THE UNIVERSITY OF ARIZONA.
Race Track Industry Program

33rd ANNUAL
SYMPOSIUM ON RACING & GAMING

THURSDAY, DECEMBER 7, 2006

ALTERNATIVE FINANCING SOURCES IN RACING AND GAMING

Moderator:
Matt Sodl, Co-Founder & Managing Director, Innovation Capital

Speakers:
Joe Bencivenga, Founding Partner & Head of Research, Plainfield Asset Management LLC.
Eric Spector, President & CEO, Wyoming Entertainment
Ted Wagenknecht, Vice President, DDJ Capital Management LLC

MR. MATT SODL: I want to welcome you to the panel we assembled today to discuss alternative financing sources in racing and gaming. Before we dive into this I want to thank the sponsors, we're being sponsored by, American Quarter Horse Association and the Jockey Club Information Systems.

So with that I will, on the first slide we have an overview of the discussion topics for today. We'll introduce the speakers and take us through the current state of the financing market. Sources of financing, walk through a couple case studies, as well as an overview of a number of transactions in the marketplace today.

I'm Matt Sodl, the managing director and president of Innovation Capital, a middle market investment banking boutique based in L.A., with offices in Denver, New Orleans and Atlantic City.

Ninety percent of what we do is in the gaming space. We've done a number of transactions in the convergence between gaming and racing, so this topic is something we have a lot to talk about and a lot of insight on and the panelists we assembled today have been players in the capital market in a number of deals, as you'll see, and their insights will benefit you all as attendees.

So with that I'll turn it over to Joe Bencivenga with Plainfield management. He can give a introduction of his bio.

MR. JOE BENCIVENGA: Hi. I'm a founding partner and head of research in a fund called Plainfield Asset Management. We're a fairly new company, we only started in May of 2005, but I've been on Wall Street running different research departments, at Drexel Burnham in the early '80s, and Solomon Brothers in the '90s. So I've been on Wall Street for about 20 years following the casino business for the entire time.

Eric?

MR. ERIC SPECTOR: I'm Eric Spector, president and CEO of Wyoming Entertainment. We recently acquired Wyoming Downs, a horse track in Evanston, Wyoming, and we operate the Wyoming off-track betting network.

MR. TED WAGENKNECHT: I'm Ted Wagenknecht, I'm a vice president at DDJ Capital Management. We are a Boston-based hedge fund. I cover gaming as part of my industry responsibilities along with a couple of others that aren't important for this conference.

I've been doing this for a couple of years now. I've made some investments with private guys financing a casino development called the Silver Slipper in Mississippi along the Biloxi coast and been a pretty big player in some of the public names with the equity and the debt side.

MR. SODL: Thanks, Ted. If you flip to page seven, talking about the current state of the financing market.

Joe, first question to you, what are some of the trends that you see in the marketplace as it relates to different parts of the capital structure, and of the transactions we're seeing today.

MR. BENCIVENGA: Especially related to horses, horse tracks and racinos there's obviously been a lot of new builds, there's been some significant amount of refurbishment, so there's a lot of capital put in this area, I don't need to tell you how long. From our perspective as a hedge fund, it's very hard for a lot of start up tracks. Especially a new one. We're involved in one in upstate New York, Tioga, which we built from scratch. To get typical types of bank financing or others because there's really just a green field, and banks, that's not their main focus. It takes a little more risk as such firms as ours and others at the table today will step in place of the banks and take a little more risk up front.

There's been a little bit of a move from public market to the private equity investors in debt providers and I think our risk return profiles are different from the traditional lenders.

MR. SODL: I think that's right, Joe. Flipping to page eight in terms of gaming industry from an operator standpoint, Eric, working with hedge funds and alternative investment vehicles, how has that experience been and how do you contrast it versus traditional sources of financings, commercial banks or what have you?

MR. SPECTOR: You know, Matt, most of the instances you find at the track is going to be considered by a normal banking institution as a turn-around. They have a history of losses, the capital expenditure, the cost that's required is so significant you have difficulty presenting it to a bank, have it digest and appreciate it and have a time lag where you are suffering the different committees it has to pass when you get your approvals.

