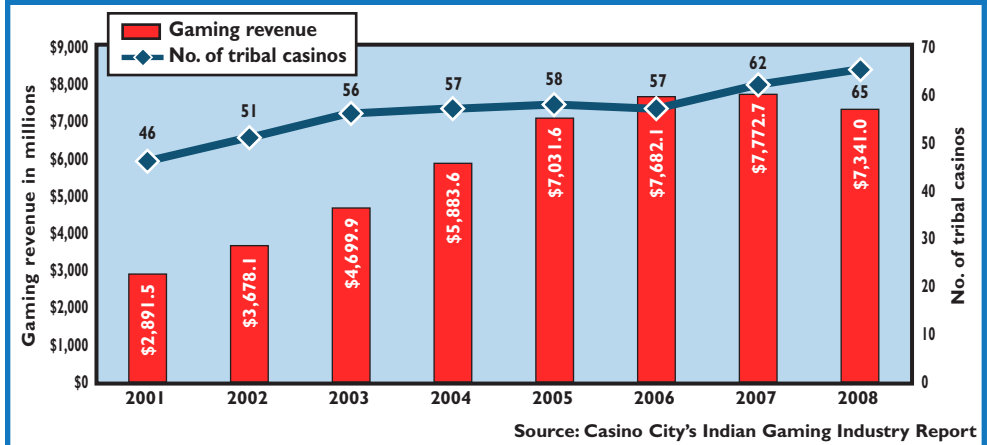


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California Indian gaming growth



Source: Casino City's Indian Gaming Industry Report

California outlook ...

TRIBES FEELING PINCH
WHILE FACING NEW CHALLENGES;
AWAITING THE NEXT GOVERNOR

California’s once-booming Indian gaming industry, like most other jurisdictions, is struggling. Tribal casino revenues have fallen from a high of \$7.8 billion in 2007 to \$7.3 billion in 2008, and the 2009 numbers to be released later this year figure to be even lower.

In response, California’s tribes are hunkering down. Consolidation is the watchword, not expansion. The focus will be less on the integrated resort model and more on the core gaming experience. Tribes will use sound management practices to keep costs low and sound marketing strategies to attract repeat customers.

No one expects a quick turnaround. In fact, experts are saying the glory days of “if you build it, they will come” are gone for good. “It’ll be years before you see any major development projects for Indian casinos in California or casinos in Nevada,” said **Michael Lombardi**, a consultant who represents several tribes. “The building boom is over. The bubble has burst.”

To be sure, California may not be anywhere near its gaming capacity. The existence of slot machines performing at daily win per units of \$700 suggests

there is room for growth in certain markets.

But California’s tribes are facing a snowmageddon of adverse national and local conditions. The financial distress at Foxwoods in Connecticut has helped to turn off the spigot of capital for Indian casinos. Rating agencies have downgraded tribal bonds. The pseudo tax on slot machines (additional slots in exchange for a fee to the state general fund) by the administration of Governor **Arnold Schwarzenegger** has discouraged expansion.

That hasn’t stopped some tribes, especially in northern California, from jumping on the bandwagon. A half-century ago, the government terminated many small rancherias and took their land. Now these tribes are trying to come back. They’re at various stages of the gaming process: seeking federal recognition, having land taken into trust, obtaining financing for projects, filing environmental impact statements, shaping revenue-sharing agreements with local governments, getting state compacts approved, and surviving no-confidence votes.

Cash-strapped cities are salivating at the thought of billion-dollar projects in their back yard — enough to overcome a persistent strain of NIMBYism. But the first two steps — recognition and land into trust — are controlled by the federal government. That may be a problem.

Indians were expecting great things from **President Obama**, but they’re starting to grow frustrated
see CALIFORNIA on page 5

The Deal ...

'LOCALS' NOT JUST LAS VEGAS TERM, AS SEEN AT PHILADELPHIA'S PARX

Historically, the word "locals" has been confined to that important sub-set of the Las Vegas market to describe off-Strip properties that cater to adults who live in the region. The term should migrate eastward in pursuit of the concept.

Casinos along the Eastern Seaboard tend more to be viewed as "convenience" casinos, which connotes a more downscale approach. Yet the notion that local adults are low-budget consumers who visit casinos only after the mall closes is increasingly misplaced. For example, we noticed when Empire City at Yonkers Raceway first opened, that the property was a neighborhood gathering spot (see Vol. 11, no. 18, p. 8), and those locals were doing some serious wagering.

The same phenomenon is taking hold in Pennsylvania as well. **Dave Jonas**, president of Parx Casino in Bensalem, PA — across the street from the Philadelphia city line — notes that a material number of players in that property's database visit between 150 and 200 times per year.

Chew on that for a moment. That equates to three to four times a week, which is roughly the average number of times that Norm visited Cheers. By definition, an adult who visits a casino that frequently lives nearby and probably gambles no more than \$25 per visit. Jonas points out that servicing this group is not particularly onerous or costly, as they do not demand much in the way of comps. Yet they are enormously profitable.

Since most "convenience" or "locals" property outside of Las Vegas can count on some level of geographic protection, such adults can be counted as long-term assets. Markets like Atlantic City have such customers as well, but they are relatively few in number in part because the immediate region is sparsely populated. Savvy operators such as **Dennis Gomes**, who formerly oversaw resort operations at the Tropicana in Atlantic City, identified the potential in this market — but such tasks are much easier in regions where the population is dense (referring to the number of adults, not their IQ) and the competition is limited.

Slightly north of Parx, Sands Bethlehem is planning a 300-room hotel to support that property, an investment that would be easily justified by the introduction of table games this year. As CEO **Robert DeSalvio** notes, the property now gets about 60 percent of its business from Pennsylvania residents, and the number of customers from New Jersey and New York should increase with the combination of tables and hotel rooms.

FIRST-MOVER ADVANTAGE MAY BE FLEETING IN SINGAPORE

Las Vegas Sands' winning bid for one of Singapore's two casino licenses in 2006 promised to open Marina Bay Sands by the end of 2009. Now LVS promises an April opening, chairman/CEO **Sheldon Adelson** adding, "Let them open first, and we'll see what mistakes they make."

