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Symposium on Racing & Gaming

2005

Delaware North Companies Gaming & Entertainment



Why an *Elder*?

(certainly not age)

- In racino business since 1994
- One thoroughbred, five greyhound tracks (Arizona, Florida, Arkansas, New York, West Virginia)
- Management contracts for Racino operations at Saratoga Raceway & Gaming and Fairgrounds Raceway & Gaming
- International consulting



The Evolution of the Racino Industry

- Legislative changes over the years have opened the doors in many states, allowing for the addition of VLTs to existing racetracks.
- In many cases these horse and dog racetracks have been in business for years with an established, although dwindling clientele.
- The addition of gaming to a racetrack venue, which is a spectator sport, can be a challenge both in terms of the physical plant, but also in ensuring that all customers' needs are met.

Models

Government/Private Model

- Example—New York
- Government owns/leases machines and central systems. Track markets and operates.
- Operator needs government approval before machine expansions can be implemented.
- Such approvals can be difficult to obtain
- Failure to gain approval, or delays in approvals can have a significant impact on the operators ability to grow.

Models

Private Model

- Example—West Virginia
- Under the private model, the operator is less restricted in the expansion of machines.
- Typically only regulatory approval for raising the maximum limit of machines is needed.
- A strong business case will usually win such approval.
- Greater flexibility to alter machine counts and types of machines allows private model operators to grow the business in response to changing market conditions.

Private Model Market Conditions

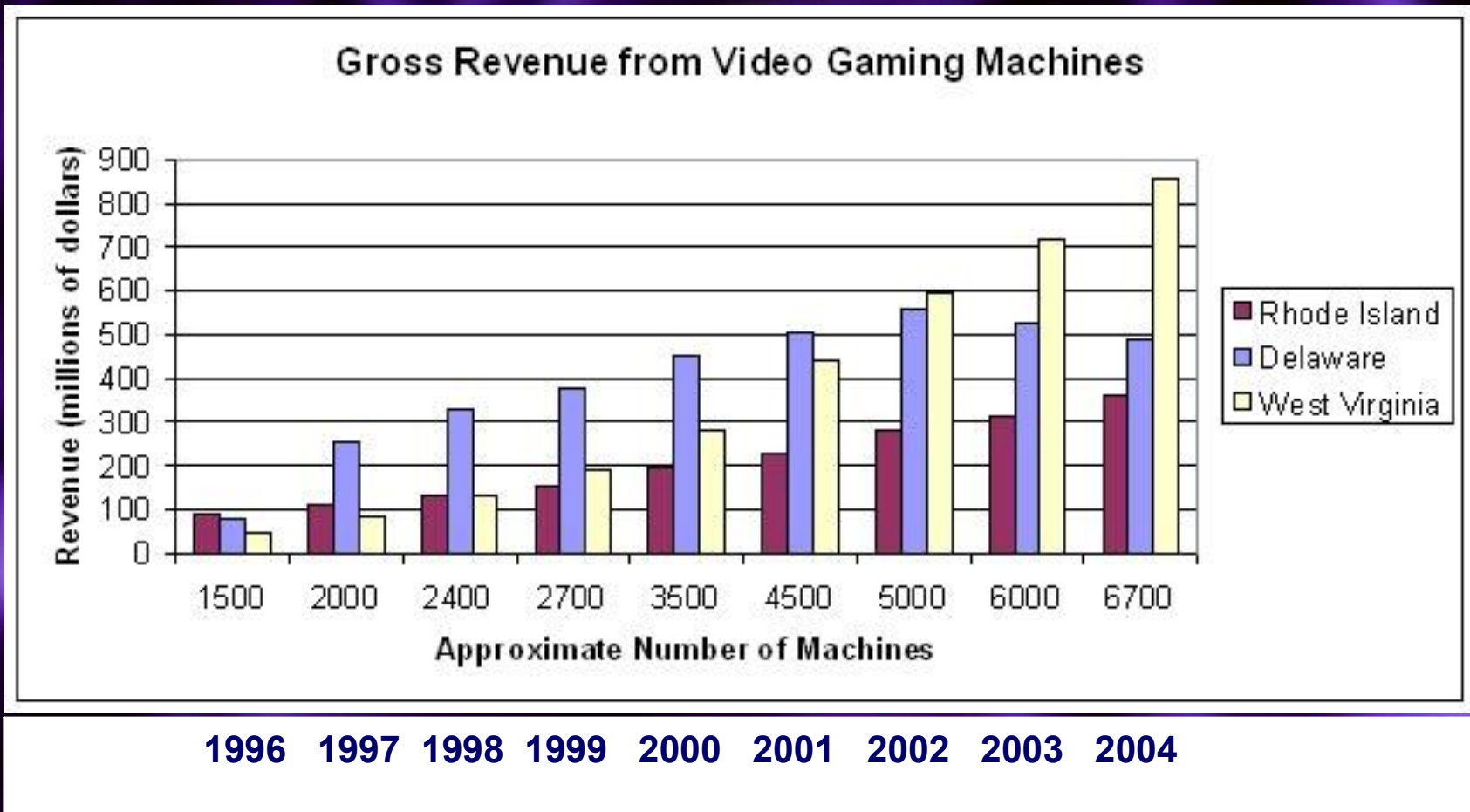
- With racinos, market conditions may change frequently.
- The flexibility of the private market model allows operators to adjust the business strategy to account for:
 - Expanding Market
 - Change in Competitive Landscape
 - Addition of New Amenities (hotel, restaurants, entertainment)
 - Newly Available and Licensed Gaming Products

