



Race Track Industry Program

**TUESDAY, DECEMBER 7, 2004  
RACING AND GAMING SUMMIT**

**Morning Session 2**

**FREEDOM OF CHOICE: MANAGING GAMES  
AND TECHNOLOGY**

**Moderator:**

**Ms. Patricia McQueen**, Lottery and Racing Editor, IGWB

**Speakers:**

**Gerald Aubin**, Executive Director, Rhode Island Lottery

**Walt Hawkins**, Director of Business Development, IGT

**Richard Taylor**, Executive director of Gaming, Ontario Lottery & Gaming Corp.

**Alex Tucker**, General Manager, Fairgrounds Gaming and Raceway

**MS. PATRICIA McQUEEN:** My name is Patricia McQueen. I manage the lottery and racing coverage for the Ascend Media Gaming Group, which publishes magazines including International Gaming and Wagering Business. I hope this will be an interesting and informative session about game management.

What we tried to do today is we have a couple of sessions talking about games and systems and various technologies that will be useful to some of you that have gaming that might be interested to know what other jurisdictions are doing, and those of you that are looking at getting enabling legislation might want to find out what's going on and what some of the optimal best practices are that some of the jurisdictions are doing.

So hopefully a couple of these sessions will accomplish those goals.

From the moment a racetrack opens its casino doors, players make choices. Operators also have choices, although as you will see, some have more flexibility than others depending on how the structure is of the regulation. Our speakers are going to talk about how closely various jurisdictions monitor the choices players make, how active they are about responding to those choices, and what different parties are involved in the decision-making process.

All of these factors can impact how much a given gaming operation generates in revenue for the states, for the racetracks, for all the parties involved.

So with that brief introduction I will introduce our first speaker, Walt Hawkins. He's a long-time veteran of IGT. He's currently their director of business development, and Walt will give us an overview of the industry, kind of set the stage for some of the jurisdictional talks that will follow him.

Walt?

**(Applause)**

**MR. WALT HAWKINS:** Thank you, Patricia, and I thank you for not belying my age by saying how long I've been in the industry. Most of you, I'm afraid, know.

As a lead-in and as a representative of the supply side of the business, I thought it would be worth a few minutes to recap the racing and gaming business in North America.

Since 1991 racetracks with some form of video lottery or slot devices has grown from one to the current 23, soon to be 27 with anticipated start-ups in Louisiana and New York, and as many as seven more in Pennsylvania, as you heard earlier. That will bring the total to somewhere around 34 sometime in '06 that are anticipated, depending on some of the delays that we heard about in the Yonkers and the Aqueduct scenarios.

It may come as a surprise to you that currently New Mexico has the most racing and gaming facilities in any one state. The number of machines at these facilities are approximately 35,000, as depicted here by individual states.

The four tracks in West Virginia combined for the most in any one jurisdiction with 11,000. That's a pretty significant number. The rate of growth in the machines in these states as seen here is pretty impressive. The slide once again does not account for Pennsylvania, which could take the total of over 60,000 machines at U.S. racetracks in the next year.

More to the point, for this panel anyway, is the variety and perhaps the disparity in the tax structure and/or regulatory structure in these jurisdictions.

What is somewhat obvious is that there are two economic models that exist. One is the government lottery as a regulator and very involved in the operational aspects of the program — examples would be New York, Rhode Island and Delaware; and the second is more similar to a traditional gaming environment with much more responsibility and financial control being shifted to the operator — Louisiana, New Mexico, and Iowa would be examples.

Both are very good models depending on your point of view, particularly if you're the state government, as they should benefit either way. But in this situation as

you can see here, the higher the tax the more responsibility and controls is expected from the government entity.

Typically that starts with responsibility of procuring and/or leasing the machines — we'll get into a little bit more; and seemingly, on the lower end of the tax schedule, the more latitude the operator has — and traditionally they are responsible for purchasing the machines.

Not to leave out our friends in Canada, they have a similar number of racing and gaming venues and virtually the exact numbers as in the U.S., growing at a similar rate. This although they have about a third as many machines as we have in the United States. Clearly Ontario here, represented on this panel by Richard Taylor, has the majority of the racing and gaming venues, and accordingly the machines.

To give some idea and also to provide an eye chart — Professor Rose still in the audience? It's going to be more difficult for him.

To give you some idea about the competitive gaming environment in Canada we slipped this slide in to highlight where racing and gaming venues are, casinos and the first nation's gaming facilities. And as I mentioned, it will also be used as an eye chart, but it's a pretty widespread gaming environment in Canada.

