



Race Track Industry Program

THURSDAY, DECEMBER 8, 2005

EXPANSION TO NON-ELECTRONIC GAMING

Speakers:

Jack Ketterer, Administrator; Iowa Racing and Gaming Commission

Randy Sampson, CEO, President & General Manager; Canterbury Park

MR. SID BERGER: Welcome to our second gaming panel today, "Expansion to Non-Electronic Gaming." I'm Sid Berger with The Innovation Group.

Today's panel will be moderated by Will Cummings of Cummings Associates. He's been studying this industry since 1975. He's got an MS from MIT School of Management, and he understands it inside and out.

And Ladies and Gentlemen, Will Cummings.

(Applause)

MR. WILL CUMMINGS: Thank you, Sid. We've got an excellent panel for you today. My role is going to be very minor. I'm just going to say a few words and then introduce the panelists. Together we've got well over a hundred years of experience in the racing business, and we all started out in the racing business before moving on in recent years to a broader range of things.

The speakers will tell you a range of very useful and interesting things about table games — and I'll call them table gables rather than non-electric, it's much shorter and simpler — at racing facilities.

And in terms of perspective, you know, we heard the design panel yesterday about the challenges of bringing together two very distinct personalities of racing and gaming. I think it was Kimberly McCarron who said that, and that is definitely a challenge. But table games, as opposed to slot machines. There's a number of similarities they have with racing that slots don't share.

Now, while in each game the big players are a little different, but mainly a similar audience. Both live racing and live table games are much more social games. They're face to face, or side by side interaction among real living people.

They've also had similar challenges in dealing with the tidal wave of electronic gaming that has occurred over the past 10 to 15 years.

You take the statistics from Gene Christiansen's Gross Annual Wager over the past dozen years, electronic gaming devices of one type or another, slots or VLTs have gone from \$10 billion in win to \$40 billion in win, and that's affected us all.

Racings market shares, I'm sure you've all heard many times, has declined from about 10 percent to about five percent of the total gaming market.

Well, table games have basically held steady; while the shares have gone down, market share has basically been plateauing at around 12 or 13 percent. In some jurisdictions table games have actually gone down over the past decade; in the smaller markets smaller casinos really have a difficult time of attracting big players to table games.

In Iowa, for example, over the past eight years from their first really full year of casinos across the state, '97 to fiscal '04, total table win went down from \$95 million to \$85 million. And in Illinois it was even worse, they went from down almost a third over the past decade.

But there's good news too. I'm sure all of you know there's been a poker boom lately, and not only has that done well for poker tables but that seems to be spilling over to other types of tables games as well.

In Nevada and Atlantic City tables have actually grown faster than slots for the past two years in a row. Even in Iowa last year, leaving aside the introduction of table games at Prairie Meadows, at the casinos' table games the total went up by a million dollars last year. Nationwide, table games are about a \$10 billion business.

That compares with racing in total, all its forms is about a \$4 billion revenue business. So table games are a good business, at least allied with racing there will always be a place for bricks and mortar for bringing people together live and in person for gaming entertainment.

There's another feature of racing and gaming that they share as a comparison with slots in particular that's a much greater diversity of performance. That's due to a number of reasons; the different games allowed in different jurisdictions, different rules and regulations, and markets seem to differ more for tables than for slots.

For my analysis I'd like to look at spending for adults in a marketplace; and when you look at slot markets, you almost always see something in the range of — you look at a facility, the average spending for adults and its median expenditure is somewhere between five and \$700 per person; the average adult spend between \$500 and \$700 on slot machines if you've got a nice facility there.

You can have a nice table game facility, generally a casino, and in different markets you'll see figures ranging from \$40 to \$200. It changes about a ratio of five to one a machine, a much broader range than you see in slot markets.

So to tell you firsthand about some of those differentials in markets and what their experience has been, how table games work at racetracks, we've got, again, an outstanding panel for you here.

First up will be Randy Sampson, the CEO at Canterbury Park. Again, Randy started out in the horse racing business I believe as an owner first; correct?

His family got into Canterbury Park, first restrictive racing operation, and they were fortunate enough through their hard work to get approval for a poker room, card games at the racetrack.

Second we'll have Dan Francati, who has an Arizona connection although he grew up in the colder climes; had the opportunity to come to school down at Arizona State. They then got into the greyhound business, and has been working in various capacities for many years; is currently the general manager of Daytona Beach Kennel Club in Florida. He'll tell you about some of the experience in Florida.

And our closer will be Jack Ketterer, the administrator of the Racing and Gaming Commission in Iowa; originally just Racing Commission. Jack started out in Nebraska, but also has an Arizona connection; went to law school at ASU. Has worked extensively in Iowa. Started out in Nebraska but when Iowa started up its pari-mutuel operations, in 1993 I think it was, Jack was the first executive director of the Commission there, and for many years since has been helping the state and that industry there.

So to start us off, Randy, if you'll kick things off?

MR. RANDALL D. SAMPSON: All right. Thank you. And I also want to thank Doug and the Race Track Industry Program for including me today on this panel, and great to get an opportunity to talk about our card room and the success that we've had at Canterbury Park with poker and our other card games.

I'm going to start this morning with a video that will show our facility and give some background on our operation, and hopefully be more entertaining than listening to me speak for the whole presentation. I've got about a five-minute video on our card room.