Taxation, Marketing and Investment

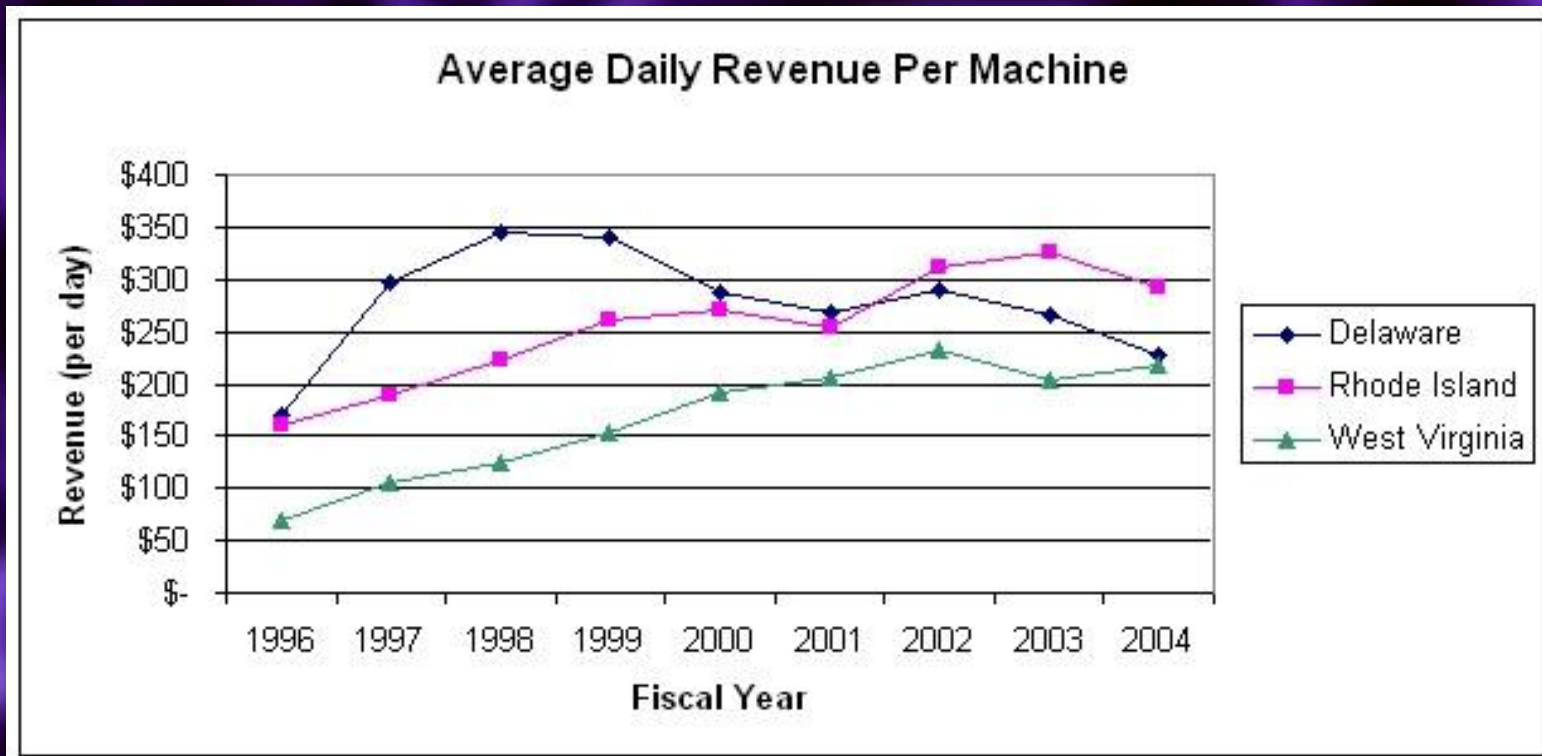
- Higher taxation rates in either model lead to lower levels of investment due to marginal returns on investment.
- There are narrower operating margins due to high taxation and lower margins lead to lower return on investment—meaning limited investment potential.
- Higher taxation rates also limit the percentage of gross gaming revenues that can be dedicated to marketing strategies.
- Limits on marketing spending decrease the upside potential of the gaming operation and the higher gross gaming revenue that benefits both operator and state.