Very quickly, following is some of the regulatory authorities in each of the U.S. states, showing that the preexisting lottery department was once the traditional overseer, but recent additions have seemed to have gone to a gaming commission, and in the gaming commissions' example, these guys are just like they're industry; they've got to start from scratch, identifying, hiring, creating rules and regs and creating the people that are going to be doing this function, as opposed to the traditional lottery states where you have a preexisting regulatory authority in place.

The structure and makeup and the technical oversight and approval of the entities take a considerable role in the request, approval and delivery of the new technologies that we're going to talk about a little bit later.

Very quickly, just for a little fun we developed a time line on the expansion of gaming in the U.S. Interestingly, with the exception of the Detroit casinos and the expansion to bars and taverns in West Virginia, which were partially due to the success at the racetracks, virtually all expansion in the last eight or nine years have been VLTs or slots at racetracks. Shows the importance of this conference.

And lastly, a little bit to Professor Rose's slide earlier about the critical mass creating in the northeast, we're talking about defense agony syndrome, or whatever you want to refer to, and to where the new jurisdictions are contemplating gaming this year, taking a lot of lessons from their preexisting counterparts in Delaware and Rhode Island and West Virginia in how to regulate it, but the states that we see are neighboring to the states that currently exist.

For example, what we're looking at is the Maryland and Massachusetts, Ohio, Texas and Florida, which is no surprise to any of you. But you can see that again it's on the neighboring states, as Professor Rose talked about in the earlier panel.

With this overview I hope we teed it up for some more market specifics now from the rest of the panel, and I look forward to any questions relative to the market in general.

Thank you very much.

**(Applause)**

**MS. McQUEEN:** Thank you, Walt. As he said, there's different regulatory models, and you're actually going to be hearing from most of the lottery operators here today. And sometimes they have a certain way of doing things and the other models have different, other ways of doing things, and hopefully you'll find something good out of what everybody does.

And what I'd like to do now is introduce Jerry Aubin, the executive director of the Rhode Island lottery. They oversee the VLTs in that state at two pari-mutuel facilities.

And the Rhode Island lottery was one of the first to really develop some performance measures and benchmarks that the actual lottery, the video lottery vendors had to meet to make sure that their games were getting the best play and that they were getting the best games offered by those vendors so that the revenues could be maximized as well as possible.

So Jerry will go into that.

**(Applause)**

**MR. GERALD AUBIN:** Thank you very much, Patricia. You know, first of all before I get into my presentation I want to commend the Summit. This is the third, hopefully annual one — I guess it's the annual — and within the video group, the lottery industry, Director Musgrave, John Musgrave from West Virginia and Wayne Lemons from Delaware are here, and we continuously commend this group and this as being the most productive and informative for us from a lottery perspective, because it gives us the opportunity to interact with those people from the racinos and the tracks and what their hopes and goals are.

Rhode Island enjoys a significant financial benefit gained from the lottery revenues, particularly VLTs. It is our job to see that these benefits continue to grow by offering the products and applying the practices that are fruitful, fair and fun.

Let me give you a little history. Rhode Island was the first racino in this country. It followed South Dakota and Oregon, who had wide area machines. But we were the first ones in 1992; we licensed two facilities at the time.

Both the facilities were facing some real financial hard times. One was a dog track, which is Lincoln Park, the other one was Newport Jai Alai, which had the product of jai alai itself. And the state itself at the time was facing some real bad times.

The facilities were facing bad times, so it was the opportunity to license these two venues. And we have obviously generated significant profits, and the communities in which they're located as well.

With these facilities competing against each other, as well as the two casinos in nearby Connecticut, Mohegan Sun and Foxwoods, it is crucial to our video lottery program that a variety of games is maximized and annual costs minimized.

Rhode Island, of course, is a very small state, and Lincoln Park is located in the northeast area of the state, with the interstate highway accessibility. Obviously it's very close to the State of Massachusetts, so we're concerned in the future if Massachusetts, was to implement VLTs.

It presently maintains 2,543 VLTs. Newport Grand, located in the summer resort community of the rich and famous, is in the south, where it offers 1,020 VLTs. But again, it's in close proximity to the State of Massachusetts and the southern part of Mass. Both facilities provide gaming and other forms of entertainment to the public. Lincoln Park offers live greyhound racing, Newport closed it's jai alai operations in 2003 and just strictly runs the VLTs, but also offers simulcast racing.

The structure of how the Rhode Island lottery is set up and was set up in '92, provides that the lottery oversees all gaming operations with the state, relying on the management of the two facilities, the central system provider, the technology providers to maintain a cooperative relationship that will address player needs while generating revenue.