"Them" is Genting's Resorts World Sentosa, Singapore's self-proclaimed "first integrated resort." Despite LVS's six-month head start, four RWS hotels opened on January 20, keeping Genting chairman/CEO **Lim Kok Thay**'s promise of a January launch.

Singapore authorities let RWS open its casino for Chinese New Year on February 14, even though the Universal Studios theme park was only ready for a one-week sneak preview. The resort's non-gaming centerpiece, Universal Studios is scheduled to reopen with its 20 rides running on March 18.

Any major first-mover advantage to RWS will come from registering local gamblers: Singapore residents must pay a S\$2,000 (US\$1,418) annually, or S\$100 daily, casino-specific admission tax. But creative marketing and loyalty programs or pre-existing relationships can trump RWS's early edge.

Other factors diminish the importance of being first. The resorts target distinct visitor markets, with RWS primarily for families and Marina Bay Sands, featuring a convention center, for business. Phased openings at both resorts — construction will continue through 2011 — dampen the buzz from each partial unveiling.

Adelson has a point, too: making the first impression matters less than making the best one. Long casino lines at RWS during the new year holiday weren't an auspicious start.

AN ALABAMA GETAWAY GOES THE WRONG WAY

The biggest debate in Alabama is not whether to legalize or expand gaming, but whether to enforce the apparent illegality of the existing gaming.

For years, thousands of Class II, bingo-based slots have operated in numerous venues throughout the state. While bingo is legal in Alabama, slot machines are not. Lame-duck Governor **Bob Riley** last year launched a task force to shut them down, contending that they are slot machines and not really variations of bingo.

The situation is not far removed from that in Russia three years ago, when **Vladimir Putin** led the successful effort to shutter (effective last summer) the country's \$6 billion casino industry because he believed it had grown out of control due to an absence of an adequate regulatory and enforcement

structure.

The escalating dispute has collected the governor, attorney general, state police and local officials. The Reverend **Jesse Jackson** has become involved, too, rallying for laid-off casino workers. He said that state police raids on casinos would be reminiscent of the Bloody Sunday civil rights march in Selma in 1965.

The situation has reached the point of involving cop vs. cop, with Greene County Sheriff **Ison Thomas** saying he will not allow a raid by the state at the Greentrack casino. "I hope it doesn't get to the point where we have to arrest another law enforcement officer," **John Tyson**, head of the Governor's Task Force on Illegal Gambling and Mobile County district attorney, told *USA Today*.

The largest casino, VictoryLand, even relinquished its liquore license to prevent some government agencies from raiding it without a search warrant, the *Montgomery Advertiser* reported.

ANALYSTS' CORNER: WYNN'S ENTRY IN PHILADELPHIA A POSITIVE

Gaming analysts are cautiously embracing the decision by Wynn Resorts to effectively take over the beleaguered Foxwoods Philadelphia project.

Robin Farley of UBS: "We believe further developing an East Coast customer database (now that PA has legalized table games) would be a positive for Wynn."

John Maxwell of Jefferies: "While we view this project as a positive for Wynn, the project will be relatively minor compared to its Las Vegas and Macau operations."

Brian McGill of Janney Montgomery Scott: "With the low tax rate particularly on the table segment, we expect that when details are released it will show that the project can generate a rather high return on invested capital. It does lead to questions as to whether the company would use its balance sheet for other regional greenfield or acquisition opportunities."

Chris Woronka of Deutsche Bank: "We think the recent legalization of table games in PA creates the opportunity for an operator of Wynn's caliber to bolster the city's appeal as a destination market, given its strong airlift and favorable regional demographics (i.e., proximity to NYC, Wash. DC)." ■

Feedback ...

Gaming Industry Observer always welcomes your questions, comments, concerns and suggestions.

Email feedback@gamingobserver.com.

Statistical Focus ... MIDWEST SLOT REPORT®

Slot revenue at the 65 publicly reporting gaming facilities in the Midwest (as we liberally define "Midwest"), declined 3 percent for the three-month period ending December 31. They are ranked by daily win per unit. Illinois casinos, which are capped at 1,200 gaming positions, hold the top three positions on the win-per-unit leaderboard. Three states — Illinois, Mississippi, and Missouri — typically lag the other six by about a month in posting detailed results. In order to reflect all nine available jurisdictions, this report is therefore somewhat less timely than it otherwise could be.