Market Comparison of Racinos

Most racino jurisdictions began with a small number of gaming machines, and later allowed racetrack owners to add additional machines.



Further Comparisons



The Conversion from a Racetrack to a Racino

The conversion is driven by several key factors:

1. Legislation
 - may contain restrictions on development
 - defines types of machines allowed
 - taxation rates
2. The potential revenue and market size
3. The physical structure and existing space at the track
4. ROI and expectations
5. Two different models—fixed number of machines versus the ability to expand as market demands or legislation allows

Case Studies-Different Approaches

Wheeling, West Virginia—Private Model

New York—Government/Private Model

Finger Lakes

Saratoga

Fairgrounds Raceway

Wheeling Island: Leading Regional and Gaming/ Entertainment Facility

- 174,000- square-foot facility
- 70 Acres and 2,000 +parking spaces
- 1/4 mile racetrack with 2,400 seat grandstand
- Complementary business segments



Gaming operations

Pari-mutuel operations

Hospitality Amenities

-Food and beverage operations

-Hotel

-Entertainment

-Retail

Wheeling Island Expansion Timeline

- 1994 \$1.25 million renovation to add 400 VLTs
- 1995 550 VLTs
- 1996 705 VLTs
- 1999 800 VLTs
- 2000 “Island Room” opening, \$12 million expansion buffet, bar and 1,280 VLTs
- 2001 1,537 VLTs
- 2002 1,623 VLTs
- 2003 Major expansion, \$69 million including kennel compound relocation, and 2,362 VLTs

MORE THAN \$100 MILLION IN TOTAL INVESTMENT

Wheeling Island Expansion Project

- Gaming and hotel expansion adjacent to existing facility
 - **30,000 additional square feet of gaming area**
 - **2,200 VLTs (now 2,362 VLTs)**
 - **151-room hotel**
 - **600-seat multi-purpose showroom**
 - **180 covered parking spaces, plus additional surface parking**
 - **Fine dining restaurant, casual dining restaurant and bar and lounge area**
 - **Meeting and convention space**



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New York

- New York currently has more than 5,000 VLTs in operation. In April, Governor Pataki signed a revised bill into law, paving the way for the addition of VLTs to Yonkers and Aqueduct—both stalled since last year's ruling.
- On May 6, a State Court of Appeals upheld the constitutionality of gaming at Native American casinos and racetracks currently offering VLT gaming.
- Recent changes will include higher division of revenue plus access to a marketing fund. Terms state that racetracks will retain 32% of the first \$50 million in revenue, 29% of the next \$100 million and 26% above that figure.

VLT Locations in New York



Project Requirements

New York Lottery

Central system / VLTs

Operators

Facility renovation

Full operation except for machine techs

Marketing

Operations

New York Lottery
Requirements

Business plan

Marketing plan

Jobs compendium

Organizational charts

Internal control submission

New York VLTs- original

% of GGR	Years	1-3	4-5	6-10
State		61%	61%	61%
Lottery		10%	10%	10%
Tracks		20.24%	20.01%	17.49%
Purses		7.51%	7.74%	10.01%
Breeders		1.25%	1.25%	1.51%
Total		100%	100%	100%

New—Tracks will get 32% of the first \$50 million plus 8% marketing allowance on first \$100 million and 5% thereafter tax.

