
Gaming Feasibility Analysis and Recommended Scope: Roosevelt Roads Development

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Gaming Feasibility Analysis and Recommended Scope: Roosevelt Roads Development Table of Contents

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EXECUTIVE SUMMARY

The Innovation Group was engaged by the Department of Economic Development and Commerce (“DEDC”) to conduct a Gaming Feasibility Analysis for a potential destination resort at Roosevelt Roads, a former U.S. military base situated in Ceiba and Naguabo, Puerto Rico. The company has been retained to provide an estimate of gaming revenue potential, recommended sizing for the casino, and related developments in conjunction with the larger Roosevelt Roads redevelopment plan. Included in our analysis is a recommended project scope that best supports and drives gaming revenue, overall profitability, and a projected return on capital given our estimated construction budget. This study is a continuation of efforts by the LRA and DDEC to further assess, enhance, retool and validate the Roosevelt Roads redevelopment project and program to best align with changing market conditions. In this fashion, it serves as a preliminary tool for master planners, developers, and investors to evaluate development opportunities at the site.

The Roosevelt Roads development is anticipated to be a large scale destination that competes with the most successful resorts in the Caribbean today. As such, we view the proposed development as a possible break-away model for gaming in Puerto Rico, with potential beyond that of the more constrained, existing casino product which is pervasive in the market today. In conducting this feasibility analysis, we compare this opportunity with those that facilitated highly successful master planned gaming destinations such as Atlantis (Paradise Island) and Sun City (South Africa), and planned projects including Baha Mar (Nassau) and Harmony Cove (Jamaica). In addition, we recognize the ability for gaming to enhance demand, and the overall attractiveness of the development, particularly given the advantageous capital-based, sliding-scale tax structure made available through new legislation, and other tourism development tax incentives in Puerto Rico.

In addition to the gaming feasibility analysis, we were tasked with assessing Phase I plans proposed in the *Addendum to 2004 Reuse Plan* for the site. Our analysis of these plans became a moving project scope that ultimately reflected the most cost-effective program for Roosevelt Roads, without diluting the integrity of the project to be a “Game-Changer” in the market.

Site Description

A former United States military base, Roosevelt Roads is located on the eastern coast of Puerto Rico and situated within the municipals of Ceiba and Naguabo. The 8,000 acre site is located just south of El Yunque National Rainforest and has waterfront access and views of the Atlantic Ocean. In addition, approximately eight miles off of the northeast coast of the site are two islands: Culebra and Vieques. The site includes over 3,600 acres of conservation trust lands, as well as the existing infrastructure of the base that includes a major air field, two existing deep water ports and a number of community structures that have adaptive reuse potential. The site is easily accessible from Highway 53 which can be reached from the north or south end of the development. Roosevelt Roads is

approximately 50 minutes from the Luis Muñoz Marín International Airport and 60 minutes from downtown San Juan.

Background

Upon closing in 2004, a Reuse Plan was developed for the Naval Station at Roosevelt Roads that same year by the DEDC. The plan essentially served as a guide for all possible programs/uses for the site in order to promote redevelopment. Since that time, the Local Redevelopment Authority (“LRA”) updated the plan with an addendum to supplement the document that was derived from further due diligence, community input and various market studies. This addendum, otherwise known as *the Addendum to 2004 reuse plan*, provided an overall vision for the site to become a “game-changer” development which serves to define and leverage several markets. The Addendum development program utilized the same density of space as the original 2004 reuse plan and divided it into 10 major regions, or zones. Each of these zones features a proposed scope that is unique to its section and includes a mix of leisure, residential and commercial activities to help enhance the site and neighboring communities. Phase I of the project includes Zone 1 through 4 (see aerial on next page) and is described in detail in the Recommended Project Scope section of the report. As summary of each zone’s focus is provided below:

- Zone 1: Commercial heart of the development – includes a retail/entertainment/restaurant district that is supported by a marina, ferry and cruise terminal and office space.
- Zone 2 : known as “the Caribbean Riviera”, includes an integrated casino resort and multiple amenities, include an 18-hole golf course, to support the large scale development
- Zone 3: Eco-focused region complete with an eco-lodge, a visitor center/museum that is tied into El Yunque, and a marina.
- Zone 4: Includes a 9-hole golf course and clubhouse as well as residential homes.

While this assessment only focuses on the Phase I plans, we would note that, given the existing infrastructure in other zones at the site, there are opportunities for future developments including commercially repositioned buildings, environmental outposts, conference & learning centers, and an airfield that may provide international flights down the road. These future developments would further set the project apart and allow for creative packaging/offers not available anywhere else in the region.

Vision

The Roosevelt Roads development is anticipated to be a large scale development to rival any currently in the Caribbean. Some of the major draws to the site will be its lush, green surroundings set on the backdrop of waterfront terrain that features unique recreation and sporting opportunities, superior lodging and dining options, eco-friendly adventures, casino gaming, and daily entertainment. In addition to these amenities, it is assumed that the site will be able to leverage its proximity to El Yunque National Forest – the only tropical rainforest in the United States. In addition, the site will have access to islands

Culebra and Vieques, which are both known for their secluded beaches that have been recognized as some of the most beautiful in the Caribbean.

The site is supported by some of the best constructed roadways in the region as well as advantageous travel regulations, with passport free movement in and out of the country for U.S. citizens. While the casino will draw local demand, it is anticipated to drive a higher proportion of tourist patronage than what is currently seen in the market today. Puerto Rico has become known as a key business Mecca in the Caribbean due to the large external capital investments by the U.S. Therefore, it is recommended that, given the proposed magnitude of the Roosevelt Roads development, a sophisticated operating and marketing program should be employed in conjunction with Puerto Rico Tourism Company to help transform the image of Puerto Rico into a major tourist destination within the region.

Gaming Legislation & Tax Incentives

In order to compete with other Caribbean locations targeting large upscale resorts destinations, the government of Puerto Rico recently issued a new law (Act 118) specifically targeting large scale resort casino developments. Coupled with the recently enacted Act 74, which offers a myriad of tax incentives for tourism developments, Puerto Rico's current tax structure offers compelling incentives for developers.

Act 118 provides framework for tax incentives in creating a large upscale resort destination. Gaming tax rates for developers are issued on a tiered system depending on the amount of private capital invested in the project. The following are outlined in the capital investment tiers and the resulting gaming tax:

- \$500 million-\$750 million: gaming tax rate 25%
- \$750 million-\$1 billion: gaming tax rate 15%
- \$1 billion-\$1.25 billion: gaming tax rate 10%
- \$1.25 billion+: gaming tax rate 8%

These tax rates are substantially lower than the current tiered system in which can be seen in the chart below:

Slot Win Distribution		
Market Gaming Revenue	PRTC	Operator
up to \$119.0 million	66.0%	34.0%
\$119.0 to \$315.0 million	40.0%	60.0%
over \$315.0 million	20.0%	80.0%

Source: PRTC

Act 74 offers a number of incentives and tax exemptions for hotels, condo-hotels, vacation clubs, tourist marinas and thematic parks. Tax incentives include, but are not limited to:

- Tourism activities conducted in locations other than Vieques and Culebra (both which are 100% exempt) are 90% exempt on tourist development income and dividends, profits and liquidating distributions;
- Distributions out of tourist development income are taxed only once;
- 90% exemption from municipal and state property (personal and real) taxes on properties dedicated to tourist activities;
- New tourist activities are 100% exempt from patent, excise and other municipal taxes with respect to tourism development income and
- 100% exemption from any tax, imposition, fee, license, excise, rate of tariffs levied by any ordinance for construction of works dedicated to tourist activity;

Puerto Rico Overview

Per capita GDP Purchasing Power Parity (PPP) for Puerto Rico increased by 5% annually from 2000 to 2008. However since 2008 there has been a 5.1% drop in per capita GDP, largely as a result of global economic conditions. In comparison to similar Caribbean countries, such as Jamaica and Cuba, the per capita of Puerto Rico is substantially higher.

GDP per Capita (PPP) Country Comparison

Country	2000	2008	2009	2010	A.A.G. 2000-2010	A.A.G. 2000-2010
Puerto Rico	10,000	18,100	17,400	16,300	5.0%	-5.1%
United States	36,200	48,300	46,700	47,400	2.7%	-0.9%
Jamaica	3,700	8,800	8,500	8,400	8.5%	-2.3%
Cuba	1,700	9,700	9,800	9,900	19.3%	1.0%

Source: CIA World Factbook

Distribution of Individual Income and Population

For the purposes of estimating gaming demand and revenue coming from Puerto Rico’s resident population, The Innovation Group segmented the island into several zones, or regions. These regions, whose purpose is further explained in the Gaming Market Analysis section, are composites of Puerto Rico’s municipals (“Municipals”). The following chart outlines the groupings.

Puerto Rico Municipal Groupings by Region

Region 1	Region 2	Region 3	Region 4	Region 5
Ceiba Municipal Fajardo Municipal	Luquillo Municipal Río Grande Municipal	San Juan Municipal Trujillo Alto Municipal	Caguas Municipal Gurabo Municipal San Lorenzo Municipal	Balance of Puerto Rico
Naguabo Municipal Culebra Municipal Vieques Municipal Humacao Municipal	Las Piedras Municipal Juncos Municipal Canóvanas Municipal Loíza Municipal Carolina Municipal	Toa Baja Municipal Bayamón Municipal Guaynabo Municipal Cataño Municipal	Yabucoa Municipal Patillas Municipal Arroyo Municipal Maunabo Municipal Aguas Buenas Municipal Cidra Municipal Cayey Municipal Guayama Municipal	

Source: The Innovation Group

After segmenting the municipal into groups, The Innovation Group calculated the adult population for each region based upon reported information reported by the US Census Bureau for each municipal. Next, we calculated the number of income eligible adults based upon household income reported by the US Census Bureau. Income eligibility was assessed at household incomes of over \$20,000. The chart below displays the number of age eligible adults and the average household income once individuals with household incomes below \$20,000 were removed. The average household incomes were used in estimating gaming win later in this report.

Income Eligible Adult Population and Estimated AAHI

Region	Income Eligible	
	Adult Pop	Estimated AAHI
Region 1	61,733	\$49,777
Region 2	199,417	\$54,084
Region 3	450,128	\$65,047
Region 4	213,933	\$52,740
Region 5	672,624	\$50,592

Source: The Innovation Group

Tourism and Hotel Market Trends

Information from the Puerto Rico Tourism Company (“PRTC”) in regards to non-cruise/military personnel visits has shown that over the last five fiscal years there has been a net decline in visitation. This decline may be attributed to the deep economic recession and slow recovery happening from 2008 till present. Recovery, in the form of tourist arrivals, has already started with FY09-10 figures showing a 3.6% increase over the previous fiscal year. In terms of forecasting tourist arrival, The Innovation Group believes that Puerto Rico will continue to see positive figures moving forward as the economic climate improves both globally and in key feeder markets such as the US.

The visitor profile, based upon the information provided by the PRTC describes the average visitor as 43 years old. The vast majority (60.2%) of respondents to their survey shopped while on their trip with visiting restaurants and bars as the second most popular answer (33%). The majority of visitors stayed in San Juan (56.8%) while 13.7% stayed in Carolina. Average length of stay was most recently reported at 2.65 days for hotel guests. This length of stay, while growing, is significantly lower than many other Caribbean Islands. Based upon conversations with the Puerto Rico Tourism Company, the lesser average length of stays may be a result of strong business focus as a primary purpose of visit for tourists coming to Puerto Rico. It is believed that as Puerto Rico continues to develop its tourism infrastructure, which has historically not been a main focus of its economy, average length of stays could continue to increase with the growth in leisure travelers.

Puerto Rico's Hotel market has continued to be one of the healthiest in the Caribbean. While many of the countries in the Caribbean have felt the effects of the most recent economic slowdown, Puerto Rico has continued to have one of the strongest occupancy rates. While one of the strongest hotel markets in the Caribbean, Puerto Rico has been noticeably impacted by the economic downturn starting in 2008. Occupancy rates have fallen from 68.7% for all hotels in FY06-07 to just over 66% in FY10-11. While rates have declined at an average of 1% per year over the last five years, there has been a noticeable rebound in FY09-10 and FY10-11 from FY08-09 lows. Although occupancy has begun to rebound, ADR has not yet rebounded in the same manner. This may be the result of a room inventory that has continued to grow. While additional inventory does have the short-term effect of driving down occupancy and can negatively impact ADR, depending on the quality of hotel built, it may show a positive outlook by developers who believe the Puerto Rico market could see a significant upturn in demand.

Regional Gaming Environment

A major step in developing gaming revenue potential for a given site in a particular market is to define the competitive environment in which the facility will be operating. Gaming operations in the Caribbean for the most part have been predominately characterized by small scale, resort type amenities that offer a form of additional entertainment primarily for the guest staying at the property. The Atlantis in the Bahamas was one to break this mold. Significant capital dollars, massing hotel rooms, and a marketing campaign have focused an emphasis on the casino aspect and created an amenity that is now as sought after as other primary amenities such as spa, golf, entertainment and dining options. As one of the largest and most comprehensive master plans of its type in the Caribbean, it is assumed that Roosevelt Roads will be comparable in size to this facility and accommodate new levels of gaming revenue for Puerto Rico. In addition, Puerto Rico itself features more robust options for recreational activities across the island that can enhance the average guests' stay.

The following table presents a list of existing and proposed Caribbean casino resorts with approximately 1,000 hotel rooms or more. Comparable to that of the proposed casino at

Roosevelt Roads, these properties represent potential regional competitors in terms of overall facility size.

Caribbean Casino Resorts - 1,000+ hotel rooms

Company	Country	Slots	Table Games	Casino (SF)	Hotel ⁽¹⁾	Status
Atlantis at Paradise Island Resort	Bahamas	850	90	50,000	3,700	Existing
Meliá Caribe Tropical and Casino Palma Real	Dominican Republic	60	12	7,534	1,235	Existing
El Conquistador Resort & Casino	Puerto Rico	197	6	10,000	984	Existing
Hard Rock Punta Cana	Dominican Republic	457	40		1,800	Existing
Harmony Cove	Jamaica	n/a	n/a	n/a	4,500	Proposed
Celebration	Jamaica	n/a	n/a	n/a	2,000	Proposed
Grand Palladium	Jamaica	n/a	n/a	n/a	1,956	Proposed
Baha Mar Resort	Bahamas	n/a	n/a	100,000	3,800	Under Development

Source: GGA 2009; Casino City; The Innovation Group

⁽¹⁾ Includes on-site residences and condo-hotels

Current Puerto Rico Gaming Environment

There are 23 hotel-based casinos in Puerto Rico and one horse track. On average the casinos are relatively small, with a total of less than 500 tables and 7,100 slots on the island. On average, properties have 322 slots and 12 table games. Casinos can vary widely in the region in terms of the quality of their facilities and machines, cleanliness, availability of affordable parking, presence and quality of complementary amenities, the existence of a players' club, and courteousness of employees. As it stands today, there are no "category-killer" gaming resort destinations in the market comparable to that of proposed development. Discussions with gaming commission and a number of operators in Puerto Rico indicated approximately 85% to 95% of gaming revenues are attributable to the local Puerto Rican population. Junket programs seeking out and catering to high rollers has become difficult and expensive to manage given the availability of other luxury Caribbean resorts such as the Atlantis in the Bahamas.

From 2001 to 2005, the island experienced aggressive growth in gaming revenue, often exceeding that of the growth in slot machines. Since 2007, however, slot revenue has remained relatively flat despite the addition of three resorts which added another 1,000 slot machines and grew the market by about 18%. The average annual growth rate for revenue was less than 1% over the last five years. This coincides with two factors. The first being a global economic slowdown which included the national U.S. recession. The second is the change in the number of Adult Entertainment Machines (AEM's) allowed in establishments' throughout Puerto Rico. Legally, these games are for amusement purposes only, providing no payout on wins. Games, however, have been illegally modified to allow for jackpots and bonus awards. Originally set at a 10 machine limit at virtually any retail, dining or entertainment establishment, the law was changed to allow an unlimited number at any location. As such illegal operations grew exponentially and

while economic conditions certainly played a part in the leveling off of revenue growth, many operators in Puerto Rico feel strongly that the illegal game market has expanded to the point that it is negatively impacting growth. As response to this, The Treasury Department has begun initiatives to help crack down on these illegal facilities with the intent to help increase potential slot revenue at the taxable casino hotels.

Given Puerto Rico’s latest fiscal Year 2011, the island generated \$327 million in slot revenue, up by 1.8% from 2010. This reflects a recovery to the market, which saw a decline in gaming revenue in 2009 and 2010. Average win per slot machine per day in Puerto Rico was approximately \$121 in FY2011, down 6% from Fiscal Year (FY) 2010.

Recommended Project Scope

Upon evaluating the original scope, The Innovation Group “value engineered” the scope to eliminate underperforming amenities that did not justify their construction costs, while taking into consideration the needs of the proposed resort destination to be competitive on a regional scale. The final recommended building scope, which was driven primarily by the gaming aspect of Roosevelt Roads, is summarized in the chart below (right) and, again, compared to the original scope (left):

Project Scope Comparative Summary – Final Recommendation

	TIG Initial Proposed Program:	TIG Units/Stats	TIG Proposed Program: Value Engineered-Phase 1	TIG Units/Stats
Zone 1	Retail Promenade/Marina Village	100,000 SF	Retail Promenade	80,000 SF
	Hospital*	130,000 SF	Hospital*	130,000 SF
	Boutique Hotel – 5Stars	150 Rooms; 2 F&B Outlets		
	Marina	150 Slips		
	Ferry Terminal	50,000 SF	Ferry Terminal	50,000 SF
Zone 2	Casino	95,000 SF 1,200 Slots/ 55 tables	Casino	95,000 SF 1,200 Slots/ 55 tables
	Casino Hotel - 4 Stars	1,250 rooms; 12 restaurants & 4 bars	Casino Hotel - 3 Stars	1,000 rooms; 9 restaurants & 4 bars
	Golf Course & Clubhouse	18 holes	Golf Course & Clubhouse	18 holes
	Entertainment, Retail, & Other	~105,000 SF	Entertainment, Retail, & Other	~50,000 SF
Zone 3	Ecotourism Hotel -3 Star	100 rooms; 1 F&B Outlet	Ecotourism Hotel -3 Star	100 rooms; 1 F&B Outlet
	Eco Museum/ Visitor's Center	50,000 SF	Eco Museum/ Visitor's Center	50,000 SF
	Eco-Attraction	50 - 60K SF	Eco-Attraction	50 - 60K SF

Source: DEDC; LRA; The Innovation Group

*To be Managed by Third Party

The following gives a more detailed overview of the final recommended scope:

Zone 1

The retail promenade refers to the waterfront retail/restaurant/entertainment district proposed in Zone 1 and is anticipated to be adjacent to the proposed ferry terminal providing transportation to and from the islands of Culebra and Vieques. It is assumed that the facility will operate as fully leased entity and draw mid- to upscale vendors similar to those housed in the marina village at Atlantis in Paradise Island.

