

Sixth Annual Joint Meeting of HTA and TRA

Tuesday, February 19, 2008

9:00 a.m. – 10:00 a.m.

Keeping the “Race” in Racinos: Are They Simply Purse Builders, or Can They Offer Meaningful Opportunities to Broaden its Patronage?

- **Chuck Atwood, Harrah’s Entertainment**
- **Charles Hayward, New York Racing Association**
- **Jeff Gural, Tioga & Vernon Downs**
- **Rep. Bill Oberle, Delaware House of Representatives**
- **Chris McErlean, Penn National Gaming**
- **Dave Johnson, Sirius Satellite Radio, moderator**

Dave Johnson: Thank you very much Stan, great to see these old friends up here and some new ones. So the question again, as all these panels have one, is Keeping the “Race” in Racinos: Are They Simply Purse Builders, or Can They Offer Meaningful Opportunities to Broaden its Patronage? Let’s start down with Chris and see if we can get a quick answer. Chris, can it happen like that? Can you broaden patronage?

Chris McErlean: I think the answer to both those questions is yes. Obviously racinos have been a tremendous vehicle for increasing the purses for horsemen and at the tracks that they’ve been implemented in, and from the patron’s point of view, the answer is yes, but with a lot of caveats. And I think defining patronage also is important, it’s not realistic to say it’s going to put tens of thousands of people back into the stands every day, I don’t think that’s realistic, but it does have the ability to give the racetracks tools to work on building its patronage. I do want to define that word, patronage, whether it means better distribution, whether it means better product, whether it means better reshaping of the facilities that are offered, because our business, as the last panel brought out, is a changing business, it’s not just people sitting in the stands at the racetrack anymore, they’re everywhere. So the patronage definition has to be broadened as well in terms of how we improve it.

Charles Hayward: I would say limited ability to increase patronage, but an indirect way to increase patrons through purses, and what I mean by that is: if you look at a horseplayer, there is

a whole industry of information and tools the players use to make decisions in regard to playing horses, whether it's pace, past performances, Beyer speed figures, trainer combinations. We're an information base, and I personally won't go to the track and bet on horses unless I've done about 2 hours worth of work. The slot player, on the other hand, is exactly the opposite. In fact, they apparently—I'm not a slot player myself—like the random, sort of generating nature of it. So the personality, the appeal of gaming, I would say the slot players and horse players are on opposite ends. Having said that, and I'm the neophyte up here so take all this with a grain of salt, we got legislative slots at Aqueduct in 2001, we did the renovation to build the place out in 2003 and we're still helping the state try to pick a partner. But looking prospectively for it at NYRA in terms of how these will influence purses and how they ultimately influence our patronage, an important element will be the size of the purses and tactically how those monies are paid. Right now we pay about \$117 million a year in purses; we have about a \$350 thousand a day purse at Aqueduct; \$550 thousand a day at Belmont and about \$800 thousand at Saratoga. We're looking at about \$30 million on those 4,500 machines, assuming a net win of about \$275. That \$30 million is a 25% increase in our purses, so what do you do with it? I think just increasing the overnights and the stakes by 25% would be a huge mistake. We have a very rich purse structure, but at NYRA we don't run a graded stake from Thanksgiving until the third week in March, so there's a huge opportunity there for us to approach this tactically. I think also, importantly—and we've started some conversations with other people in the Mid-Atlantic—the racing calendar is not track-based now, the racing calendar is community-based. So you're looking at the open weekends that are available, you want to get your new program or your new stake off of their stake or their program, so I think that we have to not only figure out how to do, for example, a bigger stakes schedule, get some greater stakes back at Aqueduct in the winter, we want to stay off of a couple good Laurel stakes, they had their General George yesterday. So I think that there's the opportunity to take that money from the VLTs, tactically spend money on your purses and increase patronage accordingly. We all know big days drive new participation in racing and that's how NYRA intends to go about it.

Dave Johnson: You use the word opportunity, can you pick up on that—the word opportunity—do we have an opportunity here with the racinos?