Finger Lakes Gaming & Racetrack

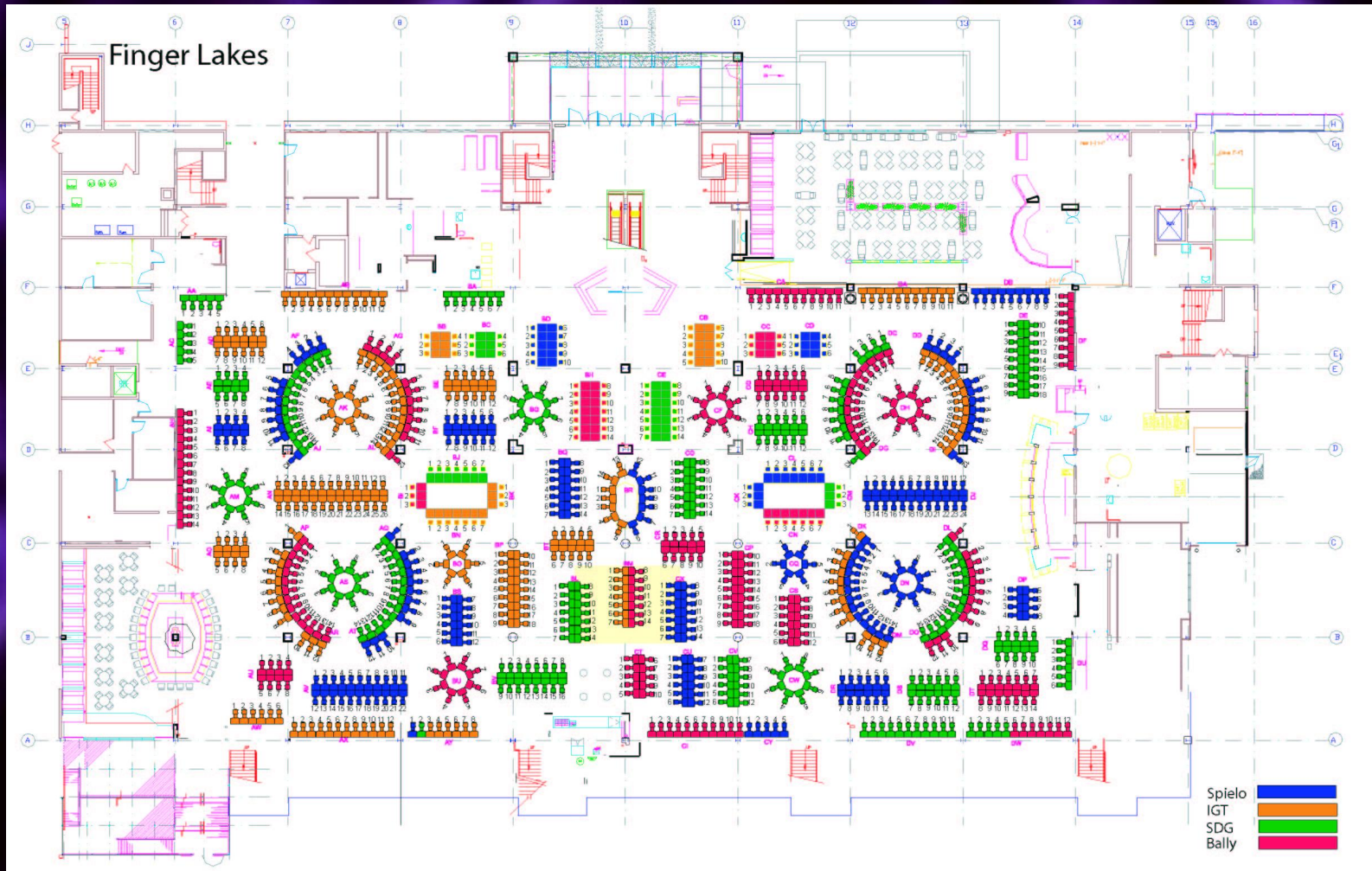
- Delaware North owned facility
- 1,010 Video Lottery Terminals
- 28,967 sq. ft. gaming floor
- 126-seat food court with themed eateries