(A tape was played)

All right. As you can see from the video, the card room has been great for Canterbury Park as well as the Minnesota horse industry. You saw the dramatic impact that it's had on our revenues and purses and profits, and it also has translated to growth in our breeding industry where we've seen the number of

registered mares and foals and stallions more than double since the card club was introduced in 2000.

I want to make sure; I think everyone understands that a card room does not have the ability to make the same impact on horse racing as slot machines, but for us it's been a great alternative. It is obviously very popular right now, and those are a few of the things I want to talk about.

But I want to talk a little bit about why cards and racing are a great combination. Will mentioned some of this already in his introduction, about the similarities for anybody who's thinking about adding a card room to their operation.

I want to talk a little bit about our legislation and implementation and some of the things we learned that help, that help make us successful in it, and then I want to finish by talking a little bit about some of our — how we do the marketing of our businesses and how we attempt to create crossover between the horses and the cards.

As has been stated and everyone's aware, poker really is a hot segment in gaming right now, and it's due in large part to the power of television, and particularly to the innovation of the camera which allows the viewer to see the hole card. That's what really turned around the whole poker craze.

As you know, poker everywhere when you're turning the channels. You see it all over the place. It's the World Series of Poker and the World Poker Tour in particular have become just ratings monsters that nobody really expected. It's elevated poker and the professionals that play poker to major league sports status in just a few years from nowhere.

Research I saw recently showed that over 80 million people in the U.S. watch poker on TV and over 40 million play it, net numbers growing rapidly each year. Also testament to the popularity is that the casinos in Las Vegas and Atlantic City and elsewhere that have been removing poker from their gaming floors for years are now as fast as they can adding poker rooms or expanding their existing rooms.

However, I think people don't realize maybe that due to legal restrictions in most states and space limitations in the states that have riverboat casinos poker is still dramatically underserved in the U.S. It's an underserved market.

Very few states actually have the ability, California, a few other ones, to really maximize the poker market. So that's one of the reasons online poker is so popular; it's also one of the reasons that I think poker and cards is a great opportunity for many racing jurisdictions right now.

Another reason that it is a great opportunity for racetracks is that poker and racing are a natural combination and they operate very well together. We've all seen that in Vegas you always see the race books next to the poker rooms and sports books, and there's a reason for that.

Also, we've seen recently, the Daily Racing Form, is I know, running columns on poker, and there's a couple reasons I want to mention why poker and racing work so well together. Will touched on this. But the first is that the customers are very similar. They have very similar demographics and psychographics, and it's really because both games involve a mental challenge and elements of skill and competition so they are — there are similarities to the game, and as a result very similar customer bases.

One interesting difference that's recently emerged, at least as it relates to poker, is that because of the popularity of the television and Internet the demographics for poker have gotten much younger, so that's certainly an attractive audience that racing has been trying to reach and poker's been very successful at attracting.

In our room in particular we've seen dramatic change in the age of our average patron over the last few years.

Second reason it's a great combination and opportunity is that the operation of the businesses are very similar in a lot of ways, and the infrastructure that's available for racetracks as far as the physical plant, parking, things like that, and also the staff is that areas like human resources, marketing, finance, security facilities, food and beverage, all those areas that are already in place can be real effectively leveraged to handle this additional business and do it very economically.

As far as our legislation and how and why we were able to get it passed, I'd like to say that back in 1999 we were visionaries who saw that poker was going to take off, but unfortunately I have to admit that that's not the case.

As was mentioned in the video, we had been trying for a number of years to get slot machines, in fact, still over the last years are still pursuing slot machines; but in Minnesota like a number of other states; California, Arizona, particularly, there's very, very significant tribal gaming opposition and very well organized opposition that really makes it difficult for us to get the slot machines.

And so the card room emerged during our legislative process in 1999 as a compromise that would help the horse industry. We were saying we needed help, we needed to get the horse industry revived, but it wasn't seen as a threat by the tribes on their monopoly on slot machines, and also wasn't viewed as a major expansion of gambling.

So we were able to get it through really as a compromise measure, and it has worked out very well for us to begin. We were familiar with the Hollywood Park card room but really didn't know whether this could work in Minnesota or not.

We originally projected to do about \$10 or \$12 million, and when we first opened it was better than that, about \$16 million to begin with. The demographics were very similar. The whole card room was filled with middle-aged and up men, but in 2003

when poker started to take off due to the popularity of the TV we really started to see our audience become younger and more diverse.

And it is interesting that TV and the Internet did for poker something that we had been trying to figure out and, you know, I think all of us in the horse industry tried to figure out, we both in the poker and simulcast business, and that's to find an easy way to teach people how to play the game and to remove the intimidation factor.

And really TV in a very short period of time did both of those for us. And also in the poker area obviously we're still trying to figure out how to do it with horse racing, but — and it also made poker the cool thing to do with the young people.

So this year our card room will do about \$30 million in revenue, so it's more than doubled since we first opened it. I think one thing that racing should take note of in terms of this poker phenomenon is that how some innovative entrepreneurs really took the game of poker — which for those that aren't familiar it was a dying game a few years ago, it had an aging fan base and in a lot of ways similar to horse racing, and reinvented itself in just a couple of years and is now the fastest growing segment in gaming.