MIDWEST SLOT PERFORMANCE, RANKED BY DAILY WIN PER UNIT, LAST 3 MONTHS ENDED DECEMBER 31, 2009

	AVG. UNITS/MONTH	YEAR OVER YEAR CHANGE	HANDLE	YEAR OVER YEAR CHANGE	WIN	YEAR OVER YEAR CHANGE	DAILY WIN PER UNIT	YEAR OVER YEAR CHANGE
Elgin Grand Victoria, IL	1,122	(1.9%)	\$769,498,000	(14.5%)	\$56,209,000	(10.5%)	\$545	(8.8%)
Joliet Harrah's, IL	1,172	(0.5%)	\$632,120,000	(7.6%)	\$53,783,000	(6.4%)	\$499	(5.9%)
Aurora Hollywood, IL	1,172	0.0%	\$450,525,000	(12.9%)	\$39,482,000	(9.1%)	\$366	(9.1%)
Horseshoe Hammond, IN	3,209	(0.0%)	\$1,012,836,742	(0.6%)	\$98,561,830	(0.3%)	\$334	(0.2%)
Hollywood, IN (former Argosy)	3,227	27.8%	\$1,062,827,952	(0.5%)	\$92,811,820	9.9%	\$313	(14.0%)
Horseshoe SI, IN	1,900	(8.4%)	\$586,465,500	(11.1%)	\$54,235,254	(8.6%)	\$310	(0.2%)
Ameristar, IN	1,929	4.8%	\$549,311,609	(3.3%)	\$53,617,367	(2.7%)	\$302	(7.1%)
Joliet Empress, IL	1,194	0.0%	\$371,046,000	(15.1%)	\$32,685,000	(7.5%)	\$298	(7.5%)
Indiana Live, IN	1,976	3.4%	\$657,563,268	27.1%	\$53,472,239	27.5%	\$294	23.3%
E.St. Louis Casino Queen, IL	1,155	2.9%	\$526,359,000	(8.9%)	\$29,692,000	(6.2%)	\$279	(8.9%)
Casino Aztar, IN	913	(13.0%)	\$252,330,780	(7.6%)	\$23,348,781	(0.2%)	\$278	14.7%
Delta Downs, LA*	1,620	0.0%	n/a	n/a	\$39,482,522	(15.0%)	\$265	(22.4%)
Hoosier Park, IN	1,997	3.7%	\$591,281,618	0.7%	\$46,624,874	2.8%	\$254	(0.8%)
Harrah's M.H., MO	2,752	(2.3%)	\$690,359,886	(1.0%)	\$62,694,973	0.1%	\$248	2.4%
Harrah's NKC, MO	1,758	0.2%	\$435,740,560	(0.7%)	\$39,928,452	(2.5%)	\$247	(2.6%)
Ameristar SC, MO	2,981	(0.8%)	\$716,286,807	1.9%	\$64,872,426	3.6%	\$237	4.4%
Ameristar, IA	1,566	(2.2%)	\$360,138,432	(5.7%)	\$33,988,774	(6.8%)	\$236	(4.7%)
Argosy, MO	1,967	(0.4%)	\$462,270,184	(6.2%)	\$42,609,673	(2.2%)	\$235	(1.8%)
Horseshoe Bluffs Run, IA	1,800	(2.1%)	\$372,963,572	(3.0%)	\$37,922,140	(5.0%)	\$229	(3.0%)
Harrah's Metropolis, IL	1,146	2.5%	\$230,849,000	(1.9%)	\$24,014,000	(4.6%)	\$228	(6.9%)
Prairie Meadows Racetrack, IA	1,924	1.2%	\$475,723,590	(7.6%)	\$40,004,439	(2.8%)	\$226	(4.0%)
Par-A-Dice East Peoria, IL	1,145	1.3%	\$279,325,000	(5.9%)	\$23,567,000	(2.5%)	\$224	(3.8%)
Lumiere Place, MO	2,040	2.3%	\$456,194,651	20.8%	\$41,164,059	20.5%	\$219	17.8%
Belterra, IN	1,510	(6.8%)	\$371,609,061	(1.7%)	\$30,189,405	(2.8%)	\$217	4.3%
Blue Chip, IN	1,950	0.6%	\$446,988,964	(1.9%)	\$37,298,769	5.0%	\$208	4.4%
Isle of Capri - Boonville, MO	991	(1.7%)	\$209,349,354	(1.0%)	\$17,828,346	4.6%	\$196	6.4%
Diamond Jo - Worth, IA	964	6.7%	\$181,042,042	(2.4%)	\$17,323,316	2.8%	\$195	(3.6%)
Churchill/Fair Grounds, LA**	606	142.4%	n/a	n/a	\$10,839,326	10.2%	\$194	(57.0%)
Harrah's, IA	1,035	0.2%	183,030,767	(13.7%)	\$18,406,646	(12.2%)	\$193	(12.3%)
Majestic Star II, IN	1,126	(10.0%)	\$217,053,764	(12.0%)	\$19,497,411	(7.4%)	\$188	2.9%
Argosy - Sioux City, IA	701	(0.1%)	\$129,954,831	(0.7%)	\$12,126,818	1.8%	\$188	1.9%
Ameristar KC, MO	2,977	(1.1%)	\$557,337,978	1.4%	\$51,035,127	0.2%	\$186	1.3%
Isle of Capri - Bettendorf, IA	1,014	(0.7%)	\$201,815,494	(16.0%)	\$16,972,448	(11.2%)	\$182	(10.6%)
Waterloo, IA	1,050	(4.8%)	\$219,989,009	9.3%	\$17,334,248	(1.3%)	\$179	3.6%
Argosy Alton Belle, IL	1,102	0.2%	\$249,534,000	(13.6%)	\$17,767,000	(5.8%)	\$175	(6.0%)
Majestic Star, IN	1,020	(13.5%)	181,703,333	(29.3%)	\$15,880,986	(23.3%)	\$169	(11.4%)
OED/Evangeline Downs, LA***	1,425	(12.4%)	n/a	n/a	\$22,187,248	(14.7%)	\$169	(6.8%)
Grand Victoria, IN	1,391	0.8%	\$268,207,181	(11.5%)	\$21,519,321	(13.1%)	\$168	(13.8%)
St. Jo Frontier, MO	550	(1.9%)	\$95,934,760	(0.3%)	\$8,251,368	1.2%	\$163	3.2%
Northern Region, MS (all properties)	12,801	(3.3%)	\$2,529,755,550	(10.0%)	\$191,335,046	(5.8%)	\$162	(2.5%)
Coastal Region, MS (all properties)	14,134	(3.0%)	\$2,980,664,024	(14.6%)	\$208,917,351	(12.4%)	\$161	(9.7%)
Riverside, IA	1,231	0.3%	\$202,061,435	(1.3%)	\$17,999,962	(2.3%)	\$159	(2.6%)
Isle of Capri - KC, MO	1,199	(7.4%)	\$191,428,533	(1.5%)	\$17,440,417	0.7%	\$158	8.8%
Diamond Jo, IA	987	37.8%	\$153,165,810	21.6%	\$14,342,213	39.0%	\$158	0.9%
Dubuque Park Racetrack, IA	959	(0.8%)	\$154,380,332	(21.3%)	\$13,742,745	(15.6%)	\$156	(15.0%)
Wild Rose Clinton, IA	600	(0.1%)	\$94,816,221	(5.4%)	\$8,479,474	(5.2%)	\$154	(5.1%)
Jumers Rock Island Casino, IL	1,123	32.9%	\$198,256,000	68.5%	\$15,826,000	72.6%	\$153	29.8%
Harrah's LA Downs, LA	1,199	(5.6%)	n/a	n/a	\$16,309,883	(22.5%)	\$148	(17.9%)
Black Hawk, CO (all properties)	8,997	(6.1%)	\$1,682,314,758	4.5%	\$117,505,610	7.4%	\$142	14.5%
Rhythm City, IA	974	(0.2%)	\$154,008,173	(7.1%)	\$12,592,109	(5.8%)	\$141	(5.6%)
Catfish Bend, IA	642	(2.6%)	\$90,682,844	(3.5%)	\$8,289,840	3.5%	\$140	6.2%
Mark Twain, MO	650	(2.0%)	\$98,621,168	4.8%	\$8,196,952	4.0%	\$137	6.1%
French Lick, IN	1,308	(3.1%)	\$198,353,745	(6.2%)	\$16,260,592	(8.5%)	\$135	(5.6%)
Wild Rose Emmetsburg, IA	518	0.6%	\$69,585,282	9.5%	\$5,881,360	7.9%	\$123	7.2%
Isle of Capri - Caruthersville, MO	647	3.3%	\$64,136,697	3.4%	\$6,830,517	3.4%	\$115	0.1%
Central Region, MS (all properties)	7,080	(9.2%)	\$993,713,159	(9.5%)	\$73,848,193	(7.3%)	\$113	2.2%
Terrible's Lakeside, IA	1,010	(0.1%)	\$111,977,701	(3.3%)	\$10,451,347	(3.0%)	\$112	(3.0%)
Isle of Capri - Marquette, IA	606	0.7%	\$78,751,198	(3.3%)	\$6,178,252	(8.3%)	\$111	(8.9%)
President, MO	690	(2.2%)	\$58,133,116	(13.8%)	\$4,863,704	(8.6%)	\$77	(6.5%)
Central City, CO (all properties)	2,028	(4.0%)	\$211,610,196	(4.6%)	\$13,433,352	(6.0%)	\$72	(2.1%)
Cripple Creek, CO (all properties)	4,572	(5.2%)	463,105,311	(7.2%)	\$28,746,797	(5.4%)	\$68	(0.2%)
Deadwood, SD (all properties)	3,537	(6.0%)	228,871,515	0.2%	\$20,298,771	0.5%	\$62	7.0%
Blue Ribbon Downs, OK****	n/a	n/a	n/a	n/a	\$776,794	(40.4%)	n/a	n/a
Remington Park, OK	n/a	n/a	n/a	n/a	\$16,798,673	(6.3%)	n/a	n/a
Will Rogers Downs, OK	n/a	n/a	n/a	n/a	\$4,677,458	(7.6%)	n/a	n/a
MIDWEST TOTAL	128,570	(1.6%)	26,463,976,456	(5.3%)	2,279,252,816	(3.0%)	\$191	(1.5%)