- 80,000 square feet of an outdoor retail and food and beverage promenade
- 50,000 square foot ferry terminal

Zone 2

This would continue to serve as the gaming destination anchor of the Phase I. The resort is expected to function as an integrated resort with the casino, food and beverage, retail and the casino all attached to and accessible from the hotel. In addition, there will be an 18-hole golf course that serves as an essential component to the overall scope of the project as a tourist destination.

- 95,000 square-foot casino to include 1,200 slots and 50 table games
- 1,000 room full-service hotel at 3.5 - 4-star quality. Major amenities include:
 - Nine restaurants, four bars and one nightclub
 - 20,000 square feet of multi-purpose space to use for meetings and minor entertainment function, 50,000 square feet of retail space & spa
- 18 hole golf course and clubhouse

Zone 3

Considered the eco resort section of the development, this will continue to focus on maximizing the area's natural resources and proximity to the El Yunque rainforest. In addition to this, we propose the development of an eco-attraction that is integrated into the surrounding landscape and provides a unique experience that highlights eco-tourism. The attraction could have the potential to layer in elements comparable to the water park at Atlantis with an eco-friendly aquatic experience like that of Xel-Ha in Mexico. Depending on the space needed, this attraction may be better suited in Zone 4.

- 100 room eco-hotel at a 3-star quality:
 - Where applicable, the facility will be integrated into the surrounding landscape
 - With one café and a bar, features will be more in line with a limited service hotel limited-service facility to encourage patronage to the casino & casino resort
- 50,000 square-foot eco museum/visitor center to tie into El Yunque
- Eco-Attraction comparable to the attraction in Atlantis, Bahamas and Xel-Ha in Mexico

Subject Gaming Forecast

The proposed gaming facility for Roosevelt Roads will be situated in Zone 2 of the development and will be a part of larger integrated resort complex that would be the largest casino in Puerto Rico and one of the largest in the Caribbean. Given the scope and scale of the overall development, the property is meant to be a “Game Changer” and will be unique to any other casino currently on the island. As such, this mega resort facility is anticipated to be comparable to larger scale developments such as Atlantis and other proposed projects such as Baha Mar and Harmony Cove. In general, we believe that the presence of a large-scale integrated gaming resort could induce demand from regional markets, helping to transform Puerto Rico’s image as a major tourist destination. Therefore, while the casino will cater to local demand, it is anticipated to drive a higher proportion of tourist patronage than what is currently seen in the market today. In order to be “all things to all people” the project is anticipated to walk a fine line and balance marketing efforts to both locals and the tourist market. It will be just as important to create promotions to generate frequent loyal visits from the local community as it is to create fun tourist targeted promotions that one would be expected from a Caribbean vacation.

Given the previously identified factors and assumptions, a model was developed to project gaming revenue from four potential market segments for the casino. These are as follows:

- On-site hotel patrons—tourists staying at the casino resort or one of other hotels on site;
- Puerto Rico off-site tourist market – tourist staying outside of subject site;
- Local market – income eligible, local population over the age of 18; and
- Cruise and crew visitation – tourist and crew visiting from cruise ships.

Gaming revenues were estimated for the first five years of operation, 2015-2019. Accounting for the ramp up in hotel occupancy for Roosevelt Roads, as well as for inflationary factors, the following estimates for the first five years of operation were made. In total, the casino gaming operations at Roosevelt Roads are expected to generate \$115 million in gaming revenue in Year 1 and reach \$137 million by Year 5.

Roosevelt Roads Five Year Gaming Revenue Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
On-Property Win	\$27,755,568	\$30,758,427	\$33,253,542	\$35,608,665	\$37,777,233
Other Hotel Win	\$17,504,978	\$18,809,464	\$19,766,354	\$20,568,282	\$21,397,183
Local Win	\$69,076,104	\$70,883,180	\$72,644,627	\$74,811,253	\$77,042,499
Cruise Ship Win*	\$678,208	\$716,018	\$755,936	\$788,870	\$828,787
TOTAL	\$115,014,857	\$121,167,089	\$126,420,458	\$131,777,070	\$137,045,702

*Represents Cruise Ship passengers disembarking in San Juan

In order to carry out the sizing analysis, The Innovation Group determined the proper distribution of table games and slot machines, and how many gaming positions is optimal for the property by balancing (1) Win per unit; (2) Win per visit; and (3) relative comparisons to comp markets where efficiencies are presumably occurring at a reasonable level. In addition, The Innovation Group evaluated the turns per position per

day which must be adequate to accommodate peak demand. The overall goal of this exercise was to size the casino facility along the lines that maximize marketing impact, player comfort, and efficiency in construction and operation. This also allows for maximizing revenue at the peak business periods, and cost efficiencies in non-peak business periods. Based on the analysis, the proposed casino is expected to require approximately 1,200 slots and 55 table games. Win per positions is projected to be \$206 in Year 1 and reach \$245 in Year 5.

Roosevelt Roads - Casino Sizing Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
Unit Revenue Allocation					
Slot Revenue	63.0%	63.0%	63.0%	63.0%	63.0%
Table Revenue	35.0%	35.0%	35.0%	35.0%	35.0%
Other Revenue	2.0%	2.0%	2.0%	2.0%	2.0%
Total Revenue by Unit (000s)					
Slot Revenue	\$72,459	\$76,335	\$79,645	\$83,020	\$86,339
Tables Revenue	\$40,255	\$42,408	\$44,247	\$46,122	\$47,966
Other Revenue	\$1,150	\$1,212	\$1,264	\$1,318	\$1,370
Total Revenue	115,015	121,167	126,420	131,777	137,046
Position Count					
Slots	1,200	1,200	1,200	1,200	1,200
Tables	55	55	55	55	55
Total Gaming Positions	1,530	1,530	1,530	1,530	1,530
Win Per Unit					
Win Per Slot	\$165	\$174	\$182	\$190	\$197
Win Per Table	\$2,005	\$2,113	\$2,204	\$2,297	\$2,389
Win Per Position	\$206	\$217	\$226	\$236	\$245
Visits (000s)					
Visits (000s)	1,371	1,387	1,396	1,402	1,406
WPV	\$84	\$87	\$91	\$94	\$97
Turns per day					
Turns per day	2.45	2.48	2.50	2.51	2.52

Source: The Innovation Group

Operating Pro forma

A prospective operating statement has been prepared for the Roosevelt Roads development covering five year projections for revenue, expenses, and resulting EBITDA given the revised project scope. Specific to amenity projections, gaming revenue was derived from our aforementioned Gaming Market Analysis. While we were not tasked with providing a full assessment for any other amenity, revenue estimates for the recommended scope were based upon operating characteristics of comparable facilities in

other jurisdictions and general industry averages taking into consideration existing and assumed future market dynamics.

Roosevelt Roads - Five Year Pro Forma (000s)					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue:					
Retail Promenade	4,675	4,925	5,139	5,356	5,570
Casino	115,015	121,167	126,420	131,777	137,046
Casino Resort	74,559	81,404	88,038	94,306	100,050
Casino Retail, Spa, Other	10,567	11,132	11,615	12,107	12,591
Ecotourism Lodge	6,292	6,870	7,359	7,807	8,283
Golf Course & Clubhouse	4,029	4,150	4,274	4,402	4,534
Food & Beverage	45,620	48,061	50,144	52,269	54,359
Eco-Attraction	6,908	7,278	7,594	7,915	8,232
Other Revenue	4,015	4,275	4,509	4,739	4,960
Total Revenue	271,681	289,261	305,092	320,680	335,624
Promotional Allowances	17,252	18,175	18,963	19,767	20,557
Net Revenue	254,428	271,086	286,129	300,913	315,068
Total Expenses	193,328	199,622	205,882	213,269	220,503
EBITDA	61,101	71,464	80,247	87,644	94,564
EBITDA %	24.0%	26.4%	28.0%	29.1%	30.0%

Development Budget

The aggregate development budget for the recommended scope at Roosevelt Roads is segmented into Hard Costs Soft Costs; Opening Costs, Contingencies and Pre-Opening Costs. Aggregating costs from each of these four categories results in a total construction budget of \$851.5 million. The chart below outlines the four categories, their respective costs and the total budget.

Construction Budget Overview	
Category	Cost (millions)
Hard Costs	\$610.4
Soft Costs	\$64.1
Other Costs	\$60.1
Working Capital	\$116.9
Total	\$851.5

Source: The Innovation Group

Based upon the estimated construction costs of approximately \$851 million and projected EBITDA of \$94.6 million by Year 5.

Conclusions

The following presents The Innovation Group's conclusions and recommendations given market demand and our financial analysis of the proposed Roosevelt Roads development.

- The Roosevelt Roads development is staged to be a large scale destination to compete with the largest resorts in the Caribbean today. As one of the most comprehensive master plans of its type in the region, Roosevelt Roads would accommodate new levels of gaming revenue for Puerto Rico.
- In order for this development to be a 'break-away model' for gaming in Puerto Rico, with potential beyond that of the more constrained, existing casino product currently pervasive in the market today, it is imperative that proposed project be a large scale development. As such, we compare this opportunity with those that facilitated successful master planned gaming destinations such as Atlantis (Paradise Island) and Sun City (South Africa), and planned projects including Baha Mar (Nassau) and Harmony Cove (Jamaica). In addition to this, Puerto Rico itself features robust options for recreational activities across the island that can enhance the average guests' stay.
- We recognize the ability for gaming to enhance demand and the overall attractiveness of the development, particularly given the advantageous capital-based sliding scale tax structure made available through new legislation and other tourism development tax incentives in Puerto Rico.
- A former United States military base, Roosevelt Roads is located on the eastern coast of Puerto Rico and is situated just south of El Yunque National Rainforest with waterfront views of the Atlantic Ocean as well as the islands of Culebra and Vieques. The site includes over 3,600 acres of conservation trust lands, as well as existing infrastructure from the base that has adaptive reuse potential.
- The site is supported by some of the best constructed roadways in the region as well as advantageous travel regulations, with passport free movement in and out of the country for U.S. citizens. Some major draws to the site will be its lush, green surroundings set on the backdrop of waterfront terrain that features unique recreation and sporting opportunities, superior lodging and dining options, eco-friendly adventures, casino gaming, and daily entertainment.
- We recommend that the project scope for Roosevelt Roads include a premiere, integrated gaming resort, a waterfront retail promenade, a ferry terminal, a unique eco-attraction, an eco-lodge, a museum/visit center, a golf course, and multiple forms of retail, restaurants and entertainment to support the overall development. In addition to this, there are opportunities for additional phases of development to include, among other things, a dedicated cruise port and airport on site.

- In total, the casino gaming operations at Roosevelt Roads is expected to generate \$115 million in gaming revenue in first year operations, 2015. Revenue is projected to grow to \$137 million by Year Five. The proposed casino is anticipated to require approximately 1,200 slots and 55 table games.
- Based on the recommended development scope, total revenue to Roosevelt Roads is projected to be \$271 million in Year 1 and grow to \$335 million by Year 5. Year 1 EBITDA is anticipated to be \$61 million with a 24% margin. As revenue grows and operations stabilize, Year 5 EBITDA is projected to reach 30%, or nearly \$95 million.
- Given the scope and financial projections for the proposed development, estimated construction costs for Roosevelt Road are approximately \$851 million.

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INTRODUCTION

The Innovation Group was engaged by the Department of Economic Development and Commerce (“DEDC”) to conduct a Gaming Feasibility Analysis for a potential destination resort at Roosevelt Roads, a former U.S. military base situated in Ceiba and Naguabo, Puerto Rico. The company has been retained to provide an estimate of gaming revenue potential, recommended sizing for the casino, and related developments in conjunction with the larger Roosevelt Roads redevelopment plan. Included in our analysis is a recommended project scope that best supports and drives gaming revenue, overall profitability, and a projected return on capital given our estimated construction budget. This study is a continuation of efforts by the LRA and DDEC to further assess, enhance, retool and validate the Roosevelt Roads redevelopment project and program to best align with changing market conditions. In this fashion, it serves as a preliminary tool for master planners, developers, and investors to evaluate development opportunities at the site.

The Roosevelt Roads development is anticipated to be a large scale destination that competes with the most successful resorts in the Caribbean today. As such, we view the proposed development as a possible break-away model for gaming in Puerto Rico, with potential beyond that of the more constrained, existing casino product which is pervasive in the market today. In conducting this feasibility analysis, we compare this opportunity with those that facilitated highly successful master planned gaming destinations such as Atlantis (Paradise Island) and Sun City (South Africa), and planned projects including Baha Mar (Nassau) and Harmony Cove (Jamaica). In addition, we recognize the ability for gaming to enhance demand, and the overall attractiveness of the development, particularly given the advantageous capital-based, sliding-scale tax structure made available through new legislation, and other tourism development tax incentives in Puerto Rico.

In addition to the gaming feasibility analysis, we were tasked with assessing Phase I plans proposed in the *Addendum to 2004 Reuse Plan* for the site. Our analysis of these plans became a moving project scope that ultimately reflected the most cost-effective program for Roosevelt Roads, without diluting the integrity of the project to be a “Game-Changer” in the market.

Our methodology for approaching both these tasks is described as follows:

- 1) First, we evaluated the initial Phase I project scope in the Addendum. Given conversations with the clients, market research and high level demand estimates, we discarded amenities whose capital costs were unjustified relative to demand (i.e. cruise terminal, residential).
- 2) Next, we resized the project scope with consideration for the amenity offerings and general scope of existing and proposed large scale destination resorts in the region (i.e. Atlantis, Baha Mar, Harmony Cove).

- 3) As a major driver, gaming demand and revenue was then forecasted given the revised scope.
- 4) While not tasked with providing individual feasibility assessments of each amenity, we utilized comp analysis-based modeling to estimate high level demand and revenue projections for the revised scope.
- 5) Following this, we created an operating pro forma based on margins from comparable property data and industry averages.
- 6) Capital costs and cash on cash returns were then estimated for the development.
- 7) Through an interactive process, we “value engineered” the scope to eliminate underperforming amenities that did not justify their construction costs, while taking into consideration the needs of the proposed resort destination to be competitive on a regional scale.
- 8) This led to a final proposed plan which balanced each amenity’s ability to stimulate demand with their capital needs.

For the purpose of this analysis, the report has been organized into the following sections:

- A description of the site along with a summary of Phase I plans as per the Addendum;
- An overview of current legislation and tax incentives that help leverage the project;
- An overview of Puerto Rico including population, income and tourism patterns;
- A discussion on the regional gaming market and local gaming supply and trends;
- A description of the recommended scope for Roosevelt Roads;
- A Gaming Market Analysis that includes gaming demand and revenue forecast for the subject site;
- Five Year operating pro forma that includes revenue and expenses for overall project scope;
- An estimated Constructed Budget; and
- Conclusion

SITE DESCRIPTION

A former United States military base, Roosevelt Roads is located on the eastern coast of Puerto Rico and situated within the municipalities of Ceiba and Naguabo. The 8,000 acre site is located just south of El Yunque National Rainforest and has waterfront access and views of the Atlantic Ocean. In addition, approximately eight miles off of the northeast coast of the site are two islands: Culebra and Vieques. The site includes over 3,600 acres of conservation trust lands, as well as the existing infrastructure of the base that includes a major air field, two existing deep water ports and a number of community structures that have adaptive reuse potential. The site is easily accessible from Highway 53 which can be reached from the north or south end of the development. Roosevelt Roads is approximately 50 minutes from the Luis Muñoz Marín International Airport and 60 minutes from downtown San Juan.



Source: Embassy World

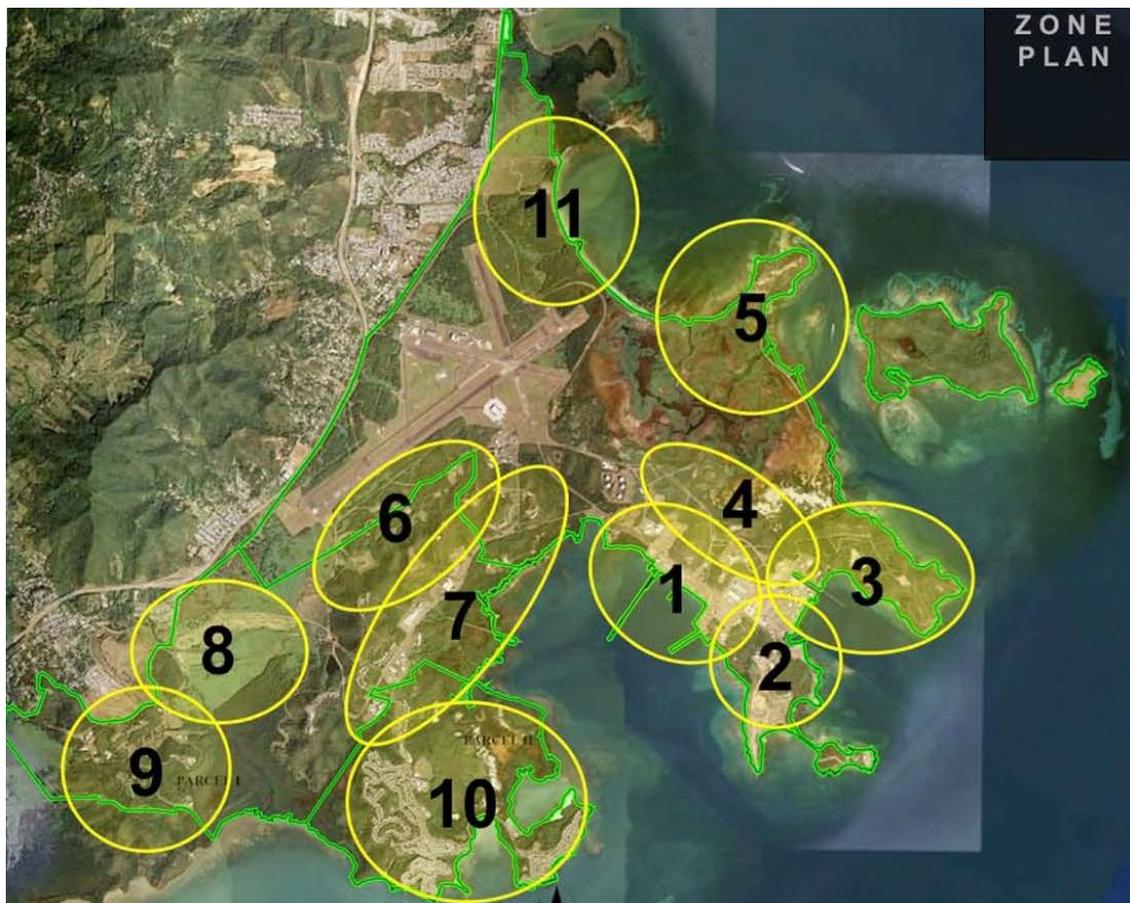
Background

Upon closing in 2004, a Reuse Plan was developed for the Naval Station at Roosevelt Roads that same year by the DEDC. The plan essentially served as a guide for all possible programs/uses for the site in order to promote redevelopment. Since that time, the Local Redevelopment Authority (“LRA”) updated the plan with an addendum to supplement the document that was derived from further due diligence, community input and various market studies. This addendum, otherwise known as *the Addendum to 2004 reuse plan*, provided an overall vision for the site to become a “game-changer” development which serves to define and leverage several markets. The Addendum development program utilized the same density of space as the original 2004 reuse plan and divided it into 10 major regions, or zones. Each of these zones features a proposed scope that is unique to its section and includes a mix of leisure, residential and commercial activities to help enhance the site and neighboring communities. Phase I of the project includes Zone 1 through 4 (see aerial on next page) and is described in detail

in the Recommended Project Scope section of the report. As summary of each zone's focus is provided below:

- Zone 1: Commercial heart of the development – includes a retail/entertainment/restaurant district that is supported by a marina, ferry and cruise terminal and office space.
- Zone 2 : known as “the Caribbean Riviera”, includes an integrated casino resort and multiple amenities, including a 18-hole golf course, to support the large scale development
- Zone 3: Eco-focused region complete with an eco-lodge, a visitor center/museum that is tied into El Yunque, and a marina.
- Zone 4: Includes a 9-hole golf course and clubhouse as well as residential homes.