Typically in dealing with these funds, a hedge fund in particular, we're finding there's an appetite in this space, they are knowledgeable specifically with the risks involved and they will price their product to you relative to what the risk is and the investment timeline and the hold period for the investment. And we're finding them to be far more receptive than traditional forms of lending.

Mr. SODL: In the past, before these sources of capital have emerged, where have the racetracks and start-up deals, where did they get them done?

MR. SPECTOR: Typically, someone would find a shell and go through the process of becoming a public entity. So you are raising public funds, and the time lag on that is insufferable when you have a product right in front of you and you are trying to execute on it.

And all the regulatory bodies involved. Or you go to a traditional lender, although the rate they are going charge you is attractive, the timeline for the approval process, they are constantly involved in the day-to-day operations of your business, that's an insufferable thing as well. Again, this is just a much faster way of going about this with a group that is knowledgeable at this level of risk.

MR. SODL: Ted, on this page at a high level, discuss where you see alternative investors like yourself playing in the capital structure.

MR. WAGENKNECHT: For the most part there have been two big alternative investors over the last few years and growing rapidly in gaming and racing collectively. One being private equity, who grabbed their fair share of headlines, especially given recent Harrah's and Stations news.

Their function is to give entrepreneur's credibility and a means by which, via equity dollars, to call out the market on where we are valuing their companies.

From a hedge fund standpoint I would say the vast majority of the dollars put to work on the hedge fund side, refinancing new builds, reconstructive builds, or acquisitions and those get done through some mixture of senior debt, creatively structured, again bridging the gap where traditional commercial lenders typically fall short.

MR. MATT SODL: That's a good set up here. In terms of sources of financing we can talk a little about it, but really it's debt and equity.

On the debt side you have traditional commercial banks. You have finance companies, hedge funds, specialty firms.

On the equity side you have private equity firms. That have been referenced here: Texas Group, Apollo, etcetera, and public equity that Eric referenced in terms of raising capitol in the public market. Whether through shells for early stage companies to raising public equity through an underwritten process from a large investment bank. That's really kind of the range of alternatives out there.

On page ten, Joe B., if you could talk about the framework, about how you as a hedge fund look at the debt investor versus the equity investor framework. And I know you play on both sides and are unique in that you are willing to get licensed.

MR. BENCIVENGA: Before I do that, could you go back one slide. I think if it's possible, for the audience here, we take it for granted when we use words like “private equity” or “mezzanine debt” or “hedge funds,” I'm sure that probably everyone out here doesn't truly appreciate what the words mean. I want to take a second to maybe explain it.

Obviously, private equity shops have been around a lot longer than hedge funds, and it is pretty much what it sounds like. So for a novice financier private equity fund, and I'll let Ted correct me if I'm wrong because I'm not one, people that put equity money own a percentage of the company and back a entrepreneur or business or something along those lines. And that's specifically the people that give Ted his money, expect him to do exactly that with the money.

For a hedge fund, it's nothing more than a legal construct in which people give you money to invest. And obviously you need a track record, otherwise you can't get the money, same with Ted, you need a track record to prove what you are doing.

In a hedge fund, they have been around for the last 20 years, but they have really had a big growth spurt in the last 10. There are about 10,000 hedge funds. Most of them simply buy and sell stocks. So when you read about hedge funds in the paper, you are reading about hedge funds that just are really playing in the stock market. There's a much smaller group of hedge funds, 100 or 150, that do kind of what we do. The way people that give us money to invest, we tell them we don't want investment restrictions. One day we might act like a private equity fund and put private equity dollars behind an entrepreneur or an idea, another day we might act like a commercial bank and make a bank loan. We don't have a restriction. The people that give us the money expect us to put the correct risk reward on each of the opportunities we see. We have some flexibility there, with flexibility, with unlimited options, comes unlimited trouble, let me tell you.

But I just want to take a minute and make sure you understand the differences between a hedge fund and something else.

Back to your question. From our perspective because we can pretend we're a bank or private equity fund in terms of the way our money gets invested, each situation requires us to look at it anew. A green field site has to have a much more—you have to be more sensitive to the fact that there's not going be to be any cash flows for the next 12 or 18 months, so you can't really pay interest. So somehow you have to take it in consideration when you are coming up with the money.