Jeff Gural: I think it's really even more dramatic than that, I think in harness racing a lot of these racetracks wouldn't be open without the racino component. Clearly Yonkers, Tioga,

Vernon, the two that I own, Batavia, I don't know about the Delaware tracks, I think that that's why they're open is because of that and I think there are really two types of racinos and I own both of them. Tioga, which is a brilliant facility, and I oversaw the design and I'm a racing person so I clearly went out of my way to make sure that the racing and the casino were integrated into it, so you'll know you're in a racetrack when you walk into the door of Tioga Downs. Vernon, on the other hand, is your typical older racetrack. The casino was built by someone else, separate from the racetrack, so you could literally go into the casino and almost be unaffected that it's a racetrack. So I think at Tioga it definitely helps, because of the way it was built and the fact that it was built brand-new and built as a racino, and we've seen, unfortunately the exact opposite at Vernon. At Tioga clearly the racing helps the VGM revenue. When the racing ends at Tioga, you have to walk past the casino to get out to your car and we'll see half the people who make a right turn and go into the casino, and we can track it, so you'll see on our computer print out an immediate spike in VGM revenue 2 minutes after racing ends, so it's clearly helped in that regard. The other thing that it does is it enables you to have a beautiful facility with clean bathrooms, a modern facility as opposed to Vernon where, when you're in the casino that's a modern facility, when you're at the racetrack that's an old facility, and if I had the money I would tear it down and build it over again. Last night I was in Pompano and it was kind of the same thing, they have a gorgeous casino, really spectacular, but when you wander over to the racetrack it's exactly what I have, it's an old dog racetrack. There's two different types of racinos and I think that A racino, the Tioga model, definitely, but B I don't know so much.

Dave Johnson: These three gentlemen, I know, their passion is racing and we're talking about racinos, these are two newcomers for me, I just met Bill Oberle last night, but give us your thoughts about the opportunity here, Chuck.

Chuck Atwood: I would say there's yet to be evidence that there's a lot of crossover of customers from one activity to the other. I agree with Charlie that the reason that one person chooses one form of entertainment at the racetrack and one person chooses another doesn't mean that they naturally then go together at some point. That being said, I think there are certain advantages that come with the racino that might not be present at a pure racing operation. I characterize those as network benefits, as being part of something that has the ability to have rewards elsewhere and in other ways, and then enhanced amenities. So I guess nothing really new to add to what everyone else has said, but I think the reality of have we been able to

demonstrate a large increase in numbers of people at racing terminals or watching the race? I would have to say no. I think there are some other benefits however.

Dave Johnson: In effect, this next gentleman saved racing at Delaware Park and the last time I was at Delaware, two older women were in front of me walking out of the parking lot just as the horses were coming in to the stretch and I swear to God, one said to the other “Oh look, they have racing here.” True story. Bill, give us a couple of your thoughts about this topic.

Bill Oberle: Well you could go on ad infinitum about all the facets of racinos. In Delaware, I'll be very parochial here, we recognize the symbiosis, and there may not be a lot of crossover in terms of those who play slots and those who bet the horses but certainly there's been an infusion of capital. What we tried to do at Delaware was create what I call the agri-business model where you would infuse this capital into the agri-business community. It has created thousands of jobs, it has increased purses dramatically, all that money stays within the community and the quality of racing has gone up. I would take issue with one of the previous speakers who said that Delaware Park would have closed had it not been for slots, it did close one year during a transfer of ownership but was in operation, I believe, six years before slots. Whether it would have closed or not is questionable, certainly slots have helped both tracks considerably. I will also say that how the funds are distributed is critical because I always get knocked by some of the local media by saying that I have caused the licensees to become millionaires, and in fact they have, they have benefited dramatically through the infusion of capital through slots, but what it also has allowed the three tracks to do—Harrington, Delaware Park & Dover Downs—is to put capital back into the facility. That makes it a quality facility where people want to come to bet horses. I think anyone who had been to Delaware a decade ago and comes there today and looks at the three facilities, it has been a dramatic reformation of those facilities. The lack of the live bettor, or the bettor at the track, does not necessarily bother me. The quality of the product entices betting dollars through wagering from other sites. That benefits the horsemen and again brings capital and an infusion of capital into the agri-business community. Money begets money, and that's the bottom line.

Dave Johnson: I want to open it up if anybody wants to ask a question, make a comment, or join in the conversation. Chris, let me go back to you. Do you think this is going to work though, and do you, through the Penn Gaming people, it's not a soft ball question, is it going to happen?

