



Race Track Industry Program

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Morning Session 3

LEARNING TO COMPETE

Moderator:

Jane Holmes, Vice President Corporate Affairs, Woodbine Entertainment Group

Speakers:

Chuck Keeling, General Manager, Fraser Downs

Michael Pollock, Publisher, Gaming Industry Observer

Saverio R. Scheri III, Managing Director, WhiteSand Consulting

Craig Sculos, General Manager, Lincoln Park

MS. JANE HOLMES: My name is Jane Holmes, and I'm with Woodbine Entertainment in Ontario, and we've heard a little bit about Ontario today. And I'm the moderator for the session on the topic, "Learning to Compete."

As we've heard in the previous two sessions, there's a great expansion that is taking place in the gaming industry across North America, both in Canada and the United States.

We have a very distinguished panel here today to convey to us some of the information from their jurisdictions as to how they're going about competing as the new entrants are moving into the gaming marketplace.

Our first speaker this morning is going to be Saverio Scheri — did I pronounce that right?

No. Scheri; sorry. And Sal is the managing director of WhiteSand Consulting, and has over 20 years of gaming and consulting experience.

He's worked with racetrack operators, casino developers and regulators throughout the U.S. and internationally. He continues to provide consulting services for a number of the very high profile operators, and was the former director of the consulting practice for PricewaterhouseCoopers on the gaming topic.

And right now we're going to have Sal come in and talk to us about the experience in the midwest states, including Prairie Meadows. So Sal?

(Applause)

MR. SAVERIO R. SCHERI, III: Thanks very much. And you actually did well with the name, that was the Italian pronunciation. Scheri. We'll go with Sal to keep it is easier for everyone.

Thank you, everyone. I'm very pleased to be here today on this distinguished panel and to talk to you about competing in today's markets. I've been told I only have about 10 or 12 minutes.

I'd like to talk to you probably for a few hours about this because I'm very passionate about the work that we've done here, and how it's really changing. So I'll try to hit on some of the important topics and hopefully we can come back and do a little more on the Q and A side.

So very quickly; why are we being forced to change the way we compete? I think that we all know this, but just very quickly we see there's competition; that's great. We have competition from other tracks; the expansion of gaming. Okay?

We're seeing casinos all over the place now; land-based, riverboats. The proliferation is nothing new to us. Indian casinos; again, we're seeing a lot of racetracks that are competing with Indian casinos today where five, 10 years ago they didn't have to. That's a very new, very different thing.

And I don't have to tell you that what they're building is very different than the product that we have at the racetracks today. Entertainment-retail-restaurant complexes; this is my favorite. I mean, we don't think about the neighborhood mall as competition. But it is.

If you look at the malls that are being built today, they're unbelievable. They're beautiful, they have fantastic retail, they have really great restaurants, and when people say, "Hey, let's go out tonight."

"Where are we going to go for dinner?"

"Oh, there's a Cheesecake Factory at the mall," or, "There's a Tuscany Bistro down there. Let's go there."

And all of a sudden it's across town from the racetrack and nobody's going to the racetrack anymore. So that is your competition. If you don't know that, surprise! It is. And the land-based casinos which we talked about.

So how are racetrack casinos changing the way that they compete? And this is really the things that we have to think about. It's not so much, "Okay; well, we

need a new sign," or, "Let's add a new exotic wager" or something like that, we're talking about significant investments here, big decisions.

Obviously casino expansion. Larger gaming facilities is one of the things that we're seeing, and obviously makes sense. Because you can bring more people in, make more money, and the larger facility is more attractive to your customers.

Amenity enhancement. This is probably the most critical aspect of competing. If you don't have the amenities in your facility to compete with the other casinos, to compete with those malls, you're going to lose market share.

And if there's anyone in the audience from Prairie Meadows, I think they have learned this the best, they know that this is exactly what's happening and they're taking action to compete better with these types of facilities.

So if you think about it, you want to attract your customers to your casino, and you don't have a first class restaurant, a gourmet room, a really good casual restaurant; if you've just got burgers and dogs, or your restaurant that does an okay job, but let's face it, probably isn't the best dining experience in town, you can't compete with what's happening. And you will not attract the customers to your facility. And then you're going to lose them. Because everybody else is building this, okay?

Aggressive marketing. I laugh. I think some of the racetracks are doing a fabulous job with their marketing efforts, and I think there's a lot of folks out there that are really just kidding themselves. They think they're doing marketing but they're not. Okay?

We've learned a lot of lessons from the casinos in Las Vegas, the casinos in Atlantic City, Mississippi riverboats, with design. We haven't learned a lot of lessons about marketing. And this is probably one of the areas that's just glossed over.

There's no budget. And then you hear the arguments, "Well, I really don't have anything to market. Well, there's other things that you can be doing."

This really needs to be addressed. You need to have a formal strategy, you need to execute well. I'll talk a little bit about that.

Table games. This is a perfect example. And again, I'll look back at Prairie Meadows because we did some work there. They were at a disadvantage because they didn't have table games. And they are in fact probably within a few days if not in a week they will be opening up their table games, so they will be able to compete with the other casinos better because they have a full offering for their customers.

A hotel. Who ever thought about putting a hotel at a racetrack? Well, I can tell you a lot of them, including Prairie Meadows. And it makes sense. Because if you want to build a destination resort — now we're not talking about a Bellagio, okay — but if

you want to build a place that people have a reason to come to, a hotel adds to that.

There are many reasons to have a hotel. Let's think about this. What better place to have meetings and conventions than a racetrack casino? You have something for them to do during their off time. If you can give them the meeting and convention space that they need, and then if you have a hotel, guess what? You're going to attract people from outside your area. Okay?

Now, we're also not talking about 2,000 room hotels like we see in Las Vegas, but 200, 300, 400 rooms do make sense. And it's working. If you look at some of the other racetracks around town, around the country, you'll see that they're either building hotels on site or they have a relationship with one that's literally across the parking lot from them.

