



Race Track Industry Program

**33rd ANNUAL  
SYMPOSIUM ON RACING & GAMING**

**TUESDAY, DECEMBER 5, 2006**

**A NEW PERSPECTIVE: HOW CASINO OPERATORS  
WOULD RUN RACING**

**Moderator/Speaker:**

**Mark Midland**, Vice President of Racing Operations, Harrah's Louisiana Downs

**Speakers:**

**Thomas Gallagher**, President, Greylock Group, Inc.

**Edward Tracy**, CEO & Director, TrackPower

**MR DOUG REED:** Good morning, everyone. Please take a seat and we're going to get this thing kicked off.

A few housekeeping notes. First of all, a golf tournament Friday. You can still sign up today. Looks like a pretty good forecast for the week. It will be here at the La Paloma course, if you want to sign up for the golf go to the registration desk and sign up.

Please wear your badges throughout the conference. This conference certainly supports the Race Track Industry Program and the registration fees go a long way to helping pay some of the salaries, computer costs and the administrative cost of the program. We appreciate that.

Also down the hallway in the foyer, we have a marketing booth; we always struggle to raise awareness of the Program for future employees, if you can help stop by the booth. And just look, we have some great marketing materials, but we need your help to recruit the future employees for the industry. Thursday from nine to eleven-thirty in the foyer some of the student projects will be on display in a poster session. So please stop by, they have done some good work, as always. If you have time Thursday morning between sessions I think you'll find the projects informative and interesting.

Enough for the housekeeping notes. Let's get this show on the road. I'd like to introduce our moderator, Mark Midland. He is currently vice president of racing operations for Harrah's Louisiana Downs. Prior to that director of marketing there. Many of you know Mark having worked in the industry for a number of years.

Prior to joining Harrah's he was with Churchill Downs as their director of new product development. He also worked at Hollywood Park, Santa Anita, Arlington and Monmouth Park. So please welcome the well-traveled Mark Midland.

**MR. MARK MIDLAND:** Thanks Doug, thank everybody for coming this morning. First of all, Doug, I want to congratulate you on putting together such a fabulous panel. I'm honored to be part of such a distinguished panel and just an absolute wealth of experience in several industries, I'm very excited, I think we're going to learn a lot this morning and I'm excited to hear what Ed and Tom have to say.

The first speaker I want to introduce is Ed Tracy. And Ed is the CEO of The Tracy Group, a casino management development company. The Tracy Group focuses on workout strategies, development of management and marketing strategies and ground-up for a variety of clients. The Tracy Group is currently engaged in several work out projects in New York as well as ground-up development in Pennsylvania.

Prior to forming the Tracy group Mr. Tracy had over 20 years hands-on management development experience in the gaming and hospitality industry. His extensive experience includes serving as chairman and CEO of Capital Gaming, a multi-jurisdictional manager of Native American casinos.

Mr. Tracy also served as CEO of the Trump Organization, which included all casino hotel and entertainment entities. During his tenure at the Trump organization, Mr. Tracy was responsible for managing over 12,500 employees, 3,000 luxury rooms and 240,000 square feet of casino space, which produced annual revenues in excess of \$1 billion.

It gives me great pleasure to introduce our first speaker for today, Mr. Ed Tracy.

**(Applause)**

**MR. EDWARD TRACY:** Good morning everybody. I have to admit I was a little surprised when Steve Rittvo asked me to come here. Twenty-some years of gaming experience I've been in the racing business for about five minutes. Actually, about the last three years I'm involved with a company called American Racing, which just opened Tioga Downs in upstate New York and also Vernon Downs in upstate New York. And my director of racing is here today, Jason Settlemoir, who is trying to teach me about the racing business.

I'm thinking about this and I think, why would Steve want me to come and address a group like this? And first thing in the morning. And it dawned on me he was hoping I'd say something really controversial and get your hearts started, so I'll try not to disappoint Steve Rittvo this morning.

The way the panel is described I take a little bit of issue with, I don't view myself as just a casino guy, I view myself as a businessman first and operator

second, whether that operation is a casino racetrack or widget factory. My perspective is from a businessman's perspective. And hopefully we won't yammer on too long so we can ask questions, the questions are generally more interesting than anything we have to offer.

So I was thinking, what is the single most important thing that happens when racing and gaming come together? The answer every time is, enabling legislation.

And from enabling legislation comes everything that you do on a going-forward basis, including marketing plan, financing plan and operating plans, and I have to ask the racing industry, the following question, do you have a calculator? Have you looked at your tax rates lately? I'll propose it to you this way. 1993, myself and a number of other ex-Atlantic City operators went to the State of Pennsylvania and tried to get riverboat gaming legislation passed, and at that time Ed Rendell, who is the current governor, was the mayor and John Street was the city councilman. It was pretty much the same cast of characters. Senator Vince Fumo and John Purcell were the two powerhouses on either side of the aisle. Although it wasn't successful, we made two attempts. It wasn't a success. Our experience was, we pay about 10 percent tax on our revenue in Atlantic City, we probably don't want to pay any more than that, and that's how we approached the legislation. After it failed two times it was my opinion it wasn't going to pass until Ed Rendell became governor and that was a ways off, so I sort of forgot about Pennsylvania for a while. Even though I have a home there, I was spending time out west. And I got a call from the governor and he said, "I need you to come back and talk to the caucuses about the result of this decision, these decisions." And when he outlined what the tax rate was, I said, what the hell happened in 10 years? That now for the privilege of just having slot machines you're going to charge \$50 million to get in the door and then pay you 54 percent off the top.

Let me explain something to you from a businessman's perspective. When you are paying 30 to 70 percent in New York, and how stupid am I to be involved in projects in New York, paying 70 percent revenue to the state. I don't mean to piss off anybody from New York because some of my regulators are here, that's not a tax, folks, that's a partnership. I have to ask you why would you want, what's so special about the racing industry that it gets to pay 30 to 70 percent tax rates when clearly in the two biggest jurisdictions in the world, New Jersey and Nevada, it's 10 percent or less? And it's not that I'm anti-tax, I'm not. I'm an Irish Democrat, I'm all for taxation in appropriate amounts, but I have to tell you, when you look at an operation, everything that you do, every decision you make on a going-forward basis relates back to that enabling legislation which tells how many hours you can operate, when you can and when you can't, and then the tax. And how does the tax affect you, look around, let's talk about product for a minute. The ability to compete in competitive market and how you operate.