So I think as far as racing, the popularity of poker is certainly to some degree a threat because it's attracting the same type of people we'd like to attract; but it also can be seen as an opportunity. And as one panelist at the simulcast conference mentioned a couple months ago, racing needs to find its "Railcam," and I think that it's possible to do that.

As far as our legislation, a couple things I want to mention that we did right was we kept it very simple. If you have the opportunity to do it — we have a bill that was only a few pages long that basically just set a limit, betting limit, 60 bucks for poker and \$300 for games like blackjack; dedicated a portion of the purses — revenue to purses, and then the most innovative thing was we used this process of an operating plan to be approved by the Racing Commission.

So the law didn't specify what games we could play, didn't specify any rules or revenue collections or hours of operation or any surveillance security requirements, all that was left — the details were left to be worked out between Canterbury and the Racing Commission and our operating plan, which really gave us great flexibility.

Another thing I want to mention that's really an important issue if you're looking at poker or now table games in general is you have to be very careful about the percentage that you dedicate to purses and taxes. The operating costs, especially labor, are much higher than they are with slots. In our case purses get 15 percent, and we were fortunate enough to pass a law that did not include a direct tax to the state. So it's worked out well for us. And each year they come back with bills to tax us but so far we've been able to stay under the radar screen.

But as far as our employment, we went from about 80 to over 400 full-time employees when we opened our 50-table room. You have to realize it's not just dealers and floor people and card room managers, there's also surveillance, security, money room cage, a lot of extra labor that all has to be covered by the card room revenues if you don't have slots at your facility.

In our case it takes about 65 percent of our gross revenue to operate the card room, that's fully allocated for overhead; then with 15 percent to the horsemen that leaves us a margin of about 20 percent before tax, and then our net income after tax is about 12 percent of our revenue. So with that you can see that the types of numbers that are typically talked about in racino deals with tax rates of 50 percent plus purses. In my opinion that would not work on a stand-alone card room like we have.

As far as our implementation I'm going to be real brief here, because for those that saw Tom Manning of Prairie Meadows talking about his ABCs of starting up, his comments were virtually identical to what I had prepared in terms of some of the things that you need to do.

Research is important, get that market assessment, do focus groups. Hiring experienced staff, hopefully people that have experience opening an operation, not just operating. Training is very important. We did a three-month dealer school before we opened.

When you're looking at facility layout, plan for the opportunity for expansion. And in our case in less than a year we were already expanding from 38 to 50 tables. 24-hour operation is important if you can get it. It's very, very helpful in poker. Food and beverage is an important aspect of it. These people play for hours and hours and hours, and if they can't get decent food they'll go somewhere else.

Surveillance and game integrity are important. Smoking's an issue. We started out with a smoking room and then converted to nonsmoking, which has been very well received.

Another issue in our room was we instituted a very zero tolerance policy for inappropriate types of behavior, throwing cards or abusive language. And it has created a very friendly and comfortable room. If you don't allow the monkey business it does help to make your room very friendly.

Last thing I want to talk about is a little bit about our marketing and our efforts to get crossover between our two businesses. As I mentioned, we think that the people we're trying to target with our advertising are really the same people, so we do leverage to a large degree our advertising dollars by promoting both cards and horses in almost all of our advertising. And we also advertise heavily on the poker shows. We see that as a great opportunity to reach a very targeted market that is interested in gaming and the type of gaming we offer.

I believe it's a great opportunity even if you don't have a card room. Cable's very economical and it allows to be very targeted. In the effort to generate crossover handle we do have racing on TVs throughout the card room, we have tellers and SAM machines in the card room, and on our bigger days we have walk-about tellers taking horse racing wagers.

We also have conducted combined poker and handicapping tournaments, and during our live racing and special events like our snowmobile racing we also very heavily promote the card club throughout the grandstand to get crossover that way.

As far as the results of it, it's clear that the card room benefits significantly from live racing, which is another reason why the combination works so well. That when we have our live racing dates our revenues are up generally one to 15 percent compared to non-live days. And in this year, as an example, two of our three biggest revenue days in the card room so far this year were Kentucky Derby day, which was our live racing opener, and Claiming Crown, which not coincidentally were our two biggest attendance days for live racing. So we know they if we can draw big crowds to the racetrack that it will benefit the card room.

The impact on handle is more difficult to measure obviously, but I can say that our simulcast handle increased slightly when we opened the card club, and it increased slightly through the next few years as the card club grew. But it's really difficult to say how much of a relationship there is.

We know that a number of our regular simulcast players when we opened the card room started playing poker and almost abandoned the handicapping completely. Because they preferred poker. But we also know that in our card room there are people who come to play cards but will also bet the races, which obviously does help the handle. So I think net it was a slight pick up.

As far as the impact on live, it's clear that when our purses increased and field sizes and overall quality of the racing improved, that we did see an increase in out-of-state handle. And as far as on-track we have shown steady increases in attendance and handle, and we've been particularly successful in the past few years in attracting younger fans for racing, especially on Thursday and Friday nights.

But I can't really say whether any of that is due to the card club. But the exposure that we're getting with the younger people in our card club to Canterbury and racing certainly at least helps us to reach potential horse racing fans.