The entertainment, this is a big thing now. I mean, it's all part of it. It's part of the building of that full offering again. And it's not just bringing in local acts but it's bringing in name brand entertainment.

And you know what? Yeah, it costs some money, but you're going to attract the people and the people are going to come and play in the casino and you're going to make money if you do it right.

Meetings, conventions, we talked about it.

Customer service. This is another one. This kind of falls in that same category as the aggressive marketing. You may think you're doing a good job but you're probably not doing as good a job as you really think you are.

What's going to differentiate you from the competition? Well, clearly the amenities that you have will do that. The product will help differentiate yourselves. But if you really want a 100 percent marketable product, you have to provide great customer service from top to bottom. And this is where we see it lacking so often.

We'll walk into a facility and there's employees leaning up against the wall. You're standing there waiting for them to come over. Sometimes you get one that's a great person, smiles, "Hi, how are you? Good afternoon. Oh, congratulations." Another one that doesn't say two words to you is frowning and really just doesn't give you the time of day.

Consistent customer service is really important. Because you know what? If the people don't have a good time they're not going to come back. And let's face it, I mean, for a long time customer service was not an issue at the racetracks. And in fact, in some ways we've gotten away from it. Self-service terminals. You come up, you see the teller, some great teller, but that's it, you're done.

But now we're talking about people that are providing either change or doing hopper fills, or if we're cashless we're talking about at least maybe doing a hand-

paid jackpot. Cocktail service; these are the pieces that — it has to be great service. And it's all part of that complete offering.

I just want to talk quickly about that marketing. I kind of talked about all the aggressive marketing, the lack thereof. Just some things to consider.

Loyalty clubs. We all have them, right? Everybody joins the club gets a card, puts it in a slot machine, great. Player tracking, okay? Yeah, we're collecting all the information, but what are you really doing with it? Are you just mailing to your top customers? Are you doing any kind of analysis?

The time is now to start again taking lessons from the casinos in Las Vegas, in Atlantic City, in Indiana, in Mississippi. The way they do their marketing, they have very large budgets dedicated to doing this aggressive marketing, to analyze their results to a point to say, "Okay, I'm going to market these people with this particular type of offer."

Not just, "Hey, come on down to the track on Saturday night."

It's not just that kind of a mailing, it's something much more sophisticated, where you're looking at their type of play, their trend, how often they come, how much they bet, how much they lose, where they live. This is the analysis that's not happening.

The technology, again, part of it is because you don't have the technology systems to do it. So an investment has to be made in the technology. If you look at the player tracking systems, and you know, because you probably have some form of them, they cost millions of dollars. Well, don't stop there, you need to finish the job.

And then execution. You know, we can all talk a great game, but you really need to execute on all these things we say we're going to do.

Customer service, just quickly. Some things around here that are important. Staffing levels. Do you have the right number of people working there? We're all trying to cut costs, but when you cut back on staff, you impact customer service.

And that comes back to your organizational structure. Do you have the right organizational structure to support this? This is very different; now we're talking about something that looks more like a casino than a racetrack. You have departments that you never had before.

Do you have it set up right? Do you have the right staffing levels? Have you ever sat down and rather than just kind of go, "Well, I think we need three people here."

Have you ever really sat down and done some analysis? Have you looked at how much overtime, have you looked at the quality of your customer service?

Training. What kind of training is done? And is it done on a regular basis and is it recurring? Benchmarking and monitoring. It's great to talk with this stuff but do you actually say, "Okay, this is where we are today, and let's come back in six months, a year and see how we're doing? Are we doing the same, better or worse?"

And does it tie in to the employees' reviews? Because if it doesn't, they don't really care. If they're not graded and rewarded on their level of performance in customer service, how motivated are they going to be to go the extra mile?

Secret shoppers, people coming in, third parties coming in, taking a look at how well you're doing in a meaningful way; not once a month and they look at three things and they leave?

And then you have to document the service levels and standards. I mean, I can't tell you how important this is. And let me tell you, racetracks are not the only ones that don't have this documented, casinos don't as well. But many of them do. The ones that do a better job of it do because then it's communicated very clearly to the employee what the expectations are. And when that happens, you'll get much better results.

So kind of going back to, how do we compete, because that's what we're talking about today, what are some of the things that we need to consider?

Selection. What exactly — and I'm going to come back to things like amenities and stuff like that. So the selection. What are we going to have? Are we going to have a gourmet steak — I'm running out of time. See, I told you I have a lot more — I'm almost done though.

Are we going to have a steakhouse? Are we going to have a gourmet Italian restaurant? Are we going to have a sports bar? Are we going to have a nightclub? Are we going to have a - what kind of amenities are we — I was going to say Strip club, okay, but I backed off.

Because more and more places are doing that; you'd be surprised. But it's probably not the right venue for the racetracks just yet. But it is happening around the world, I can tell you that.

But you need to say, "What are we going to have?"

And you cannot just go and say, "I think we need a steakhouse."

You might be right, but you might be wrong. You need to do some research, some formal research, and not just asking friends and family, okay?

Sizing. How big should it be? Is it a 50-seat restaurant? Is it a 75-seat restaurant? Is it 150? Do you know? Or are you just guessing?

Branding. Now this I love, because I talked about this two years ago. And I had a couple of folks come up to me and tell me that I was crazy, that it just didn't make sense to bring in a name brand restaurant into a racetrack.

Huh. They're doing it. It's happening, and it makes sense; maybe. Again, it comes down to the research. Maybe it makes sense to have a Morton's steakhouse on your property, maybe it doesn't. Okay? But if do you some research you can answer those questions.