Let's start with the product. For the most part if you look around the country, although it's evolving and it's morphing just like the casino business, there a lot of the gaming product out there is quite frankly second-rate and it's second-

rate for a fairly obvious reason. One, there's maybe a little bit of a lack of experience in terms of building the right kind of product and theming it and making sure the customer is getting everything he expects. More importantly, it's almost impossible to put the kind of capital expenditures into these buildings to make it competitive.

For example, Vernon Downs sits next to Turning Stone. The more I talk the more angry I get at myself. Turning Stone is a \$350 million fabulous Native American-owned casino, it's about seven miles from our track as the crow flies. They pay zero tax. That's right, zero, and we pay 70 percent tax and we have to compete against them. When you look at the business proposition you ask yourself, what do they have to do to get more market share, more than their fair share of the market? All they have to do is beat my pants off by giving away more comps and more services that I can't afford to give, so you understand my point.

How that legislation gets passed and what your tax rate is begins to dictate everything you do. There's only a certain amount of capital expenditures available when you are paying 70 percent tax to put into your building. You're relatively limited in your product offering.

Let me tell you one thing I know for a fact, the biggest motivating factor the biggest change in our industry, the casino industry I want to say 1990 when the Mirage was built, which is in my mind a seminal event, because it changed how we approach product in the gaming business, is that obsolescence is a motivating factor in the market. People have a certain level of expectation of what the experience is going to be like, and the experience to a great degree is delivered through physical product and then service product.

If you can't build something that's competitive and looks good and delivers a great experience, visually and sensually, you're behind the eight ball from a marketing standpoint. I encourage the industry to do a couple of things. I'm very active politically. I'm more a behind-the-scenes guy than the one who actually runs for office, which is an interesting—well, I'm more interested in what motivates somebody. I'm more interested in what motivates somebody to do something, whether they win or lose. That being said, you have a huge power and ability to motivate legislators. And to do that you have to get together as a group. You look at the number of people that the racing industry employs and look how deeply into agrarian community racing impacts, you have the ability to lobby legislatures, it's a little late obviously, like in New York, my partner Jeff Gural worked very hard in the State of New York to get the takeout improved from 20 percent to 30 percent—there I go pissing myself off again—30 percent when I should be getting, I don't know, 90 percent like other jurisdictions.

That having been said, there's a huge intrinsic power that you have to get together and lobby your legislature for a better business proposition. Whether, in our case, we want to go back the State of New York and get more changes, we want to be able to operate like everybody else does, we want to be able to operate more hours, at least on weekends and holidays, and we can't do that. We

have to operate this sort of perceived—I guess it's in conjunction with the alcohol license, you can serve from 10 in the morning until two a.m. and that's it, and it's quite arbitrary.

And when I asked the question in New York about how we came to this initially 80 percent tax, I found out it was totally arbitrary. There were two guys in a basement in Albany who never even saw the governor and worked out a strategy, basically put their socks on over their shoes, we need this amount of money, so I guess, we only have this many tracks, we have to tax them this much. That's not appropriate.

For those of you in Ohio, when you go back at it again, you really have to think through how much money you are willing to pay the state. If you think for a second, those states don't need that money at 10 percent, you are kidding yourself. You're going to have as much chance at a 90 percent takeout as you would at a much less takeout, in my view. And unfortunately for those folks working hard in Ohio, the initiative didn't pass, but I don't think it didn't pass because of the tax rate.

I think it's way down on the list. I've done focus groups, I can tell you the tax rate is not a huge issue. It's an issue but it's not a huge issue. So my view is in a state where you think it's inappropriate, and I'm taking my own best advice here, we're working hard to get a better business proposition so we can compete head-on in the marketplace and build better facilities. The experience your guest gets is very much driven by the physical product. The ability to return, which, you want them to return, is driven by the physical product and it's driven by how many complimentaries you can give them within reason to motivate the market segment to come and visit your place, that's limited by how much tax you pay and so is your operation. You look at a high tax rate and wonder whether or not you can service your clients, put enough people on the payroll to do everything you need to do because your competitors are doing X, Y and Z. You don't want to be hemmed in making a decision based on the fact that you are paying a usurious tax rate.

What's my advice, if you don't have legislation and you're working on it, really think through, hire professionals, get the best lobbyists you can get, the smartest economists you can get. Bring gaming people to the table, they are your partners. And talk about getting legislation that's fair. Because the marketplace is getting tougher and tougher.

Think about it, it is the casino business, you can call it a racino, you can call it a track and casino, it's the casino business even if it's just slots, and let me assure of one thing, once you get slot machines and your state government sees X amount of dollars coming in, the next question, take Pennsylvania, my friend the governor wanted a billion dollars raised for property tax relief, there hasn't been any property tax reductions in 30 years. We knew from focus groups that that was a hot button and it worked, he got elected and reelected. Again, it's like putting your socks on over your shoes. You can't just pick a number and say, okay business, now you can go compete with me.

Think about the proposition in Pennsylvania. I don't want to focus too hard on New York. We're going to be paying 54 percent tax plus a \$50 million entry fee and 55 miles away is Atlantic City paying nine or 10 percent. What's going to happen in the marketplace?

There's no question that once the state legislature sees that billion dollars, their next question is where do I get my billion-two next year, billion-six the next year and two billion the year after that. That's where table games come in and that's where the tax rates are going to have to be adjusted, in my view, in Pennsylvania. You do want to compete head-on with Atlantic City. They are 55-miles away. If you are putting through \$150 million or \$400 million in downtown Philadelphia you want to be able to compete with Atlantic City on a favorable basis. I don't know what it is that makes—I include myself in this group—us so special.

Last time I checked the tobacco industry was paying on only normal corporate rates but getting huge tax rebates. And you can take a moral issue with that pretty quickly. The pharmaceutical companies aren't paying any special tax, \$50 million license fee to get in the game or 70 percent off the top. I think as an industry we need to think through where we want to be in 10 years, and what we want to do is be competitive on every level. In our track product, the content that we deliver on the track side of the business and the content that we deliver on the gaming side of the business.