I'm going to finish my presentation, I'm going to show a couple of our 30-second videos here that are 30-second commercials to show a little bit about how we promote. The first one is part of our, Play Cards-Play Horses theme that we had a whole campaign; had radio and print elements, and shows how we really tried to integrate the two through our advertising.

And the second commercial is one that we created just for poker, that we use extensively on poker shows, but it's credit appear Gibson Carothers who's here's today, who will be speaking next, I want to give credit. He's the guy who created these ads on a very limited budget.

So with that I want to thank you for your time this morning and we'll show the videos and be glad to answer questions afterwards.

Thanks.

(Tapes were shown)

MR. DANIEL FRANCATI: It's nice to be here. I'm kind of a last minute substitute so I don't have any nice videos or PowerPoints, you just have me for about 10 minutes. I'm going to talk about the poker in Florida and then we'll talk a little bit about Daytona Beach Kennel Club.

Poker in Florida started in August of 1997. At that time it was a very low-stakes game, 25-50 cents raises, \$10 pot size. So it really was for the pari-mutuel group just a kind of a sideline business with a \$10 pot limit.

You have to be 18 or over to go into the poker room and play. You also needed approval. Once the state passed its legislation, you needed approval by your local city government to open your card room. At present time there's 15 licensed card rooms in the State of Florida. Because of that local approval there are some pari-mutuel facilities that do not have card rooms in the State of Florida. For example, in Orlando both Sanford Greyhound and/or Ocala Jai Alai do not have card rooms; they have been unable to get approval from their city government to open card rooms.

Card rooms are open seven days a week only if you have a live event. To have your card room open during the day you have to have a live event. So if you're dark that day, your card room is also dark. If you do have a live event your card room can be open from noon to midnight; except on Sunday, it's 1:00 p.m. to midnight. So there is a limitation on hours and a limitation of, it has to be tied to a live product.

Games; well, we're more limited than Randy talked about. We have to have just poker only. The most popular game we do is — Texas Hold 'em is — probably 75 to 80 percent of our tables are dedicated to Texas Hold 'em, a little seven card stud, a little Omaha. Most of it is all Texas Hold 'em.

There's a state tax of 10 percent, and we give four percent of the poker revenue to the greyhounds in terms of purse supplements. As a house we can only keep up to \$5 per pot and no more than 10 percent. So we keep \$5 per pot is our tops; once we get to that we're done. Poker kind of just was a very sideline business, probably until August of 2003, again the boom on ESPN and the Travel Channel when people saw the poker boom.

Also — that's in August of 2003 — Florida changed its laws, became more favorable to play poker. And so the 25-50 cent games raises went to one and \$2, three raises per round, no limit on the pot size, you were able to do tournaments.

So from 2003 the statewide poker revenue was only \$2.8 million. In 2004 it went up to about \$19 million, in 2005 it went up to \$38 million. So you can see in a two-year period it went from \$3 million to \$38 million, again, because of the boom on TV, again, because of the better regulations and higher on the sizes.

We are probably seeing some leveling off, I would say, in the poker revenue. Because we haven't got any new legislation in the last couple years, you've seen the curve go up but you've probably seen it starting to peak a little bit.

Right now in the State of Florida there's a dispute about tournaments. In the first week of November two of the card room permittees went to court, challenged the state on the \$45 maximum entry fee for a tournament. The two permittees won in the federal court.

The state then went back the court, said, "No, the state can't regulate the \$45 entry fee, you can charge more than that." At that time the state actually went back and deleted the tournament rules. So at present time it's a very mixed bag about whether you can do tournaments in the State of Florida. Some permittees are, we are not.

So we're going to have to figure that out. Because tournaments really were the next big growth vehicle to up our poker revenue. There's a lot of players who, just because they watch ESPN or the Travel Channel, do like to play tournaments only. And so we basically ran tournaments every day of the week.

It's about 15 percent of our overall revenue. So for about the last three weeks we have not done any tournaments. For some of the bigger clubs in Florida tournaments are 30, 35 percent of the revenue.

In Daytona we have 28 tables. We added more tables in January. I came to Daytona January 1st when I took the job to be general manager of Daytona. I had actually been out of the gaming industry for about 10 years, had been doing other things for Delaware North in the non-gaming fields.

One of the problems we faced in our room is that since when it developed originally it was very low stakes, and 2002 we only did \$600,000 in poker revenue. In 2005 we'll do \$4.6 million in poker revenue. So a dramatic growth in two years. So where we put the room six, seven years ago, we're now up to growing pains.

We can't expand the room, we do have limitations within the facility. So we need to think that through over the next year; what we want to do with the poker room, how do we make it bigger and how do we expand it. Because we need to go to about 40 tables. It makes it easier to run tournaments.

When you run a big 144-player, 12-table tournament we start to run out of tables and keeping everybody happy. When I took the job in January I kind of looked at the industry, what other people were doing in Florida. The one thing we were not doing is we weren't doing as many tournaments as the rest of the card rooms in Florida. So we certainly decided to do more tournaments and started doing tournaments basically every day.

From a marketing point of view we went — and one of the things that Randy saw in the poker room, we see a younger audience, a lot more ladies than we get, say in the simulcast area, lot of kids that are 20 years old. You've got to be 18 to play.