*92 days vs 84 PY, **92 days vs 87 PY, ***92 days vs 88 PY, ****61 days vs 92 PY — closed 11/28/09.

When the number of days per month varies in year-over-year comparisons, we daily averages to calculate year-over-year changes in drop and win so as to normalize comparisons.

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graph in their quest to gather and distribute information; the newspapers of New York City formed the Associated Press wire service 'to secure the transmission of news from the South, particularly from the seat of War in Mexico in advance of all ordinary challenges.' "

How fascinating that we have to go back nearly two centuries to find an example of how an existing industry was able to quickly harness the power of a world-changing technology to improve its own business model and grow revenues to unprecedented levels. More recent history has shown that many industries initially react to new technologies as a threat. Rather than adapt the technology to create a new business model, existing industries often begin by affirmatively rejecting the technology. This rejection evolves into acceptance and ultimately into an embrace.

Industries in the entertainment field are particularly susceptible to this phenomenon, and thus it is no surprise that the casino industry initially reacted to Internet gaming in such a fashion. We first outlined this path in 2002, and have since dubbed it: The Spectrum (as in Spectrum Gaming Group, publisher of this newsletter) Theorem on the Embrace of Internet Wagering. We have shortened the name to STEIW, in part because it requires industry leaders to stew over some very real issues.

The theorem is based on a confluence of related occurrences:

1. The brick-and-mortar gaming industry will abandon its rejection of Internet gaming and ultimately accept, adopt and embrace it.
2. In doing so, the industry will develop new business models that harness the Internet as a chief marketing tool to identify, cultivate and reward customers.
3. The entrance of land-based casinos, armed with brands and an array of licenses, will alter the face of Internet gaming, and render nearly all past and present revenue projections as obsolete.

STIEW is grounded in history, noting that the tension between land-based gaming and Internet gaming is not the first time that private industries in the entertainment field have wrestled with the challenges created by new technologies. In the late 1920s and early 1930s, professional baseball — then in its heyday as the national pastime — was faced with the new technology of radio, which was viewed as a threat to the game's primary source of revenue: ticket sales.

In their book, *Baseball*, authors Geoffrey C. Ward and Ken Burns quote pioneer broadcaster Red Barber: "When radio came along and began to

broadcast some baseball games, some of the entrenched conservative owners said, 'Wait a minute. Why give away something that you're trying to sell for your living, to try and keep your enterprise afloat? And especially on days of threatening weather when people would say, 'Well, it looks like it may rain. I'll just listen to the radio. I won't go.' They did not realize at the time the beneficial effect of radio, that it would be making families of fans."

A similar pattern emerged in the 1950s, and later in the 1970s and 1980s. Hollywood film studios viewed television, and later electronic recording, as threats to their primary source of revenue: ticket sales. Television quickly became a new market for the studios' archives of older films, and studios became the leading source of new programming for the new medium. Additionally, television became the primary marketing vehicle to develop awareness of new films. The same pattern emerged with tapes and DVDs: They became a new market, and a new marketing opportunity.

It is no coincidence that baseball's greatest years of attendance — when top teams could draw 3 million or more fans a season — happened long after the advent of radio and television. Those potential threats ultimately generated new interest, which laid the groundwork that encouraged that live attendance.