Chris McErlean: Again, yes, we do want people to come to the track. We have whole ownership of six racetracks right now, half ownership of Freehold Raceway, the company started as a racing company in 1972 had an off-track betting network in Pennsylvania, internet platforms, so a large part of the company was built upon horse racing. Obviously it's expanded into a gaming company. I think right now we would call ourselves a gaming company that has horse racing, but it's still an important part. We have a very diverse portfolio. Some of the places, if you want to call them racinos, one just opened at Penn National, and racing is still an important part of those businesses. Now, compared to the revenue the casinos bring in, it certainly is dwarfed by that, but overall racing is very important to those tracks. They do have to stand on their own though, I mean it can't be a subsidy just for racing, and that's both from a purse point of view and from an operational point of view. The company still wants to see those tracks run well, run efficiently, do well from a profit-loss point of view. I can tell you honestly it's very difficult for some of those operations to do that. One of the things I wanted to bring up—it's somewhat germane and it was brought up before—about the product. Obviously the product is what we have to sell, the horse racing, and one of the things that's very difficult and is a result of a lot of legislation, is racing dates. Minimum racing dates that come with, whether it's simulcasting, expanding gaming, things like that, that creates an artificial plateau that you have to meet. I'm not saying that, again, back to your question "Should there be no racing?" No, there needs to be racing, there needs to be some guarantee in there that there will be racing, but I think barriers that are set—we race over 200 days a year at Penn National; 220 at Charlestown by law; some of our other tracks have minimums that are very high and based on dates in the early 80s—don't make sense now in the market forces today. I think that if we want to put out a good product, we need to have the ability to have some minimum benchmark. I'm not saying get rid of it altogether. But I think we really need a way to run the business as well as we can, both from a horseracing product point of view and from an overall business point of view. It's not realistic that somebody's going to come out on a Tuesday night to Penn National, that's not going to happen. But if we had the ability to run the business as well as we can, put on a good product, I think people will respond to that. I know there have been issues around the country with racing dates and things like that, but I see that as a major issue from this standpoint because racinos have been a purse builder for the horsemen. Horsemen are doing very well and tracks that have the racinos are doing very well too, no doubt about it. But the product that we have out

there at a lot of the places, my facilities included, I wouldn't say is the best product out there. It's created somewhat of an insular group in some places and it's been very difficult to improve quality even with a racino there generating purses. So that's something I'd be interested in, not only from the other panelists here, but racing people in the audience that might have an opinion.

Bill Oberle: One of the things we did in Delaware, as has been done in many states as a condition of licensure, is mandate a minimum number of days that had to be raced in each of the three tracks. Through the collective bargaining agreements that they have with the horsemen, they've actually exceeded the number of days in terms of what's being raced. So I understand what you're saying and there is a fine balance. You want to make sure that the horsemen are financially healthy, yet not to the detriment of the racetrack side. I think we'll all ultimately reach that balance over time, but we wanted to make sure that the tail wasn't wagging the dog. You'd have to ask the question: How many racinos would actually have horse racing if they didn't have to? That's the question I come to, and I come from a biased side. I tend to be, in my legislative life, a blue-collar sort of guy. I actually own half of a racehorse, so I have an interest from that perspective as well. But there is a balance and I think over time we'll find out where that is.

Dave Johnson: Don't we all wish that legislators were in the game and owned a piece of a horse so they could understand our game? I mean, Charlie and Jeff have just been through hell with the politics. Let me ask each of you; are you optimistic now with the road you have?

Jeff Gural: You know that's an interesting question. I disagree, Bill, you don't understand the business. The more you race, the less you race for. It's exactly the wrong model that you politicians are using. You listen to the horsemen and they come in with some sad tale of woe, and that's what I had in New York. The horsemen convinced the legislators that they were poor, suffering people; meanwhile, I was losing a fortune and purses in New York went from \$30 million to \$110 million and I had to listen to legislator after legislator say "Jeff, why are you being so mean to the horsemen?" I mean, it's a joke. The more you race, the less you race for, and the more you race the less popular the sport is going to be. The reality is I have a major advantage at Tioga because it's brand new and I wasn't saddled with these archaic laws that Chris referred to, back 20 years ago where they have these minimum race dates. And even in the bill that we just got passed; my arch-enemy Mr. Faraldo demanded minimum race dates which were already legislative. The model doesn't work. Nobody sitting here can tell me that if you're

