



Race Track Industry Program

34th ANNUAL SYMPOSIUM ON RACING & GAMING

WEDNESDAY, DECEMBER 5, 2007

Racino — Architectural Design and the Lessons Learned

Moderator/Speaker:

Troy Keeping, General Manager, Southland Park Gaming & Racing

Speakers:

Robert A. Farinella, President and General Manager, American Racing & Entertainment

John Finamore, Senior Vice President, Regional Operations, Penn National Gaming

MR. STEVE BARHAM: A couple of announcements, tomorrow morning we're going to have the student projects displayed out on the Arizona Foyer. Troy Keeping is — in your program you'll notice that Ron Sultemeier is going to be the moderator and speaker, he scratched and we had Troy as the also eligible, I don't know that he knew he was entered for this, but we thank him for stepping in. Troy is the president and general manager of Southland Park Gaming and Racing near Memphis. Southland Park features a greyhound track and 800 new electronic games of skill, including video poker; they were added in 2006 as part of a \$40 million expansion. Also added was an upscale buffet, live entertainment and a 450-seat event center and a gift shop. Troy has two decades of gaming experience in the industry. Prior to joining Delaware North he served as vice president and general manager for Majestic Star Casino in Gary, Indiana. Before that he held an executive position with Isle of Capri casinos, both in Biloxi, Mississippi, and Blackhawk, Colorado, and Horseshoe Gaming Holding Company in Illinois. He was also an internal auditor for Boyd Gaming Corp., and Westward Ho Hotel and Casino both in Las Vegas. He holds a bachelor of arts degree from University of Nevada at Reno and is a certified internal auditor. Troy?

MR. TROY KEEPING: Thank you and good morning. We're all excited after breakfast, right? I have the pleasure of introducing the speakers this morning. I have a few brief comments after them and some questions and we will obviously

take questions for the panel, I think they both prepared about a 20-minute presentation.

Our first speaker this morning is John Finamore; he is the senior vice president of regional operations for Penn National Gaming. In this position, Mr. Finamore is responsible for overseeing all facets of Penn National's operations at Charles Town Races and Slots in West Virginia, Hollywood Casino at Penn National Racecourse in Grantville, Pennsylvania, Hollywood Slots at Bangor and Bangor Raceway in Bangor, Maine, Zia Park and Black Gold Casino in Hobbs, New Mexico, Raceway Park in Toledo, Ohio, and Sanford-Orlando Kennel Club in Longwood, Florida. In addition, Mr. Finamore is responsible for all four off-track wagering facilities in Pennsylvania. You've got a lot of responsibilities.

John has over 25 years of gaming industry and hotel management experience, and prior to joining Penn National, John served as president of the Missouri operations for Ameristar Casinos where he was responsible for managing the operation of both Ameristar casinos, Kansas City and St. Charles. Mr. Finamore has earned a bachelor of science degree in hotel administration from Cornell University School of Hotel Administration in Ithaca, New York. John?

MR. JOHN FINAMORE: Thank you, good morning everybody. Before I get into my presentation this morning, I thought that it would be a good idea if we spent a few minutes just talking about Penn National, because as I get out and talk to groups such as this, I'm surprised at how little is known about our company and I think it's a great story, modestly speaking, so I would like to share a little bit of it with you.

The subject matter for my part of the presentation is something we've called, a tale of two casinos or racinos. Our company really doesn't like that word but that seems to be the word that everyone understands. And what I'm going to do is show the development of our two largest properties, Charles Town Races and Slots and Penn National Racecourse in Grantville. And we took two very, very different approaches and I'm going to share some of the lessons learned from both of those approaches.

First of all, a little bit about the company. The company started in 1972 with our first track in Grantville, Pennsylvania. The company went public in 1994, in fact, that is the IPO document on the right-hand side featuring horse racing, because at that time that was all we were about. Obviously, since then we've diversified our portfolio greatly. Real briefly, this timeline shows some of our acquisitions. We've done it two ways, one, acquiring tracks and casino operations, and in a couple cases, entire gaming companies, Hollywood Casinos in 2003 and Argosy Gaming in 2005. The other thing that, I think, is something that we talk a lot about but it really is true, we are a very decentralized management company and our general managers have, I think it's safe to say, the highest level of autonomy in the industry. There are only 80 people in our corporate office, for a company our size that's significantly less than other operators. There is no corporate slots guy, there is no corporate food and beverage person, table games

person; there is a corporate racing person, he's with me today, Chris McErlean. But otherwise we are very, very decentralized and very autonomous; the general managers have a lot of autonomy.

Something else I think most of you are aware of, in June of this year, we have agreed to be acquired by Fortress, Centerbridge, private equity funds, approximately a \$9 billion transaction that should close sometime around June 15th of next year pending all of the regulatory approvals. So far, that transaction has been approved in Ohio and we're working on all the other jurisdictions, but as you can appreciate, that takes a lot of time.