The same phenomenon happened in Hollywood, in which the highest-grossing films — starting with the all-time box office champs, *Avatar* and *Titanic* — occurred long after those erstwhile threats had turned into full-blown marketing opportunities.

These examples demonstrate the continuum that Internet gaming will travel along, as it moves from its rejection phase to full embrace. Note, however, that two other phenomena will still loom as major potholes along this path:

1. The gaming industry, and those who have a vested interest in it, such as public officials, tend to favor the status quo.
2. Internet gaming is replete with regulatory and licensing concerns, some of which can be easily addressed, but some will require answers to questions that have not even been asked yet.

The first phenomenon can, and will be, traversed, but deserves recognition as an essential part of this process. In the gaming world, there are few coincidences. For example, it is no coincidence that Nevada — a state that is more dependent on wagering than any other — has no lottery. Proposals for a Nevada lottery have failed thus far, in part because of opposition from the gaming industry. On April 24, 2009, the *New York Times* analyzed a proposal for a Nevada lottery that went nowhere:

"**Lori Nelson**, a spokeswoman for Station

Casinos, which owns 18 casinos geared to Nevada residents, asked, 'Why would you want to have the state compete against its largest industry?' And **Rob Stillwell** of Boyd Gaming, owner of seven Las Vegas properties, said lotteries, which 'can operate as kiosks' with relatively few employees, had an unfair advantage over casinos, which have the expense of infrastructure, amenities and a substantial payroll."

Similarly, it is no coincidence that nations such as Great Britain, which were early adopters of Internet wagering, do not have what has been termed "Las Vegas-style" casino resorts, and has hitherto rejected them.

Similarly, we note that New Jersey — a state in which the lottery and casinos co-exist peacefully — has no slot machines outside Atlantic City. The notion of installing a few slots at Atlantic City International Airport and local convenience stores would create teeth-gnashing political controversies, as has already been witnessed by suggestions of installing slot machines at New Jersey racetracks. Yet slot machines are ubiquitous throughout Nevada, and can be found at the airport and other locations, without a hint of controversy.

Clearly, the phenomenon can be traced to an overwhelming instinct to embrace the status quo. This embrace of the known and the rejection of the unknown is arguably non-productive but is clearly understandable. More important, it can be skirted once it becomes clear that the rationale for rejecting the unknown is based on flawed assumptions.

In this case, the core assumption — that Internet gaming is a threat to land-based wagering — is flawed, in part because it fails to recognize a principal reason why adults visit casinos: socialization. Television may have cut into live attendance at movie theaters, but hardly ended it. Similarly, while a few professional sports fans might prefer big-screen viewing to sitting in a freezing stadium (visit a football stadium rest room during half-time for a glimpse as to why), attendance continues to boom.

Similarly, we expect there will be more than a few gamblers who would be thrilled at the prospect of being able to play blackjack in their skivvies. However, the larger trend will be quite different. The Internet will not adversely impact revenues at brick-and-mortar casinos in any material way, any more than the sale of six-packs of beer hurts the revenues of taverns. Two essential traits of human nature will ensure that brick-and-mortar casinos have a permanent home on the economic landscape: One is the thrill of risk-taking. The other essential trait: Humans are social creatures. They like having fun in crowds. Just because some individuals might like to gamble from home will not change that. More-
see *INTERNET* on page 5

over, casinos — unlike, say, movie theaters or taverns — are social settings in which parties of one can feel quite comfortable.

Some casino operators, such as Harrah's Entertainment, have begun to recognize the opportunities that Spectrum first identified nearly a decade ago. The future of gaming could ultimately rest on a business model in which adults who have a demonstrated propensity for games of chance make wagers from the privacy of their home, with certain assurances that the "house" that is accepting wagers offers a known brand and the seal of approval from state regulators. Such players can earn rewards for their play that can be redeemed for room nights, meals, show tickets or free play at a brick-and-mortar casino.

We agree with various suggestions already put forth that comprehensive oversight — already in place in many states and nations — can ensure that Internet gaming is operated by those who have demonstrated the requisite level of good character, honesty and integrity. And we note that technologies exist to help ensure that it can be regulated in more than name only.

Take, for example, the following excerpt from a recent paper, "Can Internet Gambling Be Effectively Regulated? Managing the Risks," authored by **Malcolm K. Sparrow** of the John F. Kennedy School of Government at Harvard University:

"Notwithstanding the current prohibitionist legal and regulatory approach, millions of U.S. residents gamble online through offshore gambling sites. As a result, the United States finds itself in the unfortunate position of incurring all the social costs of online gambling while having no control over the gaming sites that serve U.S. residents. The United States cannot disqualify industry participants from competing effectively for U.S.-based customers or offer its residents any consumer protections. Nearly all states permit some form of commercial gambling, and the industry is large and well-established. Clearly, policymakers have extensive precedent from which to draw strategies to mitigate the potential social harms of gambling. Although some controls used in bricks-and-mortar casinos may not translate well to online gambling, several of the risks we examined become more amenable to control online. New technologies can be effective, even for those risks that are more difficult to address online. For example, geolocation and age verification technologies can help turn potentially significant risks into manageable ones."

Technology risks, however, are not the only regulatory hurdles along the STIEW continuum. Consider

that land-based gaming originated and evolved on a state-by-state basis in the United States, with both commercial and tribal operators operating under regulations or compacts that did not anticipate a host of issues. Whether Internet wagering now evolves along an intrastate or interstate model, the questions that must be answered include the following:

- Which operators will be allowed to operate servers and accept wagers?
- What impact will Internet wagers have on lotteries (an entirely different question than the impact on land-based) and will lotteries be full-scale players in this emerging trend?
- If the intrastate model emerges first, will land-based operators with the strongest brands make a push to have a regulated presence in the more populous states?
- Would such operators that have a presence in multiple states be able to leverage that presence at the expense of their one-location competitors (i.e., would operators with a Las Vegas presence be allowed to grab the lion's share of online wagers because they offer the most desirable rewards programs)?
- If interstate wagering becomes the model, would a state-issued license in land-based wagering be required, and if so, would there be a minimum regulatory threshold, or would regulation have to rise to the level of, say, licensure in Nevada or New Jersey?