Ownership versus management. Again, it comes down to branding, especially things like around the hotel. You don't necessarily want to get into a situation where you're fighting with — and this is the same argument for a restaurant as well — where you're fighting over seats for your players where rates, because they're going to charge you a hard cost versus a soft cost if you own it, that has to be incorporated into your financial models. These are things that need to be considered when you're making these decisions. You can't just shoot from the hip.

And location. Where is this going to go? Where do I put the steakhouse? Where do I put my hotel? How big should it be? These are important questions that need to be answered.

Now, how can the racetracks make these decisions? Again, it's competitive analysis. Let me really understand what my competition is, who my peers are and where I fall with them.

Operational reviews. How good of a job am I doing? Are we doing a great job, a poor job? Where can I improve? Market demand studies that will help dictate really what you can support, both in the size of the casino and the amenities and the hotels and number of rooms.

And then research and analysis. This is focus groups, telephone surveys, formal research that actually can answer a lot of the questions for you.

So with that I will end my spiel, because I think they're going to start throwing things at me.

(Chuckles)

Thank you very much.

(Applause)

MS. HOLMES: Thanks, Sal. It was a great presentation, and just before I was about to pull out the hook.

Our next speaker is going to be Craig Sculos, who is the general manager of Lincoln Park. And he's been around the pari-mutuel business for a number of years, because prior to being the general manager he was the assistant general manager.

And he's undertaken a lot of great initiatives to keep the revenues at Lincoln Park in double digit figures for the last, oh, many years. Craig?

(Applause)

MR. CRAIG SCULOS: Thank you very much. And before I start you'll see the title says "Money Ball." I am a proud and true member of the Red Sox Nation. And after listening to Sal I am changing my name to Craig Varitek Ramirez Schilling Ortiz. And if there are Yankee fans out there and I make fun of you, I've waited 86 years to say this.

(Bronx cheer)

(Laughter)

I can now die happy. The title of the presentation is indeed "Money Ball." Sitting around a couple years ago literally on a beach somewhere trying to say, "Well, where is our business going?" A lot of great books out there. Picked up Jim Collins' "Good to Great."

I said, "Wow, there's a lot of charts in this; I don't feel like reading charts."

Then I saw, "Who Moved My Cheese?" And I said, "Well, I'm lactose intolerant. Why do I want to read this book?"

Then I came across "Money Ball." It's a real book. It chronicles the Oakland A's Billy Bean. It talked an awful lot about how a company, a baseball team tries to compete against teams such as the Yankees and the Red Sox.

I said, there's a lot of similarities. Although it's not baseball, we're facing an awful lot of what Billy Bean and the A's are. So with that in mind, we kind of jump into this presentation, under the theory, again, that if you are a Yankees' fan I could really care less.

But let's set up a little bit about what we're talking about — if I can operate this. And I apologize in advance; we had a lot more animation, some commercials, etcetera. But I spoke to the IT guys and said, "What happened?"

They said, "User error."

I'm the user. Somebody's out of a job when I get back to Rhode Island on Friday. But nonetheless let's take a look at what we're competing against.

What is the playing field? Foxwoods and Mohegan Sun are arguably two of the largest and most successful casinos in the business world. All three of these facilities are separated by less than one hour.

Foxwoods, that's the Mashantucket Pequots, were first in. They opened up in the '90s in the casino world. They opened up as a bingo hall.

In the mid-'90s came the Mohegan Sun. Both of these facilities are very well operated, it is a tremendous credit to their teams. They have done phenomenal job.

Lincoln Park; well, we came in the 1940s as a thoroughbred track. In the 1970s we were retrofitted to a greyhound track. And as our executive director of the lottery mentioned, 1992, as Mr. Aubin said, we became one of the first racinos in the nation.

If you ever saw the movie "The Sting," Lincoln Downs. That's Lincoln Park. This is the playing field. You can see we're a little bit outgunned. Three hundred and fifty thousand square feet of gaming space, the Foxwoods a little bit less than that at Mohegan, and bringing up the rear is yours truly.

When you take a look at the next slide, you can see how massive these properties are. That's not a misprint. That's millions of total square footage.

Hotel rooms. I actually should have just started off this presentation by saying, "Everything Sal said I should say ditto to." He did a very good job in his presentation and a nice job kind of setting up what we're talking about. The Grand Pequot Tower was part of Foxwoods' original plan. When Mohegan Sun did the renovation they added a 1,200-room hotel that is just awe-inspiring. They did not cut one corner.

And at Lincoln Park, unless you want to sit in the back seat of my car, there is no hotel space. But it is a nice car, all leather seats.

This is gross dollars, we're talking handle, \$9.6 billion at Foxwoods, \$10 billion plus at Mohegan; they are separated by about 15 or 20 minutes. We are about 50 minutes up the road, let's call it an hour, and we're quite proud of our \$1 billion; but when you take a look, we barely make the chart.

Number of slots. Foxwoods, 7,300. That's about a thousand more than Mohegan. We're at 2,543. And I should mention in Connecticut, there's a combination of mechanical slots and a video product; there's also bingo at Foxwoods, of course; as I mentioned, that's how they started.

At Lincoln Park we have VLTs only. This is one of the first — I believe I wouldn't call it TITO because we can't exchange, but we're one of the first facilities to have a soft drop. Fortunately now the kind of market that is emerging that is really no longer a detriment to be in the video world.

This is one of the most interesting charts. Win-per-unit-per-day. Mohegan dominating Foxwoods, but I would say our performance keeps us almost — well, third place in the division, but we're not totally out of the hunt for the wild card.

Table games. As Sal mentioned, thanks to the good folks at ESPN everybody wants to be in a poker tournament, everybody wants to play Texas Hold 'Em. Don't come to Rhode Island because it's illegal. Again, unless you'd like to play in the back seat of my car, but that's a story for another day.

And by the way, I am one of the few people that can stand up here and say "pahk the kah in Hahvahd yahd," and I'm not faking my accent, it really is that bad.