So guys like me, we think about letting the company accrue the interest without paying it. Put some in equity, some in debt. You have to play with the capital structures to help each situation get to its start-up phase in those situations. In another situation where it's an up and running business, and they want to add a hotel, that's much more like a bank loan. So hopefully that helps you.

MR. SODL: Ted, since you invested in the racino space, you can talk about how applying that framework to a racetrack that may or may not have gaming and the cash flow up in terms of how you look at risk per term profile.

MR. WAGENKNECHT: What's driving a lot of proliferation of non-racetrack oriented gaming activities, the racino movement has been the dynamic of cash flow and profitability. Racetracks, standing on their own are difficult businesses, not highly leveragable businesses, and the core gaming customer who picks up a magazine and reads through the chart of on-track betting through most of the U.S. knows that that business is eroding slowly.

Bringing the advent of slots or some states, card rooms, that brings a whole new cash flow dynamic and really avenue for growth to most racetrack operators and that's a much more, since that business model, the slot model, casino model, is a more proven, more stable cash flow positive, that brings on a lot more interest in the ability of operators to grow their business and use guys like John and myself to grow and get into other avenues to make the enterprise worth a great deal more.

MR. SODL: Ted, if you look on slide 11, we have a chart here which kind of shows the trade out between risk premium and the risk to investors. You can see the range where the hedge funds and alternative investors are playing across the capital structure, it's pretty broad. Where do you like playing in this broad range, what's your sweet spot?

MR. WAGENKNECHT: I think, you know, Joe and I probably work within two similar vehicles. We're pretty much able to span the gamut, if you will, of all the different securities.

I'd say by and large where there's the most need for capital is in the far bottom left-hand side of the curve, credit facilities up to subordinated notes. Entrepreneurs who might not have to be in a position where they are giving up equity or entrepreneurs who have need for capital above and beyond what an existing commercial lender would lend to, which I think pretty much goes from the bottom left-hand side of the curve up to credit facilities, the typical bank loan. Joe and I can do the top right half or the entire gamut. And I think that's where the value of being an alternative invest or comes into play from an entrepreneur's standpoint.

As Eric noted before, yes, with a commercial bank you can get land loans, loans for construction, those loans compared to what Joe and I are willing to provide, by the terms of rate only or interest only, are probably a little less onerous, but the restrictions in terms of maintenance of facilities, involvement in things like construction progress reports and certain loan-to-value ratios make operating under that framework more prohibitive and less likely to create an excellent product at the end of the day.

MR. BENCIVENGA: One of the things he we try to do to differentiate ourselves from a commercial lender is not only put in equity dollars like Ted does but we're willing to go ahead and go through the licensing process, which for a hedge fund probably puts us in with maybe 10 hedge funds. So, you know, even with that flexibility that we both have, you always try to differentiate yourself and help.

And once you are licensed in a state then the next time you go to finance something you're a much stronger candidate to you, the borrower, because I can come to you and say, I'm already licensed here and you know you have a qualified partner, let's go through the process.

MR. SODL: On that point having an institution as an equity partner, when you are looking to do a re-fi, for the audience, it helps the investor group be deemed a sponsor group. So when there's a subsequent financing to be done having someone like a DDJ or Plainfield in your equity group will provide you credibility and stability to get a re-fi done on more attractive terms.

MR. BENCIVENGA: May I make a point? If you think about it, if we act in the capacity of a lender and we put money in the form of equity we are kind of conflicted. The day the business gets into trouble, as a lender we want to foreclose and get our money back. As a equity holder we want to provide more capital get through the problem. It's one thing if we start negotiating with a bank, we wouldn't do too well under that scenario. If we're negotiating with ourselves it's a much easier situation. Once the racino owner understands that it becomes a—even though we are more expensive—we're a lot more flexible.

MR. SPECTOR: If I could, the slide is kind of self-explanatory, but if you are not in the business it may be less so. We're really talking about risk, we're talking about the cost of the funds and whether it's fees, it's the interest.

And the point I thought was worth mentioning, typically you're going to get legislation passed, you've been working on it for a while, you have an idea when it's going to pass but you don't control the end date. And so you need to have someone at your side, you need to have your projection set, you need to have the cost of what this is going to be if you're building a $60-$30 million—whatever the facility is.