While this assessment only focuses on the Phase I plans, we would note that, given the existing infrastructure in other zones at the site, there are opportunities for future developments including commercially repositioned buildings, environmental outposts, conference & learning centers, and an airfield that may provide international flights down the road. These future developments would further set the project apart and allow for creative packaging/offers not available anywhere else in the region.



Vision

The Roosevelt Roads development is anticipated to be a large scale development to rival any currently in the Caribbean. Some of the major draws to the site will be its lush, green surroundings set on the backdrop of waterfront terrain that features unique recreation and sporting opportunities, superior lodging and dining options, eco-friendly adventures, casino gaming, and daily entertainment. In addition to these amenities, it is assumed that the site will be able to leverage a number of opportunities in order to help promote demand that include, but are not limited to:

- Promotion of El Yunque National Forest – the only tropical rainforest in the United States; and
- Access to islands Culebra and Vieques, which are both known for their secluded beaches that have been recognized as some of the most beautiful in the Caribbean.

The site is supported by some of the best constructed roadways in the region as well as advantageous travel regulations, with passport free movement in and out of the country for U.S. citizens. While the casino will draw local demand, it is anticipated to drive a higher proportion of tourist patronage than what is currently seen in the market today. Puerto Rico has become known as a key business Mecca in the Caribbean due to the large external capital investments by the U.S. Therefore, it is recommended that, given the proposed magnitude of the Roosevelt Roads development, a sophisticated operating and marketing program should be employed in conjunction with the Puerto Rico Tourism Company to help transform the image of Puerto Rico into a major tourist destination within the region.



GAMING LEGISLATION & TAX INCENTIVES

In order to compete with other Caribbean locations targeting large upscale resorts destinations, the government of Puerto Rico recently issued a new law (Act 118) specifically targeting large scale resort casino developments. Coupled with the recently enacted Act 74, which offers a myriad of tax incentives for tourism developments, Puerto Rico's current tax structure offers compelling incentives for developers. The section begins with a description of current gaming legislation and taxes in the market and is followed by an overview of Acts 118 and 74.

Current Casino Gaming Legislation

Puerto Rico Games of Chance Act of 1948 legalized certain forms of casino gaming in licensed places in order to promote the development of tourism. For years Puerto Rico enjoyed the advantage of being one of the few locations in the region that had gaming and enjoyed access to the U.S. and South American population. For gamblers and tourists alike, Puerto Rico was an alternative destination to Nevada and later to Atlantic City.

No modifications to gaming regulation were made until the 1996/1997 reforms gave the Puerto Rico Tourism Company the authority to promulgate operational regulations. Previously regulatory changes were a legislative matter, now only policy changes needed to be addressed in the courts.

Under the 1997 regulations, The Gaming Division of the Tourism Company has authority over comprehensive rules for the licensing and supervision of gaming employees and vendors, on-site supervision of operations, and the certification of gaming equipment by staff inspectors.

Section 8 of the gaming act originally provided that no casino could advertise to the public of Puerto Rico. The 1996/1997 modifications still restrict casinos from directly advertising to residents of Puerto Rico, but demonstrate a realization that advertisements which are directed toward non-residents may come into the attention of residents through periodicals circulated through Puerto Rico and other mass media, visits by residents to places where non-residents arrive or congregate, and even by virtue of the name of a property which includes the word "casino."

Relevance of these realizations comes from the Supreme Court's 1986 opinion in *Posadas de Puerto Rico v. Tourism Company of Puerto Rico*, where such notions were considered advertising and therefore punishable. In the early 90's, the court expressed a different view of permissible advertising restrictions in *44 Liquor Mart, Inc. vs. Rhode Island*, allowing for the leniency provided in the 96/97 modifications.

Gaming Taxes

There is no gaming tax associated with casino win from table games; however slot win is distributed based on a formula between the operator and the state. The Gaming Division is responsible for the collection, counting and distribution of the slot win with no

involvement of the operator. The following table for distribution has been in place since 1998.

Slot Win Distribution		
Market Gaming Revenue	PRTC	Operator
up to \$119.0 million	66.0%	34.0%
\$119.0 to \$315.0 million	40.0%	60.0%
over \$315.0 million	20.0%	80.0%

Source: PRTC

We would note that in fiscal year 2010, the gaming tax or distribution was changed so that the industry only received 9.0% of slot revenue that exceeds \$315.0 million up to \$360.0 million. Over \$360.0 million, it reverted back to the 20%/80% split. This was done as result of the Treasury Department's aggressive push on cracking down illegal casino operations. With revenue averaging \$315 million in 2009, the higher tax would come into play if and when the Treasury department was successful in closing these locations down as it was expected to divert gaming business back into the resort casinos. In fiscal year 2011, the tax structure was reverted back to original distributions as seen in the chart above.

The following table reflects the effective distribution percentage rates from 2002 to 2011 given the market's gaming revenue. The market gaming revenue is cumulative, meaning it is based on the total gaming revenue collected by the division for all resort casinos on the island AND after Gaming Division expenses are deducted. As revenue grew, the operators share has increased steadily reaching 48.0% in 2008.

Gaming Tax & Operator Distribution									
(in millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011
Slot Win	\$233.20	\$255.30	\$289.20	\$317.70	\$322.20	\$329.00	\$327.60	\$321.55	\$327.40
Gaming Commission Expenses	(\$11.50)	(\$13.10)	(\$15.40)	(\$15.00)	(\$14.00)	(\$13.50)	(\$13.90)	(\$13.15)	(\$13.11)
% of Slot Win	4.90%	5.10%	5.30%	4.70%	4.40%	4.10%	4.30%	4.09%	4.00%
Net	\$221.80	\$242.20	\$273.80	\$302.70	\$308.20	\$315.50	\$313.70	\$308.40	\$314.29
State Share	\$119.70	\$127.80	\$140.50	\$152.00	\$154.20	\$157.20	\$156.40	\$154.33	\$156.70
% of Slot Win	51.30%	50.10%	48.60%	47.90%	47.90%	47.80%	47.80%	48.00%	47.86%
Operator Share	\$102.10	\$114.30	\$133.30	\$150.60	\$153.90	\$158.30	\$157.20	\$154.06	\$157.60
% of Slot Win	43.80%	44.80%	46.10%	47.40%	47.80%	48.10%	48.00%	47.91%	48.14%

Source: PRTC Gaming Division

Act 118: New Gaming Tax Structure

Act 118 provides framework for tax incentives in creating a large upscale resort destination. Gaming tax rates for developers are issued on a tiered system depending on the amount of private capital invested in the project. The following are outlined in the capital investment tiers and the resulting gaming tax:

- \$500 million-\$750 million: gaming tax rate 25%
- \$750 million-\$1 billion: gaming tax rate 15%
- \$1 billion-\$1.25 billion: gaming tax rate 10%
- \$1.25 billion+: gaming tax rate 8%

The act also makes mention that the facility will have a 90% exemption from preferential, residential and commercial-use real estate tax.

Act 74: Tourism Development Incentives

This act offers a number of incentives and tax exemptions for hotels, condo-hotels, vacation clubs, tourist marinas and thematic parks. Tax incentives include, but are not limited to:

- Tourism activities conducted in locations other than Vieques and Culebra (both which are 100% exempt) are 90% exempt on tourist development income and dividends, profits and liquidating distributions;
- Distributions out of tourist development income are taxed only once;
- 90% exemption from municipal and state property (personal and real) taxes on properties dedicated to tourist activities;
- New tourist activities are 100% exempt from patent, excise and other municipal taxes with respect to tourism development income and
- 100% exemption from any tax, imposition, fee, license, excise, rate of tariffs levied by any ordinance for construction of works dedicated to tourist activity;

While additional tax incentives for tourism developments are included in the law, the above is a sample of some of the most significant tax exemptions and incentives for developers. As each project and development differ, it will be crucial for the future developer of Roosevelt Roads to work directly with the government of Puerto Rico in order to maximize the benefits allotted by law.

PUERTO RICO OVERVIEW

Puerto Rico is located in northeast region of the Caribbean, east of Dominican Republic and west of the British and U.S. Virgin Islands. Considered a commonwealth of the U.S., the country has an estimated land mass of approximately 3,515 square miles and a population of approximately 3.7 million.



The following section offers an examination of the country's statistics related to: population, annual average income, tourism trends and developments for Puerto Rico and where available and appropriate, the municipalities of Ceiba and Naguabo in which the site resides.

An area's economic health and growth potential is indicative of its ability to support the local lodging and gaming markets. In this section, some of the specific economic and demographic characteristics market areas that will affect future demand for hotel rooms and expanded gaming in the area are analyzed. The purpose of such an analysis is to evaluate the area's ability to:

- Support existing and expanded hotel and gaming facilities in the area; and
- Attract new sources of lodging and leisure demand.

Some of the factors we analyzed, including population trends and average household income trends, are included in tables and text in this section of the report.

Puerto Rico Economy

Puerto Rico's economy originally was dominated by plantation sugar and agricultural production. However, duty free access to the United States and a multitude of tax incentives has led to a large amount of direct foreign investment being invested in Puerto Rico since the 1950's. Since this increase in investment, Puerto Rico has transitioned from an agricultural centric economy to more of a service oriented economy.

Currently the main industries of Puerto Rico include pharmaceuticals, electronics, petrochemicals and textiles. In regards to agriculture, sugar production has been surpassed by dairy production with the principal livestock being cattle. The major exports of this diverse economy include such products as medical equipment, pharmaceuticals, electronics, apparel and agricultural products such as beef, sugarcane, coffee and plantains.

It is estimated that approximately 3.7 million tourists visited Puerto Rico in 2010, which is up from 3.6 million in 2009. Given its geographic location in the Caribbean Sea and Florida; Puerto Rico serves as a main port city for cruise ships. In 2010 Puerto Rico serviced 16 cruise lines and 43 ships and is expected to add two new cruise ships over the next two years. It is estimated that, on average, over a third of tourists to Puerto Rico are cruise passengers.

In order to further dissect the economy of Puerto Rico it is important to analyze Puerto Rico's employment by industry to better gauge the economic conditions of the country. As such, The Innovation group attained the Occupational Employment Survey produced by the CIA World Factbook. The occupation with the most employees in Puerto Rico is office and administrative support with approximately 18.8% of the total work force being categorized in this subset. The table below illustrates the employment by occupation in more detail.

Puerto Rico Employment by Segment

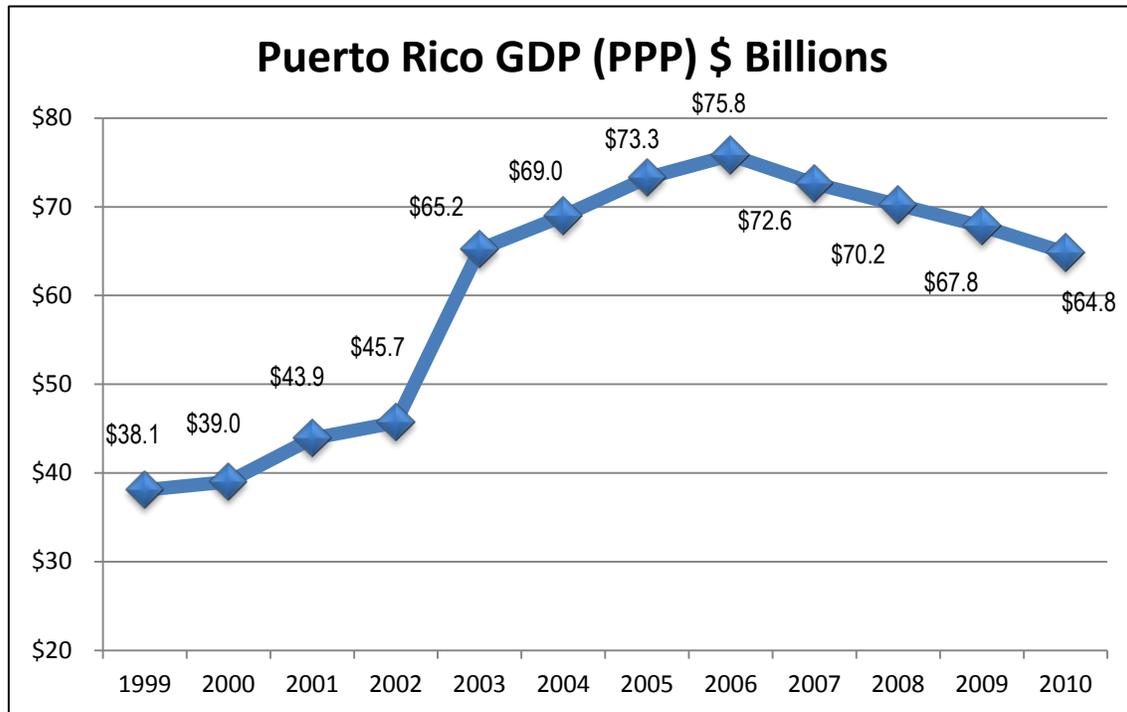
Occupation	Employment	% of Employed
Total	950,570	100.0%
Office and administrative support	178,450	18.8%
Sales and related occupations	101,910	10.7%
Education, training, and library	92,550	9.7%
Production occupations	68,700	7.2%
Food preparation and serving related	66,730	7.0%
Protective service occupations	62,320	6.6%
Transportation and material moving	55,050	5.8%
Healthcare practitioner and technical	45,600	4.8%
Buildings and grounds cleaning	44,760	4.7%
Business and financial operations	41,980	4.4%
Construction and extraction occupations	39,500	4.2%
Management occupations	36,110	3.8%
Installation, maintenance, and repair	31,120	3.3%
Community and social services	18,730	2.0%
Healthcare support occupations	13,980	1.5%
Architecture and Engineering occupations	12,150	1.3%
Personal care and service occupations	11,840	1.2%
Computer and mathematical occupations	9,360	1.0%
Life, physical, and social science	7,160	0.8%
Arts, design, entertainment sports	6,590	0.7%
Legal occupations	4,640	0.5%
Farming, fishing, and forestry	1,340	0.1%

Source: CIA World Factbook

As the global recession has severely affected Puerto Rico's economy it is important to gauge the current and historical trends of the overall economic strength. A general guide in which to analyze countries overall economy is through the Gross Domestic Product ("GDP"). In order to do this, the GDP purchasing power parity ("PPP") will be utilized. Specifically the PPP is the sum of all values of all goods and services produced in the country valued at prices prevailing in the United States and are the most efficient metric in measuring living conditions or resource usage.

Historical GDP

The graph below depicts Puerto Rico's GDP (PPP) for the past decade. It can be noted that the overall trend since even before the global recession, which began in 2008, has been decreasing since a peak of \$75.8 billion in 2006. Furthermore, since 2006 Puerto Rico has realized a substantial 14.5% decrease in GDP (PPP) to \$64.8 billion in 2010. Compounding this decreasing GDP (PPP) is the fact that Puerto Rico's debt usage has also risen over the same time period. In 2007 the public debt in Puerto Rico was \$51.7 billion, which is more than 70% of GDP (PPP), but has continued to rise to over \$63.8 billion in 2010. This growing debt usage shows that the national debt continues to outpace the overall economy of Puerto Rico.



Historically per capita GDP (PPP) improved by 5% annually from 2000 to 2008. However since 2008 there has been a 5.1% drop in per capita GDP, which has been overshadowing the overall economic progress seen prior to 2008. In comparing similar Caribbean countries, such as Jamaica and Cuba, the per capita of Puerto Rico is substantially higher.

GDP per Capita (PPP) Country Comparison

Country	2000	2008	2009	2010	A.A.G. 2000-2010	A.A.G. 2000-2010
Puerto Rico	10,000	18,100	17,400	16,300	5.0%	-5.1%
United States	36,200	48,300	46,700	47,400	2.7%	-0.9%
Jamaica	3,700	8,800	8,500	8,400	8.5%	-2.3%
Cuba	1,700	9,700	9,800	9,900	19.3%	1.0%

Source: CIA World Factbook

It is important to note that the S&P recently upgraded Puerto Rico's general obligation bonds from -BBB to BBB. Although this rating is just above junk bond rating it still shows signs that investors confidence is rising. The main reasons for this increased stability include the administration of Puerto Rico instituting payroll reductions, spending cuts and implementing tax reforms.

Total Population

The total population of Puerto Rico has declined slightly since 2005, where the total population peaked at over 3.8 million residents. Since 2005 there has been a 0.5% annual average decrease in population in Puerto Rico, which is predominantly characterized by a declining birth rate. The birth rate had declined from 15 births per 1,000 residents in 2003

to 11.35 births per 1,000 residents in 2011. It is important to note that in the Ceiba Municipal, which is where the majority of the proposed site would be located, has realized the largest drop in total population with a 3.1% annual decline. Conversely, the Naguabo Municipal has grown modestly at 0.8% annually. The table below further illustrates the total population for Puerto Rico and the surrounding municipalities.

