



Race Track Industry Program

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Slot Operators' Roundtable

Moderator:

Dave Roberts, Consultant

Speakers:

Geoff Andres, Vice President and General Manager, Harrah's Ak-Chin Casino

Patti Key, CEO, Harrington Raceway

Terry Maines, Vice President, Slot Operations, Ruidoso Downs

Mr. Steve Barham: Thank the sponsor for the session, LPCiminelli. The sponsor for the breakfast this morning, InCompass, and the sponsor for the refreshment break, MIR International Caliente. I'm just going to introduce Dave Roberts who is the moderator for this panel. He will then introduce the other panelists, or whatever he's going to do since I never could get him to do exactly what I wanted him to do. Dave is a consultant now. Prior to that, he was the executive director of the Florida Pari-Mutuel division. Toward the end of his stint there, when they passed slot legislation, he and his staff worked mightily and very quickly to put in all of those rules and actually bring that up. So with that, Dave.

Mr. Dave Roberts: Thank you. Thank you sir. Good morning, all. Sorry. I'm going to introduce the panel we have here. To my immediate left is Geoff Andres, and he currently is the vice president and general manager of the Ak-Chin Casino Resort — Harrah's Ak-Chin Casino Resort in Phoenix. He oversees the operation of 148 room hotel and casino with almost 1100 slot machines, 28 table games, four restaurants and that facility employs over 850 people. He has vast experience in the slot area operations. Prior to coming to Arizona, he was the president and general manager of the Wheeling Island Racetrack and Gaming Center. He was first appointed to the Ak-Chin in June of 2005, correct? Welcome.

Next to Geoff, is Patti Key and she is the CEO of Harrington Raceway in Delaware. She's in her 12th year at Harrington and serves currently, like I said, as the CEO. She came to Harrington in 1999 and prior to that, she worked in the banking industry for 15 years. She is a native of Delaware, I believe? Aren't you? She has done a marvelous job at Harrington. We were just talking prior to this in slots and

now they've got the race book — I mean sports book, so her world is exciting right now.

Then to her left is Terry Maines who is currently the vice president of slot operations at Ruidoso Downs in New Mexico, nearby here. He's had 23 years in slot operations. Prior to coming to Ruidoso Downs, he was at the Aquarius Resort in Laughlin, the Venetian Hotel in Las Vegas, and Coast Resorts in Las Vegas and has many years experience working with Native American properties in California. Correct, Terry? Great.

Good morning again to you all. We are going to have a roundtable discussion here about the trends and slot operation economics, things of that nature. What's affecting the slot operators and how they market themselves, so have kind of a free flow here. At the same time we have two microphones situated here between the table, so at anytime you have any questions, just step up to the microphone and then when someone stops we'll notice you so you can ask the question. I don't necessarily want to wait until the end, because sometimes we run out of time at the end. We only have an hour here, so if you have something you want to add or ask, just step up there and I'll recognize you.

All right. Again, we'll start off, and we're going to talk about the current operational and economic technological trends that they all face at their various properties. I guess the first thing I'll talk on, and I think each of them mentioned this, is it's really direct mail is still a centerpiece to your efforts to either attract customers or retain those. Your facilities are different sizes. One's an Indian casino and the other two are not. You all have that same kind of focus, is that correct? You want to take it on, Geoff?

Mr. Geoff Andres: Sure. Good morning, everybody. My name's Geoff. As David mentioned I have the privilege of being general manager of Harrah's Ak-Chin. Ak-Chin is an Indian community located in Maricopa which is south of the Phoenix Airport, about 30 miles. Harrah's has been managing this business on their behalf for 15 years, and we just renewed our contract for another five years, so we'll have 20 years of management agreement with the Ak-Chin community. Part of the win-win agreement between Ak-Chin and Harrah's is the fact that we're so good at database marketing. One of the things that we're focusing on is nine out of 10 of our customers have to drive by at least two competitors to come through an extra 17 miles of what I call scenic desert, to come down to Ak-Chin. If anybody's made the drive, I use the term scenic desert somewhat sarcastically because it's as flat as you can get, and it's not the most pleasant drive. An extra stoplight seems to appear every other week. Our guests really have to want to come down. I was sitting here next to Patti. She's showing me a map of Delaware which I had not seen before. Little dots popping up around her, so clearly the competitive pressures are great.

