EXECUTIVE SUMMARY

The ailing economy continued to take its toll on Indian gaming in 2009. On a nationwide basis, gaming revenue at Indian gaming facilities fell 1 percent, marking the first year of decline in its recorded history.

Despite the decline, Indian gaming continues to be a sizable and important segment of the gaming industry. In 2009, 237 Native American tribes operated 446 gaming facilities in 28 states, generating approximately $26.4 billion in gaming revenue and $3.2 billion in non-gaming revenue, including money spent in Indian gaming facilities on food and beverages, lodging, entertainment, and shopping. The $26.4 billion in gaming revenue in calendar year 2009 was a 1 percent decrease from the $26.7 billion generated in calendar year 2008. Furthermore, the $3.2 billion in non-gaming revenue in 2009 was a 4 percent decrease from the $3.3 billion in 2008.

The decline of nationwide Indian gaming in 2009 was part of a larger trend, namely the recent slowdown of Indian gaming. The growth of gaming revenue declined from 15 percent in 2005, to 10 percent in 2006, 4 percent in 2007, and 1 percent in 2008. While the slower growth in 2008 and the decline in 2009 can be attributed in large part to the general slowdown in the U.S. economy, it cannot explain the slower growth in prior years, or the overall pattern of declining growth since 2005. These phenomena have been the result of public policies designed to restrict the supply of Indian gaming. These public policies have included proposed and enacted legislation and regulations, as well as judicial decisions and tribal-state gaming compacts.

While Indian gaming declined on a nationwide basis in 2009, the performance of Indian gaming varied widely across states, tribes, and gaming facilities. Approximately 58 percent of Indian gaming facilities experienced declines in gaming revenue, 39 percent experienced growth in gaming revenue, and 3 percent were new, thus, having no growth rate.

The disparity in the performance of Indian gaming is clearly reflected in the high degree of geographic concentration. In 2009, the largest state in terms of gaming revenue from Indian gaming facilities continued to be California, with $6.9 billion. It alone accounted for just over 26 percent of gaming revenue at Indian gaming facilities nationwide. The top two states, California and Oklahoma, generated a combined 38 percent of gaming revenue. Meanwhile, the top five states, which included California, Oklahoma, Connecticut, Florida, and Washington, accounted for 61 percent of gaming revenue in 2009. The level of concentration for the top 10 states, which added Arizona, Minnesota, Michigan, Wisconsin, and New York to the top five states, was 87 percent of gaming revenue in 2009.

Gaming revenue also continued to be highly concentrated among a small percentage of Indian gaming facilities. In 2009, approximately 39 percent of gaming revenue was generated by the approximately 5 percent of all Indian gaming facilities that generated $250 million or more. And while the top 29 percent of gaming facilities in terms of revenue generation brought in about 84 percent of all gaming revenue, the bottom one-third of gaming facilities generated less than 2 percent of gaming revenue.

While the magnitude of Indian gaming varied significantly across states, so did growth. The highest gaming revenue growth rates in 2009 were in Alabama, Wyoming, Alaska, and Nebraska (approximately 34 percent, 21 percent, 18 percent, and 13 percent, respectively). Growth in these states resulted from expansions or replacements of existing gaming operations. Florida and Oklahoma also experienced strong growth in 2009 (10 percent and 7 percent, respectively). In Florida, the Seminole Tribe continued to unveil Class III gaming at existing gaming facilities. The growth in Oklahoma was largely the result of expansions and replacements of existing gaming operations. Also, for the second straight year, Oklahoma made the largest positive contribution to nationwide Indian gaming growth with its increasingly large size and strong growth. Meanwhile, the lowest gaming revenue growth rates were declines in Mississippi, Iowa, Arizona, and Connecticut (approximately -17 percent, -14 percent, -10 percent, and -7 percent, respectively). The largest Indian gaming state, California, continued to decline in 2009, with a growth rate of approximately -5 percent.