Total Population

	2005	2006	2007	2008	2009	2010	A.A.G. 2005-2010
Puerto Rico	3,821,362	3,805,214	3,782,995	3,760,866	3,740,410	3,722,133	-0.5%
Cieba Municipal	15,907	15,442	14,957	14,459	13,987	13,622	-3.1%
Naguabo Municipal	25,694	25,940	26,138	26,340	26,559	26,680	0.8%

Source: US Census Bureau

Adult Population

The adult population that is over 18 years old in Puerto Rico is over 2.8 million residents, which accounts for approximately 75.7% of the total population. Of this adult population the largest subset of residents are aged 35-49 years of age at 19.6% of all adults. In Puerto Rico the age skews slightly younger as 52.6% of the total adult population is 18-50 years of age. When analyzing the Ceiba Municipal there is a similar breakdown of age distribution but with a smaller total adult population of just fewer than 10,300 adults. The number of adults in Machos Barrio, the neighborhood that contains the majority of Roosevelt Roads, significantly decreases to just 2,740 adults or just over a quarter of the Ceiba Municipal's adult population. The table below depicts the adult population and age distribution for Puerto Rico and Ceiba Municipal.

Adult Population

Age Range	Puerto Rico	Ceiba Municipal	Machos Barrio	Ceiba Zona Urbana
Total	3,725,789	13,631	3,567	5,633
Under 18	903,295	3,353	827	1498
18 and Over	2,822,494	10,278	2,740	4135
20-24 Years	260,850	897	223	363
25-34 Years	492,332	1,662	387	732
35-49 Years	731,514	2,648	770	1061
50-64 Years	681,505	2,454	697	919
65+ Years	541,998	2,214	560	887

Source: US Census Bureau

Income

The average income level in a surrounding area is indicative of a market's ability to support expanded gaming facilities. The average income for a resident of Puerto Rico is just under \$18,900, significantly less than the mainland United States but higher than many countries in the region. The reason behind the higher income levels is higher wages for Puerto Ricans. While higher wages can often lead to increased discretionary income and thus gaming win, the higher income levels in this case may be viewed as a doubled edged sword as higher wages drive higher labor costs for the proposed project. Puerto Rico's relatively high cost of labor versus other Caribbean countries has all but

eliminated the possibility for all-inclusive resorts. Thus, the proposed project will need to carefully monitor labor and maximize productivity from employees in order to be competitive in the region. The chart below displays median AAHI for Puerto Rico.

AAHI Median Income					
	2007	2008	2009	2010	A.A.G. 2007-2010
Puerto Rico	18,487	18,318	18,654	18,862	0.70%

Source: US Census Bureau

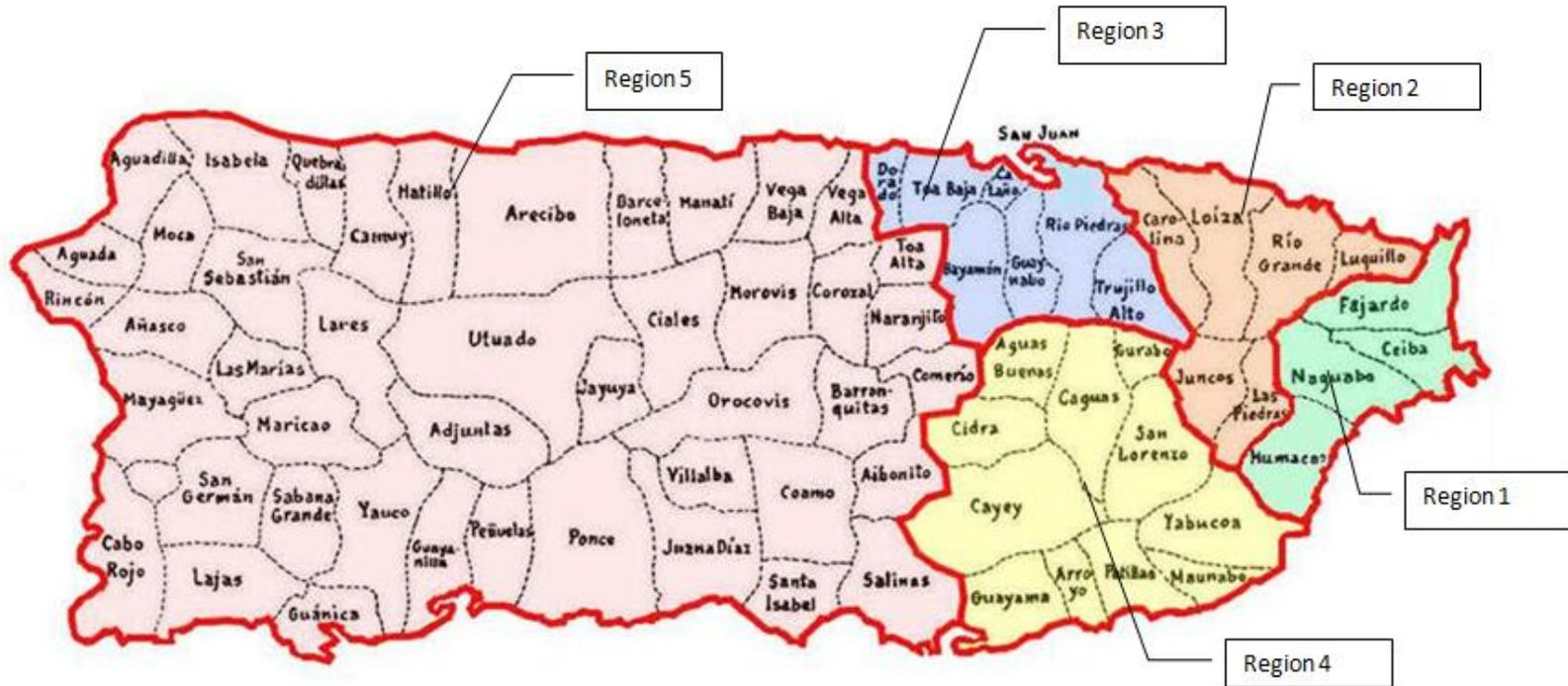
Distribution of Individual Income

For the purposes of estimating gaming demand and revenue coming from Puerto Rico’s resident population, The Innovation Group segmented the island into several zones, or regions. These regions, whose purpose is further explained in the Gaming Market Analysis section, are composites of Puerto Rico’s municipals (“Municipals”). The following chart outlines the groupings.

Puerto Rico Municipal Groupings by Region				
Region 1	Region 2	Region 3	Region 4	Region 5
Ceiba Municipal Fajardo Municipal	Luquillo Municipal Río Grande Municipal	San Juan Municipal Trujillo Alto Municipal	Caguas Municipal Gurabo Municipal San Lorenzo Municipal Yabucoa Municipal Patillas Municipal Arroyo Municipal Maunabo Municipal Aguas Buenas Municipal Cidra Municipal Cayey Municipal Guayama Municipal	Balance of Puerto Rico
Naguabo Municipal Culebra Municipal Vieques Municipal Humacao Municipal	Las Piedras Municipal Juncos Municipal Canóvanas Municipal Loíza Municipal Carolina Municipal	Toa Baja Municipal Bayamón Municipal Guaynabo Municipal Cataño Municipal		

Source: The Innovation Group

Map of Puerto Rico Municipalities by Region



After segmenting the municipal into groups, The Innovation Group calculated the adult population for each region based upon reported information reported by the US Census Bureau for each municipal. Next, we calculated the number of income eligible adults based upon household income reported by the US Census Bureau. Income eligibility was assessed at household incomes of over \$20,000. The chart below displays the number of age eligible adults and the average household income once individuals with household incomes below \$20,000 were removed. The average household incomes were used in estimating gaming win later in this report.

**Income Eligible Adult Population and
Estimated AAHI**

Region	Income Eligible Adult Pop	Estimated AAHI
Region 1	61,733	\$49,777
Region 2	199,417	\$54,084
Region 3	450,128	\$65,047
Region 4	213,933	\$52,740
Region 5	672,624	\$50,592

Source: The Innovation Group

Tourism

The following section provides a brief overview of tourism (as seen through arrivals), the profile of tourists visiting Puerto Rico, and the hotel market (through occupancy and ADR).

Tourism Trends

Information from the Puerto Rico Tourism Company (“PRTC”) in regards to non-cruise/military personnel visits has shown that over the last five fiscal years there has been a net decline in visitation. This decline may be attributed to the deep economic recession and slow recovery happening from 2008 till present. Recovery, in the form of tourist arrivals, has already started with FY09-10 figures showing a 3.6% increase over the previous fiscal year.

Visitors to Puerto Rico by Fiscal Year

Fiscal Year	2005-06	2006-07	2007-08	2008-09p	2009-10p	A.A.G. FY05- 06 to FY09- 10	% Change FY08-09 to FY09-10
Visitors (millions)*	3.72	3.69	3.72	3.55	3.68	-0.3%	3.6%

*Does not include visitors on cruise ships and transient military personnel

p-preliminary

Source: Puerto Rico Tourism Company

In addition to tourist arrivals through air transport, cruise ships provide a critical source of visitation to Puerto Rico. In similar fashion with the non-cruise tourist figures seen

above, cruise tourism has experienced a negative A.A.G from FY 2006-06 to FY 2009-10, as a result of the global economic slowdown that occurred. The following chart displays cruise ship visitors.

Cruise Ship Visitation by Fiscal Year

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10p	A.A.G. FY05-06 to FY09-10	% Change FY08-08 to FY09-10
Visitors (millions)	1.39	1.38	1.50	1.24	1.19	-3.8%	-4.1%

p-preliminary

Source: Puerto Rico Tourism Company

In terms of forecasting tourist arrival, The Innovation Group believes that Puerto Rico will continue to see positive figures moving forward as the economic climate improves both globally and in key feeder markets such as the US.

Visitor Profile

The visitor profile, based upon the information provided by the PRTC describes the average visitor as 43 years old. The vast majority (60.2%) of respondents to their survey shopped while on their trip with visiting restaurants and bars as the second most popular answer (33%). The majority of visitors stayed in San Juan (56.8%) while 13.7% stayed in Carolina. Average length of stay, shown in the following chart, was most recently reported at 2.65 days for hotel guests. This length of stay, while growing, is significantly lower than many other Caribbean Islands. Based upon conversations with the Puerto Rico Tourism Company, the lesser average length of stays may be a result of strong business focus as a primary purpose of visit for tourists coming to Puerto Rico. It is believed that as Puerto Rico continues to develop its tourism infrastructure, which has historically not been a main focus of its economy, average length of stays could continue to increase with the growth in leisure travelers.

Hotel Guests Average Length of Stay by Fiscal Year

2006-07	2007-08	2008-09	2009-10	2010-11	A.A.G.
2.56	2.61	2.63	2.64	2.65	0.9%

Source: Puerto Rico Tourism Company

Hotel Market Trends

Puerto Rico's Hotel market has continued to be one of the healthiest in the Caribbean. While many of the countries in the Caribbean have felt the effects of the most recent economic slowdown, Puerto Rico has continued to have one of the strongest occupancy rates. The chart below displays its occupancy in comparison to other Caribbean countries.

Caribbean Occupancy Rates

Country	Occupancy
Puerto Rico	67.5%
US Virgin Islands	66.1%
Curacao	63.9%
Dominican Republic	63.2%
Jamaica	63.1%
Aruba	63.0%
Cayman Islands	57.5%
Bahamas	51.7%
St Lucia	44.8%

Source: Caribbean Hotel and Tourism Association; The Innovation Group -2009 Data

While one of the strongest hotel markets in the Caribbean, Puerto Rico has been noticeably impacted by the economic downturn starting in 2008. Occupancy rates have fallen from 68.7% for all hotels in FY06-07 to just over 66% in FY10-11. While rates have declined at an average of 1% per year over the last five years, there has been a noticeable rebound in FY09-10 and FY10-11 from FY08-09 lows.

Although occupancy has begun to rebound, ADR has not yet rebounded in the same manner. This may be the result of a room inventory that has continued to grow. While additional inventory does have the short-term effect of driving down occupancy and can negatively impact ADR, depending on the quality of hotel built, it may show a positive outlook by developers who believe the Puerto Rico market could see a significant upturn in demand.

Puerto Rico Hotel Occupancy, ADR and Room Inventory

Fiscal Year	2006-07	2007-08	2008-09	2009-10r	2010-11p	A.A.G.
Occupancy	68.7%	67.6%	63.4%	66.2%	66.1%	-1.0%
ADR	\$123	\$126	\$120	\$118	\$118	-1.0%
Room Inventory	13,417	13,269	13,430	13,430	14,388	1.8%

p-preliminary

Source: the Puerto Rico Tourism Company

The information in regards to occupancy rate and ADR in the previous table were used in estimating occupancy and ADR for the proposed hotel developments. Trends shown above illustrate that the Puerto Rican market may be seeing inflated occupancy figures driven by low costs rooms, shown by the decrease in ADR from FY08-09 to FY10-11 while occupancy rates have increased. Thus, it will be important for the proposed project to keep ADR rates regionally competitive in order to drive demand from more value conscious.

REGIONAL GAMING ENVIRONMENT

A major step in developing gaming revenue potential for a given site in a particular market is to define the competitive environment in which the facility will be operating. Gaming operations in the Caribbean for the most part have been predominately characterized by small scale, resort type amenities that offer a form of additional entertainment primarily for the guest staying at the property. The Atlantis in the Bahamas was one to break this mold. Significant capital dollars, massing hotel rooms, and a marketing campaign have focused an emphasis on the casino aspect and created an amenity that is now as sought after as other primary amenities such as spa, golf, entertainment and dining options. As one of the largest and most comprehensive master plans of its type in the Caribbean, it is assumed that Roosevelt Roads will be comparable in size to this facility and accommodate new levels of gaming revenue for Puerto Rico. In addition, Puerto Rico itself features more robust options for recreational activities across the island that can enhance the average guests' stay.

The following table presents a list of existing and proposed Caribbean casino resorts with approximately 1,000 hotel rooms or more. Comparable to that of the proposed casino at Roosevelt Roads, these properties represent potential regional competitors in terms of overall facility size.

Caribbean Casino Resorts - 1,000+ hotel rooms

Company	Country	Slots	Table Games	Casino (SF)	Hotel ⁽¹⁾	Status
Atlantis at Paradise Island Resort	Bahamas	850	90	50,000	3,700	Existing
Meliá Caribe Tropical and Casino Palma Real	Dominican Republic	60	12	7,534	1,235	Existing
El Conquistador Resort	Puerto Rico	197	6	10,000	984	Existing
Hard Rock Punta Cana	Dominican Republic	457	40		1,800	Existing
Harmony Cove	Jamaica	n/a	n/a	n/a	4,500	Proposed
Celebration	Jamaica	n/a	n/a	n/a	2,000	Proposed
Grand Palladium	Jamaica	n/a	n/a	n/a	1,956	Proposed
Baha Mar Resort	Bahamas	n/a	n/a	100,000	3,800	Under Development

Source: GGA 2009; Casino City; The Innovation Group

⁽²⁾ Includes on-site residences and condo-hotels

While considered comps, it should be noted that there are inherent differences between Caribbean islands, as well as differences in the type of tourist which visit them. For example, visitors to The Bahamas are attracted, in part, by the large scale casino gaming and the proliferation of island activities. In comparison, in the past, visitors to Puerto Rico are often more business focused residing in major metropolitan areas like San Juan which has an established gaming market albeit made up of smaller scale casinos. Leisure trips are formed more as extension of these trips and typically do not last as long as those in other Caribbean markets. Conversely, Puerto Rico's infrastructure and safety make it more accessible in terms of getting around the island as compared to countries such as Jamaica, which tend to be more isolated in nature with individual resort properties. Differences such as these were considered in the formation of our gaming revenue

projections – visitors to Puerto Rico are expected to have lower average length of stays and higher propensities to gamble.

The following section provides an overview of the Caribbean gaming market, paying close attention to those countries that have existing or proposed properties comparable to Roosevelt Roads. Next, an overview of the Puerto Rico gaming market is then given with statistics provided for the area near and around the proposed site.

Caribbean Gaming Market

In general, the Caribbean gaming environment is composed of casino gaming, lotteries, and pari-mutuel wagering. As previously noted, the casino product is largely made up of by small scale, resort type amenities that offer a form of additional entertainment primarily for the guest staying at the property. The exception to this is Atlantis in The Bahamas, which is one of the largest existing gaming destinations in the region. Another notable market is Dominican Republic, which has attracted several major casino operators, while several state-run casinos are in the process of privatization attempts. Though all are small-scale jurisdictions, gaming is also permitted in Antigua, Aruba (Netherland Antilles), Guadeloupe, Haiti, Martinique, St. Kitts, Trinidad and Tobago, and St. Vincent.

In the Caribbean, casinos and card rooms mainly serve as attractions for tourists, with most countries discouraging or limiting local participation by restricting entry, license location, and advertising. In St. Maarten for example, citizens are permitted to play but are restricted to six visits per month. In the Bahamas, citizens are prohibited from gaming. Caribbean gaming was traditionally considered an amenity for leisure guests, until Atlantis entered the market.

A summary of the number of casino properties located in individual countries throughout the Caribbean is demonstrated below.

Caribbean Commercial Casinos	
Country	#
Antigua and Barbuda	4
Aruba	10
Bahamas	3
Barbados	4
Dominican Republic	34
Guadeloupe	2
Haiti	1
Jamaica	12
Martinique	3
Netherlands Antilles	26
Puerto Rico	24
Saint Kitts and Nevis	3
St. Lucia	1
Saint Vincent and the Grenadines	2
Trinidad and Tobago	8
Turks and Caicos Islands	1
Virgin Islands, United States	3

Source: GGA 2009; Casino City 2011

A more detailed evaluation of select Caribbean countries and their respective gaming operations comparable to the proposed development at Roosevelt Roads is provided below.

The Bahamas

There are currently three commercial casino properties located in the Bahamas. Two casinos exist on New Providence Island, which is commonly referred to as Nassau: the Atlantis Resort located on Paradise Island, and the Crystal Palace Casino located on Cable Beach. Atlantis on Paradise Island features over 3,700 hotel rooms and residences distributed through multiple towers. The property features a casino with approximately 850 slot machines and 90 table games. Encompassing roughly 80% of Nassau's Paradise Island, Atlantis is considered one of the largest resort destinations in the Caribbean. In addition to the main Atlantis property, the One & Only Ocean Club Resort was added to the resort located in a more secluded, eastern part of the island. The Crystal Palace Casino at Wyndham Nassau Resort on Cable Beach features 559 hotel rooms and approximately 400 slots and 40 table games on its 35,000 square foot casino floor.