Rhode Island Lottery's under contract with three technology providers, which recently was four and prior to that was five, with VLC. But now Spielo has been absorbed by G-Tech and presently we have G-Tech, IGT and Williams, and the breakdown is as you can see.

G-Tech is also our lottery central system provider. The lottery's financial investment in VLT technology and operations is minimal. While the facilities may experience competition from each other and from Connecticut casinos, technologies compete against each other and with each other to bring the games into our facilities.

The technology providers are motivated to ensure that their games and their technology is in fact the newest and the most state of the art. But getting the machines into the facility doesn't mean they will stay there.

Rhode Island developed an efficiency program back in 19 — actually 1997 to insure that we would be provided the newest machines and state-of-the-art technology. Basically what happened in '92 when we first started the VLT program, there were

five vendors at the time, or technology providers; each was given a fair share of the machines that were available at the time. It's grown since then.

The problem we had is they operated on a five-year license and were not required to put anything back into the facilities. They were taking their percentage or their share and actually not providing new games and new machines on an ongoing basis.

We revised that in 1997 with the three-year license, where at the time we started just taking — but not a finite period of time — started taking machines from people who were underperforming. In the year 2000 we clearly defined our efficiency program, and the efficiency program expects a vendor to generate a percentage of total VLT revenue equivalent to the percentage of VLTs it has.

I'll give you an example. If Vendor A has been awarded 50 percent of the total number of VLTs at a facility, then it is expected that Vendor A's VLTs will be generating 50 percent of the facility's VLT revenue, or 100 percent efficiency.

If a vendor drops below 97 percent efficiencies, those inefficient machines will be removed and space is awarded to other vendors whose efficiency exceeds 100 percent. This program has been successfully adopted by the New York Lottery and explored by a number of others.

Our program will be starting very shortly with the first quarter of this calendar year, so at the present time we have a tremendous amount of new games and new machines being introduced. Obviously new games make appealing and player satisfaction equals efficiency. Because of our efficiency program technology providers are motivated to replace less popular games with those that gain player appeal. New games replace those low-producing games about every six to eight weeks.

The incentive is for technology providers to install new games, to optimize their efficiency and reduce the lottery's responsibility to actively pursue new games. They're pursuing them themselves because they know it's incentive for them. Obviously they're going to make more money if they have new games in and obviously if they fail to do so you have the potential to lose their machines to their competition.

We also have tremendous competition from the nearby facilities of Mohegan Sun and Foxwoods, so our player base is very, very sophisticated. They, on a regular basis, also visit those facilities, so it's very incumbent upon our facilities to compete and our technology providers to have the newest and latest games that they're also going to find at Foxwoods, they're going to find at our venues.

The VLT facilities will offer input regarding the games, themes and other pertinent information that they receive from players through surveys and other interactions.

Just very briefly, I just want to talk about progress. I was and we've been meeting the last few days on progressives. We've been working on this a very, very long period of time, a number of years actually, about eight years trying get a wide area of progressive, so I say this obviously as a point of interest for those racinos that are soon to have VLTs, that we hope we'll have a wide area progressive game up and running in the near future; that's Delaware, Rhode Island and West Virginia, and hopefully we will see other racinos joining us along the way, and other lotteries, so that we can have these mega-buck jackpots in the future.

To minimize risk and maximize revenue, lottery neither owns nor leases the video machines used in its VLT program. Instead the technology providers receive a percentage of the net terminal income from the games. The technology providers also commit to \$100,000 per year in player promotions, so it's obviously incumbent upon them to have their newest and latest games, since they're required to put that money into the promotion program.

Technology providers understand that their machines are subject to efficiency evaluation. They may lose a game according to their performance.

Obviously just briefly, potential qualifications is obviously the reputation, the financial stability, experience and similar VLT operations, but most important of all, the game library and the ability to put new games in that are exciting for our player base.

Things to keep in mind when managing games is technology. All parties need to make money. And I continuously hear that. Everyone needs a fair slice of the pie. Because if the state is trying to take the biggest piece, obviously the facilities are not able to refurbish and to continuously put money into their establishment, nor are the technologies able to bring in the newest, latest licensed games to compete with other venues.

All parties need to make money. The state, the systems and the technology providers and the VLT facilities. The state needs to generate revenue, the racinos need to continuously maintain and improve their facilities, technology providers need resources to develop newer, better, cutting edge games and technology. In the end when players have fun, everyone wins.

Thank you very much.

**(Applause)**

**MS. McQUEEN:** Thank you, Jerry.

Now we'll go from a jurisdiction that had two racinos to one that— and correct me if I'm wrong, Richard — has I think 16 at the present time in Ontario. The Ontario Lottery and Gaming Corporation actually operates those racinos at all of those racetracks.