So if anybody wants it to call me I'll leave you my phone number. I can talk about this forever. Every time I write a check in New York I cringe because I know I have to work five times harder than my competitor to make those dollars happen in my facility. I think I'll leave it at that and we can have some questions. With my luck my licensing agent is probably here and wants to ask me some questions.

**(Applause)**

**MR. MIDLAND:** Thanks, Ed.

I think I'll take a page out of Ed's book and sit down. And if we can get the PowerPoint up and running. And for those of you that know me, I've been in the racing industry for 15 years, when I joined Harrah's a year-and-a-half ago, it was very much an eye-opener and it was very exciting to get involved in the casino industry and just a tremendous amount of learning, very much an eye-opener, what I wanted to do today is share some of the things I've learned and some of that experience and contrast that with racing and throw out some new ideas that could benefit racing.

But Ed is absolutely right. The tax structure affects every single decision that you make when you reinvest in the customers, market to your customers. To give you an idea, in Northwest Louisiana, Shreveport, Bossier City, we have six casinos. It's five riverboats and Harrah's Louisiana Downs, which has slots and racing. Our

tax structure is 25 percent for the five other casinos, and 37 percent for Harrah's Louisiana Downs, and it puts us at a little bit of a disadvantage.

Everything we do, every car giveaway, every time you give somebody a comp to the buffet it costs you a little more, you have to work harder for every dollar. It affects everything you do. When we talk about the racing industry, I think the success of the casino industry, a lot of it is based on the inherent nature and the way it was set up originally, but I think there's a lot of learning and things we can take from it.

When we go to racing, two important things that stick out with the racing industry, our handle is stagnant. We look at total pari-mutuel handle in the country, it's stagnated over the last seven years, no two ways about it, and the vast majority of handle is off-track. Simulcasting is really king in today's racing business and these are the unshaken facts and it's something we have to embrace.

I think it's time for a change. Something has to change, to budge, to get off the flat level if we are going to see any growth. I think the question, there's a lot of different things that plague racing and we can get caught up in the business model, get caught up in different conflict, but to me the real question is how are we going to grow the industry and how are we going to grow the industry from a \$15 billion industry to a \$20 billion industry? Because then everybody wins then it's not about my share of the pie and who gets what.

So looking to the casinos, we know all about the success of the casinos, it's grown tremendously, gaming in this country in the past 20 to 30 years, when we look at the nature of casinos, and specifically slots, the first thing is, they are tremendously easy to play.

A couple of differences that is fundamental than the racing game. Every chance and every machine. Every machine has a jackpot. So every time a customer chooses to sit in front of a machine it's a chance to win big. And everybody you see in the casino is sitting on a chance to win big. And they also know what they are shooting at. And that's different than the racing industry and it's very important.

In racing, you know what you're getting in a win bet and exacta bet, but when you're playing a trifecta there's a lot of vagueness there or superfecta, you're going after a big pay off, you don't know what these pay-offs are as they are putting them through. We can turn the tables on that. And say, I want to play every combination of a trifecta that pays a thousand dollars or more. And the self-service machine comes up and says there are 37 of those combinations. That's \$37, great, I'll put it through, the bet happens. You can do it at two minutes to post based on predicted, or right at post time. I think there are little things we can learn from the casino industry and what as marketers and operators are obviously easy to sell. When you talk about jackpots and big pay-off, six and seven figures, it sells itself. That's something that makes life easier in the casino business. Racing, we have great payoffs, we have an exciting game, but it's the unknown of what is

the pay-off going to show up that creates—it's more difficult to sell. We have million-dollar Pick Six guarantees which are a fabulous tool, but that could be developed to be a lot stronger.

This is real interesting, those in the racing industry, this is a diagram of a slot floor, it's a software program that we use at Harrah's, and it maps out the slot floor, and there's 1,400 machines and each is represented by a little square. And the different color-codings of the map, it's like a heat map, blue is colder areas and red and orange are the hotter areas. And those are defined by handle pulls per month.

And I think this was interesting to show the level of intensity of data analysis and scrutiny going on in the casino business. As you lay out the slot floor you look at your denominations. The blue squares are the dollar machines, and you can see in this particular floor, these are the colder areas versus in the upper left, those are penny slots. That's a hotter area.

I think it speaks volumes to where the casino industry is in terms of data analysis and I have no question in my mind they are not there in this industry. And I think we need those learnings. And here, as I said, we're talking about 1,400 slot machines. We talk about our racetracks and OTBs every day. If we're simulcasting 20 tracks we might have 200 races. We might have 200 products. If you look at the win/place/show, exacta, trifecta, superfecta, we might say we have 1,200 products every day. Our products, there's no organization and not a lot of analysis in terms of how we set things up. We look to the racing secretaries to set up races. You know, their experience is a different skill set, it's not data analysis to say where should we move this race to maximize handle.

The other thing, the slot floor is very efficient. Slots are spaced to maximize play. Everything is spaced-out uniformly, and it's open 24/7, 365, so you have high asset utilization, and that's something that continues to plague the racing industry. We have those great facilities open and dormant so much of the year.

The other thing is, industry reports, talking about the casino industry, industry reports are commonplace. In Louisiana they are fairly basic, this is showing Northwest Louisiana market and shows top line numbers, but a lot of different states, and you can go to any casino magazine in the back, it shows the hold and the win at every casino for every different level of machine.

These are important, important tools. This is how you learn from your competitors, we can see what the competitors have done, what have they done last month, last three months, is it working or is it not working, and people emulate stuff, and as we have success people emulate us. That's important. You have to have continuous learning in your industry to move forward. Somewhere where we really need help. I'm not sure what the best area to help us is, the best group, probably Equibase, and I would throw this out to them and challenge them, how do you help the industry?

There's some top line numbers thrown out that the industry has X amount in purses and X amount in handle each quarter. We really need more detail, we really need to learn from that and we need standard reporting. And this is something when I was at Churchill Downs we spent a lot of time on. This is an example of a market share report we did at Churchill Downs. We thought it was so important when I developed it we had our interns slug through the Equibase pool data and spend a couple hours a day putting together a picture of the market. We wanted to know and understand what everybody was doing and what their successes and failures were and how could we emulate them.

And this is 2003-2004 Breeders' Cup week and gives a picture of the market, is the market improving? If we are down, is the market down or is the market up? There's a lot of learning that comes from this.