Three hundred fifty table games, 286 at Mohegan, Lincoln Park of course has none. One of the most difficult parts of the competition, patron loyalty, player tracking. We are hopeful that someday soon we'll have that incredibly important component introduced at Lincoln Park.

We have a database. I'll talk a little bit about it at the end of the presentation, but it does not rival either the ability to give the patron what they want or to provide all the necessary information that is critical to running a facility.

Foxwoods and Mohegan, very good at what they do. The awards club at Mohegan, Foxwoods I believe it's called the Wampum Club. Ahh, we do beat them in something.

(Chuckles)

State tax. My heart goes out to you folks in New York and Illinois, but don't come crying to me. Eighteen percent is the blended rate in Connecticut, 60 percent to yours truly. Here's an interesting shot. Remember back we were talking about the playing field with \$9.6 billion at Foxwoods in gross, \$10 billion at Mohegan. Well, look what they pay the state?

Come on, Little Rhodie. We are making progress, although I don't necessarily think that we want to be paying a 60 percent tax rate. But as they say in Latin, "Res ipse loquitur," it is what it is.

Capital expenditures; these two facilities in Connecticut grow by casinos. When they do additions they don't just add 200, 300 machines, they grow by another casino. The \$300 million Rainmaker Casino, what did that include?

Well, aside from a thousand slot machines or so, a 36-hole golf course, a 2,100 indoor garage for parking, they have a Hard Rock Cafe, and I think the total employment is about 15,000 people. Mohegan Sun, the \$1 billion project Sunburst, 20 retail outlets, 1,200-room hotel, 29 diamond venues, a 10,000-seat arena and about 10,500 employees. Again, going back to what Sal said, everything that he's been talking about is what we're looking at.

Okay. Somehow I managed to mix this up. "User error." You were right. We've set the field for you. Now we play small ball. What is this akin to? Bases loaded, you're down three-love in the best of seven series and who comes in out of the bullpen? Mariano Rivera.

But you know something? You can't compete. And I guess the point that I'd like to make now is quite zen-like. We compete by not competing. And again, so much of what I'm about to say Sal had mentioned.

You should, Sal, pay me a fee for every time I mention your name up here. But he certainly has hit this dead on. We like to play smart, we like to hit the basics well. It's niche marketing. That line should say, "The basics of niche marketing."

Bottom line? We identify the market, and I think we do this very well. What we're basically saying to our patron is, "If Connecticut is too far, if it is just not enough time for you, if your luck has gone wrong, come see us. Because we're not as big, but we can maybe give you a better experience."

Part two. Grow the existing base. It is critical. Increase the visitation, bring up the frequency, and I guess in the pari-mutuel world we used to refer to this as the churn.

And then finally, capture the patron that is not coming to your facility now but should be. In advertising lingo they like to call that the qualified non-user. Know your niche, grow the niche, exploit the niche. It's very easy to say. How did we go about doing it?

Well, in the introduction our business has grown double digit every year for 12 years. We tend to outperform the industry by three-fold. How do we do it? Well, it's marketing. It's aggressive but it's marketing on a budget. The components, I think they're pretty easy.

Electronic direct print. There's another title that didn't make it in there, it's called promotions. The budget allows us to swing for the fences, maybe strike out once or twice but we can't strike out a lot. Bottom line is we've got to put the ball in play.

When I first arrived there was no comprehensive marketing plan. Everything was a singular event. As Sal was saying, we thought we were marketing but we really weren't. One the most controversial items, we did away with event-specific and went to a branding campaign. Ironically, we basically said, "We're not your father's Oldsmobile." Well, Oldsmobile's going out of business. I suppose we could have picked a better slogan to use.

But the bottom line is we said, "It's a visual game, it's a fun game, we're putting most of our money into television." Which is really what we did. We ended up using direct mail because it's cheap and it's effective. And we kind of stole a little bit from the casinos. Every month, every single month there's a database of 35,000 people, they get a postcard. We're hitting their e-mail addresses.

That's layered on top of all the advertising we do. We advertise in prime programming. We're not on cable all that much, we're hitting the top 10. We're

looking at the Nielsons, we're looking at the Arbitrons, we're spending money aggressively because we need to.

Every account exec that comes in to see us says the same line. "Foxwoods and Mohegan, they're on our station." Well, you know what? If I had their \$15 million or \$20 million I'd be on your station too.

Running down very quickly here, and print promotions. Those are two items that I'll basically say, "Print didn't work, promotions worked marvelously." It's very important to have a strong campaign. It has to be more than just swiping your card, it has to be interactive. We spend over a million dollars a year in promotions, in particular a scan card that patrons bring in. 60 percent is the redemption rate.

Moving on to essentially the next to last, basically everything that Sal said is up there. We hit our demos, we survey and shop, we treat that religiously.

What are our advantages? Well, at the end of the day we have outstanding customer service, that we hope to get better. Our convenience works in our advantage. We're just outside of Providence and we promote it as much as we can.

Trends. Thanks to the good folks at WMS Gaming and IGT, and G-Tech and STG, kind of been rolled into the G-Tech product at our facility as well as Spielo, we look to these guys to help us.

We were the first to introduce non-smoking, the first to have low denomination games in the market, and it helped a lot.

And then the final slide, customer-centered, I can't say this enough. Don't pretend to be in the business. Every employee of yours has to be your ambassador. Policy of empowerment? Our managers make decisions. We like to keep tech calls, if there's a problem with a patron, to maybe 30 seconds to a minute. That is as long as a patron should wait.

And then finally the free agents. Bring in good people. Don't be afraid to go outside and bring in the experts in advertising and in marketing, be it consultants or people that work with you creatively.

At the end of the day, we compete by not competing. We know our market, we hit our trends, and at the end of the day we win more ballgames than we lose.