While the overall decline of Indian gaming on a nationwide basis in 2009 was troubling, it was less severe than the declines of other segments of the gaming industry. Nationwide, commercial casino gaming revenue declined approximately 8 percent from $30.0 billion in calendar year 2008 to $27.6 billion in calendar year 2009, and card room gaming revenue declined about 5 percent from $1.27 billion in 2008 to $1.21 billion in 2009. In terms of absolute gaming revenue dollars, Indian gaming continued to close the gap on commercial casinos. In 2009, gaming revenue generated by Indian gaming was 96 percent of that of the commercial casino segment. This compares to 89 percent in 2008.

On the other hand, growth in the much smaller racetrack casino ("racino") segment outpaced Indian gaming (and other gaming segments) in 2009. In fact, the racino segment grew approximately 5 percent. Nationwide, racino gaming revenue grew from approximately $6.1 billion in calendar year 2008 to $6.4 billion in calendar year 2009. Despite its rapid growth relative to commercial casinos and Indian gaming, the racino segment is still a relatively small portion of the casino gaming industry (about 11 percent in 2009). In comparison, Indian gaming generated over four times as much gaming revenue as did racinos in 2009.

On the whole, Indian gaming continued to play a significant role in the gaming industry. In 2009, Indian gaming facilities generated 44 percent of all U.S. casino gaming revenue (i.e., gaming revenue generated at Indian gaming facilities, commercial casinos, and racinos). Commercial casinos continued to lead the way with 46 percent of casino gaming revenue. However, Indian gaming continued to gain ground and may overtake the commercial casino segment in the near future.

In terms of the entire gaming industry (i.e., casino gaming plus card rooms, lotteries, pari-mutuel wagering, charitable gaming, convenience gambling, cruise ships, and non-casino VLTs), Indian gaming generated approximately 29 percent of gaming revenue in 2009, second only to the commercial casino segment, which generated 31 percent of gaming revenue.

In addition to having a transformational impact on Native American tribes, as well as on the gaming industry in general, Indian gaming continues to make significant contributions to the U.S. economy. Indian gaming facilities, including their non-gaming operations, directly generated approximately $28.1 billion in output and supported about 300,000 jobs and $12.3 billion in wages in calendar year 2009. Indian gaming also led to output, jobs, and wages outside of Indian gaming facilities and tribal reservations. Furthermore, all of this economic activity led to tax revenue and other direct payments to federal, state, and local governments. In 2009, it is estimated that Indian gaming directly and indirectly led to:

- $85.1 billion in output;
- 682,000 jobs;
- $28.0 billion in wages;
- $10.5 billion in federal, state, and local tax revenue; and
- $1.7 billion in direct payments to federal, state, and local governments.

Despite the 2009 downturn, the future outlook for Indian gaming remains positive. In the short term, there is a lot of uncertainty due to the general state of the economy. However, in 2010, many commercial casino and racino states moved in a positive direction, showing higher growth rates (i.e., more positive growth rates or less negative growth rates). If Indian gaming follows suit, then we might see some turnaround for Indian gaming in the 2010 figures when they become available.