Working with these funds in particular, they have a certain risk premium or profile and they peg that, but you know early on in the process what it is, and I'm bringing it up, you put it in your budgets, it's presented to your regulatory authorities, you're much further along than with a bank constantly chasing the interest rate market and everything else that's there.

MR. SODL: And a bank, generally you're dealing with a commercial banker structuring the deal, he has to go to a credit committee.

MR. SPECTOR: He is not vested with you, he is not living and breathing the project as this fund would be with the equity component.

MR. SODL: In terms from a lender framework as a hedge fund investing in a new deal, a green field financing or a expansion financing. Joe B and Ted, you have done credit facilities and senior debt instruments that have bells and whistles on and that maybe commercial banks wouldn't have maybe be you can touch on.

MR. BENCIVENGA: If you are in a construction project and it cost, for round numbers let's use $100 million, since it's round numbers. Let's say 60 percent of that is the construction cost. You don't need from day one $60 million in the bank paying interest. You need a kind of flexibility in when you take that money down. That's something a bank can do as well, but we provide it as well.

You may not be able for quite a while to pay any principal off on the loans. You may be able to cover interest, but not for a year or so. And then after that, so we give you more time, we can think about a way to provide for flexibility in terms of your expected repayment of the principal. If we're both an equity and debt lender it helps us on one side to be more flexible because our return, which is ultimately why we're here, is coming from a combination of the loan we made and equity investment we put in, so we're trying to balance the two.

We might get to the point when you generate enough cash flow we might start to sweep money every quarter or month to pay down the principal. Most likely it will be broader refinancing when we can move to the bank itself which will give us a lower interest rate, once the buildings are up, once the races are happening, once the racino is open.

So I think there's a lot of things that go and the financing is malleable up until the point you can enter the bank market.

MR. WAGENKNECHT: I think that last point is really the one to drive home. It's very easy when you are looking at a financing to assume everything goes according to plan. A lot of us who have been involved in construction projects out there in the audience know it's rarely the case.

When you are doing your financing through a commercial lender, I think you are much more likely, should things not go according to plan, to find yourself in the position where you are cut off from the continuation of getting that capital. You're going out to the market in that situation on your knees, without cash, which is extremely painful.

That drives home Joe's point of having someone with a vested interest, whether through warrants or equity ownership, in making the project work and increasing your availability, especially in the difficult times, to access funds. That malleability, in and of itself, is worth its weight in gold at least.

MR. SODL: I think the flexibility a hedge fund will bring to a capital structure, these guys, if the project is working and the credit generating return dollars, the last thing they want to see is the piece of paper, the security refinance.

I've been involved in some situations where pricing grids are put in place, if the property performs and you are paying down the debt, reduce the leverage multiple, the cost of that capital will go down to incent the borrower to keep that paper in place. So those are the kinds of things you'll see in this market that you wouldn't see in a commercial banking market.

And the next page gives you a range, if you start at the bottom and work up. Syndicated bank loans, which are really commercial bank originated pieces of paper, LIBOR plus basis points—five-and-a-half percent, you're talking about six-and-a-half to nine-and-a-half percent type money. You work up the page, private placement bonds, which we do a lot of them.

Private placement of senior credit facilities. Talking about nine to 10 percent money, depending on the credit profile. High yield bonds, which are really pieces of paper that I know you guys invest in as well. Depending on the credit profile and projected leverage out of the gate, you look at a range from eight to 14 percent type money.

Those are done generally at $100 million and above in terms of size of issue. It moves up every year and that's a function of investors wanting to have liquidity in that piece of paper, and really once you get in that kind of market those instruments trade and the larger the size of that facility or that security, the more trading activity can occur in it. That's why the larger the deal, the more liquidity you get.

Sub-debt generally I would characterize, mid-teens to high teens money. Fourteen to 18 percent. Equity returns generally from mid-teens to the mid-20s and I think, I can make a broad statement. I would be interested in your views. The return dollars we did on this page, if you did them five years ago, you're probably talking, I think you're probably talking, a major dilution to these returns that you see today compared to where we are five years ago, and I think that's a function of the amount of capital in the marketplace.

MR. BENCIVENGA: One of the broad points you are hitting on is the fact there's so much more capital deployed not just for horse racing or gaming in general, but throughout the world. There's a significant amount of capital chasing very few great ideas. As a result the people that benefit from that are the borrowers. And ultimately the entrepreneurs.