Hope this wasn't too boring. Go Red Sox! Eighty-six years. One last time: I'm sorry, Yankee fans, you finished second.

Thank you.

(Applause)

MS. HOLMES: With enthusiasm like that how can Lincoln Park not be a winner? You've got a real grand slam going there, Sal.

MR. SCULOS: Thank you.

MS. HOLMES: Our next speaker has been introduced actually in our first session today, by one of the moderators. Michael Pollock is the managing director of Spectrum Gaming Group, and founder and editor of Michael Pollack's Gaming Industry Observer.

And I had to admit my ignorance, being a Canadian, that I actually hadn't seen the paper. And I understand we have copies of it available here for everyone to pick up.

He's also the founder and organizing sponsor of the Mid-Atlantic Gaming Congress, which is the largest gaming conference in the northeast United States.

And he was the spokesperson for the New Jersey Racing Commission, and we're very proud to have his expertise and knowledge here on this panel.

Michael?

(Applause)

MR. POLLOCK: Thank you. Two clarifications. One, it was the New Jersey Casino Control Commission; and two, I am a Yankee fan.

(Chuckles)

Let me start by offering one little known fact about the casino tax rate in New Jersey. When the tax rate of eight percent on gross gaming revenue was first proposed in 1976, in the heat of a political campaign, that number was determined for one reason. Proponents of legalized gambling in Atlantic City wanted to make sure that New Jersey had the highest tax rate in the nation.

It's a good thing Atlantic City did not wait until 2004 to legalize casinos. Using that benchmark New Jersey would have to propose an effective tax rate of more than 80 percent in order to achieve the ignominious distinction of having the highest effective tax rate.

These days New Jersey is basking in the well-deserved reputation of having one of the lowest tax rates in the nation, and of offering a relatively stable and pro-business regulatory and investment climate. And that's true on all counts.

But I need to point out that extraordinary irony; the gaming industry in the east right now is virtually unrecognizable from what was projected in the 1970s when New Jersey became the first state outside Nevada to legalize casinos. But then again, a few things have not changed.

Just as it was in the 1970s, it is still politically expedient for gaming proponents and legislatures to propose higher taxes rather than low taxes. I can't imagine a politician or bureaucrat in Harrisburg, Albany, Annapolis or any other state capitol boasting of having one of the lowest tax rates east of the Mississippi.

Now, one result of this political reality is that Atlantic City is becoming the East Coast version of Las Vegas, not just in a sense of its evolution into an entertainment destination, but also in the sense of being a haven for capital investment.

Consider the case of New York which has an effective tax rate, as you've heard, of over 80 percent. But I know the actual tax rate is not that high, but when you add in the various slices of a pie going to the constituencies, it means 20 percent of the top line goes back to the gaming operator. Based on that mathematical formula, gaming operators are not exactly willing to pour capital into the racinos, and who can blame them?

Delaware North, for example, had the following capital budgets for its racinos; Buffalo Raceway, \$8 million; Finger Lakes, \$10.5 million roughly, Saratoga, roughly \$15 million. That sort of capital investment in Atlantic City, the market I'm most familiar with, is less than you would spend to get a restaurant.

In Pennsylvania the investment climate is somewhat stronger with an effective tax rate of about 52 percent, but even that rate will not be sufficient to encourage capital investment of the sort that will challenge Atlantic City's dominance. Now I know, I've met many of the operators in New York and Pennsylvania, and they're first rate and they are very talented management teams, but it takes more than that.

Now, I do not suggest by any stretch of the imagination that Atlantic City will not be impacted by the growth of gaming throughout the east. We project that eastern Pennsylvania, when it reaches the level of 12,000 to 15,000 slots, will reduce Atlantic City revenues between five percent and eight percent from their current levels. Now that's hardly a mortal blow to Atlantic City, and such declines can be easily recovered by moving upscale in the demographic food chain.

High-end Atlantic City properties such as the Borgata are absolutely unfazed by the prospect of slots in Pennsylvania. Others are not so sanguine, but the bottom line is that Atlantic City can absorb such blows and keep on growing, assuming that it continues to have access to affordable capital.

Now interestingly, the State of New Jersey's response to the prospect of increased competition is to subsidize the investment in non-gaming facilities in Atlantic City. And I believe that's the right approach.

For example, the Quarter just opened in November at the Tropicana. It's a hotel, dining and retail complex constructed at a cost of \$285 million. Now, the present value of the subsidies provided by the state — and they come in various forms —

when you add them up and take the present value it amounts to about \$60 million. Which means that \$285 million project now has an effective cost of \$225 million. And it's a lot easier to achieve your targets.

Now, states that have gaming will inevitably circle the wagons in the face of impending competition to protect their own industries. That's what's happening in New Jersey, it's happening in Delaware. Table games are an inevitable follow-up move and you can expect them to arrive at some point in the first generation racino states.

Now of course the domino effect that fueled the expansion of gaming will not slow down, rather it will take on new forms. Among the various arguments that were made in favor of expanding gaming, a few resonated more loudly. States need tax relief and states need to keep their gaming dollars within their own borders. Those are the arguments that made most sense or that resonated with borders and with legislatures.

The inevitable result will be that states will try to build moats around their own population, and then around their own gaming industries. This process will engulf virtually every state in the northeast and will force states to rethink their own gaming policies in some cases as you're seeing in New York, even before those gaming policies have been implemented.

New Jersey is not immune to these pressures and will in part fuel them. I fully expect that slots will be added to the Meadowlands Racecourse in New Jersey, the only questions are how many, when, what type, and what will the tax structure be.

We have performed numerous studies on that issue for various clients, and our core conclusion is that the state must ensure that its various gaming policies do not contradict each other, and work toward clear goals. And that's advise you can take in any state.

Set tax rates and other policies that make sense. Once upon a time having the highest gaming tax in the nation offered legitimate bragging rights, and that is no longer the case.