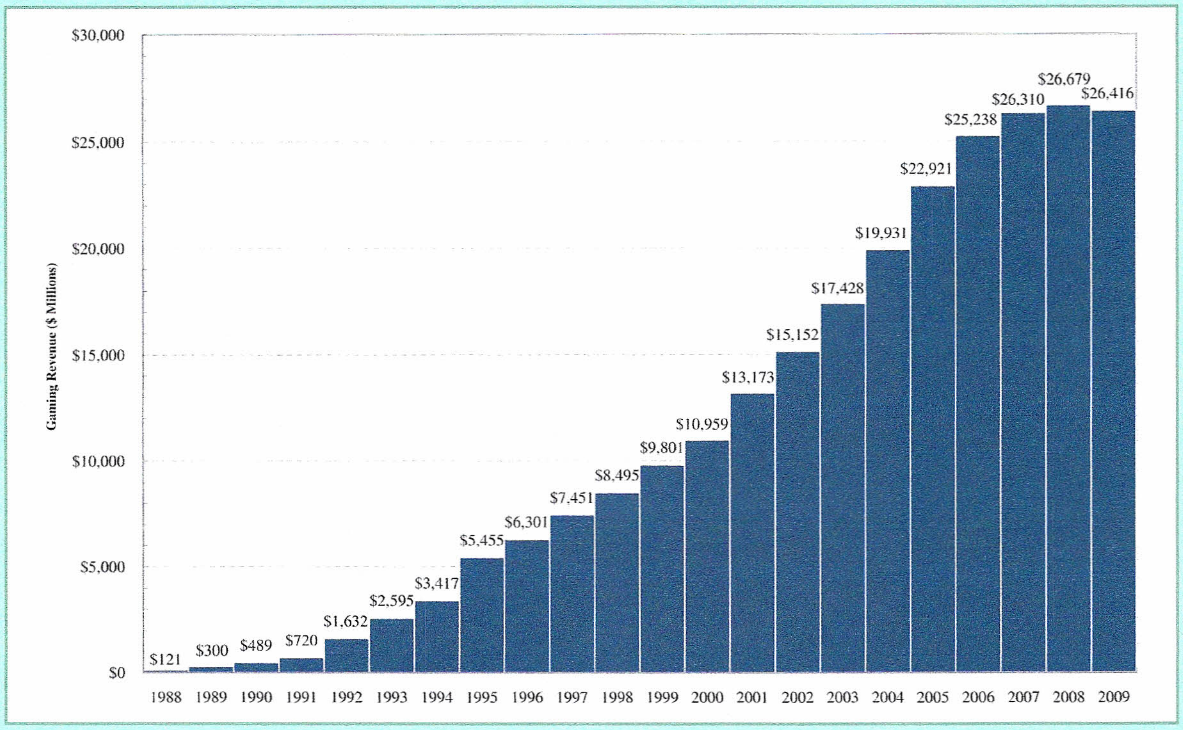
Despite slower growth over the last few years and short-term uncertainties, the mid-term outlook for Indian gaming is good. The economy will improve in time, bringing back consumer confidence, disposable income, spending on casino gambling, and financing for future casino developments. However, there is likely to be more caution in moving forward with and investing in future gaming developments. There are a few likely sources for potential mid-term growth of Indian gaming:

- States where tribes were previously restricted in terms of gaming supply but are now able to expand or where new types of games can now be offered;
- Continuing conversions from Class II to Class III gaming;
- Continued success of Class II machines as long as regulations do not become significantly more restrictive;
- Continued growth in smaller, less mature Indian gaming states with limited competition and/or unmet demand; and
- The abundance of new gaming facilities under construction, existing facilities being expanded, and new casinos being proposed and planned, including 27 applications before the BIA for land into trust for gaming purposes.

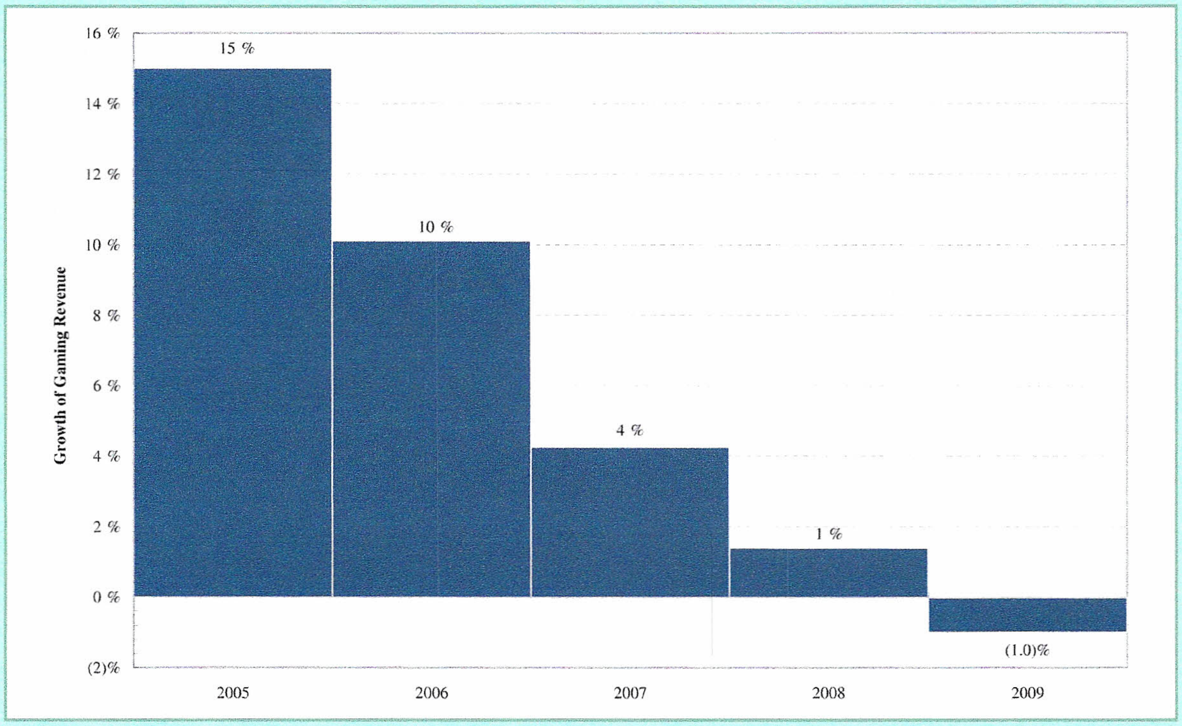
While the mid-term outlook for Indian gaming looks good, and future market conditions are favorable for many Indian gaming facilities, the long-term outlook for Indian gaming is uncertain. Any number of things could negatively impact Indian gaming. These potential threats include both non-market and market factors. Potential non-market factors include legal challenges, legislation, and regulations aimed at restricting Indian gaming and limiting its expansion.