That latter question could be of particular importance, and we can look to examples in other areas,

trated. The administration has been slow to fill spots on the National Indian Gaming Commission and to revise off-reservation gaming regulations. It has not reauthorized Indian healthcare services and it settled the Cobell trust-fund case for pennies on the dollar.

True, Obama held an impressive tribal summit in Washington, DC, in November, but little has come of it so far. "I don't see the Obama administration spending any legal capital to help Indians. It's been all talk and no action," Lombardi said.

Meanwhile, almost everyone agrees that Internet gaming will be the next big battlefield. California's Tribal Alliance of Sovereign Indian Nations has already come out against the **Barney Frank** legislation. A letter from **Danny Tucker**, chairman of California Nations Indian Gaming Association, called the Frank bill "the greatest threat to Indian gaming in the last 20 years." The National Indian Gaming Association is expected to join the opposition in April.

Tribes have a number of legitimate concerns. Nationwide online gaming may undo their compacts

such as general corporate licensure. Consider, for example, the number of publicly traded companies that are incorporated in Delaware, as opposed to other states, simply because Delaware offers more favorable regulations in a variety of areas.

Delaware's own state government boasts on its web site: "More than 850,000 business entities have their legal home in Delaware, including more than 50 percent of all U.S. publicly-traded companies and 63 percent of the Fortune 500. Businesses choose Delaware because we provide a complete package of incorporation services including modern and flexible corporate laws, our highly-respected Court of Chancery, a business-friendly State Government, and the customer service oriented staff of the Delaware Division of Corporations."

In the area of corporate licensure, Delaware has indeed identified an opportunity that other states could not — or would not — seek to exploit. What if one state elected to try a similar approach in online gaming? Would such an approach put states that presently adhere to relatively strict rules on land-based gaming at a disadvantage? How would other states respond? Would states that have a relatively high standard of licensure be pressured to water down their own regulations?

Spectrum professionals have been stewing (or STIEWing) on this for some time, and we suggest there are answers to these and other questions, as long as policymakers at the federal level stay ahead of the curve. ■

and infringe on their sovereignty. In addition, it may steal customers from their bricks-and-mortar operations. Many of California's casinos are far from urban centers. Who wants to drive an hour when you can log onto your computer?

Then there are the perennial issues of underage and problem gambling, and security. If Chinese hackers can break into Google, is anything safe? Even commercial casino companies are unsure about these matters.

But Internet gaming is coming in one form or another. If not at the national level, then perhaps at the state level. New Jersey and Iowa are among the states exploring the concept. In California, the Morongo Band of Mission Indians believes that tribes can minimize the side effects if they are in charge. Therefore, it has joined with card clubs to propose an online poker operation. Because it would function entirely within the state, it presumably would bypass federal control.

But several politically powerful tribes have opposed the Morongo proposal. Their primary worry is losing the exclusive right to host casino-style *see CALIFORNIA on page 8*

Case study

ONTARIO REGULATORS FIND FAIR PATH FOR GOVERNMENT-OWNED CASINOS

Ronald Reagan often quipped that “The nine most terrifying words in the English language are, ‘I’m from the government and I’m here to help.’”

We can only wonder what the Gipper would have thought of a variation on that theme: “I’m from the government, and I’m here to operate a casino.”

As state and national governments ponder the most effective means of legalizing casinos, more than one has considered a variation on the government-owned casino. Sometimes, this route is dictated by constitutional or other legal restrictions, and sometimes by the notion that government is best equipped to deal with social impacts, and we suspect that a few also consider the idea: Isn’t the whole pie better than a large slice?

All else being equal, we would find it hard to argue with the premise that casinos are for-profit enterprises best run by business people. As gaming is also a privilege and, quite often, a regional monopoly, such private businesses have an abiding and essential responsibility to operate in the public interest in various areas, such as employment, tourism, urban planning and responsible gaming.

Still, if the public model is to be considered, officials may elect to emulate the best operator in that realm. We suggest that designation belongs to the Alcohol & Gaming Commission of Ontario, a public agency in Canada that oversees all forms of legalized gaming in that populous province. Its purview is extraordinary, with the AGCO overseeing a portfolio that includes four resort casinos, one First Nation (Indian gaming) casino, 17 racetracks (all with slots), nearly 10,000 lottery outlets, as well as bingo and charitable-gaming casinos.

Its gaming operations generated CDN\$6.4 billion last year in gross gaming revenue, and CDN\$1.9 billion in net income for the provincial government.

The system in Canada can trace its heritage to the Canadian Criminal Code, which outlaws gambling — with certain exceptions, the principal one being when gaming is conducted by the provincial government.

Other provinces, such as Quebec, have interpreted the statute that requires government to “manage and conduct” gaming operations quite literally, with all casinos being directly operated by the provincial government. Ontario, however, has developed a system in which the interpretation is more liberal.

With the introduction of casinos in 1994, Ontario set up a public agency, the Ontario Lottery & Gaming Corporation to oversee casinos. The OLG is a corporation with no shareholders, with a board appointed by the provincial government. This entity is then authorized to retain private companies to operate the casinos. This hybrid model is in effect at four properties: Caesars Windsor, Rama, Casino Niagara and Niagara Fallsview.

The goal, according to AGCO Executive Director **Jean Major**, is to “maximize economic gains from the casino (direct and indirect) without having to invest substantial capital outlays and managerial expertise.”

In effect, AGCO oversees OLG (although they report to different ministries, to avoid conflicts), which oversees the private operators. OLG functions as an effective board of directors for each property, with certain responsibilities, according to Major. The OLG:

1. “Approves casino operator’s business plan, annual budget and operating policies;
2. “Approves any capital expenditures of the casino operator beyond specified amounts;
3. “Approves any contracts entered into by the casino operator where the amount payable under the contract exceeds a certain threshold or continues for longer than a year;
4. “Reviews periodic reports and financial statements for the casino complex; and
5. “Controls the bank accounts of the casino complex.”