The beauty of Harrah's is the database capabilities. If you can think about the evolution of what we've done just on the basis of coin offers. We used to send out coin offers in the mail in very strategic laser-like fashion to how you segment your

database, and customers would come in with a coupon, go stand in line at a cage, go get some coin and go play in the games. Then we evolved into a situation where we'd send coupons in the mail, so the customers could bring the coupons with a barcode and put it straight into the machine.

This last year we rolled out something we called Prism where we are now doing a tremendous amount of marketing right at the slot machine. Prism basically is a little dollar sized LCD screen. I'm sure all of you guys have seen these things. It's been a technological advancement for us. It's been rather fascinating because now we don't send out the coupons anymore. We send out a code, if you would. Instead of sending out a coupon that says, come on in. Here's your code with your offer. The customer comes in, and they can download their offer right at the machine. That's been an interesting thing, and we can talk about the challenges of that.

We've also done something with this new tool called Beverage on Demand where the customer can now order their beverages right at the machine. If you think about that, that's a tectonic change in how you service customers on a slot machine. Where the beverage server typically goes through the casino hunting for customers, hunting for drinks; the good ones, you would hope, would break the customer's trance on the game. Not so good ones run up and down the aisle screaming, beverage, beverage. You hope you see them every 20 minutes to half an hour. Reality is somewhat very different. Now the customer can go right on the menu, select their drink from a number. I think the total is 360 different combinations, and that beverage is now delivered to them usually within less than five minutes which is a remarkable bit of technology.

So we got that. We got how we mail the customers' offers and download, and then we also — how you really uncork this technology, is the marketing at the slot machine in an interactive way. For example, a customer sent me a note the other day, and I love notes like this. I'm sure those of you who receive customer letters, some of them aren't always real friendly. This one said, "Geoff you're a genius," and I agreed. Thank you very much for that. "You're a genius. It was my birthday. I know this was your idea. Thank you so much." I scratched my head, and I said, "What did I do?"

Well our marketing team had a rule in our system that said when it's a customer's birthday, it will pop-up on a screen and says, "Happy Birthday Winnie." You get \$50 in slot play today. Hit enter to accept this offer. She hits enter. The offer was to her personally, but the amount, more importantly, was to her based on her quality of play. So that's a pretty neat bit of technology, and you think about how you can profitably influence customers' behavior by utilizing this tool.

Mr. Roberts: Patti, we were talking, and Geoff mentioned also looking at the map where you're located, and you've got competition all around your facility also. How do you market to get the customers in to bypass certain areas and certain other competitors? Do you do the direct mail also? What are you utilizing?

Ms. Patti Key: We do a lot of direct mail. We do email blasts, and that's been helping us quite a bit electronically, saving on postage and so forth. Our threat is Pennsylvania that just came on the past couple of years, Chester and the Philadelphia area. It hurt mostly our state. We don't even have a million people in the state. We currently have three casinos. We're a lottery-run operation. We've been very successful. We're a small property tucked in the middle of a fairground, Delaware State Fair, and more of a rural property in our customer base. So we target more an agricultural per se population in our area than we do metropolitan areas. So we do more with slot play, free play, but we're regulated by the state how much we can give. Every year it's like eight percent, which our handle was the year before. Whereas our competition, which is existing in Pennsylvania, it's unlimited. So that hurts us.

When we first started doing the free play, it was very successful. We got people in doing free play Fridays, but we're giving \$50 of slot play away. They were giving \$100 to \$200 to the same customer. They seem to travel that extra hour and go north. I think what we're facing right now is basically Maryland coming on. We're almost 15,000 machines, and two of the properties, Baltimore, Maryland and Anne Arundel County Maryland, we thought was right in our backyard.

Two years ago we tried to be proactive and reactive to the competition, we decided we were going to renovate our entire property; which we did and it's beautiful. We took our time selecting our architects and our construction management team. They did wonderful. They worked with us very well. We did not go low end. We went kind of middle-high end. It was developed for the people in our area. It's not a Caesar's property, but it's a comfortable property and has a little bit of class. When you go in, you just feel like you're at home. We were doing that with the anticipation of Maryland coming on sometime down the road. Little did we know that the governor of the state would change and now they're proposing an additional eight to nine venues in a state with 800,000 people. So five of those are at the top of the state and three are in our backyard. I think that's what we face right now. We're anxious. We're looking forward to the January session when they go back in to see what's going to happen there and also with table games. Hopefully with Pennsylvania delaying their vote, we can get up and running the beginning of the year before they get on.