Potential market factors include: the maturation of gaming markets; and increasing competition.

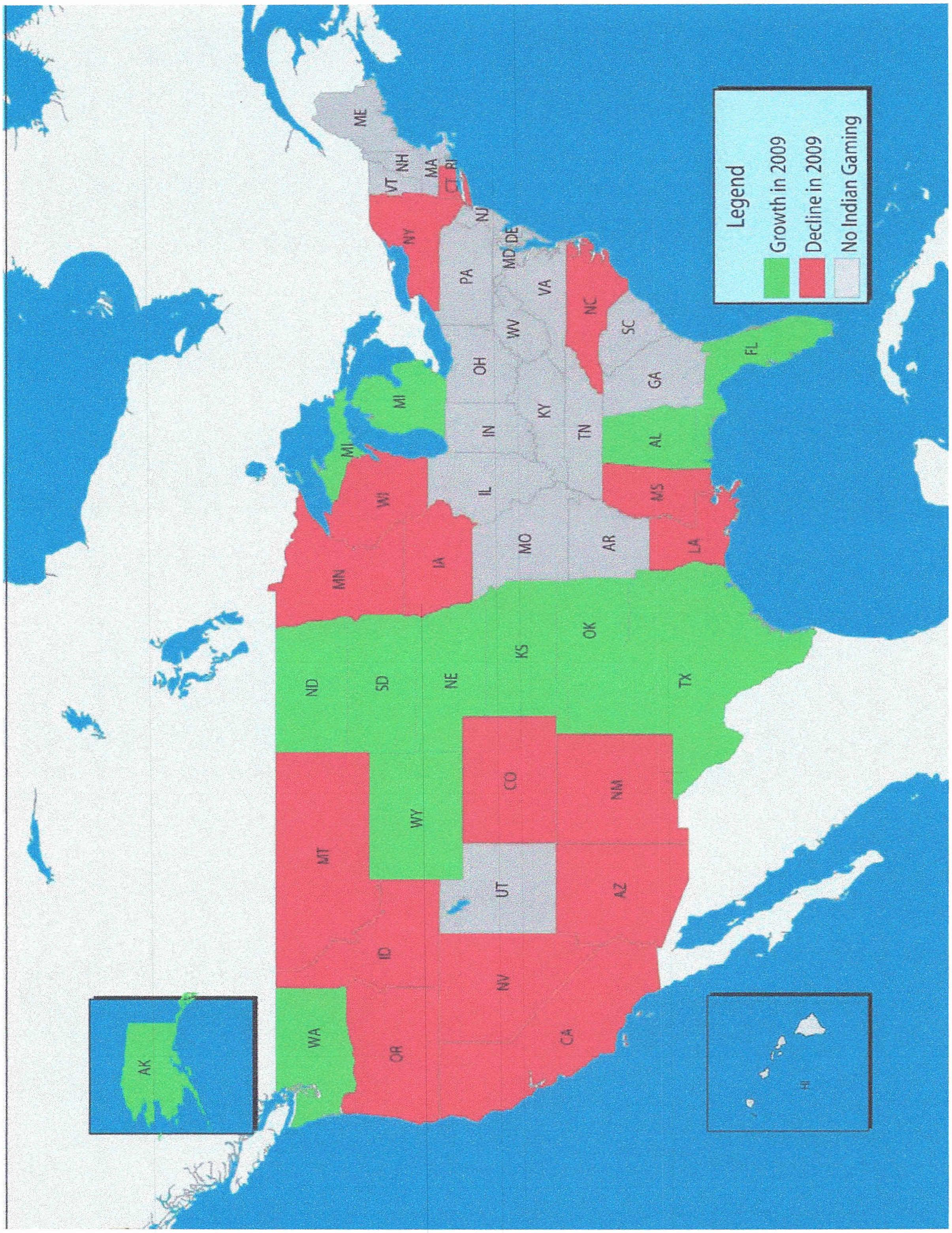
Gaming Revenue at Indian Gaming Facilities