So we are kind of in that environment now. And as such it's a good time, which is one the reasons you see more alternative type of investors looking at your space.

MR. SODL: I think that's right. We'll spin through a couple of case studies here and we're going to be taking questions as we get through these. We'll go through them quickly. Let's talk about American racing.

Joe B. and Eric, you both have been involved with this situation which is Tioga and Vernon. What attracted you to this opportunity and what role did you play in the capital structure?

MR. BENCIVENGA: I was first alerted to this opportunity by Eric Spector. Eric, I'll let him go in the details of his involvement, but Eric came to us and was showing us a company called Vernon Downs which was in a very difficult chapter 11 proceeding. And typically, from an investor standpoint, when I see something in bankruptcy, that gets my juices flowing. There's a lot of disclosure which is usually the problem of something before it goes to bankruptcy, so most of the facts can be known. In this case Eric was somewhat of an insider, and I'll let him explain that, so we had additional information.

So the ability to actually make a decision about the investment, the information required to make a decision was high, that attracted us to Vernon Downs to begin with. It's through that process, the other bidder was a person named Jeff Gural and Nevada Gold and Trackpower and a whole group of people, who were putting a competing plan in the bankruptcy. Or putting a plan forth, and bankruptcy, what we did, we competed with them by putting our own plan in the bankruptcy court. Ultimately, we decided it would be cheaper to merge and to stop fighting each other in the bankruptcy courts and become one group. That's very typical of things that we might do. As opposed to buying somebody else's perfectly arranged transaction, which you are not going to pay the best price. You have to pay a full price. It had some hair on it. In that case we ended up doing a range of debt and equity in the capital structure.

MR. SPECTOR: To expand on Joe's point, the project is a harness racing facility in upstate New York that was attractive because of the fact it had a fan base, the facility was in existence for 50-some years, it was successful as a racing facility throughout it's history and owing to either poor management or regulatory issues with its ownership group, it had its license pulled in the middle of a racing season.

I had a group lined up to acquire it prior to that occurring, so we had studied on it, had documents written and ready to consummate the transaction, the deal went into bankruptcy, I was brought up by the board of directors of that company, Midstate Raceway, to administer and shepherd the company through it's bankruptcy, and at that moment in time as most of you may be aware, you owe your allegiance to your shareholders and creditors and U.S. Trustee's office and you are playing a different role.

At that moment in time we had to shift gears from being a potential purchaser to trying to find potential purchasers and come in and, Matt, it was through that process we would have met, a variety of other parties had poked at the project.

It might be worth discussing briefly, that entity, whether in bankruptcy or on the verge of bankruptcy, it always would have been a difficult proposition to obtain new sources of funding the the hard assets, the land, the building and whatnot. You can take a look at its liquidated basis and a bank did not want to touch it, owning land in upstate New York.

As a going concern though, with a valid racing license and potential for a racino with VLTs it became a more attractive proposition, the order of the day was to get the project licensed and up and running. It was a small group of folks left at the end of the day that would even consider it because that was an, essentially, a turn-around or start-up proposition.

MR. SODL: And a real problem with the deal was that you had sponsors that owned Vernon that were unlicensable and that could not unlock the value, which was created by putting the VLT facility in place. It's fair to say from your view; it was about unlocking the value from the gaming revenue standpoint, not the racetrack, although the racetrack had a nice following, you were really making your money on the VLT side.

MR. SPECTOR: I would tell you before we go to that it's exactly where we would come from as the operator of the facility. There was nobody else out there to look at the risk profile. Waiting for the licensing, getting approvals for the VLTs, so there was this very unusual set of circumstances that in sifting through the different parties it would be Joe or Ted's type of group that would have an appetite for this type of risk.

MR. SODL: The next slide, Eric, you can touch on MTR, it's been a situation in the news a little bit and Ted is a large holder of this stock, he may or may not be able to comment on it. MTR has had a number of issues in front of it that they have had to address including a management-led buyout that hasn't taken place. But, Eric, maybe you can comment on some of the issues facing MTR that they have in front of them.