going to race year-round, or you're going to race in a building that holds 40 thousand people, that gets three thousand, that you're going to be successful. Nobody wants to walk into an empty restaurant, and everybody wants to have a season. For Mr. Cashman, my buddy there, it's pitchers and catchers, now it's spring training, everybody's psyched up for baseball, when baseball opens every stadium in the country will be filled, even I go to opening day, it's probably the only game I go to but I go to opening day because it's a big deal. We've got to change the model and I think the legislators, you guys are kidding yourselves. I saw a poll in Maryland which was very interesting, they asked people "are you in favor of casinos?" because, I'm sure most of you know this, but there was a vote in Maryland on casino gambling and I think it was 70-30 said they were in favor of casinos. Then they said "are you in favor of having the money go to support horse racing?" 70-30 said no, they're not in favor of that. So I think the public is out front of the politicians in this. We've been very lucky so far because we've done a very good job of convincing the legislature—and we do create a lot of jobs and the kind of jobs we create are for the grooms and the hot walkers, they're the poor people who, if they didn't work for us, I don't know what they would do, and we create a lot of open space. But having said that, we have to be able to stand on our own two feet and not just rely on handouts from the government because sooner or later there's going to be a governor who comes along and says "I've got a big shortfall here, and I see I'm giving the horsemen at Yonkers Raceway \$30 million and there's 42 people in the grandstand, and they're laying off teachers in Yonkers, and maybe we should devote some more of that money to not laying off teachers." I think if we don't do something dramatic to change the model, and the model is clearly broken, this year-round racing doesn't work. Tioga's great because when you go to Tioga it looks crowded because I only need 2,000 people to make it look crowded. Vernon on the other hand I need 8,000 people to make it look crowded, so I may get 3,000, I certainly get 2,000 and it looks empty and it's psychological. People who go to Tioga say "Wow, what you've done here Jeff, it's amazing." Go to Vernon and it looks like the same old tired racetrack, half-empty. So I don't know.

Bill Oberle: I agree that there's a test of reasonableness that you have to apply here. And Delaware may be unique in a specific sense where, I used the term, there's a symbiosis that exists. You'd be very surprised, the legislature generally has taken a pretty hands-off approach in terms of what's taken place. The increase in race dates was negotiated between the horsemen and the tracks, so there is this equilibrium that's been reached. Those days may depreciate over

time, but I think that the horsemen and the tracks have approached this from a business standpoint. I would say one of the things I would advocate, and this is 20-20 because I opposed it at the outset when we originally enacted the legislation, is a sunset provision. Now we did sunset ours and after a few years we went back and took a look and fine-tuned what we had originally set in place, so there was some flexibility to adjust. I don't necessarily disagree with what you're saying, and we do not race a year-round meet in Delaware between the three tracks. The harness does not race a full meet, year-round, nor does the thoroughbred side. It is approached from a business standpoint and that's the way you have to look at this. How do you best help the blue collar side and the management side? How do both benefit the best by the number of race dates?

Dave Johnson: Charlie, there are a lot of threads on the table, pick one or two of them.

Charlie Hayward: I just want to speak to what's going on in New York because once again the politicians have not done a good job in putting a law through. The fundamental problem in New York was the tax rate, and the gentleman from Delaware spoke to this because Delaware did it right, Pennsylvania's done it right, New York's not doing it right. What I mean by that is the tax rate which was just changed slightly, is basically 70% to the state, 30% for the capital to build up these places, to pay the purses and to make some money for the people who are putting up the capital to do it. The result of that has been in Steve Wynn who is part of the RFP process and the salon franchise deal. He came to the RFP process and said "nobody's going to come in and do a responsible job and build proper facilities if you can't give them more capital to build this out." And it's been proven. When you look across New York, we don't have one racino that breaks \$300 a day per machine, we have racinos with relatively small numbers. Philadelphia Park, in the first year, with not an ideal situation, just \$350 a day; operations in Pennsylvania were going to be over \$400 a day, and the result is if we had better economics invested in the deal you'd have \$500 a day per machine and you'd have more money going back to the state. So taking the shorthand view in terms of the funding, the legislature has restricted access to capital. The crazy part is that we had a deal with MGM, they were going to loan us the money to build what was first a \$110 million facility, then \$140, now it's up over \$200. It's so expensive now, under the deal, the state is going to have to pay to build out the casino. It's a little arcane, but there is a drive here in terms of inducing capital to be invested to get a better facility like Tioga as opposed to Vernon, like Tioga as opposed to Saratoga Harness—they took away the whole first floor at

Saratoga Harness, I liked running out of the first floor and running out on the apron, you can't do that at Saratoga anymore—so I think New York has some serious problems ahead of itself.