And among other things it does, it basically controls most gaming in the province. And Richard Taylor is the executive director of gaming for the OLCG, and he will talk about how that organization monitors such a large network of racetracks.

**(Applause)**

**MR. RICHARD TAYLOR:** Thanks, Patricia. And good morning to everybody.

To help you understand our gaming mix strategy I want to give you a little background of gaming in Ontario to give you a little scope of our markets.

Our first racetrack-slots facility opened in 1998, so we are relatively new in the gaming industry. And as Walt has mentioned, and Patricia as well, we currently operate slots at 16 Ontario racetracks, and we also have five charity casinos.

There are five charity casinos or mini-commercial-type casinos with the full range of games from table games as well as slot machines. Currently we operate about 11,600 slot machines, and we are scheduled to open another two racetracks in the province in the very near future. And both of these racetracks will probably have about a 200 number of slots at each one of the locations.

We also have four commercial casinos in the province as well. And those are large commercial-type operations, again, with table games and slots. And when you combine those with our operations combined we have well over 23,000 slot machines in the Province of Ontario.

As for developing our slot strategy, the racetracks, although an important stakeholder, have really no input into the gaming mix decision in Ontario, that's all primarily determined by the Ontario Lottery and Gaming Corporation as well as government.

And we are a Crown Corporation, so the government owns and operates the business. And we do have a regulatory body, the Alcohol and Gaming Commission, and substance over form it is an arm's-length distance with us being the operator.

So how does the OLCG manage its gaming mix? This is a pictorial representation of the high level of the strategy that for us consists of five different components. And I'll talk about each one of these in more detail.

But to summarize for now, the first component and probably the most important is the game performance analysis. And we look at indicators such as utilization rates, net wins and win per unit per day. The first step drives the decisions made in the remaining four components there, and the analysis is performed at a site-by-site level as well as across the province, so we can get a better and more accurate picture of what is occurring in our marketplace.

Once we get a sense for our game performance to achieve our financial objectives, typically the highest priority is placed on the new game purchase program. And this component has the greatest cost and yields the greatest impact for us as well.

We also assess whether or not we want leased games. Leased game management directly impacts our operating budgets, and therefore has a high profile from the site perspective.

The final two components there, theme conversions and game redeployment, are considered losses. They are highly impacted by the results of the game analysis and decisions made regarding the new and leased games.

I want to give you a sense for all the key players in identifying and developing our slot strategy in Ontario.

The divisional analyst and the product development team across the top there are the key drivers in the decision process. And they perform the initial slot performance analysis and they make the vast majority of the recommendations for us.

The review and approval of the recommendations are required from the gaming executive team, and I am one of the gaming executive members. The site management team also becomes involved once the execs have approved a high level recommendation and work with the divisional analysts and the product development team to determine the final strategy.

Input from the marketing group and customers are also considered in the province. And the OLG monitors customer satisfaction through customer feedback cards, formal surveys, and focus groups. So we have a very objective component to determining our slot strategy, and we also have a very subjective component to it as well.

Getting into the detail of our game performance analysis, we perform game performance analysis by denomination, type and vendor. And currently our denominations range from nickel games all the way up to \$5 games; and our types include reel, video and hybrid slots as well.

The vendors include IGT, Bally, Aristocrat, Atronic, Konami and Williams. So we've got most of them represented in the province.

We have established benchmarks that instantly evaluate game performance, and again, these are based on win per unit per day, utilization rates and the performance index. And we now analyze these on a site-by-site basis as well as across the province, all 11,600 slot machines.

These benchmarks are constantly under scrutiny as the game mix evolves and we get better and better at doing our slot analysis. We identify games to be targeted for replacement, and we recommend purchase of new games. We identify games to

be targeted for conversions and we evaluate leased game performance and their potential, and we recommend adjustments of leased game mix on a site-by-site basis. Owned and leased games that do not meet the benchmarks are targeted for replacement or conversions.

So our methodology is to establish the current state-of-game performance, again using primarily utilization rates, net wins and a performance index, and we use this to try to rank all of our slot machines in the Province. Utilization is just the percentage of play versus theoretical maximums, and the performance index is the net win as a percentage of average win on a site-by-site basis. Benchmarks are established from OLG historical data and from industrial data for new games as well.

What does our analysis show us graphically? The games are stratified into one of four quadrants, determined by the win per unit and the utilization; and you can see the utilization being the vertical axis and the win per unit being the horizontal axis there. The easiest decisions for us are made first. We deal with what we call the stars and the dogs.