Talking about casinos and jackpots, a couple interesting things I want to share, first we talk about a machine. The hold is set by the manufacturer and a chip or there's sometimes different settings, but it's typically set for the life of the machine or the cycle of the machine. And that's different from racing where takeout is defined on a by-race basis. And I think that's something that's very interesting and we'll come back to that later.

We talk about progressive jackpots. This person here won a Wheel of Fortune jackpot. They are very common in many states. And Louisiana, we have a Wheel of Fortune that's tied in throughout the state. Progressive jackpots, you see a bank of six or 12 machines tied together, there's a big running total on the top and the jackpot is building. In the casino industry they are tough to tie together and not as common as you would think, you see them on every slot floor. Progressive jackpots are intrastate, we see them in Louisiana but there are no progressive jackpots nationwide or across state lines and that's a different contrast to the racing industry. When we sell a race we can sell it nationally and internationally.

And of course we all know about the comps model of the casino industry, I don't want to dwell on it too long, the business model is set up for comps. When you have a hotel and a buffet you have a \$10 option and a \$30 soft cost to the property to lure somebody in. If you bring someone in town for the weekend you can put them up in a wonderful hotel, we have the Horseshoe Hotel in Bossier City, it might cost you \$30. That's a great way to attract a player.

I don't think any pure racetrack has built a hotel yet. We are going to break ground on our hotel at Louisiana Downs in the first quarter next year, we hope to have it up in 2008. It's a third-party hotel with Marriott. I'm interested to see how that will do as far as taking care of racing customers and bringing people in for extended stays.

Soft cost amenities are very important when you get to comps and rebating. It's something the racing industry hasn't embraced and hasn't embraced capital investment the way the casino industry has. And I could go on and on for a half hour about the racing business model and the lack of capital investment, but I

wanted to touch on this briefly. So when we talk about racing compared to the casino, we have key issues we know about. It's not easy to play, and not easy to understand, and consequently, not easy to sell. And we need to make—to me the number one goal is we need to make racing fun and easy. The distinction I want to make, when we talk about making racing fun and easy, we all conjure up thoughts of the person who walks in the racetrack for the first time and what can we do for them. How can we court them with a seminar, or when my mom comes to the track, how can we make the program easy for her to read?

I'm talking about something different. I'm talking about Simulcasting, 80 to 90 percent of our business at every track. That's where, it's 90 percent of our revenues and simulcasting, it's a cluster, it's a mess. It's all over the place, it's disorganized and it's difficult to sell and promote. And I think what that does, it tends to paralyze you, when your core group of players, we have a core group of loyal race-players and they know all these hoops, they know all the rules and that the Pick-3 rules are different in different states, and they know Churchill is doing a \$100,000 Pick-4 Friday but Hollywood is doing one on Saturday. There's a lot of disorganization and the post times run on top of each other, it creates just a tremendous amount of difficulty with the product. If you can't make the product simplified for the core, you don't have a chance to reach out to the patron that comes in for the first time. With simulcasting we're talking about 80 and 90 percent of our revenues and that's the product that need to be simplified.

When we talk about simulcasting, the biggest issue is who is driving the bus? We have all these tracks coming in imported to our OTBs, we're sending our signals other tracks, there's an interplay between the post time and the time of day, generally it's a big, giant menu of product that's completely disorganized and it's really paralyzing our growth.

And to give an example, I wanted to break it down concretely. At Louisiana Downs this is our revenue breakdown of just racing gaming. But we have 93 live race days, only 15 percent of our revenues are coming through live handle and twice as much coming through the export that we send around the country. Because we're simulcasting on an import basis 364 days a year, that's over 50 percent of our revenues.

And when we talk about that 55 percent, that's the product menu of all the tracks coming in from around the country that we have pretty much absolutely no control over, and the only thing we have the ability to connect with the customer on is a comp or award basis but no control over the product and limited ability to market the product.

We're talking about races put together a week before. And we don't know what a track is doing on a guaranteed Pick Six, and it's all haphazard. We talk about the 30 percent we simulcast, we control the times and the stakes races, but it goes out to the great unknown. We have a limited ability to control a market to our huge proportion of our revenues, and it's creating a difficult environment.

How do we simplify simulcasting, how do we make it fun and easy? Before I talk about that, what I want to talk about is, can we grow? The industry has been stagnant for six or seven years at \$15 billion. And somebody might say, that's it. That's the amount of money we have, that's the amount of horseplayers we have, we can't grow.

And you look at growth, you have to look, there's a study called the theory of constraints. It talks about looking at the constraints, what constraint has to be lifted? You know, how much would we grow if we had a few more races or do we really need more players and dollars more wallets, or is the ability to grow limited by the number of exciting wagering opportunities? I really believe it's the latter. I think as we look at our races, when we put on good races, the customers respond, they respond to a good product. That's potentially a key to growing.

When we look at the Derby and Breeders' Cup and what they have done over the past few years, handle has exploded. And the bottom line is Derby wagering, and you can see how it's grown in 10 years from \$40 million to \$120 million. Breeders' Cup growth this year exploded with a phenomenal card of racing at the Breeders' Cup. When you combine good product with good placement the results are there and the customers respond to it.

We look at every Saturday in 2004 the total handle for the entire market, at the bottom on Kentucky Derby day 2004, the total thoroughbred industry bet \$220 million. It goes down from there, the other Triple Crown races and the Breeders' Cup and the other bars represent the different Saturdays. I wanted to show the potential, the fourth bar down, where the total industry does \$80 million to \$90 million that day, that's the potential of where the industry is, and that's the amount of players and money that respond when good racing is there and promoted well.

Those six Saturdays are largely Derby preps and Travers day, and granted, that's not every Saturday. But I think it shows the potential and the money left on the table that is not being taken advantage of. When you talk about Preakness and Belmont and Derby, it shows the potential of our market. I don't have exact figures, these dollars are coming from the simulcast players. We get a lot of people interested in the Derby, at Louisiana Downs we get a great crowd for Kentucky Derby, I'm not kidding myself. The vast majority of the handle is coming from simulcast players. So those four bottom bars really represent what our bread and butter players are capable of doing given the product is out there on the track.