Dave Johnson: Let's get the Harrah's situation from Chuck.

Chuck Atwood: I think Charlie's exactly right. What you heard from everybody is that the amenities that come from having a casino part of the racing operation are the amenities that help bring people in and make it a more fulfilling experience altogether. It provided amenities, not only for the casino patrons, but also for the racing patrons. Those facilities and the amenities that come with it can only be built when there's a sufficient amount of return that's going to come when you spend it and it costs an enormous amount of money. We spent more than \$400 million at Chester, and most of that went into facilities, well a lot of it went into a turn, but mostly it was the facilities. The reality is that the economics have got to balance out somehow and if the tax rates are so high, it just can't support a level of investment that's necessary to build the amenities and clearly the amenities are one of the drivers. It's a very important aspect of the mix of business.

Dave Johnson: Does it balance out at, let's say, Louisiana Downs, which is one of your properties?

Chuck Atwood: Sure, and at Louisiana Downs we have a very nice facility that has a host of amenities that are available to both sides of the operation.

Dave Johnson: And the biggest city nearby is Shreveport?

Chuck Atwood: That's right, it's the biggest city nearby. And also, that operation competes with pure casino operations which, one might argue there are too many in that city, because no one gets a great return on investment. That being said, we all invested based on what we knew to be the case at the time and we're all there and fair is fair. We knew what the games would be, we all invested based on that and we have what we have. But in reality, we have a wonderful facility there that has new facilities for both casino patrons and racing patrons. We don't see a lot of people moving back and forth, but I believe it's improved the racing product through the purse supplements, and it has improved the experience for all patrons all together.

Dave Johnson: Did you have something to add to that?

Bill Oberle: I did and I didn't want to throw stones at my New York colleagues at the legislature. It's an excellent point because I've looked at the New York law that was enacted and knew that it was stirring the fire. There was not enough money allotted to the licensees to

reinvest in the facilities, to make it the sort of place that people would want to come to. In Delaware, I get all the kudos but Charlie Lockhart, the standing executive director of Cloverleaf, which was a horsemen's association, he really was a driving force behind the legislation in Delaware. I believe that the effective tax rate in Delaware right now is about 52%, but that includes the portion set aside for purse enhancement, so the remainder that tracks have taken they have reinvested in the facilities to make them the sort of places that people want to come and whether they play the slots or wager on the horses, they are enticing facilities. You need to have that sort of a model in place to provide for that capital investment.

Dave Johnson: Chris are you optimistic?

Chris McErlean: I guess I have to be. I'm young, so I have to be optimistic. I know the topic is "can it broaden the patronage of racing," but just like real estate I think racing, a lot of it, comes down to, it's local. We've had good success stories at some of our properties with racinos. Zia Park is a good example. I don't know how many of you have been to Hobbes, New Mexico, I don't know if you'd call it a privilege or not. Hobbes is in the middle of nowhere, but it's an amazing place from a racino standpoint. It does tremendous business, virgin market for a racetrack, and it's actually helped a boom in racing in New Mexico. Handle there for live racing is actually pretty good on a per day basis and on export, we do a decent export business so I would call that a success story. Other places, it's difficult. Bangor, Maine is definitely a success story from a racing standpoint, they used to race about 24 days up there on the verge of going under, they are racing 54 days now, purse money has almost tripled and it sparked a resurgence in the harness racing industry in Maine. There are more stallions in the state of Maine than in the state of New Jersey, which is an interesting fact. Everything is local, and again just because Bangor has increased purses 300 percent, that's not going to move the needle and change the industry. I think each market's a little bit different, how you apply it in each market. It will be very interesting at NYRA to see how that works. Obviously the Pennsylvania model so far has been very positive, and every market is going to be a little bit different in how they handle the impact of both the purses and the racinos.