Typically it is a simple decision; we want to obtain more stars and replace those slot machines with the low, both low win-per-unit and utilization rates, and that would be the one down at the lower left-hand quadrant there. Work horses and puzzles require additional analysis that include evaluating percentage of win, floor location, type of games, etcetera.

If you take a look in the upper left-hand corner there are the work horses; again, high utilization, low win-per-unit. We may want to increase the hold percentage on those games as a strategy, we may want to move them to a secondary location or we may want to reduce the number of those games as part of our slot mix.

In the lower right-hand column, again, machines that have very high win-per-unit but low utilizations, we may want to, as a strategy, move those to more primary locations, add signage or potentially decrease hold percentages.

This chart plots games which are identified by denomination, type and vendor; and as I mentioned before, we monitor and track all our games by denomination, game type as well as vendor, and you can see them down the right-hand side. So this graph clearly indicates the best and the worst games and the impact of net win versus utilization.

So in the extreme upper right-hand corner, the IGT and Konami nickles are doing extremely well, and these are just examples; and in the lower left-hand column the IGT \$2 machine is not doing very well for us on a win per-unit or utilization basis.

Way up in the left-hand column there in my example is 25-cent Bally, a game that has again high utilization but low net win; we may want to move those or reduce those numbers of games; and again, taking the extreme in the lower right-hand

column, which is the \$5 Bally, again we may want to move those to more prime locations and/or perhaps get more or maybe less of those games in house.

This table is an example of the data considered in ranking the game's performance and would be used in discussions with the site management team in developing our game strategy.

The performance index, and as you can see on the left-hand side again, we try to group by denomination, by slot type, and by vendor. We track slot win, net win, coin in, handle, utilization rates, win-per-unit and performance index; and again, we use all of these indicators to try to rank all of the slot machines for us.

The performance index shows the win as a percentage of average win at the site, and aids in simplifying the performance ranking process.

Utilization aids in ranking the games within the same type and denomination and assists in identifying opportunities for us. Utilization is also useful in determining the optimal location for games on our gaming floor, and as one would expect, win-per-unit is the clear performance indicator. It is an extremely important one for us.

As previously mentioned, the highest priority is placed on the new games purchased for us when it comes to developing the slot strategy. This component has the greatest cost and yields the greatest impact. And our objective of course is to realize incremental revenue and optimize the slot mix. So as part of our program methodology, we do a game mix performance analysis, which I've already described to you, and it's used to measure the performance of each game type.

We introduce new slot platforms. The product development team researches and recommends new emergent technologies, new game platforms and themes, etcetera; and we also engage the vendors to recommend new game changes for us. We look to the vendors of our best performers to maintain a flow of new products, and we also look to our new vendors and the marketplace to complement the overall game mix and allow them the opportunity to earn a percentage on our gaming floor.

We also do leased games in the province as well. Our objective for leased games is to ensure every leased game meets our performance benchmarks. And of course when we determine our benchmarks we do take the lease payments into consideration.

For the program methodology, we do a leased-games performance analysis in a very similar fashion that I've already showed you, used to measure performance of these games. In doing so, we identify opportunities for leased game changes or game replacement, and we also identify optimal leased game mix by site and also manage the leased game mix and budget by site as well.

The vendors of these leased games are encouraged to ensure game performance for us, and they are expected to proactively recommend conversions or

replacement based on the performance indexes which we determine. Many of the most popular, most requested games by patrons are leased participation games, and therefore they are essential components to the overall game mix.

We currently do not have a target for minimum or maximum number of leased games on our gaming floor, but right now we're shooting for approximately five percent of our total gaming mix. The OLG needs to refresh its gaming floors not just with new machines or leased games; one method is to continually provide new themes through game conversions.

So our objective is we try to leverage successful themes throughout the OLG properties; and again because we have so many slot machines and our analysis is province-wide, we can identify those themes that are doing extremely well for us and those that are not.

So we introduce new game themes at the OLG site, and of course the objective would be to realize incremental revenue with minimal investment. We consider which platforms have the most remaining life, and do not convert games that will be obsolete or that we consider to be obsolete.

The number of conversions to be targeted each year is weighted against the initiatives, particularly new game purchases and leased games, which of course take priority for us. We also have a game redeployment program, where because we do our analysis province-wide we can identify where certain games do well and where those games may not be doing well at a certain property. So we just simply do a reallocation of those games to achieve maximum success with those particular games.

To help us with all of these analyses that we do across the province, the OLG has invested in the development of a data mart using Cognos tools which bring data from multiple databases into a single analysis tool.

We also have built a mock casino at our warehouse, in a lab, to evaluate new technologies and new gaming offerings and new technology; ticket-in ticket out technology is being implemented all over the industry, and we at OLG are currently looking at that technology as well.