Going back to simplifying things, how do we do that? The first thing I wanted to hit on is post time, and this to me, it's simple, it's been a pet peeve of mine over the years. For those of you who know me from Churchill, if the U.K. can do it, Australia, other jurisdictions, I don't see why we can't do it. They organize races on the fives in the U.K., it's very organized, minimizes overlaps and you are talking about maximizing handle. Every overlap is lost revenue and purses. And I'm talking about every OTB and track around the country. To me, there's no excuse, it's money on the table, but it makes it more difficult for a new customer where when they are walking in and all the races are going off at the same time.

As I started to put together these thoughts Thanksgiving weekend it was closing day at Churchill and they had a fabulous card of stakes, and NYRA was running the Cigar Mile but NYRA's races were ending and two minutes later Churchill's greatest stakes were going off.

All day long and it was crazy. We're all leaving money on the table. I'm not trying to pick on Churchill or NYRA, but I want to point out we're not maximizing handle because nobody is driving the bus and it's not organized.

And we're taking the view of the on-track view because it's what we can control, but it's the smallest and not the most important piece. Pretty much for everybody, unless you're Del Mar or Saratoga or Keeneland. So every overlap means lost revenue and purses, and also we also need to develop consistency, like a grocery store.

What I meant there, have you ever gone in a grocery store that's not your usual store? My wife of all things sent me to grocery shop in a Wal-Mart in the south. With a grocery list, talk about lost, I'm not coming out of there for an hour. The grocery store is great, everything is labeled, it's marked, but it's foreign. When you walk in a grocery store you don't recognize, it's completely foreign. And my point is, that's what we're putting our customers through every day. If I get off work at 3:30 and want to catch the last races at Arlington Park, I should know the seventh race goes off at 3:40. It's different every day; I know it's generally the same. That's amateur. We need set time and make it major league. And this is an important point.

The other thing is, it would save on labor if I could tell all the mutual managers in the country that the four major racing jurisdictions in the country would never send a race to post at the same time the rest of the year, how much labor could they trim out of every track OTB in the country? What a savings that would be.

And to talk about how this pays off, at Louisiana Downs this year we really focused on post times. And here we did data analysis—and every single day we put together, and those post times are standard for eastern time—some of the major tracks that we competed with, their field size and our handle in those races and tried to hit those open spots, and it's an indirect way of working with the competition to maximize revenue for everybody. This year we had turnover in our racing department and some other things that caused our field size to go down, and even with the field size decline we were up 15 percent off-track. We feel this had a big part playing a role in the increase, charting and working on the post times.

The other thing is, what does it mean in handle? At the bottom, walk through math in your head. If our average customer bets 20 races on Saturday and 20 on Sunday, if they could just bet one more race a weekend, that's one more race out of 40, that's two-and-a-half percent growth.

What does it mean for the industry? Of our \$15 billion industry, \$13 billion is simulcasting 46 percent of our racing industry handle is done on the weekend and that represents \$150 million in growth. There's a lot of money out there on the table. This goes back to the assumption that the growth is out there. I believe it is, and I believe the Derby and the Breeders' Cup and those days show that our players will respond when you have more races, more wagering.

The other thing is draw times. It's simple, a lot of tracks are doing this, moving to three and more days out on the draw. It makes all the sense in the world, it's a no-brainer, it's working successfully where it's being done. And if it's good for Derby and Breeders' Cup, it's probably good every day. And it gives players more time to prepare, and gives media time to sell for us. And that's an absolute no-brainer to let the media sell our product and grow our product. That's something that needs to be done and something we need to work on with the racing secretary and the horsemen and show how it's working in the jurisdictions it's working in.

Another thing I wanted to talk about is night racing. Night racing is approximately \$2 billion and 13 percent of total handle. It's surprisingly low given the U.S. workforce and the fact that people are working during the day. One of the weaknesses of night racing, I enjoy it, and it's a thing I pay attention to because I've been working in racing for 15 years and if I'm going to play races, it's usually at night. You know, some of the pools are smaller, it would greatly benefit from some organization, probably between tracks, putting together promotions, maybe some Pick-4s, and I think it's a real growth opportunity for the industry. Increasing the handle is more revenue for everyone. Whether it's better asset utilization, increasing your night handle when you are open at your OTB, source market money coming in, it's free money if somebody wasn't going to come to the track any way. And a big opportunity that's out there people take for granted.

And night racing, there's no dominant player. It's a little bit confusing for the customer, when you play races on the weekend. I might gravitate to a Belmont and a Churchill because they have the big races on the weekend. When you play at night there's a lot of great races, I enjoy playing races in Texas, Louisiana and all over the country. But nothing really stands out. There is no focus. When I place races at night, what time should I start, what time should I end? Are the first four races the best or the last four? Are the races the best in the center part of the country, the west or the east? There's no distinguishing factor, and that's an opportunity out there.

Coming back to the casinos, I think a big opportunity that's out there is jackpots, and, you know, Pick-6s are great, but it's not a existent marketing tool. Lotteries and casinos have jackpots built in. There's a picture, this woman has a check for \$8 million. She won a Megabucks jackpot. But if you can see the number on the top. It says \$7,500,000, and that shows you it was reset the minute she hit it at \$7 million.

And you know, when you talk about the lottery, have you ever seen a commercial for a million-dollar lotto, or a \$2 million Power Ball? Of course not. Because it's seeded, it starts back at a great level. It makes all the marketing sense in the world. In Southern California we have Pick-6s that get to a million, \$2 million, \$3 million, it's great, it gets hit and the next day it's back to zero. It makes no sense. Somehow there's a way that we can divert some of the money to start the next day off and keep the bonus going and the growth going for everybody.

So when you talk about racing, takeout. Racing defines takeout stringently by each race. The takeout on a win bet, 16 percent. That's every single race. I want to contrast it to a slot machine. A slot machine you might have a nine percent hold, but then you can measure it at different times, it might be nine percent over three years, or nine percent each year. If you go to each month, day, week it varies.

When you talk about racing there's opportunity here, this is a big opportunity to work around this and kind of massage the number. By that I mean if we take the Pick-6 at Hollywood as an example. Hollywood averages \$4 million a month on the Pick-6. If they held back two-and-a-half percent, I'm not talking about increasing the takeout, it's taking out two-and-a-half percent of all the Pick-6 pools for a seeding fund that matches what Hollywood Park puts in, to seed the Pick-6. So at the end of the year, the books are clear and the takeout doesn't change. By that I mean if you hold two-and-a-half percent back of the \$4,000,000 it's roughly \$100,000 a month, so Hollywood could come out opening day, \$100,000 carryover jackpot opening day throughout the meet, pull back two-and-a-half percent to balance off for the \$100,000. So you can close your books at the end of the meet saying, okay, our takeout is exactly what it was statutorily, the track is fine, the horse men are fine and the state is fine, the bettors are fine, everybody is paid off. But we have a marketing tool we didn't have before.