Dave Johnson: The local versus the national picture, I mean the two of you sitting there, when you were at the Meadowlands it was America's nighttime racetrack, that's what Sonny Werblin set it out to be. And if there's any signal that everybody in the country does, it's NYRA. So Charlie, how do you move the idea that everything's local and yet you run New York racing.

Charlie Hayward: I think it will be interesting to see what the VLT does for what's already a good program. The state, right now, and I think you have to focus on it from a political standpoint as an agricultural business, there are 18,000 jobs, \$1.2 billion of economic activity, 400 farms, and in the breeding business we'll have about 3,400 state-bred foals. We paid last year, before VLTs, \$34 million in purses to state-breds only. Some would argue that state-breds are a dilution of the product but I think that when you run 250 days a year, 9 races a day, we really need the state-breds to fill that out, and because of the breeding laws which allow you now to basically take a good mare to Kentucky, bring it back and foal a horse, it's really set up to now incrementally take tremendous advantage of this VLT activity. Again, the win per machines, because the lack of the capital build out is of some concern, but when we went through the RFP process the lowest estimate of win per machine was our bid of \$400 and they went up to, I think Excelsior was almost \$500 per machine and we were mandated in our economics in the recent franchise deal to put the number at \$275 because no one in the state was breaking \$275. Not to be sort of myopic here and focus on New York, but I think there's a good lesson in Delaware and Pennsylvania about how to structure it economically to, not just drive racing, but provide maximum revenues to the state, and I feel that in New York we're going to have not such a happy outcome, at least not the way it looks at the moment, certainly not going to be \$400 per day.

Bill Oberle: To give an example, in Delaware now the second largest revenue generator is gaming. That's hard to believe in a state that is the corporate capital of the world, but it is the second highest generator of revenue when you look at it from the macro perspective. No one ever would have contemplated that, in fact we had—she was fired shortly thereafter—a secretary of finance that estimated that we would generate \$2 million a year from gaming activity, so you can understand why she was fired.

Dave Johnson: Chuck, how many states do you have to deal with? And, if you want to tell us, who gets it and who doesn't?

Chuck Atwood: We deal with scores of states and countries because we also operate outside of the United States so I think we have almost as many people working in our regulatory compliance department as there are people in this room. So it's a huge operation and rightly so. Every locale, every state is different, and I think the setup has to be appropriate to the environment. It has to be appropriate to what each locale in each state is trying to accomplish

because there are different models and states choose different models based on what they are trying to accomplish. Some states have very low taxes, for example, and they're trying to promote economic development; some states have very high taxes and they're trying to promote, I believe, money coming into the state. One could argue which one is the most effective, but it's a decision that elected leadership is making. Electing to get back to patronage because, when you think about how you grow a business you either have to have more patrons or they have to spend more money and I think if you try to attack it on both sides you could have a better chance of trying to win the game. One of the things that we've done, that I think has helped on the racing side, is the implementation of some of our loyalty programs on the racing side that we also operate on the casino side. So we have a system called Total Rewards that's a loyalty based program that rewards customers for the amount of their wagering with us, in effect. We have put some more programs into our racing operations and I would say you don't have to have a casino present to put it in. In fact, Bob Elliston's here, we put a version of our Total Rewards system into Turfway Park a few years ago and I think it had a very positive effect on the racing operation. So there are many things that can be done to improve patronage and improve the amount that each patron is spending, and they don't necessarily have to come with a racino, but they come with maybe some expertise that we have developed as part of our casino operations. I would be curious if other people have seen that or believe that it's a worthwhile undertaking.

Jeff Gural: We've tried it. It's not easy to convert the old horseplayer to use these self-service machines because in order to give the person the benefits, you have to know what he bet and in order for that to happen he's got to put a card in a machine. We put a lot of self-service machines in Tioga hoping that a) we would save labor costs on the tellers and b) we would attract younger people who like playing with computers so they would like that idea. It's been a slow process, even when you tell people you get rebates and you get points, you still get people who won't use the card. They are probably people who get this feeling that someone's going to know how much they bet, maybe their wife will find out, I don't know. It doesn't make any sense that someone would not play with the card knowing that they could get a rebate and points, why wouldn't you play with the card? And yet there are people there who would never play with a card. The other thing that I wonder—at Tioga we're only open roughly four months—is if our customers, out of sheer boredom, go and lose money during the off-season in those VLTs. They don't start fresh like in the old days when horse racing would shut down for a couple of months

and then it would reopen so your bettor was reenergized, his bankroll was a little flusher because he hadn't been to the track in four or five months. So I just wonder if that has some negative impact happening.