Lefty's Grille
Americo's
Jake's Coffee

- 107-seat sports bar with view of racetrack
- Employment: additional 160 FTEs are projected
- Construction began early October 2003
- Opened mid-February 2004
- \$10.5 million cost project costs

Finger Lakes Floor Plan with VLT Machine Layout



Finger Lakes Opening Day



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Finger Lakes Gaming Floor



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Finger Lakes Lounge



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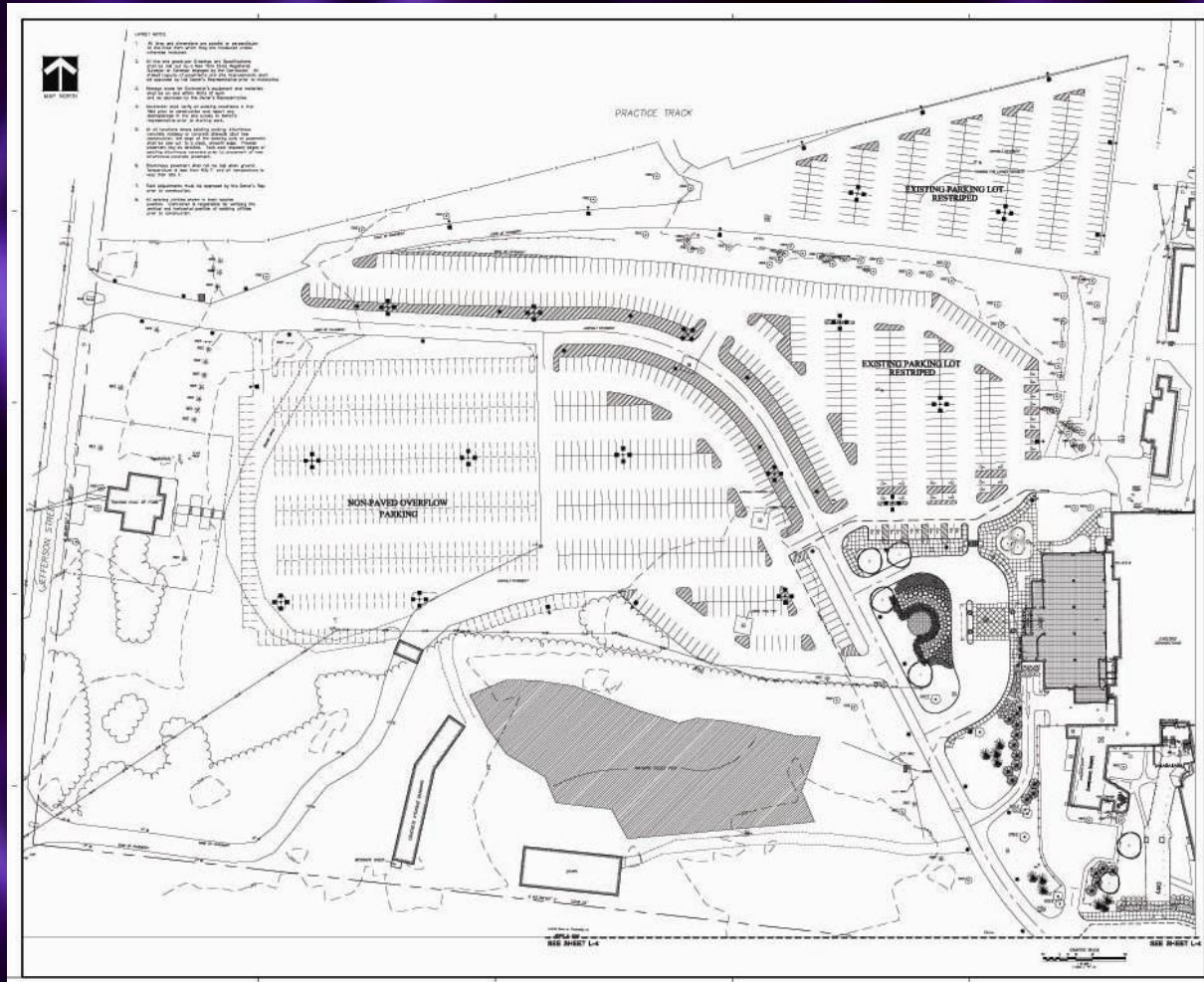