This facility provides an off-site fully equipped secure location to test products and new procedures in a mock casino environment; and we also have centralized purchasing, warehousing and technical support as well to help us with implementing all of our slot machines across the province.

Our methodologies are constantly evolving and are being perfected as we improve the ways that we analyze our business.

So that's in a nutshell, from a high level, what we do in Ontario to analyze our slot floor and come up with our gaming mix strategy.

Thank you.

**(Applause)**

**MS. McQUEEN:** Thank you, Richard. Clearly economies of scale come into play and when you have so many machines and so many places to monitor you've got a lot of information, and a lot of good information to utilize.

Our final speaker has graciously agreed to offer his expertise on the New York market in place of Jamie Hartman, who was a program scratch; so please welcome Alex Tucker, who's the general manager of Fairgrounds Gaming and Racing, the harness racetrack and casino in Buffalo, New York. And he'll talk a little bit about how machines are looked at in New York.

**(Applause)**

**MR. ALEX TUCKER:** Thank you very much, Patricia, and it's great to be here to talk about my experiences in New York to date, and give you the operator's perspective about managing games and technology in the New York market.

You've already heard this morning about some of the trials and tribulations we've had in New York, and I'm going to point those out in the presentation. But I also think there's been some bright spots, and I am going to cover those as well.

But to begin, I thought we'd do a little background on New York VGMs. They are video gaming machines, not slot machines or VLTs. All the games are video, and there are no mechanical reels.

We have four vendors in the state that we work with; IGT, Spielo, Bally and SPG, and each vendor has approximately 24 to 27 percent of the total gaming positions, depending upon their original deal they struck with the lottery.

We have three- to five-reel games ranging in denominations of one penny to up to \$10. It is a 100 percent TITO, environment which is great as an operator. All of our VGMs are connected to the multimedia game central system. It is a lottery. It's run by the lottery.

There's a statewide pool of tickets that are shared across all four properties. They've established a statewide desired hold percentage and it's not based on property levels decisions. And all outcomes are determined by the central system and not by the individual VGM.

Of course, we know a lot about the tax environment, you heard about that this morning. It's the most onerous tax rate of any jurisdiction. Basically as an operator, it's an 80 percent tax rate, leaves us approximately 20 percent to cover our operating costs and yield positive returns on our investment. We've all had to become tremendously efficient operators. At 20 percent you can't afford to make mistakes in this market.

It's not very competition-friendly as well in my market. We have three native American casinos and three Canadian properties, so it's made it very difficult to compete; you've heard the numbers this morning. We're doing about a hundred dollars per terminal per day at my location. The vendors also are struggling as well, because they're paid by the lottery on a participation basis as a percentage of revenue. So if the operators aren't doing well then the vendors aren't doing well either.

The initial product denomination mixes were selected independently by the vendors rather than collectively by the operators in the beginning. But today there's a partnership between the vendors and the operators to have the right product mix on each video gaming operations floor.

And if I can stop here for a minute to talk about that. Very early on the parties involved, the vendors, the operators and the lottery, realized that they had to work together. In my mind there's an unparalleled level of cooperation between the vendors and the operators. At my property alone I've lost track of the number of conversions we've done. It's in excess of 800, and I only have 990 gaming positions. So there's been tremendous cooperation to get the right product mix on the floor.

There's a constant evaluation by both the vendor and the operator of the types of games that our players want; because of the technology that's employed the VGMs are easy to convert. I can do probably a hundred conversions a night. And the trends regarding player preferences are studied very closely by both the operator and the vendors to identify the needs for more or less types of games. And new themes, fresh product is constantly introduced to the market.

Some of the challenges and opportunities that we have in New York are that the statewide pool of tickets creates challenges when evaluating a theme's performance on a net win basis. All the top award tickets can theoretically be won at the same property, creating an overall actual loss on the game for that property. So again, it makes the evaluation of individual games somewhat difficult.

And it causes properties to limit the top awards that will be offered on their gaming floor. For instance, we have some games in New York that have \$50,000 top prizes. I don't have any of those games on my gaming floor because I can't afford, at a hundred dollars per day per unit, to have a \$50,000 prize given out at my facility. So I've limited those games.

Every game that's the same denomination and the same theme has the same pay table and the same hold percentage statewide. And again that affects the property's desired hold position strategy and it could negatively impact revenue in a less competitive environment.

And it requires the vendors to pick one hold percentage by theme and denomination. The 100 percent video can intimidate some of our patrons; our

competitors have mechanical slots and there still is a demand for mechanical slots. One hundred percent ticket-in ticket-out also can be intimidating to many of our patrons, although I think that that's being mitigated because a lot of the newer properties are adding ticket-in ticket-out.