In March 2009, Isle of Capri Casinos announced plans to cease management of the Isle of Capri casino on Grand Bahamas Island in order to concentrate on their domestic properties. Simultaneously with the announcement of its exit plan the Minister of Tourism & Aviation of Bahamas confirmed that Treasure Bay Casino and Resorts Inc. was selected as their replacement, beginning November 2009. Opened daily from 10am to 5am, the casino currently features approximately 243 gaming machines and 25 table games.

Atlantis officially came into inception in 1998 and was a combination of existing properties on the island combined with the newly developed 1,200-room Royal Tower. Despite this introduction of hotel rooms, the Nassau/ Paradise Island market's occupancy grew from 74.7% to 76.2%. In 1999, this occupancy level remained strong at 76.0%. In addition to occupancy levels, ADR was also rising during this three-year period. (However, much of the increase in rate was likely attributed to Atlantis.) Based upon historical statistics since its opening, it appears that the property boosted tourism to the Bahamas, rather than cannibalizing the existing resorts on the island. From 2000 to 2007, Atlantis experienced some of the highest gaming revenue figures in the region, with overall property revenue estimated at about half a billion. However, as competition in the region grew and global economic conditions started to impact major market feeders revenue has been on the decline. In December 2011, Kerzner announced that it had transferred ownership of Atlantis to Brookfield Asset Management, a Canadian company, to help ease its debt burden of \$175 million. This transfer includes multiple assets associated with Atlantis including the One and Only Ocean Club.

Proposed Developments

After two years of delays, the joint venture partnership between Harrah's Entertainment and Baha Mar Resorts was nullified, the \$3.6 billion Baha Mar resort development has been revitalized with an early 2014 opening date for phase one of construction. The proposed development, which is to be located in Cable Beach, Nassau New Providence Island in The Bahamas, is set to feature an open-air porte-cochere, expansive water boulevard and a 50-foot high circular water-wall. Plans also call for a total of approximately 3,500 hotel rooms and over 300 private condos. This room total is to be spread over several resorts on the property that include a Luxury Resort and Spa, a Lifestyle Resort and Spa, a Convention Resort and a 1,000-room Casino hotel. The resort will have both small Signature Spas at the Luxury and Lifestyle resorts along with a "world-class" destination Spa. Additional property amenities include an 18-hole Jack Nicklaus Signature Golf Course, 200,000 square feet of meeting space, 50,000 square feet of retail space with upscale shopping, chef-branded restaurants, entertainment venues and a 100,000 square foot casino. In September 2010, the company announced that it had secured in financing from the Export Import Bank of China in excess of \$2.5 billion as well as the state-owned construction company to build the project. Currently, developers have signed deals with Rosewood Hotel Resorts and Morgans Hotel group to operate their 200-room luxury hotel and 300-room lifestyle hotel, respectively. In September, 2010, Baha Mar signed a letter of intent with Hyatt to manage a 700-room Grand Hyatt. In November 2010, the project was unanimously approved by the Bahamian House of Assembly. Construction for the mega-development began in June 2011.

Jamaica

While there are approximately three proposed destination casino resorts on the Island, Jamaica does not currently have any full-scale casinos. Instead, there are a number of small slots-only facilities located in major cities and at tourist resorts. The small facilities located within resorts are typically designated for guest-only play. In 2010, the Jamaican gaming environment consisted of multiple operators with less than 20 machines and 12 gaming lounges that are licensed to have between 20 and 150 video lottery terminals. According to officials at the Jamaica Betting, Gaming and Lotteries Commission, gaming revenue in Jamaica was estimated at approximately \$288 million in 2009. The properties listed below represent gaming locations with over 20 machines that are currently operating in the country.

Jamaica Gaming Properties

Facility	Location	Gaming Devices	Restaurants/ Bars	Hotel Rooms
Caribbean Treasures	Montego Bay	51		
Coral Cliff Entertainment Resort	Montego Bay	142	2	12
Breezes Trelawny Beach Resort	Falmouth	52	9	350
SuperFun Beach Resort	Ocho Rios	22		225
Treasure Hunt Ocho Rios	Ocho Rios	140	1	
Breezes Runaway Bay	Ocho Rios	23	6	266
Grand Breezes Resort and Spa	Negril	24	1	210
Hedonism II Resort	Negril	23	4	280
Acropolis Gaming & Entertainment 1	Kingston	150	1	
Terra Nova Hotel - Monte Carlo Gaming	Kingston	140		35
Acropolis Gaming and Entertainment Center	Maypen	78		
Acropolis Gaming and Entertainment Center	Portmore	69		
Total		845	24	1,378

Source: GGA 2009

In June 2010, revisions were made to the gaming laws which had originally based the type of license required for a facility on the number of gaming machines in operations to instead be based on the total number of seats. According to the BGLC, this resulted in more than 10 existing locations across the island applying for licenses to now operate as a gaming lounge. In addition, there are approximately five facilities that are applying for licenses that had previously had their license suspended or expired for business or financial reasons. This totals approximately 15 additional facilities that will be classified as gaming lounges that are anticipated to come on line in the next six months to a year.

New Gaming Legislation & Proposed Developments

After years of negotiations, in March, 2010 the expanded casino gaming legislation known as the Casino Gaming Act 2010, was passed by both houses of Parliament and signed by the Governor General Sir Patrick Allen in May, 2010. The law essentially permits the development of large-scale integrated casino hotels throughout the island, comparable to that of a Vegas-style casino resort. This includes table games for which both local and tourist will be permitted to play. Under the new gaming act, in order to be considered for a casino license, the proposed casino facility must develop at least 2,000 hotels rooms (excluding any existing or developing hotel rooms prior to license application) and no less than 1,000 of these rooms should be built prior to the date of commencement of the operation of any casino in the development. In this fashion, the facility will be built as a luxury integrated resort development, whereby casino gaming should be but one component and the project shall provide a mix of various tourism facilities, including but not limited to hotels, villas, attractions, sporting facilities and shopping centers.

The new gaming legislation has attracted a number of interested parties to Jamaica for a destination casino development. These include Harmony Cove in Trelawney, Jamaica,

Celebration Jamaica and the Grand Palladium Resort and Spa which are both in the Montego Bay area.

Harmony Cove

Covering 2,300 acres, the Harmony Cove Resort is currently being developed by the Tavistock Group. The \$2 billion dollar mega resort development is located on the northern coast of Jamaica in the parish of Trelawny roughly 30 minutes east of Montego Bay. Plans for the development call for 4,500 hotel rooms and 500 residential units allocated in multiple towers. Additional onsite facilities will include nightclubs, golf course and a marina as well as a casino. Phase one of construction is set to start with 2,000 hotel rooms. Initially planned to break ground in 2009, the global economic slowdown in 2008 halted the project. In September 2011, announcements began that the project would be revitalized with capital from Ex-Im Bank of China and construction could begin as early as 2012.

Celebration Jamaica

Planned by the same developers of the recently opened Palmyra Resort & Spa, Celebration Jamaica is a proposed integrated casino resort in Rose Hall, St. James. Plan for the property includes approximately 2,000 rooms, a 75,000 square foot casino with a sports book and table games such as Roulette, Craps, Blackjack and Baccarat. In April 2011, Celebration Jamaica announced plans to begin construction on 1,000 rooms, an indoor/outdoor music entertainment complex, an artisan village, Water Park, marina and No updates have yet been announced on the \$500 million development breaking ground.

The Grand Palladium

The Grand Palladium Resort and Spa is currently undergoing a US\$280 million expansion to add 900 luxury suites to their existing 1,050 rooms with concierge service, and pool and casino. In addition, the Group announced Phase II plans to include 2,000 more hotel rooms, a convention center and golf course. Located along the Caribbean Sea in Lucea, 20 miles west of Montego Bay, the property resides in the opposite side of the Rose Hall and Trelawny, which are located east of Montego Bay. In September 2011, reports came out that the Group had been receiving severe opposition from local residents who currently live on or near the proposed site. These residents have hired a human rights group to help fight the issue claiming that they have had ownership of the land for hundreds of year. The current GM at Grand Palladium has admitted that there have been delays in breaking ground but felt assured that construction could still begin early 2012.

Dominican Republic

There are 34 casinos operating throughout the Dominican Republic, which includes ten in Santo Domingo and one 45-minutes east of the city center in Boca Chica. Others are concentrated in popular resort areas throughout the Republic, such as Punta Cana and Puerto Plata.

In general, the existing Santo Domingo casinos range between approximately 10,000 and 30,000 square feet in size and are located primarily in a cluster at hotels on or near

George Washington Avenue, which runs parallel to the coast housing many of the markets four and five star hotels and is proximate to the city's major tourist attractions. The local population is estimated to drive a majority of the gaming revenues in this market.

In January 2011, the Hard Rock Hotel & Casino Punta Cana opened in Dominican Republic. The resort features 1,800 rooms over 121 acres of land and represents Hard Rock's first "ultimate all-inclusive" resort. Other amenities at the facility include a 60,000 square foot "Rock Spa", 65,000 square feet of indoor and outdoor meeting space, a 15,000 square foot Body Rock fitness center, tennis courts, rock climbing wall, and 11 pools with four swim up bars. Additionally the property includes a 1,200 seat amphitheater and retail outlets. The Hard Rock casino at the facility also has a high-limit poker room, a VIP lounge in addition to both Race and Sport booking. It is estimated that the casino contains 457 slot machines and 40 table games.

Current Puerto Rico Gaming Environment

There are 23 hotel-based casinos in Puerto Rico and one horse track. On average the casinos are relatively small, with a total of less than 500 tables and 7,100 slots on the island. On average, properties have 322 slots and 12 table games. Casinos can vary widely in the region in terms of the quality of their facilities and machines, cleanliness, availability of affordable parking, presence and quality of complementary amenities, the existence of a players' club, and courteousness of employees. As it stands today, there are no "category-killer" gaming resort destinations in the market comparable to that of proposed development. While none of the existing casinos in the market are anticipated to directly compete with Roosevelt Roads, it is still important to understand the nature of the existing market and determine any potential risks and opportunities that can be leveraged in the subject project.

Gaming Market Background

Casinos in Puerto Rico were originally intended for patronage by tourists, and the government had been successful with their local advertising regulations in making the tourist market the primary gaming market. In the late 1980's and early 1990's with legalized gaming available to U.S. east coast residents in only a few locations such as Atlantic City and the Bahamas, resorts catered much more to tourists and casino revenues and marketing efforts reflected this. As the number of resorts in Puerto Rico increased and the proliferation of gaming in other tourist markets grew, resort operators were forced to look towards the local market to support this industry. Today, the majority of casino marketing budgets is geared toward attracting locals through promotions that reward loyalty. Events, music, and local food are used to attract locals and establish loyalty. This is viewed as both a positive and negative. Marketing to the local gamers has been proven to be an effective source of revenue for many casinos in Puerto Rico however; it also contributes to the overall perception that many Puerto Rico resorts are "locals" casinos without the feel and ambience U.S. gamers have come to expect when visiting a casino on vacation. The Sheraton Casino which opened in November, 2009 is designed with the tourist in mind and is large and very "Las Vegas" like in its design and

layout. However it has not resonated well with the local population as they tend to prefer the smaller casinos that offer local promotions. Discussions with gaming commission and a number of operators in Puerto Rico indicated approximately 85% to 95% of gaming revenues are attributable to the local Puerto Rican population. Junket programs seeking out and catering to high rollers has become difficult and expensive to manage given the availability of other luxury Caribbean resorts such as the Atlantis in the Bahamas.

Puerto Rico Gaming Revenue

The following presents slot win in Puerto Rico as reported by the PRTC and is based on a fiscal year (July 1 to June 30). Availability of table game revenue is more sporadic as no gaming taxes are collected on these wins. Some figures as provided by the PRTC are discussed by region later in this section.

The table below reflects the number of slot machines, slot win, and win per unit per day (“W/U/D”) in Puerto Rico for the years 2001 to 2010. From 2001 to 2005, the island experienced aggressive growth in gaming revenue, often exceeding that of the growth in slot machines. Since 2007, however, slot revenue has remained relatively flat despite the addition of three resorts which added another 1,000 slot machines and grew the market by about 18%. The average annual growth rate for revenue was less than 1% over the last five years. This coincides with two factors. The first being a global economic slowdown which included the national U.S. recession. The second is the change in the number of Adult Entertainment Machines (AEM’s) allowed in establishments’ throughout Puerto Rico. Legally, these games are for amusement purposes only, providing no payout on wins. Games, however, have been illegally modified to allow for jackpots and bonus awards. Originally set at a 10 machine limit at virtually any retail, dining or entertainment establishment, the law was changed to allow an unlimited number at any location. As such illegal operations grew exponentially and while economic conditions certainly played a part in the leveling off of revenue growth, many operators in Puerto Rico feel strongly that the illegal game market has expanded to the point that it is negatively impacting growth. As response to this, The Treasury Department has begun initiatives to help crack down on these illegal facilities with the intent to help increase potential slot revenue at the taxable casino hotels.

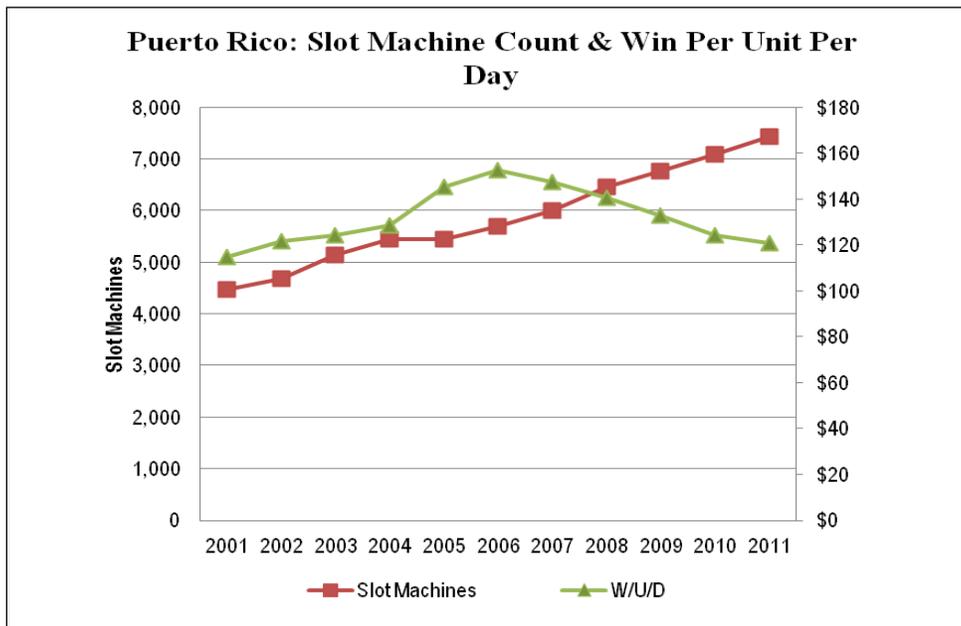
Given Puerto Rico’s latest fiscal Year 2011, the island generated \$327 million in slot revenue, up by 1.8% from 2010. This reflects a recovery to the market, which saw a decline in gaming revenue in 2009 and 2010. Average win per slot machine per day in Puerto Rico was approximately \$121 in FY2011, down 6% from Fiscal Year (FY) 2010.

Puerto Rico Slot Win Summary (Fiscal Year)

Year	# of Machines	Year over Year Change	Slot Win (Millions)	Year over Year Change	W/U/D	Year over Year Change
2001	4,479		\$187.60		\$115	
2002	4,687	4.60%	\$207.90	10.82%	\$122	5.90%
2003	5,143	9.70%	\$233.20	12.17%	\$124	2.22%
2004	5,437	5.70%	\$255.30	9.48%	\$129	3.56%
2005	5,446	0.20%	\$289.20	13.28%	\$145	13.09%
2006	5,698	4.60%	\$317.70	9.85%	\$153	5.00%
2007	5,991	5.10%	\$322.20	1.42%	\$147	-3.54%
2008	6,450	7.70%	\$330.70	2.64%	\$140	-4.67%
2009	6,757	4.80%	\$327.63	-0.93%	\$133	-5.43%
2010	7,085	4.63%	\$321.56	-1.85%	\$124	-6.40%
2011*	7,425	4.58%	\$327.40	1.82%	\$121	-2.84%

Source: PRTC
* unaudited

The following chart highlights the year-over-year trend in win per slot unit per day relative to the number of slot machines on the island. The number of legal slot machines at resorts has grown steadily as new resorts have opened, with an increasing win per unit per day. After 2006, however, figures started to decline given the impacts of AEMs and global economic conditions.



Gaming Revenue by Region

For the purpose of this analysis, The Puerto Rico casino market has been classified into five major gaming zones, regions. These regions were used in our gaming model analysis discussed later and encompass a number of municipalities. Region 1 includes those municipalities that are encompassed (Ceiba and Naguabo) or closest to the Roosevelt Roads site.