We did a lot of radio time with a lot of radio promotions. We tied in with one of the morning shows in Orlando, a man called Dirty Jim who does one of those edgy morning shows. He does tournaments down with us. We look to Orlando since there are no poker tournaments in Orlando, card rooms in Orlando, we look at Orlando. We're only about 40 minutes away from Orlando. We look at that as a good growth venue for us.

So we've been targeting this year Orlando, and that's where we went into some radio promotions in Orlando. And it does work. The day that Dirty Jim talks about he's coming down to Daytona to play in a tournament we see a big increase in our business. We get a lot of people coming in from Orlando just because of that.

And we do some other tie-ins with other radio people in Daytona, and the same thing. They go on their talk shows and talk about they're coming down to play poker, and we really do see the increase in business when we do that.

Are we making racing fans out of poker fans? I don't know. We're trying to work on the crossover, but poker customers have their own language. When you hear them talk — I'm not a big poker player — and you hear them talk, I don't even know what they're talking about as they talk. Now every card has a different name. I call it, you know, king of clubs, the king of clubs. But it isn't the king of clubs to a poker person. So it is a whole different subculture.

About five percent of our overall handle is done in the poker room. We have a lot of TVs on for all our tracks that we carry, we have mutuel tellers in the poker room, and it's about five percent of our track handle that is done in the poker room. In some cases I think what we're getting is people who would not come anyway to bet simulcasts or bet simulcasting live and play poker.

I don't know how many crossover fans we've created. That is a challenge for us. In terms of our revenue model, again, we pay about a 10 percent tax, we paid four percent in purses, our payroll runs about 25 percent, about three percent for supplies, so we try to hit about a 60 percent profit margin in the poker room. That's without allocating any building costs or maintenance costs or overhead costs. But we shoot for about a 60 percent contribution from the poker room.

So at \$600,000 it was a sideline business. And now that we're reaching about \$5 million a year it's gone from a sideline business to a business.

Again, we have growing pains, we're kind of boxed in where we put it at the racetrack. We need to expand from 28 to 40 tables. We need a nice environment. We're in a nonsmoking environment, by state regulation.

We actually did a couple smoking tables and we put them outside, and they weren't that popular. We had trouble keeping two tables going in a smoking environment, we basically stopped. Most of our customers like the nonsmoking environment.

Again, we have surveillance, we have a Full-time surveillance crew. All the tables are under surveillance to see that the games are played right and there's integrity in the games.

I think as we go forward in '06 what we're going to probably target more are ladies who are, I think, a growing part of the poker business. We'll probably have ladies' days and lady-only tables.

We'll probably start to target college kids a little bit more. I know some of my staff don't like that. I'm thinking if I do a Wednesday night college night I may get too many college kids and it will be a little too noisy and a little too loud. But my theory is if I can get them at the age of 20 and be happy in there, I may keep them to the age of 40.

So you want to get them young and keep them in there. We'll probably try to do a little more promotions with Budweiser and some of the trendier breweries, Red Bull or Coca Cola. We'll try to do some marketing tie-in with them to have them sponsor; hopefully we'll get our tournaments back to have them sponsor some tournaments.

In Daytona, which is a big bike capital of the United States where you have Bike Week with about half a million bikers coming into town for a 10-day period, we will be targeting them more to come down and play poker. So poker's gone from the sideline business in Florida to a big business.

We're the fourth largest poker room in terms of revenue at about four and a half million; the other three big poker rooms are probably doing about \$6.5 million a year. So it's really been a boon to our business. Our attendance has gone up, our handle, our simulcast handle has gone up. How much of that relates to poker I don't know, but we certainly have a lot more people in the building.

As people drive by, people, my neighbors say, "I see the parking lots really filled up at the racetrack." A lot of that's poker, because it's a steady flow every day.

Again, if you can get poker into your facility it's going to get bigger than you think. If you put 20 tables in you'll need 40 tables. I agree this is probably a boom that's

going to stay with us for a while, I don't see it really slowing down. And as you can get higher stakes into your facility, you will keep attracting different customers.

In Florida we face competition from the cruises to nowhere and from the Indian reservations that do poker. Since they're not regulated they can offer higher entry fees, they can do a few things that we can't do. But again, it's become a great business for us, and certainly it's a third line of our business with live racing, simulcasting and poker we now have three revenue streams.

Thank you.

(Applause)

MR. JACK KETTERER: Thanks both Randy and Dan for those presentations. Dan said he was going to leave me a little extra time because he didn't have much time to prepare. We worked together down at Phoenix Greyhound Park when I was general manager and he was the chief financial officer. I wish Dan would have been so generous with the funds he allowed me to spend down there.

(Chuckles)

I also want to thank the RTIP for having me here, allowing me to speak. I'm going to spend the first part of the presentation just to kind of give you a frame of reference and a quick review of the legislative history in Iowa, and an assessment bringing you up to date as to where we are today.

And then I asked the staff of ours at Prairie Meadows to kind of put together a quick laundry list or a check list as to what we had to do, what was required to get up and running for table games at Prairie Meadows. And so I'll go through those, probably rather quickly.

They're not the most exciting things to review, but I think they'll be of interest to you if you have table games or you're thinking about table games in your jurisdiction.

Basically we started pari-mutuel in '83, had the greyhound track at Dubuque in '85, Prairie Meadows in '89. And incidentally, that was when we also had casino gambling on riverboats passed and the first casino opened in '91.