And I'm happy to say Jane did not have to hold a piece of paper.

Thank you.

(Applause)

MS. HOLMES: Thank you. Our last speaker today is Chuck Keeling. And Chuck is the general manager of Fraser Downs in British Columbia, and comes from a long background of family in the horse racing business, stemming in Ontario actually and then moving to B.C.

This past spring slots have been approved to go into Fraser Downs, and so as a new entrant into the gaming environment, Chuck is going to talk about his experience at Fraser Downs.

(Applause)

MR. CHUCK KEELING: I really enjoyed Craig's presentation, but I didn't understand the baseball analogies. I'm a Canadian, I'm a hockey guy; Mariano Rivera? He must play for the Bruins. And I thought it was the White Sox that played in Boston, not the Red Sox, so forgive me.

Actually, a funny story as an aside in regards to Craig's reference to the book "Money Ball." A gentleman who might be in the room today, gentleman by the name of Fraser Rawlinson, yeah, there he is. He gave me a copy of this book "Money Ball" today. Fraser is a longtime horse racing fan and supporter, he's done some work, primarily goes to Hastings Racecourse, a thoroughbred track in Vancouver. One of the brightest guys I actually met. Has actually done some work with George Steinbrenner of the Yankees. I guess he's the owner of the Yankees is he?

Anyways, so at breakfast today Fraser gave me a copy of this book. So if I can have as much spirit and enthusiasm as you, Craig, I'm going to read this book right away. And if you think your numbers are tough, Craig, wait until you hear some of mine that I got to deal with.

I'm certainly thrilled to be here today, and be part of this distinguished event, and be up on the stage with these folks. I hope I have something to add. But I must preface my comments by saying that my involvement has more been in the battle to win approval for slot installation at racetracks.

Our campaign started eight years ago, in 1996, to win the approval for slot installation at racetracks in British Columbia. We've only been in operation with slots for about six to eight months now. Finally, after speaking to groups of two people, groups of 200 people, over many years, and dealing with our legislatures, both at the municipal level and the provincial level, we were able to attain final success in getting that approval for installation.

I appreciated Senator Geller's remarks this morning. There were many times over those eight years I sure wanted to be rude to some of the politicians we dealt with, but I bit my tongue and was always respectful; everybody on our team both on the thoroughbred side of the industry in B.C. and certainly on the harness side, the public information campaign we waged, again, it was ultimately successful. Long process, let me tell you.

We have been in construction at Fraser Downs now with a \$25 million project for over a year. And we're not going to be done for another six months. It's been a frustrating process trying to stay in business with live and simulcast racing and at a temporary gaming floor through that period of time, but just last month our

permanent gaming floor itself opened with 3,420 slot machines; and during that same week we won a referendum in the community called North Sanich on Vancouver Island where we have our smaller racetrack, Sandown Park, to move forward with installation of 200 machines there.

So we operate two racetracks, we'll have 620 slots machines in operation this time next year.

The competitive environment in B.C. is pretty fierce. It's obviously very highly regulated, but most of the casinos that have opened have been instant successes. Until relatively recent times 300 to 400 slot machines and some table games has been the limit. The biggest casino in Greater Vancouver now is a thousand slot machines, 75 tables, and other amenities. That's our version of Foxwoods. Foxwoods or Mohegan Sun.

This time next year there'll be eight casinos in Vancouver, including our 2,600 slots in operation at casinos in Vancouver and our racetrack, Fraser Downs Racetrack and Casino, the B.C. Lottery Corporation actually lets us call ourselves a casino even though we don't have table games. But by this time next year there will be 4,900 slots in operation in our competitive marketplace.

As well there are three tribal casinos within a 30-minute drive of our front door in northern Washington State that operate with a completely different operating model. Obviously a much more attractive one.

Our experience so far has been positive. We're ahead of our budgeted numbers, our temporary gaming floor was doing a net win of about \$440 per machine per day; that number's at about \$350 right now that we've graduated to the permanent floor with 420 machines, but again, we've been operating in a giant construction zone, our parking lot isn't done, many of our other amenities. On the racetrack side we've literally ripped apart and we are rebuilding that. So we certainly expect that number to ideally hold as the new competition enters the marketplace. But we certainly don't take anything for granted.

We've been very aggressive with our promotions and marketing. Further to Sal's point and some of the things that Craig specifically has mentioned, we're doing ourselves. But we know that the under-serviced nature of our market makes business development relatively easy. We expect that to change and it's going to change fast.

More is developing very, very quickly, as I've already mentioned. One of the things we're doing is we're selling the obvious. And that is we're going to be selling horse racing. That's the whole reason we're doing this, and we're not dropping that argument, that fundamental concept now that we've already received approvals.

Throughout that eight-year period that I mentioned, one of the things we've done as part of our public information campaign is be very aggressive with our printed materials, explaining the politics and the rationale for our arguments.

This document that I'm holding up is the latest document that we've produced, so you can see it's big, it's bold, and again, is part of our rationale going forward, just why we're doing this, why are there slots at a racetrack?

It's a very premature market that way, unlike some other more mature markets in the United States or Ontario or Alberta. And also I think that — I had that done to remind myself as well as everyone else, again, just why we're doing this, not forget about our core business.

Obviously as everybody in this room knows, management of a horse racing operation is very labor intensive, and it can be very political; balancing all the interests between staff, horse people, breeders, media and the community itself can be a real challenge. A successful casino or racino by very simple comparison, a high cash flow, big margins, a very attractive proposition relative to a racetrack.

Some people have said to me in regards to that, "Well, why would you in your right mind want to keep racing as a priority?" Again it comes back to the niche we're trying to develop to compete against the casino gaming that is entering the market place and already existing.

And also of course horse racing with its major economic impact, it makes it easy to impress upon governments and politicians the diversity of our game. Horse racing, again, we know, compared to a casino leverages dollars through countless numbers of small businesses, and it's a dynamic generator of employment and economic impact, much more so I would argue than a unidimensional casino.