We have no spinning wheel bonus games, and there's no games of skill permitted. All of the outcomes of the games must be predetermined.

Some of the opportunities. We have tremendous flexibility that the central system allows for cost-effective conversions. As I said, we've done 800 at my facility alone; statewide it's in the thousands.

Downloadable games are set to be introduced this year, progressives we hope are going to come out in the first quarter of 2005, and we have one poker game now; and according to the reports that I'm getting, there will be more poker on the way.

The other hope is that we will someday get royalty games as well. Each vendor's financial performance is evaluated by racino on a six-month rolling period. The first period did not begin until July 1st, so we're just coming to the end of the first period. And the games that fall below a criteria established by the lottery are subject to replacement by better performing vendors.

Ninety percent of the house average of win-per-unit-per-day is the baseline test for replacement. So in this example we have the four vendors at various units per day; the house average is 214. So the base line test for replacement would be 90 percent of 214, which is 193.

So in this example, only Vendor D, who had \$175 win-per-unit-per-day doesn't pass the baseline test, and that's the only vendor that will lose games. And based on the math here, the formula that's done, Vendor D would lose about 22 games.

But now the question is, "Who gets those 22 games?"

And at this point we're not sure, because as I said, the evaluation period, the meter didn't start running until July 1st. So we've never done this before. But we believe that the games will be given to the best performing vendors on a pro rata revenue basis.

As I said, the first allocation is supposed to occur on or about January 1, and then after the games have been replaced a new six-month evaluation period will begin. And last, I'm hoping to be invited back next year to talk about the tremendous turnaround that's happened in the New York market.

Thank you.

**(Applause)**

**MS. McQUEEN:** Thank you, Alex; a challenge indeed. We're going to have some time for some questions. I'd like to direct one, if I may, at Walt.

We've heard the lottery operators talk about — in the lottery markets I should say — talk about how the games are managed, and there's periodic reallocation. And it seems as though they have a good relationship with the vendors and the operators to try to monitor the games.

Jerry, you talked about a six-to eight-week product game life cycle. What's your acknowledge — obviously we don't have any representation here of the other racino states that are not lottery-operated, the ones that are in the gaming board-type environments or whatever.

What's your knowledge of how — they obviously would have more flexibility, I assume; but do they sit down at a more intense level of review or less intense?

I mean, any ideas there?

**MR. HAWKINS:** After what you've seen here I can't imagine it being any more intense. I think that Director Aubin and Richard here do a very exhaustive review and I see Director Lemons and Don Johnson and they do day-to-day evaluation processes.

But let's say the Iowa's and the West Virginias where the operator's responsible for buying their own game, they have an economic interest in evaluating that every day. I would say that — and there's operators in the room — I would say that the government and the operator model is probably equally scrutinized and the best product is put in front of the player on a regular basis.

**MS. McQUEEN:** Do we have any questions from the audience? Yes, sir?

**MR. JERRY CONNORS:** My name is Jerry Connors, I'm with the Pennsylvania Harness Racing Commission. We're going on 48 minutes here in this discussion and we have not mentioned one major category of gaming machines at a racino. These funny square boxes that spit out pari-mutuel tickets. Remember them?

Do they have any place in the modern mix in the machine part; and have racetracks or any other entity demanded pari-mutuel companies make the improvement in self-using games that you demand of your lottery games?

**MR. AUBIN:** I think I can take a swing at it. I think — were you asking, can you have pari-mutuel-type wagering?

**MR. CONNORS:** Have any?

**MR. AUBIN:** What we have in our system, at least in Rhode Island, is they're totally separate operations there is in Lincoln Park facility dog racing and also a simulcast betting area. There are no machines in those two areas, they do not mix.

Our environments, and if you went into West Virginia or Delaware, look like you're walking into a casino, and that's the operation as it is. Both our facilities are continuously renovating and upgrading their environment to compete with — again, with 40 miles up the road to the Foxwoods environment. So to answer your question, no, that's not the situation in our state.

**MR. HAWKINS:** I should say if I can that the technology has actually been used before of having a pari-mutuel betting device linked in with an electronic gaming device or slot machine. There's others in the room that can speak better to that than I.

I don't think it was a tremendous success, and that's probably why you have your simulcasting in one area and your machines in the other. Perhaps that's a marketing change that the racetrack has for the future is to get those two more closely assimilated, but so far the people that step up in front of that machine aren't going to make a \$2 win-place-show bet typically, what I've seen.