Dave Johnson: You have simulcasting though. They could be doing the simulcasting.

Jeff Gural: Yeah, but I see people, when I walk through the casino there will be people who say "When is the racing going to start? I hate these machines," and they're sitting in front of one.

Brock Milstein: I have a quick question. My day job is in the real estate business and we do a lot of commercial development, a lot of shopping centers, and one of the things we've noticed is that this trend away from the specialty retailers, towards the general retailers like the Targets and the Wal-Marts, and so I guess my question to the panel is: We're talking about patronage and increasing the customer-base. Is it more-so focused on the types of things that we offer as far as horse racing or slot machines—in Ohio, we don't have a choice—but in the states where there is a choice, is it more the idea of offering the customers more products or is it really trying to improve, it's probably both, but what's your perspective on the overall idea that customers are demanding more products in one location and how that's affected the business?

Chris McErlean: I use Pennsylvania as a model. Pennsylvania has pretty much gone through the whole life-cycle: live racing, telephone wagering, Internet wagering, off-track betting which has been in almost 18 years now, and now to casinos. It seems like every one of those steps has a life-cycle to it and you're obviously responding to market forces as well in terms of bringing the product to the customer, bringing it through new distribution vehicles. So you answered your own question when you asked it, but having all the product under one roof obviously makes sense. We, at least at Penn National, we're very cognizant of having an integrated racetrack and casino. We didn't go the route of putting the machines in the existing building. They went to the time and great expense of redoing the entire facility from the ground up, integrating the racing, simulcasting and the casino together. So having that all under one roof and possibly there will be even expanded gaming down the road in Pennsylvania that would be under that same roof. Putting all those products—maybe there will be retail or a convention center or something like that as well—having that all in that facility, in that one property, probably makes sense and is probably the trend from that stand point. That said, it may effect things like our OTBs, of which we've eliminated two in the state of Pennsylvania that weren't performing well, and there might be some others down the road that because of that. Bringing it back to the property may

cause those distribution channels now to be less patronized going forward. It's one of those full-circle type things that is kind of evolving.

Charlie Hayward: I think that the biggest disappointment since I've been at NYRA, which is since November of 2004 has been really directed toward the fan and the customer experience. We're the smart guys that run Saratoga and get 25 thousand people a day, we're sort of the dumb guys that don't have 2,200 people a day come to Aqueduct. Part of that's our own fault. We've launched an Internet site, we've launched a rewards program, but the way to grow this business is in the live track experience. I don't think you can introduce people to racing on simulcast, and we need to do better segmentation of marketing. At NYRA you can be a Saratoga season-ticket holder, a Belmont ticket-holder, you can be an owner and you can be in our rewards program and we're just now integrating the power of all that to understand that you individually are important but collectively your experience and what you're doing, we should encourage that and focus that. I think racetracks, historically, certainly NYRA, have been very deficient in technology. So I would say, not so much changing offerings that we make, but identifying what people like, what offerings that we make that we can enhance for them.

Dave Johnson: Jeff, I'm interested in you personally, did you first come to the track with family members and was that way before you ever went to a casino, and what was your own personal experience with this?

Jeff Gural: I started going to Yonkers and Roosevelt in high school. I'm sure we all know you had to sneak in because you had to be 18, so you're trying to duck in behind the crowd, then you had to find someone to bet for you because you had to be 21 or something to bet. I can tell you that I used to drive to Roosevelt to get in free for the ninth race. I'll tell you the problem you have in racing, in the casino business, I can now because we changed the tax rate but more of an Atlantic City model or Las Vegas where the tax rate is so low, we can send a customer \$20 of free play knowing that he is going to come to us that day, we're going to give him that coupon and we know that he's going to spend another \$40 or \$50. So of that \$20 of free play, I keep \$10 of it because, let's say my tax rate is 50%, and then he bets another \$50, I keep half of that so I get back \$25. So I invested \$10, I got back \$25; I'm plus \$15 for the day. Now let's use the same model. If I give a racetrack customer \$20 of free pari-mutuel tickets and I know he's going to bet another \$50. So on the \$20 that he gets for free, I'm getting back \$4 and I'm giving the horsemen \$2. On the \$50 that he bets, out of all the money, I'm getting back \$10 and I'm giving