And I think this is this is a huge opportunity for racetracks. We have to start using the game. Take that a step further. Racing handle is \$300 million each week. Hold back a quarter percent for jackpots you would be talking about three-quarters of a million dollars a week. Can you imagine what that would do? A self-funding mechanism. When I talk about jackpots, it can't be booked. You are cutting off the off-shore and bookmakers and become a greater thorn in their side.

A national Pick-6 every Saturday with a quarter million dollar carry over. A \$100,000 seeded Pick-4 on weekends and a \$50,000 seeded Pick-4, it may sound like this is a long way off, impossible to get done. I don't believe it is. In Louisiana we have forward-thinking racing commission. We work them, we have an exacta jackpot wager debuting in the spring where a percentage of every exacta comes out to build a jackpot that will grow during the meet and be paid out under certain conditions and paid out at the end of meet. I think there's a lot of potential there.

The other thing, the last thing, when we're talking about organizing racing, we need to organize our big days. And I think we need the NTRA's help. They have done a great job on many things but they have kind of tried to not show

favoritism. When you talk about simulcasting and nobody driving the bus, we need somebody to drive the bus, we need organization. If it's not the NTRA maybe somebody.

To give an example, NTRA developed National Pick-4 to supplement the television coverage. They had phenomenal results, a lot of them over a million dollars. These are great drivers for racing but they were only done four or five times a year. They were attached to the television coverage. If it's successful and it works it needs to be done every start. And then to Friday, Saturday, and these are the things we need to create drivers and create consistency, so our customers know, if our customer knew every Saturday was a \$250,000 or half million dollars Pick-4, that's a driver, that's something we can promote as a racetrack. It's something I can sell to my buddy by word of mouth and something we can use to drive the industry. These are all things out there and untapped resources waiting to happen.

One of the things we can do, the Racing Form and NTRA can get together and list all the guarantees so people can know the great wagers out there right now. All the tracks, the ones that do, and I applaud them, are kind of flailing, they are trying to advertise but the margins are so low in simulcasting and you open the Racing Form and there's advertisements for Pick 4s, let's consolidate it and protect the industry together. Again, the industry and the game is simulcasting. The players are looking at all these different products.

Wrapping it up, talking about the differences with casinos and racing, some of the key differences, the casino optimization is local, jackpots or pools are marketing, it's all business and it's very easy. In racing it's national and the marketing is local, but the other things are national. It's difficult and sticky but potentially more rewarding, and if we ever get things organized and also tap the international market.

And think about this, if you want to grow revenue in a casino, you have to put another slot machine out. The maximum revenue you can do on a slot machine is max coin with one person sitting in front of it for 24 hours. Then you are done. When you put on a race, capital is expensive, but when you simulcast it there's zero variable cost to send it to the country and to the world. If we get things organized and untap the potential we can sell the races around the world and take advantage of those economies of scale.

Lastly, you know the game has never been better. Breeders' Cup shows how our bettors are responding. Racing and simulcasting is doing great, the the game is simulcasting, but we have problems with the business model and we need an owner for simulcast, and that's a big point. We have to reinvent ourselves to grow. The industry is changing, but I believe the future is bright and I hope it helps to share some insight on how casinos and racing compare, and some of the opportunities that are out there for the future. Thank you.

**(Applause)**

Next, it gives me great pleasure to introduce Mr. Thomas Gallagher. Mr. Gallagher serves as president of Greylock Group where he is engaged in private venture and capital investments for select individuals. From 1997 to 2000 he was vice president and general counsel for Hilton Hotels. 2000-2002, Park Place Entertainment Corporation, later renamed Caesars Entertainment, then the world's largest casino resort company with 28 casino resorts and \$4.6 billion in revenue.

From 1992 to 1997 he served as president and executive officer of the Griffin Group. Responsible for the hotel entertainment media and casino resource operations and investments of entertainer and entrepreneur Merv Griffin, including serving as president and CEO of Resorts International, renamed Griffin Gaming and Entertainment. 1995-96, board of directors of Players International, a multistate riverboat casino company.

Mr. Gallagher practiced law from 1969 to 1992 with Gibson, Dunn and Crutcher where he specialized in corporate finance mergers, acquisitions, restructurings, and international transactions. Served as chief counsel for John Tunney, and as Ed alluded to earlier, he ran for Congress in 2004 as a Democrat probably two years too early, and if he wants to he can share some of that experience. He brings a wealth of experience from many, many industries, and gives me great pleasure to introduce Mr. Tom Gallagher.

**MR. THOMAS GALLAGHER:** Thanks, Mark. I want to congratulate Mark, I thought the presentation was terrific. It's one of the best I've seen in one of these conferences and I think Harrah's got a pretty good deal when they got him.

Let me start by asking a question, because to set the stage for whatever thoughts I might throw out, it would be helpful to know the percentage between people involved with tracks that have slot machines as opposed to tracks that are purely racing. Raise your hands if you are involved with a track that has casino gaming in some form. Raise your hand.

Okay, and how about those involved with tracks that have none? So it's split between the two.

Okay, let me perhaps give a brief history of my involvement with gaming and horse racing only because it gives a sense of how the two have evolved in some cases together and some cases apart.

I don't know how many of you remember, 20 years ago in Atlantic City there was a pretty successful horse race but it was mechanical. A track in the middle of the casino floor with seats for eight or 10 people and eight mechanical horses went around the track and you bet on which of those horses was going to win. Now, I never understood it but my wife thought it was the greatest game ever. She sat there playing the game thinking there was a real race going on. It shows there has been some kind of relationship between the two.

And it goes back even further than that. Actually, I remember back when I was in college and there was a supermarket chain in Cambridge that had a Saturday night race card that consisted of running tapes of races with the identity of the location disguised. It was a historical race. It was purely promotional. You got a scratch card at the super market and scratch off and it gives you the number of a horse and you watched the race early Saturday evening, around dinnertime, and depending on which horse won, you got a deal at the supermarket. That was a big deal in our house.