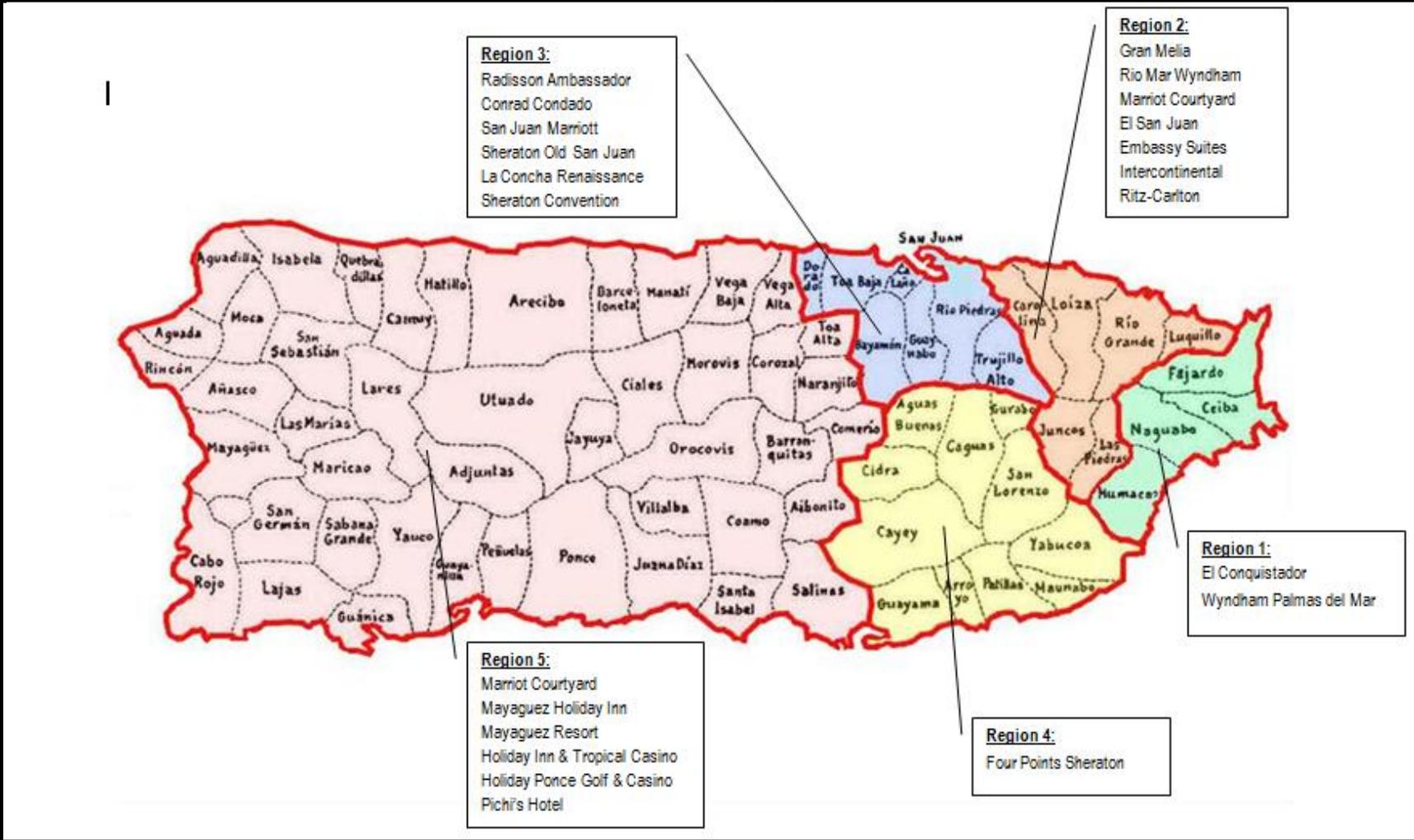
Puerto Rico Municipal Groupings by Region

Region 1	Region 2	Region 3	Region 4	Region 5
Ceiba Municipal Fajardo Municipal	Luquillo Municipal Río Grande Municipal	San Juan Municipal Trujillo Alto Municipal	Caguas Municipal Gurabo Municipal San Lorenzo Municipal	Balance of Puerto Rico
Naguabo Municipal Culebra Municipal Vieques Municipal Humacao Municipal	Las Piedras Municipal Juncos Municipal Canóvanas Municipal Loíza Municipal Carolina Municipal	Toa Baja Municipal Bayamón Municipal Guaynabo Municipal Cataño Municipal	Yabucoa Municipal Patillas Municipal Arroyo Municipal Maunabo Municipal Aguas Buenas Municipal Cidra Municipal Cayey Municipal Guayama Municipal	

Source: The Innovation Group

The following map shows all the regions and the casino properties residing in each.

Map of Puerto Rico by Region with Casinos



Region 1 encompasses major casinos within and adjacent to the municipalities for the subject Roosevelt Roads site. Region 2 is home to the casinos in the Carolina municipality and along the coast of Rio Grande. Region 3 consists of all casinos in the San Juan metro area. Although it covers a large area of land and over 10 municipalities, Region 4 has one casino, the four points by Sheraton. All together, these markets areas cover the eastern region of the island, which are closest in proximity to the subject site, and contain 17, or 74% of all casinos on the island. Region 5 includes all other casino operations, which is spread out across the rest of the country.

Puerto Rico Gaming Market

Hotel	Location	Operating Hours	Casino (SF)	Slots	Tables	Gaming Positions	Rooms
El Conquistador Resort & Casino Golden Door Spa	Fajardo	4:00pm - 12:00am	9,500	161	6	197	909
Wyndham Garden at Palmas del Mar	Humacao	10:00 am - 4:00am	5,450	252	6	288	107
TOTAL REGION 1	2		14,950	413	12	485	1,016
Gran Meliá P.R. Resort & Villas Rio Mar Beach Resort & Spa, a Wyndham Grand Resort	Rio Grande	5:00pm - 2:00am	8,200	100	9	154	489
Courtyard by Marriott Isla Verde Beach Hotel	Rio Grande	10:00am - 4:00am	5,540	152	9	206	600
El San Juan Hotel & Casino	Carolina	24 hrs	14,400	397	10	457	260
Embassy Suites Hotel & Casino	Carolina	10:00am-4:00am	13,000	343	17	445	386
InterContinental San Juan Resort & Casino	Carolina	10:00am-4:00am	6,200	294	7	336	299
The Ritz-Carlton San Juan Hotel	Carolina	10:00am - 4:00am	10,000	227	13	305	402
	Carolina	24 hrs	17,500	340	21	466	419
TOTAL REGION 2	7		61,100	1,853	68	2,009	1,766
Radisson Ambassador Plaza	San Juan	24 hrs	14,000	464	14	548	233
Conrad San Juan Condado Plaza	San Juan	24 hrs	12,500	361	17	463	570
San Juan Marriott Resort & Stellaris Casino	San Juan	24 hrs	11,000	444	25	594	525
Sheraton Old San Juan	San Juan	8:00am-4:00am	10,000	345	8	393	240
La Concha A Renaissance Resort Sheraton Puerto Rico Convention Center Hotel & Casino	San Juan	24 hrs	12,500	401	17	503	248
Embassy Suites Dorado del Mar Beach & Golf Resort	San Juan	24 hrs	20,000	420	16	516	503
	Dorado	24 hrs	10,000	260	8	308	174
TOTAL REGION 3	7		90,000	2,695	105	3,325	2,493
Four Points by Sheraton At Caguas Real Hotel & Casino	Caguas	10:00am - 3:00am	12,000	568	13	646	126
TOTAL REGION 4	1		12,000	568	13	646	126
Courtyard by Marriott Aguadilla Mayaguez Holiday Inn Tropical Casino	Aguadilla	24 hrs	12,000	244	11	310	150
Mayaguez Resort & Casino	Mayaguez	24 hrs	8,220	368	12	440	141
Holiday Inn & Tropical Casino Ponce	Mayaguez	24 hrs	10,000	377	12	449	140
Hilton Ponce Golf & Casino Hotel	Ponce	24 hrs	9,812	337	7	379	116
Pichi's Hotel Convention Center & Casino	Ponce	10:00am-4:00am	7,000	331	9	385	255
	Guayanilla	10:00am - 4:00pm	12,400	239	9	293	136
TOTAL REGION 5	6		71,432	2,464	73	2,902	1,064
GRAND TOTAL	23		237,482	7,425	258	8,721	6,339

Source: PRTC

Slot revenue in all markets is characterized by large variances between different facilities. Region 3, which includes San Juan Metro area, has the largest contribution of slot revenue, ranging from 34% - 38% over the last three years. This is followed by Region 2, which encompasses the Carolina municipal and includes properties like the Ritz Carlton and the Rio Mar. Closest TO the site, Region 1 contributes approximately 4% to total slot revenue on the island. Win Per Unit Per day in this region was the lowest on the island averaging \$90 over the last three years. Win per unit per day was highest in Region 4 which also had the lowest percentage of slots relative to other regions (7.6%). This Region surpassed Region 5, which had the highest win per unit per day in FY2010 and FY2009.

Puerto Rico Slot Win by Region

2011 Calendar Year Summary			
(in millions)	Slot Win	W/U/D	TG as a % of Total
Region 1	\$11.9	\$79	3.6%
Region 2	\$72.9	\$108	22.3%
Region 3	\$122.7	\$125	37.5%
Region 4	\$28.1	\$135	8.6%
Region 5	\$91.9	\$133	28.1%
Total	\$327.4	\$121	100.0%
2010 Calendar Year Summary			
(in millions)	Slot Win	W/U/D	TG as a % of Total
Region 1	\$12.5	\$87	3.9%
Region 2	\$77.5	\$120	24.1%
Region 3	\$115.8	\$123	36.0%
Region 4	\$25.6	\$129	8.0%
Region 5	\$90.1	\$136	28.0%
Total	\$321.5	\$124	100.0%
2009 Calendar Year Summary			
(in millions)	Slot Win	W/U/D	TG as a % of Total
Region 1	\$14.5	\$106	4.4%
Region 2	\$87.6	\$142	26.7%
Region 3	\$111.4	\$124	34.0%
Region 4	\$26.0	\$138	8.0%
Region 5	\$88.1	\$140	26.9%
Total	\$327.6	\$133	100.0%

Source: PRTC; The Innovation Group

The following table provides table game revenue by Region for FY2010 given the properties that reported data to the gaming commission. Table game revenue accounts for

approximately 13.5% of gaming revenue generated at reporting properties. For the entire market, this is likely to be diluted as most of the non-reporting properties on the island are smaller properties with fewer tables and little table game action. Similar to slot win, Region 3, contributed the majority table game revenue, at an estimated 46%. As noted above this market has the largest count of table games relative to other regions. On Average, Puerto Rico table games generate \$513 per table.

Puerto Rico Table Win by Region			
2010 Calendar Year Summary			
(in millions)	Table Win	W/U/D	TG as a % of Total
Region 1	\$1.4	\$320	2.8%
Region 2	\$17.6	\$711	34.8%
Region 3	\$23.2	\$605	45.7%
Region 4	\$2.4	\$516	4.8%
Region 5	\$6.1	\$228	11.9%
Total	\$50.7	\$513	100.0%

Source: PRTC; The Innovation Group

Proposed Comparable Gaming Developments

The following describes proposed projects in Puerto Rico that have plans to feature a casino.

Discovery Bay- Agaudilla

Discover Bay Resort & Marina is a proposed development located in the municipalities of Aguada and Agaudilla off the northwest coast of Puerto Rico. As proposed, the 270-acre development is staged to become a premier, full-service nautical and tourism destination focusing on fishing and yachting activities. As such, the project is anticipated target a market that is more focused on nautical activities, which is unique to the target market for Roosevelt Roads who will be interested in a more well-rounded leisure destination. Phase I plans for the development include a 500-slip marina, a dedicated yacht club, a full service dry dock, a repair yard and a dry-stack facility . Phase II plans call for 160 room hotel, 170 timeshare units, 737 residential units, a casino, spa, conference center, beach club, helipad, and various restaurants and commercial entertainment areas. As of 2009, the project was undergoing an environmental impact study. While the project was slated for a 2012 opening, no public data is available on its status. Given its apparent lag in development for Phase I it is increasing unlikely that Phase II will occur prior to opening of subject property.

Plaza Internacional

Plaza Internacional is proposed mixed-use retail development located in the Carolina municipal in Puerto Rico. Originally known as “La Nueva Puerta de San Juan” the project’s developers are New Century Development Inc., formed by Taubman Center, a

company that owns and administrates solid shopping centers in United States. The shopping center is staged to have three levels with more than 500,000 square feet of retail. As of 2011, reports noted that some tenants include prestigious brands such as Saks and Nordstrom. Also, it will host 2 office towers, a 264-room Crown Plaza Hotel and a casino. The retail portion of the project is expected to start operations in 2014. The hotel and casino, which are estimated to cost \$60 million, will be added in thereafter and will be comparable to existing facilities in the market.

While both properties have a gaming component, it does not serve as the driving force for either as a casino is not presented until their Phase II plans. Both are seen more as an amenity to support the overall project and will likely fall in line with existing casino properties. Should they be developed, neither can be classified as gaming destination comparable to that of Roosevelt Roads.

RECOMMENDED PROJECT SCOPE

The following presents our analysis of the original project scope for Phase I development at Roosevelt Roads. As summarized earlier, below is a more detailed description of this scope which includes Zone 1 through 4 of the overall site.

Zone 1 – considered the commercial heart of the project. Plans call for:

- 200,000 square-foot Retail / Restaurant/ Entertainment district
- 130,000 square-foot Hospital
- 50,000 square feet of office space
- 400 slip marina
- International Cruise Terminal
- Approximately 50,000 square feet of support and back of house for terminal and marina.
- Ferry terminal with access to Culebra and Vieques islands

Zone 2 – thought to be the destination anchor of the resort, also referred to as the “Caribbean Riviera”. It is to include:

- 150,000 – 200,000 square foot casino
- 2,000-room Casino Resort
- 18-hole golf course & clubhouse
- Entertainment, Retail and Other amenities to support casino resort

Zone 3— considered the eco resort section and will focus on the area’s natural recourses and proximity to the El Yunque rainforest.

- 150 room Eco-hotel
- Eco Museum/Visitor Center to tie into El Yunque
- 30,000 square feet of office space
- 100,000 square-foot Retail/Restaurant/Entertainment Village
- 450,000 square feet of residential villas
- 150 slip marina
- Water taxi terminal/pier

Zone 4 – conceived as the country/golf club amenity supporting and includes:

- 9-hole golf course
- 35,000 square foot clubhouse
- 250,000 square feet of residential villas

Given conversations with the clients, market research and high level demand estimates, our first step in evaluating this scope was to discard amenities whose capital costs were unjustified relative to current demand (i.e. cruise terminal, residential). We then resized the project scope with consideration for comparables from existing and proposed large scale destination resorts in the region (i.e. Atlantis, Baha Mar, Harmony Cove). We would note that this revised building program was driven without consideration of capital costs and ROI. Rather, this was done in order to maximize potential revenue for the site

and create a basis for balancing the capital needs. The following table provides a summary of the original Phase I plans (left) side by side with our first run at a revised project scope (right).

Project Scope Comparative Summary – Initial Recommendation

	Client Provided Projected Use	Client Units/Stats	TIG Initial Proposed Program-Phase 1:	TIG Units/Stats
Zone 1	Retail/ Restaurants/ Entertainment District	200,000	Retail Promenade/Marina Village	100,000 SF
	Hospital*	130,000	Hospital*	130,000 SF 150 Rooms; 2 F&B Outlets
	Office	50,000	Boutique Hotel – 5Stars	
	Marina	25,000	Marina	150 Slips
	International Cruise Terminal	150,000		
	Support / Back of House	50,000		
	Ferry Terminal	50,000	Ferry Terminal	50,000 SF
Zone 2	Casino	210,000	Casino	95,000 SF 1,200 Slots/ 55 tables
	Casino Hotel	2000 rooms	Casino Hotel - 4 Stars	1,250 rooms; 12 restaurants & 4 bars
	Golf course & Clubhouse	18 holes	Golf course & clubhouse	18 holes
	Entertainment, Retail, & Other	200,000	Entertainment, Retail, & Other	~105,000SF
Zone 3	Hotels - "Lodge"	150 rooms	Ecotourism Hotel -3 Star	100 rooms; 1 F&B Outlet
	Eco Museum/ Visitor's Center	50,000	Eco Museum/ Visitor's Center	50,000 SF
	Office	30,000		
	Retail/ Restaurants/ Entertainment "Village"	100,000	Eco-Attraction	50 - 60K SF
	Residential Villas	450,000		
	Marina	25,000		
Zone 4	Water Taxi Terminal/ Pier	20,000		
	Golf Course and Clubhouse	35,000		
	Residential	250,000		

Source: DEDC; LRA; The Innovation Group

*To be Managed by Third Party

Based upon the revised building scope above, our next step was to estimate gaming demand and revenue for the proposed casino. While not tasked with providing individual feasibility assessments of each amenity, we did utilize comp-based modeling to estimate high level demand and revenue projections for the amenities within the revised scope. Given this, we created an operating pro forma based on margins from comparable property data and industry averages. Capital costs and cash on cash returns were then projected for the development. Based on this project scope, the estimated construction

cost (including hard, soft, opening, and financing and contingencies) would be \$1.2 billion. EBITDA was projected at \$121.1 million. Despite the large scope of the project, preliminarily ROI estimates equated to subpar returns that were substantially lower than industry standards.

As a result of this, The Innovation Group “value engineered” the scope to eliminate underperforming amenities that did not justify their construction costs, while taking into consideration the needs of the proposed resort destination to be competitive on a regional scale. The final recommended building scope, which was driven primarily by the gaming aspect of Roosevelt Roads, is summarized in the chart below (right) and, again, compared to our initial recommended program (left):

Project Scope Comparative Summary – Final Recommendation

	TIG Initial Proposed Program:	TIG Units/Stats	TIG Proposed Program: Value Engineered-Phase 1	TIG Units/Stats
Zone 1	Retail Promenade/Marina Village	100,000 SF	Retail Promenade	80,000 SF
	Hospital*	130,000 SF	Hospital*	130,000 SF
	Boutique Hotel – 5Stars	150 Rooms; 2 F&B Outlets		
	Marina	150 Slips		
	Ferry Terminal	50,000 SF	Ferry Terminal	50,000 SF
	Zone 2	Casino	95,000 SF 1,200 Slots/ 55 tables	Casino
Casino Hotel - 4 Stars		1,250 rooms; 12 restaurants & 4 bars	Casino Hotel - 3 Stars	1,000 rooms; 9 restaurants & 4 bars
Golf Course & Clubhouse		18 holes	Golf Course & Clubhouse	18 holes
Entertainment, Retail, & Other		~105,000 SF	Entertainment, Retail, & Other	~50,000 SF
Zone 3		Ecotourism Hotel -3 Star	100 rooms; 1 F&B Outlet	Ecotourism Hotel -3 Star
	Eco Museum/ Visitor's Center	50,000 SF	Eco Museum/ Visitor's Center	50,000 SF
	Eco-Attraction	50 - 60K SF	Eco-Attraction	50 - 60K SF

Source: DEDC; LRA; The Innovation Group

*To be Managed by Third Party

Based upon the revised scope above, estimated construction costs were approximately \$851 million. A more detailed description regarding the methodology and zone by zone construction costs is provided in the Development Budget section of the report. The resulting EBITDA for this project scope is estimated at \$94.6 million (a detailed explanation of revenue and resulting EBITDA is shown in the Operating Pro forma scenario below).

The following gives a more detailed overview of the final recommended scope:

Zone 1

The retail promenade refers to the waterfront retail/restaurant/entertainment district proposed in Zone 1 and is anticipated to be adjacent to the proposed ferry terminal providing transportation to and from the islands of Culebra and Vieques. It is assumed that the facility will operate as fully leased entity and draw mid- to upscale vendors similar to those housed in the marina village at Atlantis in Paradise Island.

- 80,000 square feet of an outdoor retail and food and beverage promenade
- 50,000 square foot ferry terminal

Zone 2

This would continue to serve as the gaming destination anchor of the Phase I. The resort is expected to function as an integrated resort with the casino, food and beverage, retail and the casino all attached to and accessible from the hotel. In addition, there will be an 18-hole golf course that serves as an essential component to the overall scope of the project as a tourist destination.