'94 we had electronic gaming at the tracks. It was limited to those that were currently licensed and they were required to pass a county referendum. Also in that legislation was the removal of any wagering loss limits on the riverboat casinos really allowed that area of gambling to expand from about three boats at the time, I think, to presently we have 14 licensed.

The boats also had to pass a county referendum, even though they're already in operation, to get the limits removed. In 2004 there was a comprehensive gambling

bill that allowed table games at racetrack casinos and also allowed the tax rates to be stabilized in Iowa. The current structure is 22 to 24 percent.

Interesting to hear some of the earlier panelists, I know Ron Sultemeier talks about 40 to 50 percent being talked about in New York. This is our tax structure and how it is divided among the various entities.

Dubuque Greyhound Park and Bluffs Run will begin table game operation in new, expanded facilities in the first quarter of 2006. Both of those facilities do have competing riverboat casinos in the same market. Prairie Meadows launched temporary pit and poker room in the existing facility about one year ago, and it's probably about 50 percent of the capacity of what they'll eventually have.

The new expanded facility will about double that inventory, and that's going to open, according to Tom Manning's presentation earlier this summer, in the first quarter of 2007. Prairie Meadows has no real competing river boat facilities. There's a small rural riverboat casino 45 miles from the Des Moines metropolitan area where Prairie Meadows is located.

I guess Dubuque has about a thousand slot machines; when the facilities are built out Prairie Meadows and Bluffs Run will both have about 2,000 slot machines. Currently, this just shows you after Prairie Meadows was up and running for six months, fiscal year to date from July 1st through October 31st, about 91 percent of the gambling revenue is coming from slots and nine percent from the tables.

What's not up there I might have put up there is I think Prairie Meadows roughly gets about 95 percent of their revenue from gaming and about five percent from pari-mutuel revenue. And then of that the five percent you can see that that's how it's divided up between slots and tables. And I wouldn't foresee that even doubling the amount of tables that they plan to put in would affect that ratio greatly.

You can see that all of our riverboats over the same time period have a mix of about 89 percent slots and 11 percent table games. I guess the message there is that in an addition to pari-mutuel alone, as Randy has shown, then you could get a significant boost in your revenues, in Canterbury's case I think it was double. And if the table games are added to a racino as an entertainment alternative in addition to pari-mutuel, slots, shows, restaurants and the like, then I think that's an attractive addition.

If you're adding to a racino that already has slots for revenue, it's not going to be a huge revenue boost. As both the previous speakers have mentioned, the table games are very labor intensive and I think really the casino games can be more so than just poker.

These are some of the issues that we deal with with table game installations. The rules. Games must be submitted to us for approval. Each specific game rule includes object of the game, betting structure, wager payouts, ranking of the hands. This is actually from the Ameristar, one of our riverboats, but it shows —

you're not going to be able to read the rules there but rules of the games, definitions such as hard count, soft count, what a push is, a card reader device and the number of decks and value of cards. And that's actually one page of a 13-page document on the rules for blackjack.

Of course at Prairie Meadows this is another way that rules of the game can be displayed to prevent patron disputes. They have a little rack there that has all of their games; three-card poker, Crazy Four, gives a little rundown of the rules of the game and also some of the strategies involved.

They'll also be found on the felt. I think this is three-card poker and gives the patron the constant reminder of what payoff possibilities there are and the rules of the game. This is another for, I think it's Crazy Four.

Other things; the shuffle process, whether you're going to have an automatic shuffler or manual, the rake or permission rate in poker. Another one is signage requirements, the minimum/maximum wager, proposition payouts, jackpot explanation and the rules of the games are variable.

This shows an automatic shuffler that we're talking about, Shuffle Master, and then drop box that we might talk about a little later in the rules. There's a signage, electronic signage that shows the minimum and maximum wager that can be changed over any time they want to change the limits on the table.

This is from the poker room, the general house rules and jackpot rules are displayed right by the entrance. And there's signage in the form of a plasma TV that kind of gives updates on the different tables and what games are being played and the jackpots.

Internal controls. These really can be different at each facility. We don't require them to be the same in all rules, but they must be written and they must be submitted to us for approval, and they must be followed once they are approved. For instance, money and chip handling, opening and closing of tables, basically signature, turnover control and surveillance notification.

Same thing with table fills and credits. Dropping of table games, there will be a schedule but sometimes, especially with respect to Prairie Meadows, they may have emergency drop procedures because they basically have more people wanting to play table games than they do have seats at the tables. And so oftentimes on a Friday or Saturday night they might have to have emergency drops because that cash box I showed you earlier is full.

Different issues with counting table games, different from slots. Just some miscellaneous things involving tips and chips. Card/dice control, maintaining your inventory and establish a secured area and control of those, wherever they go and at what point they're cancelled and taken out of play. Damage inspection for the card replacement in the pit area, there need to be internal controls established for that.

And the damage log. Table equipment must be purchased from an approved and licensed manufacturer and/or distributor. We license each of those, have done background checks on each of those manufacturers and distributors with all of the items that are listed there that are part of each of the games.

These are some of the manufacturers, just a sample of some of the manufacturers and distributors that we license, and I think that's a fairly current list of the different manufacturers and distributors that we license.