Our politicians in British Columbia grasped this and they have become our powerful allies. Obviously it offers a diversified package for fans and customers, and the ability for joint ventures and promotions with media, charities and suppliers.

We can command media attention in the sports pages, the business pages, and in some instances even the mainstream pages. Casinos can't do that. Casinos can't compete in that world. They literally must buy their profile. They've got a big budget to do it, but they've got to buy their profile.

We also look at live racing as our theater. Sal mentioned live entertainment options being a big part of the casino marketplace. And we are developing a show lounge. Again, we're not going to be able to tackle some of our casino competition on as grand a scale, but we will attempt to do it on a smaller scale.

But keeping in mind again that our fundamental product is racing, and we are going to do everything we can to fashion the live racing product as our, quote unquote, theater.

I've often asked myself, like Craig with Mohegan Sun and Foxwoods, "Well how do you compete against your big competition?"

As I mentioned, our version of Foxwoods is a big casino called River Rock Resort. My simple answer is similar to Craig's, "We're not going to compete with River Rock. We don't have table games, we don't have the same size or scale."

They're 30 minutes from our front door. We even have a different commission. This is an interesting circumstance in British Columbia. In British Columbia casinos retain 28 percent of the net revenue. As the gentleman from Wheeling Island Racetrack, the marketing manager there, his name's James Rafferty, we are in a public gaming state, in that over half of our revenue goes back to our provincial government. So even the casinos face that situation.

However, unlike the casino scenario, racetracks in B.C. only retain 25 percent. So there's a three percent difference between our casino competitors and what we retain as our net revenue. Furthermore, that 25 percent that we retain, five percent is restricted to capital payback and two percent is restricted to marketing expenditures, so we have 18 percent free operating cash flow for our expenses and any profit left over.

So I've been listening with great intrigue and been reading the trade mags about some of the situations in New York and Illinois, where they're facing a similar situation. I know what those jurisdictions are dealing with in terms of their very restricted cash flow.

There are some advantages to being last, I'm certain of that. Jane's waving the paper so I'd better be quick here.

We look to Ontario as the model jurisdiction, there's no question. Many racetrack jurisdictions do that. Certainly in British Columbia we'll never be Ontario; we don't have the market size, and we have far too much competition.

But there is a big difference in British Columbia that I like. We control our gaming floor. In Ontario, as we heard from Mr. Taylor earlier today, the OLG is literally a tenant to the racetrack. In our case we operate it, other than the B.C. Lottery Corporation actually owning and operating the machines, but all the staff are ours.

We have pari-mutuel machines on our gaming floor. We can explore synergy with our racing product and gaming machines. We've got economy of scale at the managerial level between the operations.

If anyone is venturing into the racino market I couldn't encourage you more to get into the actual management of it. Certainly respect what they've done in Ontario, it's a tremendous jurisdiction to race in, but that's one thing I like being last in our marketplace; we're able to say, "No, let's control this ourselves."

The other interesting thing, we've got the same product line and the same pricing as our casino competition. You go into our place or any other casinos, you're going to see the same slot machines at the same takeout, if I can use that term.

So despite some people saying, "Well, the slot machines are looser at Fraser Downs," or "they're tighter," that's not the case. So we are aggressively exploring ways of differentiating ourselves from the casino competition, again, by looking at horse racing as our fundamental product.

We have a Player's Club on the horse racing side. For the last eight years we've been mining that data. The Lottery Corporation has rolled out a Player Club that's available to all casinos. We can explore opportunities with our Player Club as well as the B.C.L.C. Player Club to try and develop some opportunities that our casino competition won't have.

Our location is very favorable as well. We're in a satellite city of Vancouver, 400,000 people. We're the closest gaming location to those 400,000. That is our marketplace. So we're going to try and compete on service — obviously that's been mentioned — location, and again, keeping in mind our niche product, our core product, racing.

We wouldn't necessarily be here today if it wasn't for the horse racing business, I believe. So let's not forget about the business we're in.

Thank you.

(Applause)

MS. HOLMES: That you, Chuck. And I think in terms of enthusiasm meeting up with Sal — or with — I'm sorry — Craig's enthusiasm level, so I'm sure that you're going to have a lot of success out at Fraser.

Now Patricia had asked me to speak a bit about the Ontario experience, and we're running out of time, so I'm not going to say a whole lot, other than to say that Sal's hit the nail on the head. You really have to create an entertainment destination center.

What we see at Woodbine and in our discussions with our customers is that we need to compete with the other bars, restaurants, theaters, sport, major sporting events that exist across the city; as well as we have to compete with the commercial casinos that are operated by the Lottery Corporation, but under different rules.

They're allowed to do marketing, we're not. The Lottery Corporation does our marketing, although we're working on some joint initiatives at this time. Woodbine is looking at property development to create an entertainment zone and to draw the people to the site, because we need the revenues to go back into the core business of horse racing.

In Ontario our focus is horse racing because the Lottery Corporation is running the racetrack slot program. And so we see that as a joint benefit to everyone; but

because of the way our business works with horse racing and the time between the races, it's not an easy business for newcomers.

So we're looking at drawing people out and making it one of the various entertainment options and exposing more people to the horse racing industry. So in that sense we are looking at exactly what Sal has discussed.

We're going to leave a few minutes for the questions from the audience, because I'm sure there's a lot of them. But I have one question that I want to throw out, and it's not the one I talked about first.

We've all been talking about the competition with the bricks and mortar. One of the big issues that we're addressing at Woodbine and are very concerned about in Ontario is the competition from the illegal Internet operators, the off-shore operators.

Can I have some input from the panel members as to whether you believe that's truly one of the competition that we're competing against?