I mention that for a couple of reasons. One is television has always played a significant role in what succeeds in the gaming business. And the best example of that is what's happened with poker. Again, I don't know how many of you remember, in the 1980s and '90s, casino companies were taking poker rooms out. Doing away with them. Poker was dying. And it was being replaced by all kinds of other ideas, but the bottom line was, nobody thought poker was ever going to amount to anything. The rest is history. And what changed it was the telecasting of games, ESPN and so forth. And ultimately created a tremendous following.

Obviously, television plays a great role in horse racing as well. I mention it because the skillful use of television can make a tremendous difference in the success of any kind of gaming, particularly horse racing, and ties in with some of the things Mark was talking about before. One of advantages horse races has is the fact you are national. And therefore if people really sat back and thought about it, you have a tremendous advantage over virtually all the other forms of gaming that are tightly constricted to a particular state jurisdiction. To the extent you in fact can come up with new ideas and promotions, you have the ability to market those on a national scale or even international, which racinos do not have. It comes down to playing to your strengths. That's one area that offers a lot of potential.

To go back a little bit to ancient history. I first got involved with horse racing when I was first involved with Merv Griffin. I don't know how many of you remember the in famous fight between Marge Everett and Dee Hubbard about Hollywood Park. I got myself caught in the middle of that one.

Ever since then, really in part because of Merv's fascination with horse racing, I've been in and out of this business periodically. Merv had a great love of horses and still does. One of the saddest days of his life was when Stevie Wonderboy had that fracture in his leg, with luck he will be back this time around. But Merv made the observation that the only way to lose money faster than in horse racing was to put cash in a barrel and set fire to it. And that, hopefully, is not true all the time. But it may explain in some ways the symbiotic relationship between casinos and horse racing.

I think one of the things that I might do is talk a little about how casinos and casino executives approach the gaming business and then maybe talk about some of the ways in which it might spill over into those of you who have tracks without slot machines. I'm not going to spend a lot of time talking about slots at tracks,

because those of you that are involved with it have a pretty good idea of the pluses and minuses, and you know what it brings and how you market it.

I'm also not going to talk about Ed's comments about the tax rates. It amounts to a huge problem. I'm a bit of a political realist, more so since 2004, but I'm not sure there's a lot of potential for advantages between other jurisdictions and those, if the lesson of the smoking initiative in Nevada this past November is any indication. It was a campaign badly run. There was an initiative passed that now bans smoking in taverns and restaurants, it shows the tremendous wisdom on the part of voters. They voted, you can have drinking and smoking but not food and smoking, and so what it means eventually, assuming it goes into force, we will be in a position of sending people out of a tavern with three or four or five drinks and no food in their stomach, which is probably the last result you want on the highways.

But for that reason, I don't spend a lot of time trying to talk about changes in the political system. On the other hand, if you look at what we've learned in the casino business that might spill over into traditional racetracks, start with the proposition that it's entertainment. That's one lesson I learned very early in working with Merv is that he understood, I think, probably more so than any other single individual early on, the critical element of entertainment and the experience of people in a casino, and everything to do with a casino.

A lot of that goes to the quality of the experience that you have, the service, the quality of the amenities, the food and so forth. There's also, and I think Mark alluded a moment ago, one of the great fascinations with racinos is that it offers the theoretical opportunity for a life-changing experience, a big jackpot and that's clearly one of the things that draws people back over and over again. The prospect that I might hit it big. So to the extent that you can break out of the envelope you are in terms of the kinds of rewards you can offer to a player, it makes a significant difference, obviously, in the volume and what we call the time of play.

That's the other thing that is critical in the gaming business, whether it's a table game or slot machine, it's the time the person is spending at the machine or table. And that is, we talk in the casino business, the speed of play at a table game and how rapidly the cards are dealt and how many hands dealt in an hour.

If you think about the racing industry you have a significant amount of downtime between races, and that goes to the point Mark was making, to the extent you can reorganize the product in such a way that downtime between the experience that someone has with a race is minimized. That has a significant impact on the amount of play and ultimately the amount of revenue.

And for example, one of the things going on in the gaming business is the experimentation with wireless devices. In other words, the ability to take a handheld PDA and play. At the moment it's being looked at in Nevada purely in the context of within the casino, but I don't know of any particular reason, I'm not trying to be an expert in the state of the law, if in fact you could use a wireless

device in some manner at the track, combined it with some more advanced form of software that tied the racing product with the handheld device, it seems to me there's a lot of potential. There may be ideas going on like that now.

I mention it because that is one of the things that the gaming industry looked at pretty carefully over the years as technology continued to be driven by innovations of one sort or another, and particularly a whole new generation of people that are used to playing games on machines, not just slot machines. The potential to use that technology and those ideas in the racing industry seems to me something that could use a lot more thought.

If you go back to the history of the gaming industry, when I got involved with Merv in the '80s it was your classic reel slot machines. The three cherries and triple sevens, whatever. You look at it now and there's virtually no resemblance between what the product is, and where it was in the 1980s. Ironically, I was a few years ahead in trying to convince Merv and Sony to allow the Wheel of Fortune game to be imported into the slot machines. That happened after his participation in the game had ended, he sold Wheel and Jeopardy in a deal to Coca Cola for what was then a whole lot of money.

Unfortunately, the transfer of the game of Wheel of Fortune from television to slot machines occurred too late for the big bucks on the Griffin Group. But it's an example of what has happened over time. That is, almost every interesting game that people have come up with and some that people never thought of as games, the importation of the television shows into slot machines has made a tremendous difference.

And of course, the development of the the penny slot. If you think about it, people originally thought penny slots were the dregs of the industry. And yet look what's happened in the way those have evolved and they are now some of the most popular machine and some of the most profitable.

It's a question of thinking outside the box. Go back to what are the parallels here. A pay off of \$2.60 on a \$2 bet is not a life-changing experience. To the extent that you can in fact come up with more interesting plays, more interest parlays, combinations, that is a significant opportunity, it seems to me.

The issue of demographics is one I suspect all of you understand pretty well. Clearly it's something we spend a lot of time in the gaming industry studying, who is the customer and how do we give them a better experience, but also how do we bring other people, give them an experience? Draw them in and give them other things to do.