Regulatory issues. Floor layout.

Our legislation requires us to establish a wagering area. So the wagering area must be submitted for approval, must comply with Iowa code. Here's some signage from Prairie Meadows: "You're now entering a designated wagering area." It's too dark in the background.

This was done originally in the morning and the simulcast area was closed. But the simulcast area is right behind there. You'll notice also that the sign is done in Spanish. That's something that we talked about, because Prairie Meadows had some issues where they were cited for minors being were allowed on the casino; not intentionally, but they were allowed to be on the casino floor or the wagering floor and they weren't 21. And many of them were Hispanic and could not read the signage in English.

And it was the predominance of Hispanic workers working in the barn area during the live race meet, that's usually when that occurred. So this was a good addition.

Another sign. These are credit card, cash advance and ATM machines. Anyway, they cannot be on the wagering floor or the gaming floor. So most of our facilities, racetracks and riverboats have chosen to put them near the entrance and exits locations. More credit card, cash advance and ATM.

Coverage requirements for surveillance. Capability of two cameras per table, such clarity of cards and/or dice; dedicated coverage for progressive games with large jackpots. Capability for split screen on roulette so one camera can watch the wagering layout and one can watch the spinning wheel and where the ball is.

The camera layout actually goes to our Division of Criminal Investigation and they approve the surveillance plan and have a malfunction plan whether or not a game needs to be closed.

Table game testing. Roulette wheel. Sometimes with a meter and sometimes with calipers for dice, just to ensure that they have uniform surface and they'll have a random result.

Shufflers. We verify and seal the storage media to ensure that those are — the shufflers are random.

The revenue auditing, the count, just the internal controls must have accurate reporting, cash and chip count inventory, fill and credit slips. Table win, lose, and jackpot progressives. We review a lot of tournament submissions for compliance. And also just different type of marketing promotions to ensure that they comply with Iowa law.

And the coupon issue is becoming more and more of an issue to determine what is allowed as a deduction against revenue, what is not; especially with a lot of electronic games now where somebody can come to the facility that's a member of the Players' Club, and when they stick their card in the machine they automatically get a \$5 credit or a \$10 credit on that machine.

Jackpot proposals. Just to ensure compliance with that, how dealer tips are handled.

Licensing. All the employees must have what we call a Class C background, which is just kind of a head and shoulders background that DCI does for us; rap sheet and anything that needs to be followed up on backgrounds about applicants.

Gaming school practice area. You need to maintain a separation of the practice equipment from the gaming area. Review surveillance reports. This is a picture of — in a separate building from the actual casino that Prairie Meadows, for example, uses for their table game school. It's got various types of tables set up.

These are some of the manuals that they use for training in the various games. And they have to establish patron procedures for customer complaints, for ID checks for minors, and for removal of intoxicated patrons who are playing the table games.

This is an example the ID report. I'm going to use this thing. It's either a laser or a taser, so be ready.

(Chuckles)

Okay. This just shows the total monthly attendance, this is for a period of January to November 2005. Total monthly attendance at Prairie Meadows is about 2,643,000. This breaks down weekend and weekday, the number of IDs verified. It's hard to read that number but it's 254,000. In other words, they checked 254,000 IDs in this period of time.

During that period of time they found 1,600 that were no IDs, about 20 false IDs, about 288 underage people. And then it breaks down per shift over here. Obviously the largest number, about 50 to 60 percent is in the second shift, 3 in the afternoon to 11.

And that kind of gives an idea of the volume of traffic that you have at these facilities. And those of you who have racinos already are looking at issues with that, I'm relatively sure.

But if you have minors that are coming with parents or others to the racetrack for live racing, you really need to think out the traffic patterns as to how those people enter and how they leave so that they don't need to cross the casino floor, and that you have check points with security that will monitor and make sure that someone who is 18, 19, 20 years old is not coming into the live races; and then trying to go through a different route to get access to the casino floor.

We've taken a pretty strict approach to minors, and if a certain threshold is met, which involves that there was no ID checked when the person came in to the casino floor, they were on the casino floor at least 30 minutes and they either played a casino game or they consumed alcohol, the facility's fined \$10,000. And if there are three within a year then the fine is going to increase.

But I think that that's something that will get the attention quicker in the way that, whether it's law enforcement or the media want to do things as far as tobacco sale or alcohol sale, that's one thing that's going to get the attention of the media, going to get the attention legislators very quickly.

So I think it's very important to protect the industry by being very vigilant in that area.

I want to thank you for your attention, and I'll now turn the program back over to Will.

(Applause)

MR. CUMMINGS: Thank you, Jack and the rest of the panel. We have a few minutes for questions. Do we have any questions from the audience?

Okay; start with the front of the house here.

MR. ED DeROSA: Thank you. Ed DeRosa, Thoroughbred Times. Randy and Dan mentioned the poker players and it sound like there's a better chance for a cannibalization in the poker arena than slots; slots might bring people who otherwise would never play racing.

The flip side of that, people come in to play slots I don't think are ever going to go to the racing side, or at least the minority of that, compared to maybe poker players who might try racing.

First of all, would you agree or disagree with that, just comment on providing something that actually might cannibalize the racing product? I think someone mentioned that some serious players stopped handicapping all together.