Private operators, such as Harrah’s (manager of Caesars Windsor) get a management fee plus a share of profits. The province gets a 20 percent tax on revenue, plus whatever is left of profits. A classic win-win.

The Ontario example, however, has an unusual wrinkle: In 1999, slots at racetracks were authorized, as were the “charity casinos.” The difference, however, is that the private sector was not brought in.

The employees at the 17 racinos, for example, are government employees. They are regulated by government employees. They report to government employees. Such a situation is noteworthy, in which one group of public employees oversees another — and both have a commitment to maximizing revenue. Although, it should be noted, that revenue maximization often takes a back seat to other public policies in Ontario, if it conflicts with the AGCO mandate:

- “To ensure that gaming premises and games of chance are conducted and managed with honesty, integrity and in the public interest by persons who will not damage the reputation or adversely affect the credibility of the industry.
- “Three objectives of the AGCO mandate

rooted in:

1. Crime prevention — significant provincial police presence within AGCO responsible for background checks, investigations and 24/7 presence at commercial casinos; security and surveillance controls, etc.

2. Consumer Protection — ensure rules of play are fair; gaming equipment not susceptible to cheating and slot machines meet technical standards,

3. Social Responsibility — regulations/requirements on age restrictions; people with gambling problems, advertising and marketing restrictions, controls on issuance of credit, alcohol and gaming laws, etc.”

“I do make decisions that cost the government money,” Major said. “I hear about it a lot.”

Major noted that the public holds a perception that a government-run gaming operation is more concerned with controlling social costs than a private organization would, and the government must be cognizant of that perception.

At this writing, AGCO is in the process of “re-thinking its approach to regulating casinos” and intends to “move to a more risk/standards-based approach to regulation as opposed to a more prescriptive model.” This is an ambitious, multiyear plan, but what precisely is the goal?

In the words of Major, “The risk-based approach to regulation and standards-based approach is relatively new to Ontario gaming. We recently introduced these concepts to the way we regulate the alcohol sector through programs such as risk-based licensing and enforcement.

“On the gaming side of our business, we are in the initial stages of introducing similar concepts. The first step is to undertake a comprehensive risk assessment of the industry.

“The results of this assessment will inform our strategy to change our approach to regulation. The concept of standards-based regulation will be one likely outcome of this exercise. At the moment our regulatory approach is fairly prescriptive (in the ICMs and standards for surveillance and security for example).

“A standards-based approach will allow the operator to establish its own control activities (internal controls) that would meet very specific control objectives (standards) set by the regulator. The regulator would set the accountability framework for the operator and the onus would rest with the operator to ensure the control objectives of the regulator are met. How we do so and in which areas of casino operations will be determined on the risk assessment work. This is a very simplistic way to describe it but basically, the goal is to give the operators more flexibility

see ONTARIO on page 8

Nevada update ...

STATION-GREENSPUN DISPUTE HAS REGULATORS SCRUTINIZING JOINT-VENTURE PARTNERSHIPS

A newly revealed legal dispute between two partners in a handful of Las Vegas locals casinos has widespread implications for such partnerships in Nevada and is likely to prompt state regulators to more closely scrutinize the ethical implications and operational challenges facing the operators of jointly owned properties.

Station Casinos and the prominent Greenspun family own two big Las Vegas locals casinos, Green Valley Ranch in Henderson and Aliante Station in North Las Vegas, as well as three smaller slot and restaurant operations in Henderson. The partners each own half stakes in the gaming properties, with Station serving as the operating partner in each case.

The legal dispute centers on Green Valley Ranch, which opened in December 2001 and was the most luxurious locals casino in the Las Vegas Valley until Red Rock Resort — a wholly owned Station property — opened in 2006. GVR was profitable right out of the box and quickly became a significant cash cow for its owners.

The GVR partnership deal called for each side to equally control ownership, with Station getting fees (2 percent of revenues and about 5.5 percent of operating cash flow) for operating the property. Both sides publicly proclaimed their happiness with the other, and the Greenspuns asked Station to again serve as their managing partner when they developed Aliante Station in the heart of the Greenspun's Aliante master-planned community.

Aliante Station, by far the most luxurious in North Las Vegas, opened in November 2008. In the meantime, several factors combined to hurt the performance of GVR and test the previously strong partnership. The most significant was the economic downturn that began with the collapse of the Las Vegas Valley's residential real estate market in 2006 and 2007 (which hurt consumer confidence) and continued with the Great Recession that began at the end of 2007 (which led to an unemployment rate of more than 13 percent).

Compounding GVR's troubles was new competition from the South Point casino (which opened as the South Coast in December 2005) and the M Resort in Henderson, which opened in March 2009. Both places poached significant numbers of GVR customers. The M opening came at a particularly bad time, as the Greenspun's real estate and publishing businesses were losing money and

Station's properties were not throwing off nearly enough cash to service the company's massive debt load associated with its \$5.4 billion leveraged buy-out in 2007; Station filed for bankruptcy protection in July 2009.

The dispute between the partners came to light in late February, when the Greenspuns made a filing in the Station bankruptcy case, asking the court to dismiss the GVR bankruptcy case from Station's broader case, or to cancel the Green Valley Ranch joint venture operating agreement, or to lift the automatic stay of litigation in bankruptcy cases to give the Greenspun's gaming company the right to enforce its contractual rights under the agreement.

In the bankruptcy filing, Greenspun lawyers said that a former GVR general manager confirmed Station's bad faith in operating the casino: "In late December 2009, (Greenspun's gaming company) first learned of a long-running scheme implemented by the debtor to systematically divert customers, business opportunities and other assets from Green Valley Ranch — which debtor derisively calls the '50 cent piece,' in reference to its limited 50 percent ownership — to (Station's) 100 percent-owned casinos," the motion claims.