- 95,000 square-foot casino to include 1,200 slots and 50 table games
- 1,000 room full-service hotel at 3.5 - 4-star quality. Major amenities include:
 - Nine restaurants, four bars and one nightclub
 - 20,000 square feet of multi-purpose space to use for meetings and minor entertainment function,
 - 50,000 square feet of retail space & spa
- 18 hole golf course and clubhouse

Zone 3

Considered the eco resort section of the development, this will continue to focus on maximizing the area's natural resources and proximity to the El Yunque rainforest. In addition to this, we propose the development of an eco-attraction that is integrated into the surrounding landscape and provides a unique experience that highlights eco-tourism. The attraction could have the potential to layer in elements comparable to the water park at Atlantis with an eco-friendly aquatic experience like that of Xel-Ha in Mexico. (Depending on the space needed, this attraction may be better suited in Zone 4.)

- 100 room eco-hotel at a 3-star quality:
 - The facility will be integrated into the surrounding landscape
 - With one café and a bar, features will be more in line with a limited service hotel limited-service facility to encourage patronage to the casino & casino resort
- 50,000 square-foot eco museum/visitor center to tie into El Yunque
- Eco-Attraction comparable to the attraction in Atlantis, Bahamas and Xel-Ha in Mexico

SUBJECT GAMING FORECAST

The proposed gaming facility for Roosevelt Roads will be situated in Zone 2 of the development and will be a part of larger integrated resort complex that would be the largest casino in Puerto Rico and one of the largest in the Caribbean. Given the scope and scale of the overall development, the property is meant to be a “Game Changer” and will be unique to any other casino currently on the island. As such, this mega resort facility is anticipated to be comparable in size to larger scale developments such as Atlantis and other proposed projects such as Baha Mar and Harmony Cove. In general, we believe that the presence of a large-scale integrated gaming resort could induce demand from regional markets, helping to transform Puerto Rico’s image as a major tourist destination. In addition, Puerto Rico itself features more robust options for recreational activities across the island that can enhance the average guests’ stay. Therefore, while the casino will cater to local demand, it is anticipated to drive a higher proportion of tourist patronage than what is currently seen in the market today. In order to be “all things to all people” the project is anticipated to walk a fine line and balance marketing efforts to both locals and the tourist market. It will be just as important to create promotions to generate frequent loyal visits from the local community as it is to create fun tourist targeted promotions that one would be expected from a Caribbean vacation.

The following section outlines demand projections and gaming market potential for the proposed casino at the Roosevelt Roads Development given the recommended project scope described in the previous section.

Benefits and Risks

In addition to the revised scope, The Innovation Group took into consideration a number of intangible and tangible factors to arrive at gaming revenue estimates for Roosevelt Roads. These were broken down into benefits and risks related to the property’s ability to generate demand. Some major benefits that can be used to leverage demand to the property include:

- Passport free travel to and from the U.S.
- Excellent roadway infrastructure countrywide and on the site
- Strong bilingual nation
- Leading Overall site condition and aesthetic
- Structures available for reuse
- Proximity to El Yunque Rain Forest
- Progressive niche exploration in ecotourism

In addition to this, there will be some hurdles and risks for the proposed development which include:

- Current Tourism initiatives in Puerto Rico less aggressive comparable to other Caribbean markets more heavily dependent on tourism

- Site's proximity away from major international airport and cruise port
- Require site screening and environmental remediation
- The need for beachfront access on main site
- Creatively balancing competitive pricing relative to Caribbean competitors with higher labor cost experienced in the country

Major Site Assumptions

Taking these above factors into consideration, a number of major assumptions were applied to our analysis of the site and include the following:

- The facility will offer first rate amenities and services unparalleled to other existing facilities within Puerto Rico;
- The facility will have strong relationship with the Puerto Rico Tourism company and will be aggressively marketed as a premier gaming destination prior to opening and through first few years of operations;
- The casino will be professionally managed by an experienced team of experts and be branded by a major casino operator;
- The casino will provide other non-casino hotels in the market an additional attraction that can be offered to their guests. As such, marketing material and cross-promotions should be utilized to promote the casino;
- Shuttle service of some kind will be offered and coordinated for off-site guests to and from the San Juan cruise port and the airport;
- The two islands, Culebra and Vieques, will be leveraged to attract demand to Roosevelt Roads either in the form of local patronage (i.e. locals living on the island) or additional amenities offerings (i.e. beaches on Culebra are considered some of the most beautiful in the country) which will help extend average stay lengths
- The first year of operations for the development will be 2015; and
- The economy will normalize by the opening date and any economic and visitation fluctuations will occur in line with assumptions herein.

Methodology

As one of the largest and most comprehensive master plans of its type in the Caribbean, the proposed casino at Roosevelt Roads is anticipated to accommodate new levels of gaming revenue for the region. Given the previously identified factors and assumptions, a model was developed to project gaming revenue from four potential market segments for the casino. These are as follows:

- On-site hotel patrons—tourists staying at the casino resort or one of other hotels on site;
- Puerto Rico off-site tourist market – tourist staying outside of subject site;

- Local market – income eligible, local population over the age of 18; and
- Cruise and crew visitation – tourist and crew visiting from cruise ships.

Gaming revenues were estimated for the first five years of operation, 2015-2019. The following is a brief discussion of the variables used in the model to estimate gaming win:

- **Propensity:** Propensity represents the percentage of visitors that will participate in gaming activities during their visit. 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 or in markets where competitive entertainment and food and beverage options are extremely limited, while in a single venue slots-only market can be as low as 15%. This measure is type dependent in that it refers to the propensity of individuals who are likely to participate in the subject form of gaming (i.e. full casinos, slot-only casinos, table games, etc.) and the attractiveness of the build-out and amenities
- **Frequency:** Frequency represents the number of casino visits per gaming participant during their stay. For tourists this varies based on average length of stay in a tourist location. For locals, frequency of visitation is inversely related to distance from a gaming venue, as fewer trips are made as convenience declines.
- **Win Per Visit:** The average revenue generated by a gamer per day in the casino. 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.
- **Capture Rate:** The capture rate refers to the percentage of available gaming trips within a given market that the subject property is able to attract. Capture rates are primarily a function of market share based on product, travel time to the casino, amenities offered and the quality of the facility.

Overall potential market visitation from each of these segments was evaluated based on propensity and frequency assumptions for gaming play. These figures were estimated based on trends in the existing gaming market as well as gambling habits observed by players in similar markets. Next, spend per player was estimated for tourist and local play. Tourist spend is derived from data from comparable properties with on-site/off-site tourist play. Local spend was based on the demographic characteristics of the income eligible gaming population in each designated local market area. The product of these factors yields the projection of annual gamer visits and revenue by market segment, where gaming revenue is then projected for the subject facility based on an anticipated capture rates for each market area and win per patron.

The following presents demand and revenue projections for Year 5, stabilized year of the proposed casino at Roosevelt Roads.

Roosevelt Roads On-Site Projected Gaming Revenues

The proposed resort will offer some of the largest concentration of lodging in all of Puerto Rico, and will rival some of the largest resorts in the region. Projected occupancy rates at the proposed resort were based on local hotel market trends obtained by PRTC with an inherent premium applied to the resort given its overall amenity package which makes it a more compelling product than the average hotel in the Puerto Rico market. In addition, we assumed that casino resort will employ a strong marketing program to casino players which include room comps. The loss of room revenue to the hotel will be offset by the incremental gaming revenue generated during their time on-site. We anticipate that this program will focus on higher tier players in which their theoretical win will serve as a “wash”.

The following tables present the anticipated operating statistics for the Roosevelt Road’s lodging.

Roosevelt Roads Hotel Performance Assumptions

Hotel Segment	Year 1			Year 2			Year 3			Year 4			Year 5		
	# Rooms	Occ %	RND												
Casino Hotel	1,000	73.0%	266,450	1,000	77.4%	282,437	1,000	81.2%	296,559	1,000	84.5%	308,421	1,000	87.0%	317,674
Ecotourism Hotel	100	69.0%	25,185	100	73.1%	26,696	100	76.1%	27,764	100	78.3%	28,597	100	80.7%	29,455
TOTAL	1,100	72.6%	291,635	1,100	77.0%	309,133	1,100	81.0%	324,323	1,100	83.9%	337,018	1,100	86.5%	347,129

Roosevelt Roads Hotel Operations Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
Rooms	1,100	1,100	1,100	1,100	1,100
Room Nights Available	401,500	401,500	401,500	401,500	401,500
Room Nights of Demand	291,635	309,133	324,323	337,018	347,129
Occupancy Rate	72.6%	77.0%	80.8%	83.9%	86.5%

Source: The Innovation Group

After taking into account this assumed lodging demand, The Innovation Group then broke down this demand by market segment: FIT, Wholesale, Group, and Casino. The total number of adults per segment was then estimated based the average adult per room and average length of stay which was obtained from data provided by the PRTC. While the average length of stay in Puerto Rico is fairly low (three days) relative to the rest of Caribbean (7-10 days), we did estimate a slightly higher figure of four days given the number of activities that would be offered at the site and the ability to entertain a guest longer. Based on our experience in the United States, Caribbean, and worldwide gaming markets, propensity factors were then applied to each market segment. The result of these calculations is an estimate of on-site generated gaming visits to the facilities. Next, a win per day was assigned for each of the market segments and total gaming revenues were estimated. The table below details these calculations for Year 5 of operations.

Roosevelt Roads Year 5 Gaming Revenue Estimate: On-Property Guest Win

	Market Segment	Segment Demand	RND	Adults/ Room	Adults	Propensity	Frequency	Capture Rate	Win/ Day	Revenue	Visits	Average Win per Occ Rm
Casino Hotel	FIT	30.0%	95,302	1.8	42,886	65.0%	2.0	95.0%	\$68	\$3,526,218	52,217	
	Wholesale	5.0%	15,884	1.9	7,545	65.0%	1.6	95.0%	\$56	\$413,569	7,349	
	Group	15.0%	47,651	1.4	16,678	65.0%	1.6	95.0%	\$51	\$822,784	16,245	
	Casino	50.0%	158,837	1.8	71,477	90.0%	2.6	95.0%	\$197	\$31,645,545	160,667	
	TOTAL	100.0%	317,674	1.7	138,585						\$36,408,116	236,477
Ecotourism Hotel	FIT	65.0%	19,146	1.8	8,616	65.0%	1.6	95.0%	\$51	\$425,037	8,392	
	Wholesale	10.0%	2,945	1.9	1,399	65.0%	1.3	95.0%	\$42	\$47,933	1,136	
	Group	5.0%	1,473	1.4	515	65.0%	1.3	95.0%	\$38	\$15,893	418	
	Casino	20.0%	5,891	1.8	2,651	90.0%	2.6	95.0%	\$148	\$880,254	5,959	
	TOTAL	100.0%	29,455	1.8	13,181						\$1,369,117	15,905
Sub Total (Subject Property Total)			347,129	1.75	151,766				\$150	\$37,777,233	252,382	\$109

In total, the guests at Roosevelt Roads are expected to generate nearly \$40 million in gaming revenues by Year 5 of operations. As the proposed casino will be the major, but not the only gaming operators in the market, they are expected to capture nearly all of the gaming demand from on-site guests, and therefore a capture rate of 95% has been applied, yielding an estimate of nearly \$37 million in gross gaming revenues accruing to the project from on-site guests.

Off-site Tourist Projected Gaming Revenues

Additionally, some guests at other area hotels are expected to visit the proposed casino, as the proposed resort will generate substantial interest as a “must-see”. The following table and description detail our calculations of this market segment. For comparison purposes, our estimates for Roosevelt Road’s on-site guests are included.

Hotel Room Count includes existing and planned hotel developments, per public and proprietary sources. The current hotel occupancy for the various regions of Puerto Rico is based on data provided by the PRTC and grown out given Year 5 assumptions.

The average length of stay for the other non-Roosevelt Road property is expected to remain at the current PRTC reported levels of approximately 3 nights. The propensity of resort guests to participate in casino gaming during their trip is expected to vary according to location and access to gaming, with the highest propensities accruing to in more saturated markets like Zone 3, which include San Juan, and the lowest ones accruing to those staying areas of Puerto Rico which virtually no casinos. Similarly, the frequency of visits is affected by location and access. Like propensity and frequency, win per visit is affected by locational issues, but it is also affected average household income estimated in a given region.

Roosevelt Roads Year 5 Gaming Revenue Estimate: Off-Site Tourist Win

	Roosevelt Roads Property	Region 1 (On/by Site)	Region 2 (Around Site)	Region 3 (San Juan Metro)	Region 4 (Southwest of Site)	New Hotel Developments (only Region 1)	TOTAL PUERTO RICO
Hotel Room Count	1,100	1,365	4,190	5,228	318	111	16,551
Hotel Occupancy	86%	71%	79%	79%	44%	71%	71%
RND	347,129	353,710	1,209,945	1,512,879	50,818	28,670	4,262,232
Adults/Room	1.745	1.890	1.846	1.619	1.910	1.890	
Length of Stay	4.0	3.2	2.8	2.5	2.2	3.2	
Adult Guest Nights	151,766	668,571	2,234,071	2,449,853	97,064	54,191	
Adult Guests	37,942	210,950	787,481	966,076	43,694	17,098	2,730,002
Propensity %		20%	25%	30%	15%	20%	
Frequency of Visits		1.1	1.1	1.2	1.0	1.1	
Visits	252,382	46,409	216,557	347,787	6,554	3,762	946,795
Avg. Win/Visit	\$158	\$142	\$150	\$165	\$142	\$142	\$156.49
Nationwide Win	\$39,765,508	\$6,581,013	\$32,414,835	\$57,537,452	\$929,392	\$533,421	\$148,162,099
Avg. Win/Occ. Room	\$109	\$13	\$27	\$38	\$18	\$19	\$34.76
Roosevelt Roads Share	95%	30%	20%	20%	25%	30%	40%
Roosevelt Roads Rev	\$37,777,233	\$1,974,304	\$6,482,967	\$11,507,490	\$232,348	\$160,026	\$59,174,416

Source: PRTC; The Innovation Group

Cruise Ship Passenger Projected Gaming Revenues

Cruise ships, while they contribute substantially to the visitation of a Caribbean destination, do not contribute greatly to gaming visitation at on-shore casinos. This is further exacerbated by the distance of the site from the main cruise port in San Juan and the typically short time period that the average cruise patron has on the island. Taking this into consideration, we utilize average spend per cruise passenger data from PRTC as well as publicly reported estimates of cruise ship spend on items such as “attractions” and “entertainment” from comparable Caribbean countries to generate the following estimates of gaming revenue to Roosevelt Roads. In total, cruise ship passengers are expected to contribute about \$5 million to Puerto Rico casinos, with Roosevelt Roads capturing \$829,000. As noted in the Major Assumptions, this figure inherently assumes some type of shuttle service shall be offered from the Port to the proposed casino resort.

Roosevelt Roads Year 5 Gaming Revenue Estimate: Cruise Ship Win

	PUERTO RICO
Passengers	1,627,647
Est. Crew	651,059
Average Spend per Passenger	\$33.02
Capture of onshore visits in Jamaica casinos	10%
Passenger visits	162,765
Passenger Casino Win	\$5,374,755
Average Spend per Crew	\$33.02
Capture	0.7%
Crew visits	4,557
Crew Casino Win	\$150,493
Cruise Ship Casino Visits	167,322
Cruise Ship Win	\$5,525,248
Roosevelt Roads Share	15%
Roosevelt Roads Rev	\$828,787

Source: PRTC; The Innovation Group

Local Population Projected Gaming Revenues

As noted before, the local population is fairly affluent in terms of GDP per capita relative to other Caribbean countries. Moreover, the local population current contributes an estimated 80 – 90% of total gaming revenue on the island. Given these trends, the proposed casino at Roosevelt Roads is anticipated to attract a healthy amount of local demand. The following table details our estimate for local gaming potential in Puerto Rico by Year 5 and Roosevelt Roads capture of it. In total, the local population of Puerto Rico is estimated to be capable of generating nearly \$386 million in annual gaming revenue (this includes potential table game revenue), with Roosevelt Roads capturing an estimated 20%, or \$77 million.

Roosevelt Roads Year 5 Gaming Revenue Estimate: Local Win

	Region 1	Region 2	Region 3	Region 4	Region 5	TOTAL PUERTO RICO
Population	59,009	190,621	430,273	204,496	642,954	1,527,353
% Adult	100.00%	100.00%	100.00%	100.00%	100.00%	
Propensity	28%	32%	33%	20%	22%	
Frequency	12	14	15.8	8.0	10	
Win/Visit	\$66.17	\$71.90	\$86.47	\$70.11	\$67.26	
Total Win	\$13,251,428	\$61,400,732	\$193,996,267	\$22,940,248	\$95,134,544	\$386,723,218
Visits	200,255	853,982	2,243,441	327,194	1,414,499	5,039,371
Roosevelt Roads Share	75%	25%	20%	15%	10%	20%
Roosevelt Roads Rev	\$9,938,571	\$15,350,183	\$38,799,253	\$3,441,037	\$9,513,454	\$77,042,499

Source: PRTC; US Census; The Innovation Group

The table below reflects visitation contribution from each Region to the Roosevelt Roads casino. A highlight includes Region 3, which accounts for the largest proportion of visits. While the area has a number of alternative casino options, given their dense population, higher income levels and commercial/urban influence coming out of San Juan, the area is home to a more affluent population which is anticipated to be drawn to the new premiere casino destination that will be a game changer in the market. With a capture rate of 20%, Region 3 accounts for approximately 45% of projected demand. A similar trend was found in Region 2, which includes the Carolina municipal and accounts for 21% of demand to Roosevelt Roads. A capture rate of 25% was estimated as a result of its closer proximity to the subject site. We would note that while the proposed casino at Roosevelt Roads is anticipated to capture 75% of Region 1's market share, its contribution is estimated at 15% given its low population relative to other Regions.

Roosevelt Roads Year 5 Local Visit Distribution

Region 1	Region 2	Region 3	Region 4	Region 5	TOTAL
12.9%	19.9%	50.4%	4.5%	12.3%	100.0%

Source: The Innovation Group

Estimate of Total Gaming Revenues

Accounting for the ramp up in hotel occupancy for Roosevelt Roads, as well as for inflationary factors, the following estimates for the first five years of operation were made. In total, the casino gaming operations at Roosevelt Roads are expected to generate \$115 million in gaming revenue in Year 1 and reach \$137 million by Year 5.