MR. POLLOCK: Well I'll take a shot at it. For the bricks and mortar it's similar for the land-based casino operators in New Jersey, which I'm most familiar with, it's really not an issue. I don't think — if New Jersey was ever to get sports betting, it could then potentially be an issue, because sports betting is an area where you do have a lot of competition with Internet betting.

But from the standpoint of land-based casinos, I don't see Internet betting being a major competitive threat.

MR. SCHERI: I would tend to agree with Michael. We noticed a number of casino operators really chasing after the Internet gaming dollar some time ago, setting up off-shore operations themselves, even in legal jurisdictions, and they've all really backed away from that.

Not that there isn't money there, there's certainly a lot of money being made on Internet gaming, but what we're seeing is that the attraction and the experience of the bricks and mortar is very different from what we're seeing there, and quite frankly it has not impacted their revenues.

Has it impacted their growth of revenues? Possibly very slightly, but again, it's a very different kind of experience.

What we're really interested to see is what impact the online intrastate pari-mutuel wagering will have.

In Nevada they're doing some things now where you just — in the past you've been able to bet on the phone, if you go to the casino and set up an account; and now what they're doing is starting to let you do that online, which is really the same thing, same concept, except instead of using a telephone you're using a PC.

And so that's where we're watching very closely to see other states that are looking to adopt that.

MR. KEELING: This is why I want to compliment Woodbine, Jane, and not just because you work with them. I can't speak for the casino gaming side of our business because we have no benchmark in that regard, only being in it for six months, but certainly have some periods on the racing side in terms of online wagers and remotes forms of wagering.

British Columbia was one of the first jurisdictions in Canada to introduce it — we've had phone wagering in British Columbia for 22 years — so we've got a lot of experience with our partners at Hastings Racecourse and operated through a subsidiary company.

But we've actually contracted our services to Woodbine through their HorsePlayer Interactive System. They've got an online platform, phone wagering platform, an umbrella of services that they offer; just makes more sense for small jurisdictions like British Columbia to take advantage and leverage through a much bigger jurisdiction and entity like Woodbine Entertainment Group.

So we're really following your lead in that regard, and we know you'll show us the way.

MS. HOLMES: Thanks, Chuck.

One of the other issues that's been raised over the sessions this morning is the fact that when New Jersey came into the gaming business, the state tax was eight percent, and now we're looking at states, and Prairie Meadows is another one where they keep going back in and the government and the municipalities are looking for more revenues.

It's a rumor that we're hearing in Ontario that we're at the — the industry gets 20 percent, 10 percent going to the purses, 10 percent going to the horsemen — that the government in its need for more revenue is looking at possibly clawing back what the horse racing industry is getting.

Where do you see this going and where do you think it's going to stop? Or is it?

MR. SCULOS: Well, we entered the market in '92, our tax rate was somewhere — what we retained was somewhere in the neighborhood of 33 to 35 percent. Effective today we're at 26 percent. It's difficult; I think, as long as states and government face deficits, as long as the feeling is, it's not necessarily about controlling, it's about spending more money at that level, it becomes a very easy target.

Because the racetrack owners or casino operators are these big companies making globs of money, and what do they care if they lose a little bit

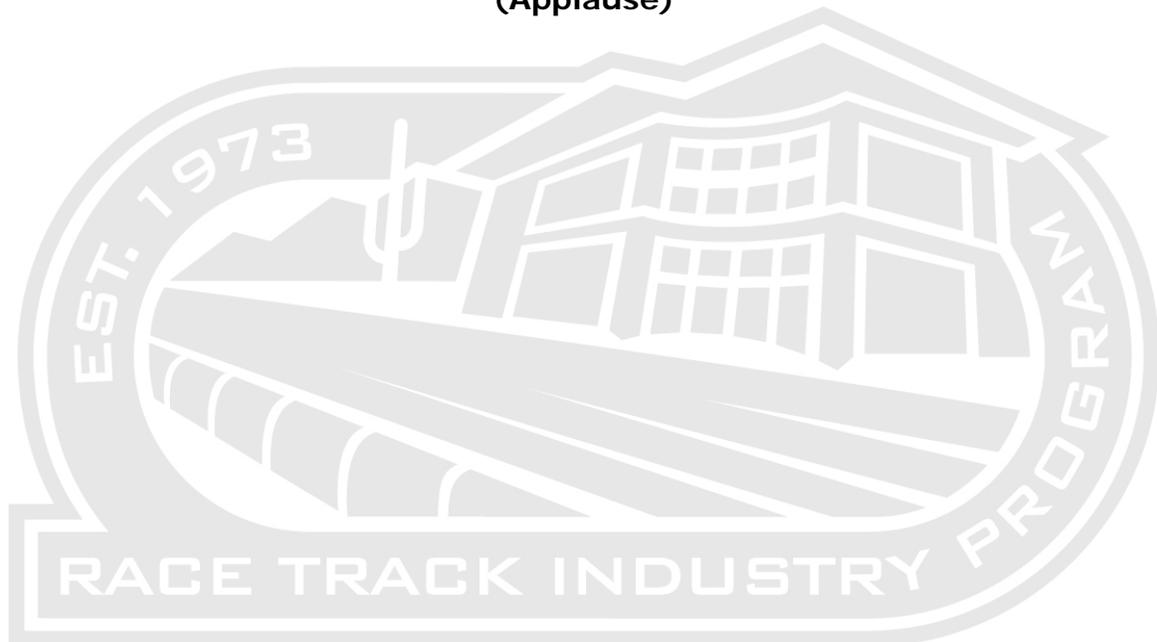
here and there?

It's a very difficult position to be in. It makes capital investment very difficult. It even makes going forward on your business plans extraordinarily difficult. I just don't see that changing in the short term.

MS. HOLMES: I've just been given the sign by Patricia that our time's up. Thank you.

And I want to thank all the panel members for an excellent presentation.

(Applause)



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