Saratoga Gaming & Raceway



- Added 1,324 VLTs
- 35,000 sq. ft. in renovations
 - Food court and bar area
- 180 full time employees
- 15,000 sq. ft. of new construction
- Opened Jan. 2004
- \$15 million in project costs

Saratoga Overall Site Plan



Saratoga Gaming Floor



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Saratoga Dining Area



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Fairgrounds Gaming & Raceway

- At Buffalo Raceway
- \$7.8 million renovation project
- 990 video lottery terminals
- More than 150 full time employees
- 27,000-square-foot gaming renovation
- The facility opened mid-March

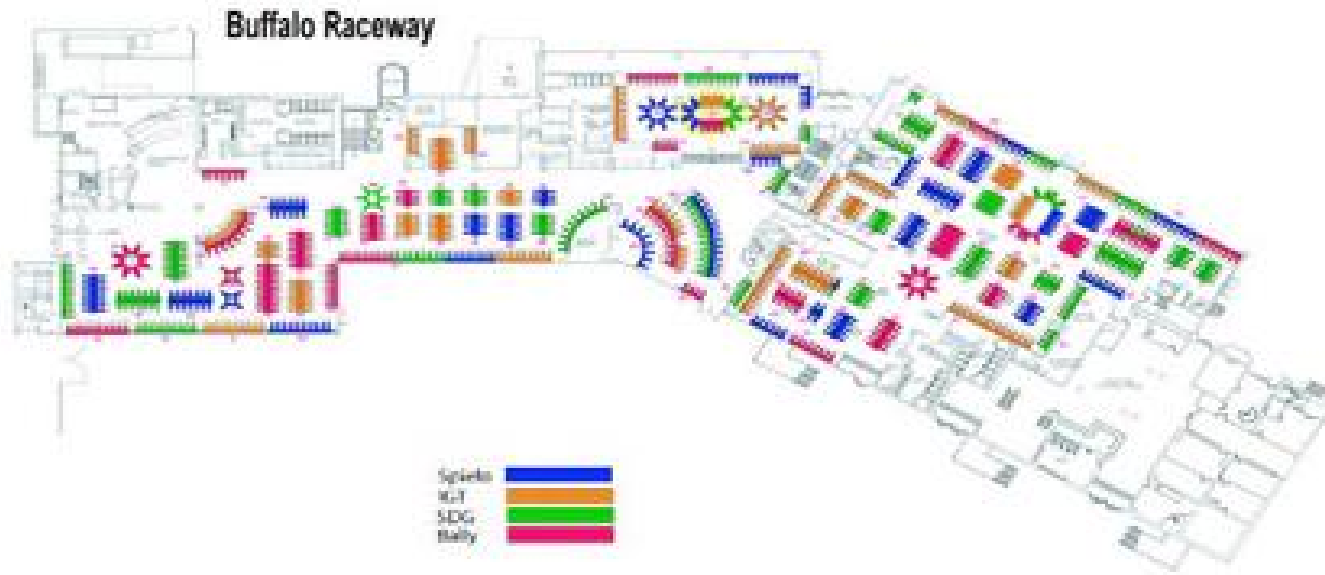
Fairgrounds Gaming & Raceway



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Fairgrounds Gaming & Raceway



Floor Plan with VLT Machines

Fairgrounds Gaming & Raceway



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Impacts on Racing

Positives

- Increased purses
- Renovated facilities including backside improvements
- Increased starters per race
- Better product—increased simulcasting opportunities
- Increased pool size

Impacts on Racing

Neutrals

- Little impact to on-track handle and to racing attendance
- No increased pari-mutuel taxes
- Little impact on racing from gaming promotions

Impacts on Racing

Examples of Racing Impacts

- Mountaineer Park signal
- Wheeling kennel compound
- Backside commitments
- Stall applications
- Number of performances
- Joint marketing efforts

Summary

- Models are very different.
- Best approach is to balance tax rate, market and competition, available space and customer amenity considerations, and ROI.
- Impacts on racing, as we have seen, can be both direct and indirect.
- Overall impact on racing and on facilities in all racino states has been exceptionally positive both for the states and the racetracks.



Thank you.



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