The biggest problem, it seems to me, not being involved in the business on a day-to-day business or even the casino business, is the problem of capital expenditures. It goes to something Mark was talking about before. The ability to create a really comfortable, quality experience has been something that has been easier for the casino industry than for the racing industry for the obvious reasons,

and that's one of the reasons so many people have tried for so long to allow slot machines in racetracks.

I remember when I was with Players, I was on the board of Players which had a riverboat in Metropolis at the Southern tip of Illinois and Kentucky was then considering, as I guess it has forever, the idea of having slot machines at tracks. So Players acquired Bluegrass Downs, at that time it was largely a defensive measure in case Kentucky passed slot machines at tracks and therefore across the river in Paducah would be a competing casino. Players acquired it largely as a defensive measure. And then it's the old story, if you break it you buy it, what do you do with it now that you own a racetrack with a limited number of days and fairly average product, what can you do to change it? That's essentially the challenge that every track faces. Fortunately, that became Harrah's problem, because they acquired Players.

It really goes to what kind of analytical tools you are going to use to sort out what's happening in your business. That's really happened in the gaming industry. And you think about it, the old days of the guys in the back room and the skimming and all the rest of it has evolved into an extraordinarily technologically managed and highly analytical industry where every single element of the business is sliced and diced any number of ways to figure out how do we maximize?

In the case of the racing industry, it's a lot the same. Using analytical tools that are out there to play to your strengths, which is, as I said before, I think the greatest strength you have is the fact that the business, the industry is not limited in many ways by state line. Obviously, the tax rates and so forth, they are a matter of states, but the ability to look over the horizon is something that I think is really a great opportunity.

That combined with the notion to take another look at what you can do with television both as an industry and an individual tracks with the lesson of what happened with the poker rooms. If ever there was something that was dying it was poker and now it's become one of the hottest things going. It was in part a function of television.

Let me stop and leave time for questions if we have any.

**MR. MIDLAND:** Any questions out there?

**A VOICE:** I would like to know what the chances are of a Harrah's takeover.

**MR. MIDLAND:** The question is, what's the chances Harrah's will change hands in the near future? Right now, it's hard to speculate. The board is looking at the proposals and that's really all the extent that I know and would be able to comment on if I knew any more.

**MR. GALLAGHER:** That's putting Mark in a tough spot. I'll offer my own thought for whatever it's worth. Having lost the battle of keeping Caesars independent,

frankly, I think it's pretty likely that that deal will go forward. I have no inside information, I haven't talked to anybody but I think there's a significant likelihood that that transaction will go forward.

You saw the transaction with announcement of effort to go private on the part of Stations. That's a different kind of transaction, but it's also one with a fair degree of likelihood. I never thought the family would want to walk away from gaming and its position, particularly in the community. So I think that's the one transaction that perhaps has a possibility of going forward. It's clear there's a lot of money in Wall Street chasing all kinds of stuff. And having been around long enough to see the cycles, good deals get made and bad deals. One of the worst deals was when Merv bought Resorts, and it took eight years to fix it. Took down both Resorts and the Trump operation. The wiseguys on the street are not always wise.

**A VOICE:** Do you have any insight on the transaction with Harrah's and what it would mean?

**MR. GALLAGHER:** There's been speculation, what will going private mean in an industry that is capital-intensive. One of the challenges we've been talking about is the continuing need to reinvest in newer and better experiences, newer and better properties. It takes a lot of capital to feed the beast, and one of the challenges, I think, is going to become apparent. The tension between a group that pays up to acquire a major casino company and then the choices you have to fight your way through in terms of what's going to get the capital on a going-forward basis. That's an interesting issue in the going-private transactions. I suspect you will see increased focus on spinning off or selling underperforming properties or properties that need significant capital.

When I ran Caesars we had 28, 29 properties. And one of the things that was a constant agony was trying to figure out, we have X amount to allocate, where do we put it? Properties consistently underperforming had a difficult time in justifying significant cap X. I think you will see more of that.

**A VOICE:** You mentioned, someone said \$2.60 payoff on two dollars was not a life-changing experience. What about exotics?

**MR. MIDLAND:** I can answer it as a player. You have certain players focusing on exactas and others on trifectas and supers. That's an area where the industry needs more data analysis. And a lot of times million-dollar plays, sexy advertising brings people in, but we need to look more.

**MR. GALLAGHER:** One comment I would make, the watchword is simplify. If you want to grow your market and bring more people who are not your, the traditional better that's familiar with horse racing, you have to make it as simple and understandable as possible.

And that's the challenge. The demographics of casino gaming are straightforward, the bread and butter of the business, my wife, her brother, it's people that go for the enjoyment but it's simple. It's understandable. And that's part of the challenge in horse racing.

**MR. MIDLAND:** I want to ask Ed a question. You talked about the tax rates, takeout is a hot topic in racing, and from your experience, how important is hold? Can you talk about that?

**MR. TRACY:** That's the number that generates the top line revenue, it's something we give a lot of analysis to. It differs by game. If you ask a video poker player how the machine is doing they can tell you in an instant, tightened or loosened by the amount of time. The time at a machine is essentially one of the measurements we use over and over again.

So it's really important, and when I was trying to understand how to better market slot machines I looked at the retail business and tried to understand how they moved their products around on the floor and that morphed into getting ASCII to do programming, so we can understand what the efficiency was of each machine, whether or not it needed to be moved to get better access, certain products you can put near the bathroom and nobody cares, and other products you have to put out front to make them more attractive. So it's very important, it's something we look at every day essentially.

**MR. MIDLAND:** We have time for one more question.

**A VOICE:** In Europe they seem to be addressing some of these issues through simplifying and distribution. And they have a couple of products called V65 and V75 more along the lines of a lottery, and you can go to the grocery store, pick up a bag of groceries and pick up the V65 ticket. And I was wondering, obviously that requires a lot of capital expenditure, but it's a way of tapping into a market that is out there that's not tapped into.

**MR. MIDLAND:** That's a good question. That's what I was trying to hit on. Right now we don't have the product simplified enough it or even organized enough to even take to a grocery store. It would something that's great to get to down the road, and that's the untapped potential out there, certainly we can learn a lot from what's going on internationally.

Okay, thanks everybody, we appreciate this morning.

**(Applause)**