Some of the recognition we've earned, Fortune's list of 100 fastest companies, six of the last seven years. I don't know what happened in '06 but someone didn't hit their numbers, I guess. I think something that we're even more proud of is Forbes Magazine's recognition of us as the best-managed gaming company in '06.

Here is a map that shows how diversified we are. And here is the racing piece of our company, and again, the heritage of our company is horse racing, it's where we started, it's still a business that we're very comfortable with, whether it has slots or VLTs or not. Troy mentioned a lot of these properties in my introduction and I think that you're familiar with a lot of them.

And then here is a list and size of the casino operations. We are, depending on how good our quarter was versus the other gaming companies, we are, in terms of revenue, the third largest, sometimes the fourth largest gaming company in the country. Obviously, Harrah's is first, MGM is second and Penn National is either third or fourth with Boyd Gaming, depending on how our quarters worked. We're also the second largest pari-mutuel company after Magna, in terms of number of operations that we have.

Here is just a shot of some of our properties. Very diversified, everything from riverboat to land-based gaming, racinos, even a dog track that we recently acquired in Florida.

Well, here we go with the presentation, enough on Penn National. I'm going to highlight the two different strategies that we took in developing Chares Town Races and Slots, which the company acquired back in 1996 for, probably was a lot of money at the time, \$18 million. That property this year will cash flow over \$150 million, and applying today's valuation to that property, it's probably worth, doesn't mean that someone will pay that, but it's probably worth \$1.2 or \$1.4 billion. It has been a tremendous investment for us, but in the development phases we certainly learned some lessons. So we're going to talk about, what did we do differently between the two properties, what did we learn and which approach worked better for us.

Of course, Penn National was built in 1972, old grandstand, a lot of inefficiencies in the grandstand, and as we looked at that property to develop it

with the slots legislation being successful, we had some decision we had to make and we took a completely different approach than we took at Charles Town.

Believe it or not, this is Charles Town's front entrance in 1996, the time we acquired the property. This is not a retouched photo that is how ugly it was. I wasn't there, but looking at some of old photos in our archives, I'm glad I wasn't there, it was an old track built in 1933. It had fallen on very, very hard times, in fact, it closed in the mid-'90s. Suffice it to say, without slots, Charles Town Races would be, the site would be a strip mall or a housing development. There is the old grandstand. Again, the photo is real, I don't know when this is but it's probably sometime in the '40s or '50s. What people tell me is that it looked like that in the '80s and '90s too, it didn't look very different. That's what the grandstand looks like today. This shot is probably two years old, after we redid the track, new lighting, I can see the new safety rail in place. And there is the new entrance, quite a dramatic improvement from that first shot that you saw.

Penn National, that's the old grandstand that we tore down in, I think we started tearing it down in February or March of '06. That is the old grandstand from the turf, a view of the turf track and the dirt track. This is the artist's rendering for the new entryway into Penn National. Spectacular Hollywood theme, fully integrated racing and slots facility, we'll talk about what we mean by that, that is a term that's thrown around a lot but we think we have a definition of it that works. And here is a shot of the new grandstand, this photo is — you can see the leaves are turning so it's probably taken in October or November of this year. The property will open in February, it's scheduled for February 5th, the opening. It's \$310 million investment, which includes the \$50 million licensing fee. Again, we're very proud of how it's coming out.

We're going to flip back to Charles Town and show you some of the really ugly before photos. I want to point out a few things with these photos; look up at the ceiling, first of all the ceiling heights throughout this property, again, it's a 75-year-old grandstand, very low, at best they are 10, maybe 12 feet. That exposed ducting, the plumbing, the wiring, I can't tell for sure but I think those tiles are probably asbestos tiles on the floor, the columns, this is what we had to deal with back in '96 as we made the decision to renovate the existing building as opposed to starting from scratch. That's what it looks like today and in fact, this photo shows an area that is currently under re-renovation, this area was renovated in '97, it's the simulcast area and it's being re-renovated again as we speak. But this gives you an idea of how we dropped in the ceiling; the asbestos tile is gone, obviously. You're going to see in all these photos I show you columns everywhere, and you can see some of them there, and that creates a real problem for us.