MR. SPECTOR: The history was, they found an opportunity in a jurisdiction that had enhanced gaming and they've executed that very well. And it's led them into other jurisdictions and other opportunities including a license issued in Pennsylvania and some other developments that they are trying to do in Minnesota and elsewhere.

As a franchise and on the deployed basis where the assets are, they are attractive and obviously more dollars chasing fewer deals, this was an attempt by management to try to buy it out. And I think the committee took a look around and said, there's all this money chasing all these deals, maybe this is not the optimal time. And we should kind of wait around and see what else might come.

MR. SODL: If you look at the stock price now, I think it's trading in the 11s. So, that wait decision was probably a good one and there's probably a fair amount of takeover premiums still built in that based upon the coattails of these other deals that have been announced. But, if you look at this case study when it hits low and the management buyout bid was put on the table, you see a lot of hedge funds that accumulate information positions here.

So you have eight of the top 10 holders owning roughly a third of the company. We've been talking more about private deals up here, but that is an example how these flexible entities look for opportunities and play in public markets as well. So I'll leave it at that.

The Meadows in Pennsylvania is another situation. Perhaps Joe can touch upon it. This is a situation where Magna had the track in western Pennsylvania, nicely positioned for the Pittsburgh market. And Magna has had it's own balance sheet issues, a group out of Las Vegas, Millennium Gaming, they partnered up with Oak Tree, and Joe, perhaps you can comment on how that helped them complete this deal.

MR. BENCIVENGA: Oak Tree, so you know, is quite a combination of animals. It's a little bit private equity, a little bit hedge fund; it's a lot of things. I think the last time I looked they were somewhere north of $25 billion in asset management. So from my perspective, we were shown an opportunity to invest in one of the debts, I think it was second lien part of this capital structure, right away we are active in the Pennsylvania market in general, and we like the market, we really like the fact that Oak Tree had a lot of its equity money at risk, which gets to my earlier points about have somebody who owns both debt and equity, what they are willing to do, and Oak Tree has a very large amount of money that it can put to work in case something bad happens.

So from our perspective to see Oak Tree in there made an easy decision, given what we know about Pennsylvania, to look to invest in only the subordinated or second lien piece of paper where our returns were in the mid to low teens as opposed to 25 percent. But I think that really, when you have a sponsor with that kind of capital that should say a lot to the regulators, the naysayers, and gives you a lot of stick-to-it-iveness in bad times.

MR. SODL: During the licensing process of this deal, the fact that Oak Tree was at the table willing to stand behind the credit and say, we're going to ultimately build a permanent facility, they are starting with a temp, but that gave the regulators a comfort level that, you know, these guys are a $25 billion institution, they are standing behind it. So that comfort level enabled them to get over the hurdle. And I think Meadows was the first new build licensee in front of the regulators, so they are breaking some new ground.

Riviera is an interesting situation in Las Vegas; there have been a number of bids put on the table. Playing field, this slide is wrong, it's 9.9 percent, so you are a large holder. What attracted you to this situation?

MR. BENCIVENGA: A couple of things. The first and foremost obviously from a gaming perspective Vegas is the king, so it's easy to look at and there's also a shortage of land on the Strip. When I started taking a look at this, I was saying, they own 27 acres on the Strip; stock price is X so I'm paying X per acre. And I look what Wynn is paying for his acreage and I said stock looks like it's cheap. You didn't need to do a lot of analysis from an asset value perspective; obviously you are taking a risk on Vegas real estate.

The second thing was the casino itself had a management team that's been there a long time. The casino itself was just covering interest expense, wasn't going to do much. The way we figured something would have to happen, since we have been in this, there have been several bids for the company, based on tearing it down and starting again.

MR. SODL: I think the insiders sold their stock at $15. And it's now 23 bucks, so interesting dynamics there.

And Ted, maybe you can comment on a couple of the transactions out there. Some recent racino developments Penn National has, these are all racino related, this is Yonkers. Do you want to comment?

MR. WAGENKNECHT: These are well known names but the kind of theme I see through here, I consider Penn to be a great operator in the public market space, and I think if you ask any—and they just announced a New Mexico racino deal, and there again is an example of an existing asset that does X amount of cash flow per year if you bring that, and I think this is the way the larger guys think, if you bring it within their system, market to their players over their infrastructure that they have to draw bodies to a facility, you can wring substantial amounts of incremental value out of a property. They don't have any difficulty paying substantial premiums for assets.