Growth of Gaming Revenue at Indian Gaming Facilities



MAP OF INDIAN GAMING GROWTH



About the Author

Alan P. Meister, Ph.D.

Principal Economist
Nathan Associates Inc.

Ph.D., M.A., B.A., Economics, University of California, Irvine

Telephone: (949) 474-4955
Facsimile: (949) 474-4944
Email: ameister@nathaninc.com

2010 Main Street
Suite 700
Irvine, CA 92614

Dr. Meister is an economist specializing in the application of economic analysis to complex business issues, commercial litigation, and public policy matters. His areas of expertise include gaming industry analysis, Indian gaming, public policy analysis, damage analysis, antitrust and regulation, and statistics. He also leads the Native American Advisory Services at Nathan Associates.

Dr. Meister has extensive experience analyzing economic issues related to the gaming industry, including commercial casinos, racinos, card rooms, online gaming, and particularly, Indian gaming. His work has included economic and fiscal impact analyses, industry and market analyses, assessments of regulatory policies, analyses of Tribal-State gaming compacts and revenue sharing, feasibility studies, surveys, and economic analysis and expert testimony in litigation and regulatory matters. He has also conducted years of independent, scholarly research on Indian gaming and authored a number of publications, most notably his annual study, the *Indian Gaming Industry Report*, which has received national recognition. His Indian gaming work is regularly cited by the press and relied upon by the gaming industry, governments, and the investment community. Dr. Meister's research and analyses have also been relied upon before the United States Supreme Court and a panel of the World Trade Organization. He has been commissioned by the National Indian Gaming Commission to independently analyze the economic effects of proposed regulatory changes. He has also presented his work at various academic, professional, and industry conferences, and testified before the California State Senate regarding Indian gaming issues.

In his public policy work, Dr. Meister has conducted economic analysis to identify and measure the effects of: regulations; legislation; taxation; the passage of ballot initiatives; introductions, expansions, and closures of businesses and industries; and sporting and entertainment events. His work has included economic and fiscal impact studies, industry and market analyses, cost-benefit studies, and surveys. Projects have involved casinos, hotels, resorts, events, retail establishments, oil refineries, medical research, publicly funded projects, and low-income mixed use developments.

Dr. Meister has broad experience providing litigation consulting services. He has provided assistance to attorneys on all phases of pretrial and trial practice, including assistance with discovery, development of economic, financial, and statistical models, expert testimony, and critique of analyses by opposing experts. Dr. Meister has conducted damage analyses in a wide variety of cases, including: antitrust; patent, trademark, and trade dress infringement; misappropriation of trade secrets; breach of contract; labor disputes; fraud; and business interruption.

With regard to his statistics work, Dr. Meister has developed and implemented statistical analyses in a wide range of contexts. This work has included sophisticated regression analyses, statistical testing, and survey analysis. He has served as an expert regarding the use of statistics in the study of racial profiling, forensic analysis, and skill versus chance game assessments. Dr. Meister also has designed and implemented surveys. Prior to joining Nathan Associates, Dr. Meister worked for a market research firm that implemented surveys for the motion picture industry. In addition, he was a teaching assistant for five years at the University of California, Irvine, where he taught courses on statistics, probability, econometrics, and survey design.