"... the scheme included — but was not limited to — debtor's specific, individualized efforts to lure Green Valley Ranch's 'high rollers' to Red Rock (a competing, wholly owned Station casino); ordering Green Valley Ranch to terminate a highly successful marketing program; all the way down to instructing the food purveyor to deliver the 'prime' cuts of meat to Red Rock, while sending Green Valley Ranch the 'garbage.'" Station emphatically denied the Greenspuns' claims.

Regardless of the merits of the case, the fractured partnership could potentially do more than embarrass both partners and enrich another score of bankruptcy attorneys. Operator vs. operator disputes could be viewed as embarrassing to state regulators, and claims of bad faith between partners offer the potential to draw regulatory scrutiny.

In past licensing hearings, regulators were more likely to merely ask owners whether they were satisfied that their partnerships adequately protected each side's interests and made sure there was an adequate dispute resolution mechanism to solve any conflict. In the GVR case, Station's bankruptcy filing on behalf of the property takes priority over the partnership's dispute resolution mechanism, and that's why the Greenspuns asked the bankruptcy judge for relief.

Partnerships like that between Station and the Greenspuns are relatively common in Nevada, and that is one reason why regulators may be expected to play close attention to how their dispute plays out. Regulators want to protect the image of the casino

business — one of the duties of the Nevada Gaming Commission and state Gaming Control Board under Nevada law — without unduly limiting the ability of operators to obtain capital to buy or build casinos.

The Greenspun/Station partnership is not the biggest such arrangement in the state. Dubai World in 2007 bought half of MGM Mirage's CityCenter project (as well as almost 10 percent of corporate parent MGM Mirage's common stock) in a deal that has MGM operating the property. Dubai World has, to date, invested about \$4.65 billion in CityCenter (excluding its MGM Mirage shares).

When the global economic meltdown and real estate collapse threatened Dubai World (which remains challenged), the Dubai company refused to make its share of payments needed to finish building CityCenter. Within a few months, the partners solved that dispute and the project was largely finished, with the Veer condominium towers and the Harmon boutique hotel yet to open.

It is noteworthy that MGM Mirage owns 100 percent of neighboring Bellagio, one of the strongest performers on the Strip. During the first couple of months of operation of CityCenter's flagship Aria, Bellagio room rates have reportedly topped Aria's in room rate surveys. It is conceivable that, in such a case, MGM and Dubai World could have a dispute about where MGM's best players gamble.

The Palms in Las Vegas is mostly owned by the Maloof family, but the Greenspuns and Station Casinos each have stakes of slightly less than 7 percent. That partnership has not faced significant challenges, as the Palms has been quite successful (that is, until its recent condominium tower faced slow sales during the real estate crunch that hit condo sales especially hard) and the Palms is not considered a direct competitor with Station and Greenspun operations.

In Reno, the Silver Legacy is jointly owned and operated by the owners of its two surrounding properties, the Eldorado (owned by the Carano family) and Circus Circus (owned by MGM Mirage, by way of its acquisition of Mandalay Resort Group). The joint operation of the property presumably better protects the venture from any move to steer business away from the Silver Legacy to one of the adjacent wholly owned properties.

The nature of the charges involved in the Greenspun vs. Station dispute would seem to make an amicable resolution unlikely, but Nevada gaming regulators will be closely watching any dirty laundry that is publicly aired. Expect regulators to take disciplinary action if bad faith is proven, and, even if it isn't, expect regulators to more closely scrutinize similar deals when they are brought forward for consideration.

gaming. Given the federal and state history of treaty-breaking, any talk of revisiting tribal compacts is cause for alarm.

To address these issues, Sacramento held an educational hearing February 9. Not surprisingly, the claims and counterclaims flew.

Morongo's plan would draw poker players from overseas sites, some argued. No, it would draw them from local casinos. Most players would switch to a secure California system. No, they'd stay offshore to avoid paying taxes. Online poker could generate \$284 million to \$612 million a year in state revenue, according to one study. No, it would generate only \$50 million a year and would forfeit the tribes' \$365 million in compact payments, said another.

The discussion provided a banquet of food for thought and maybe some momentum. People seem willing to talk further and consider options. But it's a good bet that 1) nothing will happen soon, 2) Californians will keep playing poker, and 3) the issue will end up in court.

The news is not all about cutbacks and conflicts. In November, Californians will elect a new governor. The frontrunners are Republican **Meg Whitman** and Democrat **Jerry Brown**. It is too early to take sides, but everyone in Indian country seems ready to say "hasta la vista, baby" to the incumbent.

"The Arnold Schwarzenegger administration has been a disaster for Indian tribes and I can hardly wait to see him go," said Lombardi. "He's been probably the worst governor of California in the last 100 years."

Tribal leaders have met with Brown, Whitman, and **Steve Poizner**, another Republican candidate. All three seem to respect the idea of government-to-government relations.

The smart money is on Brown, who has demonstrated his bona fides. "His letter supporting tribes relative to the California Gambling Control Commission was a big deal," said **Kate Spilde**, chair of the Sycuan Institute on Tribal Gaming. "He does have at least one very significant pro-tribal government action to point to already."

Added Lombardi: "I think Jerry Brown understands tribal sovereignty better than any politician in the state of California."

Looking at the big picture, California's gaming tribes have reached a milestone of sorts. The youthful go-go years are over and a more mature phase is dawning.

Tribes spent the first decade getting past the starting line: battling for political acceptance, establishing good government and gaming practices, launching building initiatives. Now they're turning their attention to improving casino operations. They are weeding out unproductive projects and people and raising their game to new heights.

Spilde's Sycuan Institute is training the next generation of California casino managers. By hiring professionals educated in tribal, rather than commercial, gaming, she said, tribes will benefit. ■

in how they conduct their business and how they will meet regulatory risks/goals without diminishing the standards in which we regulate. We have just started the dialogue with the operators and are currently mapping out a work plan."

The goal, then, is to make sure that the interests of the operator and the interests of the public are parallel, or at least nearly parallel as possible. That is a measure that would serve all regulated gaming markets in North America, regardless of the ownership structure. ■



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