The numbers here coming out today from Mohegan facility in Pennsylvania and Magna's new kind of parlor in Florida seem to really support the fact racinos as an entity and gaming entity put up great numbers and can do very well. It will be interesting to see especially in the State of Pennsylvania, which Joe is involved in, to see how well the coexistence of racinos and traditional land-based facilities in a single state do when faced off against each other.

MR. SODL: Flipping to 19, the numbers get bigger as you go to this page. Page 18 and more racino developments. These are 50 to a couple hundred million type deals, but when you go to acquisitions of casinos, you see a $15 billion offer for Harrah's and Stations, and the numbers are quite large and built into the deals you have a tremendous amount of institutional players and hedge funds financing, on the debt side; these acquisitions when they take place, and we'll leave it at that unless you have more to comment. We'll take questions from the audience. If you raise your hand I'll bring out the microphone.

A VOICE: Is it feasible to approach any of these funds and if so, what's the first step?

MR. WAGENKNECHT: Absolutely. Obviously, a state-owned entity you might have access to municipal financing that might kind of fit the bill. But again, I think there, it's really at the end the day, you should look at what you are looking to accomplish and how much flexibility you need. I've seen cases in other industries where municipal financing can be brought on in addition to what Joe and I would provide to give you guys greater access to dollars above and beyond what a traditional municipality or commercial operation would be willing to give you.

MR. SODL: Investors will first underwrite the credit. They look at the projections you put together based on the number of VLT facilities—we're talking about California here, we're not talking about gaming, so it's really underwriting the racetrack risk.

MR. SPECTOR: Matt, if I can jump in on that. I think for those of you old enough to remember this, New Jersey set the template on this years ago with the development of Sports and Exposition Authority. Sonny Werblin and Bob Quigley, some really visionary guys, got together and found a way to bond that project and develop it even though it was built in a middle-of-nowhere wetlands. To work with a municipality that has just racing but other fairs and amenities is not an unattractive proposition. In other words, you don't have to have the VLTs to find somebody that may have an interest in working with you.

MR. SODL: The investor market will underwrite the credit. They will see what kind of cash flow you are generating out of the operations.

MR. BENCIVENGA: Here's the challenge. Obviously, the way you get started, Ted and I give you our business cards and then you are started. But the challenge is that, you know, you have a lot of people looking over your shoulder and you're going to have a lot of public scrutiny on these transactions. We are not the cheapest form of money, we are the most flexible. As a result you are liable to have a political debate about why don't you use the muni market, and then, so you'll get tangled up in things that normally we don't get tangled up in. Having said that, in other businesses like waste transfer stations there's a mix of dealing with municipal bond markets. Public ownership of the landfill. We have walked that line on several other industries. It's just difficult but not impossible.

MR. SODL: Generally what you do, you hire an advisor to help you navigate those different markets and work on the structure, so when you go to a market like hedge fund or private entity guys you go in with appropriate structure, with the appropriate expectations, by that group.

A VOICE: Hi. I specialize in Latin America-Caribbean opportunities in gaming and racinos. Do you guys look at cross-border deals or would you consider looking at something outside the United States or Canada?

MR. WAGENKNECHT: We'll look at anything, I'm agnostic to geographic locations. So long as asset value and cash flow value are proven and easily measurable.

MR. BENCIVENGA: I'm already invested in a number of Canadian gaming operations. The only issue I would add is we have to have a good strong bankruptcy laws in these countries. Western Europe is easy, Eastern Europe not so easy. Asia, not so easy. I'm not saying we wouldn't do them, you just have to have the right partners you have to have the right.

MR. SODL: It's about risk to the extent bankruptcy and creditor protection mechanisms aren't in place, it increases the risk profile.

MR. BENCIVENGA: There's a lot of cash changing hands, and making sure it all ends up in the right basket is a difficult thing. And then there's repatriation, there's a bunch of issues but sure, I'm sure we all do it for the right returns.

MR. SODL: It's risk return, the more the risk the greater return expectation. So it's not binary, you have to understand where you are in the credit spectrum.

Any other questions out there? Okay. Thank you for your time.

(Applause)