ABOUT NATHAN ASSOCIATES INC.

Nathan Associates is one of the oldest and most respected economic consulting firms in the United States. When Robert Nathan founded it in 1946, a handful of consulting economists adapted the economic techniques that had proved so valuable to the U.S. government during World War II to solve the problems facing U.S. industries and foreign governments. Trained in economic analysis and research, they believed that they could use economic principles and data to guide policies and operations in a way that would ultimately make a positive difference in people's lives.

Now, more than 60 years later, grounded in the same principles and guided by the same core values, our employees are motivated by the belief that we can make a difference. Our consulting staff has grown many times over, and we have expanded our services and geographical reach while remaining small enough to personally ensure the quality of our work.

Generally, our services for public and private sector clients in the United States and around the world include:

- Analysis of the economic impacts of public policy
- Expert analysis and testimony on liability and damages in litigation matters
- Analysis of and testimony on economic issues in regulatory proceedings
- Economic development consulting
- Analysis of infrastructure planning, policy, investment needs, and feasibility
- Analysis of the economic costs and benefits of recognizing and enforcing intellectual property rights
- Supplementing and building capacity in trade policy

Nathan Associates has served a wide variety of clients in the public and private sectors throughout the United States, Africa and the Middle East, Asia, South America, Latin America, the Caribbean, and Europe:

- Publicly and privately held companies
- Law firms
- Associations
- Native American tribes
- U.S. federal government agencies
- State and local governments
- Foreign governments
- U.S. Agency for International Development
- Multilateral lending agencies, such as the World Bank, Inter-American Development Bank, and Asian Development Bank

Nathan Associates brings significant industry experience and expertise to cases, projects, and studies. Our staff of expert witnesses, economists, accountants, and financial analysts has experience in a wide range of industries, including the following:

- Primary Products – agriculture, coal, fishing, iron ore, minerals, oil and gas, timber
- Products – automobiles, chemicals, consumer electronics, energy, film and television, food products, footwear, music, packaging and containers, paper products, pharmaceuticals, securities, sports equipment, tobacco, vitamins
- Manufacturing – aerospace and defense, automotive components, bottle and glass products, computers, construction materials and equipment, explosives, food processing equipment, medical equipment and supplies, navigation devices, pharmaceuticals, semiconductors, and software
- Utilities – electric, natural gas, sewage, telecommunications, water

- Services – auction houses, banking, billboards, broadcasting, construction, gaming, government, health care, information technology, insurance, lodging, publishing and visual arts, real estate, restaurants, software publishing, sports, telecommunications, transportation, waste collection and disposal
- Trade—Wholesale and Retail

Nathan Associates has offices across the United States, as well as in Europe and India. Our regional U.S. offices are located on the East Coast and West Coast, and in New England and the South. Our headquarters is in Arlington, Virginia.

Gaming Industry

Nathan Associates assists existing and potential gaming operators, suppliers, and investors in navigating business, market, legislative, legal, and regulatory challenges. We also provide economic consulting to federal, state, local, and tribal governments regarding gaming related issues.

Nathan Associates' consultants and academic affiliates provide a variety of services to the gaming industry:

- Expert testimony
- Gaming market assessments and feasibility studies
- Economic advisory services regarding the design and development of gaming laws, regulations, and public policies
- Economic consulting on the legalization of gaming
- Economic assessments of new entry and competition in gaming markets
- Cost-benefit analysis
- Analysis of casino operations
- Economic analysis of gaming and tourism
- Economic impact of gaming-related public policies
- Economic and fiscal impacts of existing gaming operations and future gaming developments
- Valuation of gaming operations
- Probability analysis of new games and devices
- Skill v. chance game assessments
- Evaluation of the social costs of gambling
- Design and evaluation of policies for assisting problem gamblers
- Market research

We assist clients in a variety of matters, including:

- Litigation
- Regulation
- Public policy
- Public/government relations
- Internal business decisions

We study all sectors of the gaming industry, and have particular expertise in economic issues related to Indian gaming. We have extensive experience analyzing the integration and development of non-gaming amenities at gaming facilities. Our experience and expertise transcend the U.S. gaming market, as we also research and analyze international gaming issues and Internet gaming. In addition to gaming-related client work, Nathan Associates' in-house experts and academic affiliates have many years of experience conducting independent, scholarly research and analysis of the gaming industry.