**MR. TAYLOR:** Yes, in Ontario as well, we don't mix either one of those products in our gaming floor either. They're completely kept separate. I guess our relationship with them is more of a landlord and tenant type of relationship; although we know they are a significant stakeholder to us, and our business does cross over, particularly on the food and beverage side of things. But there is no commingling of those two products in our gaming floor.

**MR. CONNORS:** There are two racinos that operate in the Toronto area. I was at both when we had the Toronto conference. It's literally — you turn left to go to the casino and you turn right to go into the racetrack, but they have a common food area out by the racetrack, and the door from the casino goes right to the food area, which is also the food area for the racetrack.

And that was an innovative design for two tracks that had just newly been built, and that — as you might guess I'm from racing — and we're looking for the survival of a racing facility and try to grow that.

**MR. TAYLOR:** At both of those properties we started with a clean piece of paper so we're able to accomplish that, but to try to fit our operating in existing facilities we weren't able to accomplish that quite as well to integrate them both together.

**MR. CONNORS:** Thank you.

**MS. McQUEEN:** Any other questions or comments from other operators or - nothing? Just one other question. Jerry, you did say that game themes and games are replaced every six to eight weeks. What about the other jurisdictions in your in-depth analysis. Is there a life cycle of these games, and how often do they get changed?

**MR. AUBIN:** Let me clarify that. Not all games are replaced every six to eight weeks. There is a continuous change of games, obviously those less performing, because it's very profitable for the technology advisor to keep replacing the games so people will go to their terminals as opposed to the competition. I can't speak for Delaware and West Virginia; I'm sure that the vendor's also encouraged to change the games on a regular basis. But through our efficiency model, especially this time of year we're seeing a tremendous amount of influx of new games by the vendors.

**MS. McQUEEN:** Any other comments about, is there a life cycle of games, and are there always games that are going to be the staples to the product line, and some that just for some reason have a short life span?

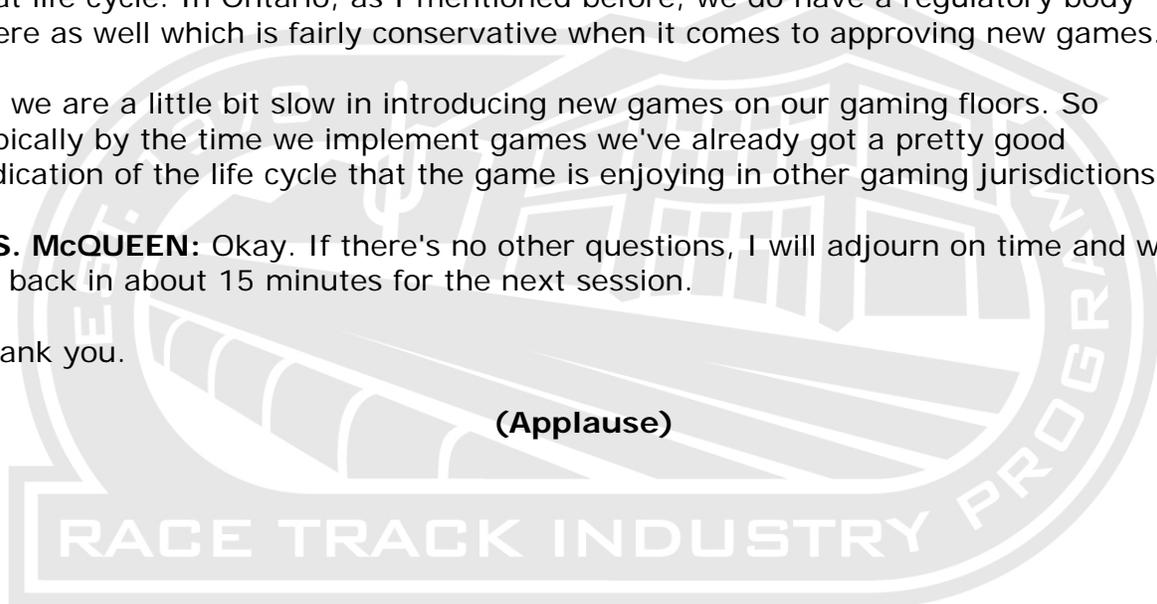
**MR. TAYLOR:** There is definitely a life cycle to the games, and you have to monitor that life cycle. In Ontario, as I mentioned before, we do have a regulatory body there as well which is fairly conservative when it comes to approving new games.

So we are a little bit slow in introducing new games on our gaming floors. So typically by the time we implement games we've already got a pretty good indication of the life cycle that the game is enjoying in other gaming jurisdictions.

**MS. McQUEEN:** Okay. If there's no other questions, I will adjourn on time and we'll be back in about 15 minutes for the next session.

Thank you.

**(Applause)**



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