MR. SAMPSON: Sure, I'll take the first crack at that. And for those that didn't hear in the back of the room, the question really was about the cannibalization and crossover and similarity of players in table games and lack of similarity with the

racino, similarity which is generally what we've always heard from the panelists that have slot machines.

And I did mention that they clearly are similar. We did have players that were regular for 10 years, came several times a week or every day and played horses, that once the card room opened they found that to be a more attractive way for them and, you know, will still bet horses once in a while, but their play is dramatically decreased.

So we certainly did see some of that cannibalization, but as I mentioned, we think it is an opportunity; and both Dan and I have seen that in are our card room.

Dan mentioned, too, that five percent of their handle comes out of their card room; and I think our number is probably pretty similar. It's hard to say of those are people that came to simulcast and also played cards or if they're people that came to play cards and bet some of the races.

But we also do have a player tracking system where one track you can see the play of people in both the card room and the simulcasting, and I can tell you from looking at our top player lists, not very many of them cross over, but there certainly are some.

If you take our top 50 players say, there's probably between five and 10 that play significantly in both games; the vast majority play one or the other.

But anyway, as I said before, I think it's clearly an opportunity. It's a similar group of people, the demographics are similar, and we're just working on and talking about it all the time, how we can try to get these people these new people that are coming in all the time to play poker, how we can get them to play the horses.

I can't say we've got it exactly figured out but we certainly recognize there is an opportunity there.

MR. FRANCATI: Yeah, I don't think we've cannibalized our race product at all. I mean, this year we added a lot more simulcasting produce to the facility so we actually took out simulcasting bill from \$27 million to about \$30 million this year, and a lot of that came from the horse side.

So we dramatically increased our horse simulcast and we also with poker revenue, increased from a million two, a million three. So I don't think we cannibalized ourselves by poker. Poker should be looked at to add to the experience of wager.

Now we have some cross-over bettors, bet both simulcasting and poker. It's our job to take that, I think that younger poker customer, and make him a race fan.

I mean, on Kentucky Derby day people come; they're not necessarily big days in the poker room, they're big days for the live track but not big days for the poker.

So our big days in the poker are really, whether specifically designed, over big tournaments like 144 or 180 people in a tournament and getting them into the facility.

So we do face a challenge to see how we can get some of those younger poker fans in there and make them race fans.

MR. CUMMINGS: Other questions?

(A question was asked)

MR. SAMPSON: Sure. Again, for those that couldn't hear the question, the question is about our other — you know, you saw a snowmobile race, brief clip, and I mentioned some of the special events and wondering what we do and why we do it.

And the first answer is that we've been doing it from the beginning, and we did it primarily when we bought the track in '95; we knew we needed to expand our business. We needed to do things other than just racing there. So it was primarily driven towards generating cash flow, keeping the facility busy, getting new people out to the facility.

Now, with the 24-hour-a-day card room there has been some shift. And now you're actually doing some of these events; like say it was when they have boxing, we've done it really hoping that they that will cross over to the gaming side.

So with the card room it has opened up. Another reason to do them and another benefit of doing them, we do snowmobile racing, they're very popular. We do craft shows. Can't say there's a lot of crossover from ladies that come to the craft show; you know, there are certainly husbands that come with them saying, "I'm going to go play cards. Come get me when you're done."

But we do concerts, you know, and our live racing is over the summer, so we're kind of limited on what kind of events we can do around live racing.

But basically the rest of the year we try to fill it up with fishing shows, computer shows, you know, various Christmas parties.

And it has been quite successful for us. It's a modest profit business but just getting people to the place and exposing them to our card room and our racetrack, we think, has a lot of benefits.

MR. CUMMINGS: Ron Sultemeier?

MR. SULTIMEIER: Ron Sultemeier, Delaware North. One question for Randy. Randy, you heard Dan talk about the bet limit in Florida. What's the dollar bet limit that your poker patrons have, and what percentage — one/three or one/five or five/ten?

MR. SAMPSON: All right. Our betting limits are — you know, we were fortunate, as Dan said, it was really limiting in Florida when they had 25 to 50 cents and you go to 10 bucks and you show your cards. I mean, that really limited their opportunities.

So it is critical to have high enough betting limits to actually be able to play real poker and be able to bluff people.

With that said, we have our lowest limit game is two-four, meaning for the first round you can only bet a maximum of \$2 and then later \$4. Our highest limit games are 30-60, which as you know is obviously a big game; if you can raise 30 and raise 30 and raise 30, that's a significant game.

But we don't believe that no limit — even though that's what everybody loves in the tournaments — is really that critical. It does really queue your players up much more quickly, you know. To be honest about it, our revenue is time-based really; it's not like blackjack where if a guy comes in and bets \$10,000 on one hand and you win it, you got the money.

Here the longer they play the more you can grind out of them basically on the churn, like horse racing. So most of our games are two-four, lot of three-six, lot of four-eight.

But I would say to answer your question with the 50 tables, 35 poker tables, two-four is usually one or two high limit games and a wide variety in between, but the vast majority are two-four, three-six games and you really generate almost as much revenue out of those games as you do the high limits and it's more social the players there are to have fun and over the long run it keeps them playing longer.

MR. CUMMINGS: I believe our time is up but I'd like to thank the people one more time; and we'll be available if you have any other questions.

(Applause)