Roosevelt Roads Five Year Gaming Revenue Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
On-Property Win	\$27,755,568	\$30,758,427	\$33,253,542	\$35,608,665	\$37,777,233
Other Hotel Win	\$17,504,978	\$18,809,464	\$19,766,354	\$20,568,282	\$21,397,183
Local Win	\$69,076,104	\$70,883,180	\$72,644,627	\$74,811,253	\$77,042,499
Cruise Ship Win	\$678,208	\$716,018	\$755,936	\$788,870	\$828,787
TOTAL	\$115,014,857	\$121,167,089	\$126,420,458	\$131,777,070	\$137,045,702

Casino Sizing

Total gaming revenue for Roosevelt Roads was determined based on penetration rates which inherently carry certain assumptions. Overall we assumed that Roosevelt Roads would offer a superior gaming experience with the capacity and diversity to accommodate total demand. In order to carry out the sizing analysis, The Innovation Group determined the proper distribution of table games and slot machines, and how many gaming positions is optimal for the property by balancing (1) Win per unit; (2) Win per visit; and (3) relative comparisons to comp markets where efficiencies are presumably occurring at a reasonable level. In addition, The Innovation Group evaluated the turns per position per day which must be adequate to accommodate peak demand. The overall goal of this exercise was to size the casino facility along the lines that maximize marketing impact, player comfort, and efficiency in construction and operation. This also allows for maximizing revenue at the peak business periods, and cost efficiencies in non-peak business periods.

In Caribbean gaming environments, table games make up approximately 47% of gaming revenues. This differs greatly from casinos in the United States – where between 5% and 15% are made on table games. Gamers that travel are, in large part, table gamers. Those that aren't table gamers generally travel with those who are.

Based on the analysis, the proposed casino is expected to require approximately 1,200 slots and 55 table games. Win per positions is projected to be \$206 in Year 1 and reach \$245 in Year 5. The Innovation Group research has found that most casinos operate in the range of 3-4 turns per position per day. However, in the case of a resort play is more sporadic where beach, golfing and other outdoor activities tend to drive sparse periodic play times during the day, and more concentrated gaming at night. Thus, to accommodate the peak hour, more positions than usual is required, driving down the overall average number of turns per day. As the following table indicates, the turns per position is estimated at about 2.5 per day.

Roosevelt Roads - Casino Sizing Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
Unit Revenue Allocation					
Slot Revenue	63.0%	63.0%	63.0%	63.0%	63.0%
Table Revenue	35.0%	35.0%	35.0%	35.0%	35.0%
Other Revenue	2.0%	2.0%	2.0%	2.0%	2.0%
Total Revenue by Unit (000s)					
Slot Revenue	\$72,459	\$76,335	\$79,645	\$83,020	\$86,339
Tables Revenue	\$40,255	\$42,408	\$44,247	\$46,122	\$47,966
Other Revenue	\$1,150	\$1,212	\$1,264	\$1,318	\$1,370
Total Revenue	115,015	121,167	126,420	131,777	137,046
Position Count					
Slots	1,200	1,200	1,200	1,200	1,200
Tables	55	55	55	55	55
Total Gaming Positions	1,530	1,530	1,530	1,530	1,530
Win Per Unit					
Win Per Slot	\$165	\$174	\$182	\$190	\$197
Win Per Table	\$2,005	\$2,113	\$2,204	\$2,297	\$2,389
Win Per Position	\$206	\$217	\$226	\$236	\$245
Visits (000s)					
Visits (000s)	1,371	1,387	1,396	1,402	1,406
WPV	\$84	\$87	\$91	\$94	\$97
Turns per day					
Turns per day	2.45	2.48	2.50	2.51	2.52

Source: The Innovation Group

OPERATING PRO FORMA

A prospective operating statement has been prepared for the Roosevelt Roads development covering five year projections for revenue, expenses, and resulting EBITDA given the revised project scope. Specific to amenity projections, gaming revenue was derived from our aforementioned Gaming Market Analysis. While we were not tasked with providing a full assessment for any other amenity, revenue estimates for the recommended scope were based upon operating characteristics of comparable facilities in other jurisdictions and general industry averages taking into consideration existing and assumed future market dynamics. The following section provides a description of revenue and expenses itemized in pro forma.

Revenue

Retail Promenade

Includes revenue generated from leases in the Retail promenade in Zone 1. Rental lease rates per square foot were based on figures gathered on shopping facilities in Puerto Rico with consideration for the type of vendor which will likely be drawn to the development as well as figures from similar properties in the Caribbean. Given this, we estimated a rental rate of \$60 for the facility with vacancy rates of 15%, which is comparable to the national rate for retail in Puerto Rico.

Casino

Includes all gaming revenue generated from the operation of slots, table games and other related gaming products at the proposed casino in Zone 2. Further details regarding revenue forecast can be found in the Subject Gaming Forecast section of the report.

Casino Resort

Includes all revenue associated with the casino hotel in Zone 2. Given the occupancy rates provided above in the Subject Gaming Forecast, average daily room rate (ADR) information was gathered for the best comparable resorts on the island. While the proposed property is expected to be “game changer”, understanding the current market for Puerto Rico’s largest resorts is critical to forecasting potential ADR. Given current year estimates which are estimated at \$146, we estimated an annual growth rate of 5% assuming the stabilization of the global economy and the reduction in unemployment in key feeder markets such as the US. This results in an ADR of \$181 by first year operations. The Innovation Group then applied a 40% premium to ADR for the hotel as, given its quality and scope, is expected to compete beyond the borders of Puerto Rico, with the likes of Atlantis and other proposed destination resorts such as Harmony Cove. This results in an ADR of \$254. In addition to room revenue, The Innovation Group estimated additional revenue for the hotel at 10% of room revenue and includes items such premium movie rentals, phone charges, room service, and other service oriented charges.

Casino Retail, Spa & Other

Encompasses all amenities within the casino and casino resort as noted in the recommended project scope. Revenue associated with retail was estimated in a similar fashion to the retail promenade, with revenue from spa, meeting and entertainment based on comparable data for the general capture of on-site demand and average spend. Other revenue, which includes items like ATM and credit card commissions, was estimated at 2% of total revenue generated from the casino and casino resort. Comparable to similar type gaming destinations in related markets, this non-gaming revenue was estimated at approximately 12% of total revenue. Retail, Spa and Other revenue for the proposed Roosevelt Roads is estimated at approximately 9%, which reasonable given the somewhat scaled down program that does not include, for example, a dedicated entertainment theatre.

Eco-Hotel

Includes all revenue generated at the Eco-Hotel proposed in Zone 3. Details with regards to the revenue forecast are similar to those discussed above for the Casino Resort with a premium to ADR set at 25% (resulting in an ADR of \$227) other revenue (non-room revenue) estimated at 5% of room revenue.

Eco-Attraction

Encompasses all revenue generated from the development on a unique, eco-friendly attraction that leverages the surrounding landscape. Projection for this attraction were approached in a similar fashion to a traditional water park, with capture rates estimated for potential patronage from off-site tourists, local market and cruise patrons (while on-site demand was assumed, this figures were not considered din revenue forecast as their entry is anticipated to be complimentary). While ticket prices for national water parks average about \$30, it is assumed that this attraction will be able to garner a higher ticket price given the comprehensive experience anticipated which may include activities such as snorkeling, scuba diving, zip-lining, rock climbing, nature trails, water slides and a man-made river system. At \$60 per person, pricing was reasonably in line with other comparable aquatic-adventures packages in the Caribbean.

Food and Beverage

Food and Beverage Revenues include all restaurants and bars associated with the development, less those venues that be leased out in the retail promenade in zone 1. Revenue was based on an estimated capture of on-site patrons and an average check of \$40 given comparable property data. Beverage revenue was based upon 15% percentage of food revenue and anticipated patronage.

Golf Course and Club House

Assuming that an 18-hole golf course is built and given currently supply of golf courses on the island; Roosevelt Roads resort would have a 4.44% fair share of the golf holes in Puerto Rico. Taking the fair share and statistics regarding private clubs in the United States collected by the National Golf Foundation (NGF), The Innovation Group forecasts 21,373 rounds of golf will be played at the resort every year. The course can expect to

see 59 rounds of golf played per day. Resort golf clubs typically have a stepped pricing system that is dependent upon the time of day patron wants to golf and whether or not the patron is an overnight, resort guest. The Innovation Group estimates the average green fee will be \$145.00. Assuming that all Food and Beverage Revenue will be provided in the casino, other revenue for the course is expected to total approximately 30% of Greens Fees. This revenue includes pro shop revenue and other revenue and is based on actual financial performance data provided by the NGF.

Other Revenue

Other Revenue includes miscellaneous revenue generated from other operations on the development include the visitor center and ferry terminal. Based on comparable data, other revenue is estimated to be approximately 1.5% of gaming revenue.

Expenses

The following presents departmental expenses and undistributed operating expenses at Roosevelt Roads. These includes payroll and related benefits necessary to operate each area and considers the above-average labor costs experienced in Puerto Rico relative to other Caribbean markets.

Promotional Allowance

Promotional Allowances represent the retail value of goods and services provided at no cost to rated players and potential new customers in the form of a reward or special promotions. Based on comparable property data that considers the nature of the region to aggressively target higher tier gamers from major feeder markets, promotional allowances was estimated at 15%.

Gaming Taxes

As discussed previously in the report, new legislation ties gaming taxes to construction costs for a gaming development. As such, we estimated at 10% gaming tax rate the Roosevelt Roads which is reflective of the iterative process conducted to estimate an construction budget.

Departmental Expenses

These includes of all labor and operating costs associated with operation of each department. Sample costs include training, supplies and cost of goods sold. Figures for each department are based on margins from comparable property data as well as industry averages and are adjusted based on forecasted annual departmental revenue.

Undistributed Operating Expenses

Undistributed expense consists of all staffing and operating experiences associated Marketing, general & administrative, human resources, information technology, repairs and maintenance and security and surveillance. Figures are based on margins from comparable property data as well as industry averages and are adjusted at a 2.5% inflationary rate per annum.

Roosevelt Roads - Five Year Pro Forma (000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
Retail Promenade	4,675	4,925	5,139	5,356	5,570
Casino	115,015	121,167	126,420	131,777	137,046
Casino Resort	74,559	81,404	88,038	94,306	100,050
Casino Retail, Spa, Other	10,567	11,132	11,615	12,107	12,591
Ecotourism Lodge	6,292	6,870	7,359	7,807	8,283
Golf Course & Clubhouse	4,029	4,150	4,274	4,402	4,534
Food & Beverage	45,620	48,061	50,144	52,269	54,359
Eco-Attraction	6,908	7,278	7,594	7,915	8,232
Other Revenue	4,015	4,275	4,509	4,739	4,960
Total Revenue	271,681	289,261	305,092	320,680	335,624
Promotional Allowances	17,252	18,175	18,963	19,767	20,557
Net Revenue	254,428	271,086	286,129	300,913	315,068
Expenses					
Gaming Tax	17,252	18,175	18,963	19,767	20,557
Retail Promenade	468	493	514	536	557
Casino Operations	59,808	61,004	62,224	63,468	64,738
Casino Resort	22,368	24,421	26,411	28,292	30,015
Ecotourism Lodge	1,617	1,766	1,891	2,006	2,129
Entertainment, Retail, Other	5,010	5,278	5,507	5,740	5,969
Golf Course & Clubhouse	2,820	2,877	2,934	2,993	3,053
Food & Beverage	38,777	39,410	40,116	41,815	43,487
Eco-Attraction	4,836	4,731	4,746	4,947	5,145
Other Revenue	2,208	2,351	2,480	2,607	2,728
Undistributed Op Expenses	38,164	39,118	40,096	41,099	42,126
Total Expenses	193,328	199,622	205,882	213,269	220,503
EBITDA	61,101	71,464	80,247	87,644	94,564
EBITDA %	24.0%	26.4%	28.0%	29.1%	30.0%

DEVELOPMENT BUDGET

The development budget was created as a projection of costs to develop Roosevelt Roads for the purpose of both estimating the projects projected return on investment and creating a viable scope. This budget covers the planning, acquisition, and construction period until the project is placed into service which is assumed to start in 2015. The Innovation Group segmented the development budget into multiple common categories for the purpose of analysis.

The categories used include, but are not limited to:

- Hard Costs – costs directly associated with construction
 - Construction Labor
 - Materials
 - General Contractor Conditions
 - Site Work

- Soft Costs – costs not considered direct construction costs. As is assumed that a single developer would be in charge of construction, Soft Costs were calculated as a percentage of total Hard Costs for the development.
 - Architectural Fees
 - Engineering Fees
 - Insurance
 - Taxes

- Other Costs
 - Contingencies
 - Opening

- Working Capital – Cost of initial pre-opening debt. Assumed based upon market expectations of a 35% equity/65% debt split at 11% cost of capital.

In establishing a construction budget, The Innovation Group used a building program/scope developed to price each individual aspect of the development (such as each hotel, retail space, golf course, etc.). By breaking the scope down to a detailed level we were able to assign a value for each line item. Given the uniqueness of the development, The Innovation Group used a combination of comparable properties, reported per square foot costs figure and conversations with both development industry experts, investment bankers, and individuals familiar with the nuances of the Puerto Rican market. Through quantitative and qualitative research and many years of experience in development of integrated casino resorts in the United States and abroad, costs were estimated for the four sections (Hard, Soft, Other and Working Capital) previously discussed. Once each amenity was established and priced, the subtotals of each zone is summed into a zone totals. These zone totals are then aggregated into a grand total wherein a project contingency is assessed at 10% of hard costs less systems supplies and equipment for the hotels. The figure of 10% for contingencies is an industry standard that is held for any overages that may occur during the process. All costs

include complete fit-out from structure work to finish work, as to establish a best estimate cost assessment of the facilities based on the perceived level of fit-out that is required to create a unique and compelling property.

Projected Development Budget

The aggregate development budget for Roosevelt Roads is segmented into Hard Costs Soft Costs; Opening Costs, Contingencies and Pre-Opening Costs.

Hard costs are considered the costs of actual construction, including labor and materials. The following chart displays the estimated hard costs associated with each amenity in the four zones of the development.

Hard Cost Estimates		
Zone	Amenity	Cost (millions)
Zone 1	Retail/Restaurant/Other	\$7.6
	Ferry Terminal	\$6.5
Zone 2	Casino, Hotel and Retail & Other	\$525.8
Zone 3	Eco-Tourism Lodge	\$34.4
	Eco-Tourism Museum	\$5.0
Zone 4	Golf Course	\$11.0
	Unique Attraction	\$20.0
Total		\$610.4

Source: The Innovation Group

Total hard costs for each of the four zones is shown in the chart above and correlates with the building programs displayed earlier in the report. Based upon our analysis, we have estimated a total hard cost of \$610.4 million. In Zone 2 hard costs for the retail, food and beverage, casino and hotel are shown in aggregate as it is believed that these spaces will comprise a single large property similar to a smaller scale integrated resort concept.

Soft costs are described as costs associated with services supporting the hard construction, such as architects and interior designers along with financial aspects of construction such as bonding and insurance. Given the large scope of the project, The Innovation Group estimated soft costs as a percentage (10.5%) of hard costs. As estimates for hard costs are approximately \$610.4 million, soft costs estimated to be \$64.1 million.

The next segment, Other Costs, includes Contingencies and Pre-Opening Costs, which includes pre-opening marketing, talent and other expenses. Contingencies were calculated as 10% of hard costs less systems, supplies and equipment resulting in a cost

of \$57 million. Pre-Opening Costs were assessed at 0.5% of Hard Costs for a total of \$3.1 million.

The last segment of the construction budget that was assessed was Working Capital. Working capital was estimated based upon a two year construction window. It is assumed, based upon the current demands of the market that the developer would contribute 35% equity and would assume an 11% interest rate on debt. Based upon these assumptions, we estimated that capitalized interest would be \$116.9 million.

Aggregating costs from each of the four categories results in a total construction budget of \$851.5 million. The chart below outlines the four categories, their respective costs and the total budget.

Construction Budget Overview	
Category	Cost (millions)
Hard Costs	\$610.4
Soft Costs	\$64.1
Other Costs	\$60.1
Working Capital	\$116.9
Total	\$851.5

Source: The Innovation Group

CONCLUSION

The following presents The Innovation Group's conclusions and recommendations given market demand and our financial analysis of the proposed Roosevelt Roads development.

- The Roosevelt Roads development is staged to be a large scale destination to compete with the largest resorts in the Caribbean today. As one of the most comprehensive master plans of its type in the region, Roosevelt Roads would accommodate new levels of gaming revenue for Puerto Rico.
- In order for this development to be a 'break-away model' for gaming in Puerto Rico, with potential beyond that of the more constrained, existing casino product currently pervasive in the market today, it is imperative that proposed project be a large scale development. As such, we compare this opportunity with those that facilitated successful master planned gaming destinations such as Atlantis (Paradise Island) and Sun City (South Africa), and planned projects including Baha Mar (Nassau) and Harmony Cove (Jamaica). In addition to this, Puerto Rico itself features robust options for recreational activities across the island that can enhance the average guests' stay.
- We recognize the ability for gaming to enhance demand and the overall attractiveness of the development, particularly given the advantageous capital-based sliding scale tax structure made available through new legislation and other tourism development tax incentives in Puerto Rico.
- A former United States military base, Roosevelt Roads is located on the eastern coast of Puerto Rico and is situated just south of El Yunque National Rainforest with waterfront views of the Atlantic Ocean as well as the islands of Culebra and Vieques. The site includes over 3,600 acres of conservation trust lands, as well as existing infrastructure from the base that has adaptive reuse potential.
- The site is supported by some of the best constructed roadways in the region as well as advantageous travel regulations, with passport free movement in and out of the country for U.S. citizens. Some major draws to the site will be its lush, green surroundings set on the backdrop of waterfront terrain that features unique recreation and sporting opportunities, superior lodging and dining options, eco-friendly adventures, casino gaming, and daily entertainment.
- We recommend that the project scope for Roosevelt Roads include a premiere, integrated gaming resort, a waterfront retail promenade, a ferry terminal, a unique eco-attraction, an eco-lodge, a museum/visit center, a golf course, and multiple forms of retail, restaurants and entertainment to support the overall development. In addition to this, there are opportunities for additional phases of development to include, among other things, a dedicated cruise port and airport on site.

- In total, the casino gaming operations at Roosevelt Roads is expected to generate \$115 million in gaming revenue in first year operations, 2015. Revenue is projected to grow to \$137 million by Year Five. The proposed casino is anticipated to require approximately 1,200 slots and 55 table games.
- Based on the recommended development scope, total revenue to Roosevelt Roads is projected to be \$271 million in Year 1 and grow to \$335 million by Year 5. Year 1 EBITDA is anticipated to be \$61 million with a 24% margin. As revenue grows and operations stabilize, Year 5 EBITDA is projected to reach 30%, or nearly \$95 million.
- Given the scope and financial projections for the proposed development, estimated construction costs for Roosevelt Road are approximately \$851 million.

DISCLAIMER

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

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

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