We also introduced sports book, race book this past year. We're not doing too well because we had a three team parlay bet which is just NFL. Really after all expenses net, we are not even breaking even. We are fortunate though that we have, with our marketing staff and so forth, thinking out of the box and doing different, various marketing techniques, we have held our own share of the market.

Last year we were down less than one percent and this year to date we're up. I think we're the only property in the state, especially with all the surrounding ones that have been there, not the newer ones in Pennsylvania and so forth, I think we're doing the right thing. It's just a matter of keeping the people coming, and the tax to the state is what's hurting us more than anything, more than the economy.

Mr. Roberts: Terry, you're a little bit more unique because your property's a little bit smaller property and a little more isolated. When we were talking, you've got a smaller population to kind of go after. What do you try to do at your area?

Mr. Terry Maines: That's a good question and listening to Geoff talk, Geoff with Harrah's. I've work with a number of properties. At the Venetian in Las Vegas we were next door to a Harrah's property. I was in Laughlin. We were a few doors down from a Harrah's property. In San Diego, we were about five miles away from a Harrah's property. Harrah's is probably the king of the direct mail marketing across country. We've spent a lot of time studying what they do. Harrah's, almost picture like a reward's card like a Starwood's card, they reach out to everybody. They spend a lot of time identifying who their market is and who they're going to go after, and it works very effectively.

For a property our size, it's a little bit different but it's the same. We need to identify exactly who our players are. As Dave pointed out, we have about 8,000 people in our immediate area. During the summertime, that grows to about 35,000 vacationers. These people are mostly from West Texas. Including the surrounding area, we probably have about 25,000 full time residents in that part of New Mexico that we would consider our target market. Identifying these people and sending offers, making personal contacts with these people are kind of what it's all about. Geoff and Harrah's they realize that. A TV advertisement is great. Tell the people what you have. A radio advertisement is great, but once you identify who these people are and who these players are, you send that offer to them. It gives you the opportunity, somebody who has a lot of value to you, you send them a much better offer than you would to somebody who you'd still like to get in, but it may be \$5 of free play. You might send \$500 of free play to a great customer you have.

Free play is an interesting thing because our property, we don't currently have it. It's the first time I haven't had this in my last couple of jobs, and it's definitely put us at a disadvantage. We have a Native American property that opened up in our town about five years ago. When we were originally licensed with the State of New Mexico in 1999, our tax rate is about 50 percent. As Patti was pointing out, that's a big knot. It makes a big difference on what we can do presenting to our guests, buying new machines and everything else. It worked out great until we got this local competition, and I think that's one of the things that they're looking at. It sounds like they're being very proactive and reacting to that. Recognize your guests and go after them, and let them know that you're there and that you care about them.

Mr. Roberts: Let's bridge on that because Patti, you were saying you're limited by the state on how much promotional you can give away. Do you do somewhat like Terry does? Your staff targets and makes relationships with key customers and targets? Is it kind of a combination? You do a blast to your player card people and then try to target that? What do you find that works best?

Ms. Key: It's all based on play, what their play is. Ours is revolving over a three month period, and it's tiered with different levels; black diamond and so forth like most other casinos. The state limiting us is difficult for us because to compete with the neighboring casinos in Pennsylvania, we need to give away cash to make up for that difference. Cash talks more than free play, but we find ourselves spending more and more marketing dollars to bring the people in because of that. Some people free play, they would rather have the cash, of course, than the free play, but it's worked out well for us. It's been a great marketing tool. We also have the Lucky Coin, the little screen on the slot terminal. Every once in awhile, at random, we pick someone and say you just won \$100, or you've won \$50. We promote that almost like a lottery. When you're sitting there, you have to be at the machine playing.

As far as our main marketing, right now what we're doing is we found this out through some grassroots efforts is entertainment, and it's just been small. Just maybe things with 300 people, little acts and they brought play into the casino more than anything I think. More than free play now. When we put those two together, we can fill our gaming floor, which is great.