Here is the old racing entrance, again, you get the sense that the ceiling and the light, literally fluorescent lights hanging from the ceiling. This is a classic and actually, this was like this when I got to the property in 2002, those definitely are asbestos tiles, you can see the structural columns and grandstand structure above. My favorite is the shot of the loudspeaker, the high-tech speaker system that we had, it gives you an idea of what we had to deal with. This is the second level of

the grandstand, what became Silver Screen slots area. Again, I just call your attention to the columns; you see the escalator, the low ceilings, a lot of the same issues. There is another shot of it just as the work was starting. And again, another one, this gives you an idea of what we were dealing with. That's what it looks like today; in fact, this area is scheduled for renovation as well since it's about 10 years old. It looks great, it looks a lot better than what was there obviously. But again, you see the elevation changes, stairs, steps in a casino are not the most desirable design features. You can see the columns that we've had to incorporate into the design scheme and certainly you can see the low ceiling. Low ceilings are not good for theming and they're not good for air quality. That's part of the Silver Screen again, that's the escalator I showed you a couple slides back. The ceiling on that second floor is not even seven feet, and obviously that creates a lot of problems for us. This is the Silver Screen area as it looks today. Those are all columns, again, the architect, whether you like the look or not, had to do something with those columns and it looks like he tried to make them into palm trees. But again, you get the sense of what is going on, those columns are probably 15 to 20 feet apart, which creates a lot of problems for us. Same shot, that's the seven-foot ceiling I talked about upstairs.

This was the old entrance into what is now the OK Corral, a slot themed area, and again, I put this slide in because if you look in the ceiling, look at the pipes, it looks like a spaghetti bowl of pipes and ducting and electrical work and so on. That is the exact location shot after the work was done, and again, it just shows that all those pipes and all that ducting and electrical had to be relocated in order to get a ceiling of some acceptable height.

Those of you who had been to the property back before we took it over know that the property had a pretty unique feature, an indoor paddock area which was very popular with the horse betting public but obviously created a lot of problems for us as we tried to convert the facility. And there is what it looked like indoors before. You can see, again, the ceiling is very low. And as we converted this area, we actually excavated about 18 inches of dirt out of there in order to make the ceiling 11 feet high, and 11 feet high is still not tremendous, but it's the best we could do. Again, look at the ducting and the plumbing and the electrical, wires hanging down, a light bulb is just hanging down, this is what we were forced to deal with. That's what it looks like today. What this photo doesn't show is that floor is actually sloping, it's on a grade, it's about six to eight inches from the front of the photo to the back of the photo. Now the paddock is outside, it's brand new.

This is what the indoor area that used to be the paddock looks like. There is a bar and a restaurant in that very space. Part of the slots floor is shown here, you see the columns wrapped, you can see all the soffits in the ceiling that are hiding all the mechanical work I showed you earlier, and again, elevation changes everywhere in this property, ramps, steps, escalators, elevators, nothing that you would build from scratch if you had to. This actually is the old paddock area, the OK Corral. Again, very, very low ceilings, I think in this area it's about nine or 10 feet.

I've got a series of three slides here that show the new entrances that we built as we went along, this was one of them, and then it was replaced by this one and then it was replaced by that one. So it's another disadvantage of this sort of phased expansion, there's a lot of throwaway stuff as you master plan and build out, things change, the entrance moves, the entrance gets bigger, and again, there's a lot of waste and I thought that was good representation of it.

These are the newer areas, these are not in the grandstand, they are connected to the grandstand. I think it's a good contrast, much better theming possibilities, the structural columns are 60 feet, some cases 90 feet apart, depending on the structure. Ceiling height is about 25 to 30 feet and much better air quality and, again, theming capabilities. It gives you an idea of what we were able to do from scratch there. The food court is attached to the grandstand, the Hollywood section, same thing, about 30-foot ceilings, some good theming. Here we go, this section opened in '03, little more contemporary looking, obviously. That's our Hollywood section and entertainment stage. Epic Buffet, we put a buffet in the property about 18 months ago. We spent \$9 million to put in the buffet but also a kitchen and pastry shop. The property historically had, as it expanded, a number of satellite kitchens, it had no main kitchen, so we finally bit the bullet and spent several millions of dollars to put in a production kitchen for the entire property. Again, that's 10 years after the fact, so there were a lot of inefficiencies working out of these satellite kitchens for many years. That's our most recent section that opened this spring, April. It has about 35,000 square feet with about 800 or 900 of the latest games.

I don't know how well this shows up and I don't have a pointer, but it just shows how the property has the potential to continue to expand. Very simply, we've got about \$200 million worth of expansion projects that, unfortunately, with the failure of the table games referendum, are on hold, but we can come back and add some of these areas, a third parking structure, hotel, spa and health club, entertainment venues, food venues and so on. So you can get a sense of just how much more expansion potential there is at the property.**Other terms, concepts and keywords contained in the balance of this transcript are:** Bob Farinella, American Racing, Tioga Downs, Vernon Downs, master plan, slots facility, Charles Town, Penn National, sports bar, casino floor, disadvantages, theming, cash flow, demographic draw, opportunities for generating revenue, revenues, video gaming facility, New York, difficulties of layout, recommendations for older properties.If you desire a full transcript contact bprewitt@ag.arizona.edu