the horsemen \$5. So I gave the guy \$20 and I got back \$7. The casinos have a huge marketing advantage because they can give so much. Customers want freebies, they know they're going to lose but if they think that they're going to go there, have fun, and get free lunch and maybe something in the gift shop they're going to justify getting in the car and going or getting on a bus. Racing, the model we have, you can't promote it that way. You've got to try the lucky \$2 voucher is going to be some one of the 10 thousand vouchers that we sent out that's going to win \$10 thousand, and the odds are that the person who has that voucher isn't going to come. It's so much easier, there's a direct correlation between what you spend on marketing and how much VGM play you have, and there's a direct correlation on what you can afford to spend on marketing with your tax rate. It's just as simple as that, and the change in the tax rate now allows us much more freedom in marketing because before it was so low I couldn't give any free play. People wonder, "Why is Yonkers a failure when it's got a great location?" It's no mystery why it's a failure, people go to Yonkers, they're going to get a free soda. If they get on the bus and go to Atlantic City, even though it's a long trip, they're going to get free lunch, \$10 or \$15 in free play, so they're going to go in and when they get off the bus they'll spend 2 hours playing the machines, then they'll go have their free lunch, then they'll play the machines for an hour or two, then they'll walk on the boardwalk, they'll go shopping, then they'll play for another hour or two, then they'll get on the bus and go home. So they might have played for 4 or 5 hours whereas the customer coming to Yonkers, he's going to play for 2 hours, have a soda and then he's going to go home because you can't sit there for much more than 2 hours. So the best example of failure, and I think Yonkers now will be able to turn it around because we got them more marketing money and a different tax rate, everybody was shocked, everybody predicted Yonkers was going to do \$400, and then they were shocked because they were doing \$200. As they said when they were getting bids of Aqueduct they were all \$400, \$500 and then all of a sudden somebody said "well, why is Yonkers doing \$200?" and it got everybody back to reality. It's a real simple business, tax rate, marketing, and horse racing doesn't have the ability to give the freebies out so we've got to rely on whether it's a fun experience, and to make it a fun experience you've got to have what Saratoga has, which is, in my opinion, a short season. If I say to someone "I'm going to Saratoga for a couple of days," which he knows I always do, but if I said I was going to Aqueduct they would say "Do I want Jeff managing my building?" That's the problem we have, it's cool to go to Saratoga in the summer, but it's not cool to go to

Aqueduct whereas when I started going to Yonkers and Roosevelt, everybody went to Yonkers and Roosevelt. I remember there was a guy, Henry Hecht, he used to have a full page in the Post where he would do his picks and then he would talk the next day about how they lost and how the driver gave a suspicious ride, he was great, you looked forward to it.

Dave Johnson: And when was the first time you went to a casino? How old were you?

Jeff Gural: I went to a casino when I drove across country at the age of 22 on my way to California. It was the most unpleasant experience of my life, I witnessed these poor people, drunk, sitting at a blackjack table and taking their money. That was my perception, I said “they’re just bringing this guy more of the liquor and he can barely stand and they’re just taking his money.” From that point on, I’ve never had any interest in casinos.

Dave Johnson: So we’re actually out of time but let’s just get a quick last comment from Chuck and Bill.

Chuck Atwood: I’m just pleased that Jeff was of age when he went into a casino.

Bill Oberle: I would tend to agree, it’s one-stop shopping. We’re living in the era of the “now” generation. People want instant gratification, so if you can put it all under one roof, that’s the most efficient model you can use. I would say this, I would run for Congress but I’m not willing to get the lobotomy, but my biggest concern looking forward as relates to the race side of the equation is Congress and dealing with the Internet gaming issue. There are a couple of really nasty bills flying around out there and it takes all of us, from the states’ perspective to keep a close watch on that one and the impact that it could have on pari-mutuel racing. I worry more about those sorts of things in the short term.

Dave Johnson: Let’s thank everyone for what they’ve done here today.