Indian Gaming

Indian gaming is one of the largest and fastest-growing segments of the U.S. gaming industry. Its success, however, varies widely among Native American tribes. Amid this disparity, the segment's rapid evolution, and complex legal, regulatory, and political environments, Indian gaming is at the center of many controversies. Nathan Associates' Indian gaming experts provide objective, authoritative economic research, analysis, and testimony in high-stakes, high-visibility controversies. We also have extensive experience analyzing economic issues related to the development and operation of Indian gaming facilities.

Grounded in economic theory and based on extensive market and industry knowledge and experience, our Indian gaming research and analyses are customized to the unique circumstances of each project. In conducting studies and producing scholarly publications, we analyze local, regional, and nationwide gaming markets; research other segments of the gaming industry; and study legal, regulatory, public policy, and political issues affecting Indian gaming.

Nathan Associates provides a wide range of economic consulting services related to Indian gaming:

- Expert testimony
- Economic and fiscal impact of existing gaming facilities and future gaming developments on surrounding communities
- Market/feasibility studies
- Economic assessments of new entry and competition in gaming markets
- Economic and fiscal impact of legislation, regulations, tribal-state gaming compacts, and ballot propositions
- Economic analysis of gaming compacts, amendments to compacts, and agreements with local governments
- Economic evaluations of revenue sharing agreements
- Market research
- Survey design, implementation, and data analysis

We research and analyze Class II and Class III gaming, as well as the wide array of non-gaming amenities increasingly offered at Indian gaming facilities: hotels, restaurants, retail stores, entertainment venues, spas, and meeting space.

In all settings, we communicate our analysis clearly and effectively. In litigation and regulatory matters, we submit expert reports and provide expert testimony. In other matters, clients disseminate our studies among policymakers, regulators, the media, and the public. Our Indian gaming research and analyses are relied on by the gaming industry, investors, governments, and regulatory agencies, including matters before the

- U.S. Supreme Court
- World Trade Organization
- National Indian Gaming Commission (NIGC)

In addition, our experts have been commissioned by the NIGC to provide independent analysis of the economic effects of proposed regulatory changes. We also conduct independent, scholarly research and analyses of Indian gaming, regularly publishing articles and studies and presenting our work at academic, professional, and industry conferences. Most notable is the annual *Indian Gaming Industry Report.*

ABOUT CASINO CITY PRESS

Casino City Press specializes in the publication of information on the gaming industry. We have a dedicated research team that investigates every aspect of the industry. Our research efforts are complemented by a strong technical focus allowing us to utilize our research in a wide variety of products. We maintain detailed centralized databases covering every aspect of the industry including gaming properties, property owners, gaming industry suppliers, licensing jurisdictions, industry news, publications, trade shows, and more.

We specialize in providing both current and historical information to a wide variety of audiences in a wide variety of formats. Our Gaming Business Directory is provided in both book and CD format, and online through our GamingDirectory.com online service. Instant access to up-to-the-minute information is available on the web covering over 5,000 gaming properties, 15,000 industry suppliers, and 27,000 gaming executives. Our Gaming Almanac products provide detailed marketplace information in book and CD format and soon-to-be-released electronic subscription format. More information about our various gaming industry publications can be found in our web store at CasinoCityPress.com.

We operate the most popular gaming information sites on the web. Our award-winning Casino City Network of sites receives visits from millions of players every month. CasinoCity.com provides a complete consumer-oriented directory of every gaming location in the world and shows all of the latest gaming news organized by location. Online.CasinoCity.com provides the most complete coverage of online gaming sites available anywhere. CasinoCityTimes.com features thousands of gaming strategy articles by the most recognized authors in the industry. Our CasinoVendors.com and iGamingSuppliers.com websites provide directories of more than 15,000 suppliers to the land and online gaming industries respectively, with company profiles and details about the products and services they offer.