Mr. Roberts: Well everybody's got a unique property, so they have to kind of bridge or build what works best for them; which is what we're trying to talk here to give people ideas; or anything that you all have seen and want to share with the panelists up here. Again, if you have any questions, just step right up. We're not going to wait until the end. Kind of have a free flow here. I think the technology is kind of next on my list, what I was going to get at. Geoff, you opened that up. You have a system there that you can do the marketing on the machines. It gives you a big advantage. Does it limit, Patti and Terry, because you have to work off the state monitoring systems? Does that limit also what you can or cannot do? Or does that tie into together if you try to do anything technological?

Mr. Maines: What Dave's talking about is there's two states in the country where the slot machines are regulated by electronic state monitoring system. They happen to be New Mexico and Delaware where we are from. It's been interesting. In New Mexico, they originally started with the VLD system which severely limited what we could do. We had to have certain machines that would only communicate with the system; so we were basically stuck with older machines from the 1990's late era; and we weren't able to make changes to anything else new.

They switched over to the Scientific Games AEGIS system which is what we're both operating with, and it's opened up things a little bit. They're still—to simply move a machine across the floor. When I was in Las Vegas, we made a phone call down to the slot tech, asked them to move a machine to another area, and it was done within about an hour. It takes approximately a month in our state. I know in my state specifically, we have to let the state know. They have to make changes because this monitoring system actually keeps track of where every machine is. They charge us to do that which isn't done most places. At a certain point we get an okay to go. We have to do it at a certain time and everything else. So it very much limits what we're able to do.

Machine wise, the newer machines, I think they're coming in line, but it does still take about a year longer to get a machine approved for us than it does for a normal property.

Mr. Roberts: I'll bridge off that because being an ex-regulator that was one of the complaints I would hear from some of the facilities about how invasive sometimes we would be when the properties tried to move the machines or move around the slot floor to help out with competition. I'll ask this. Is there over regulation in some of your areas? I don't think you have to worry about your client, per se, because you're a management company basically. Is there over regulation any of you all that really stymies your ability to market out to a player? It might be with you Patti because you're limited on how much money you can spend, but does the regulation side of it cause too many problems out there to allow you to be competitive?

Ms. Key: I think, like I said before, the free play yes, the regulation that kind of hinders our growth a little bit. We're very fortunate. The Delaware Lottery, who we work with closely, every promotion we do, I don't care if it's a billboard, they have to approve. Fortunately, most of everything we ask for goes through. We have very little turndown. I think what hurts us being so close to Atlantic City is, as far as other regs like the liquor laws in the State of Delaware, we cannot comp any alcohol. I think that kind of hurts us a little bit. We don't have a hotel either, so we're competing against the bigger markets there. More than the lottery hindering us, I think it's the competition nearby and other regs within the state.

Mr. Andres: You know we have a lot of regulation too. We have tribal gaming. We have Arizona Department of Gaming, National Gaming. One of the things that's interesting, as I explained this new program of marketing directly at the slot machines utilizing technologies, navigating that process was a challenge. I think like every market we work in, as long as you have a good relationship with your regulators, they'll help you get to your goal. It was rather fascinating with us because the accounting treatments were different on the downloadable credits versus giving out coin. We ended up saving millions of dollars. We do pay tax in the State of Arizona on gaming and, of course, to the detriment of the state, because now we go to non-negotiable. We don't pay taxes on that, so that was a fascinating way to navigate that. It does allow us to do more actually for our customers.

One of the interesting things I've been thinking about as we've talked up here today, everyone's heard the term free play. Free play cash, free play cash, and free play is like a bit of like casino manager heroin I think. I think we all love how it feels, and we send out our bonus coin offers and our mail pieces, and we get to watch it come back and feel it and analyze it to the end. We obviously test control. If we give this group a little bit more, will they come back more? It's an interesting bit of science almost as you test a control and add or subtract or cut. It's this constant game we play, I think, of what is the right amount? Is it ten percent, 20 percent? Obviously Patti's situation she's looking at Pennsylvania and her

customers are going, “Look what I get from Harrah’s Chester.” Sometimes it’s kind of hard to pull the needle out of the arm because your guests might punish you for it.

One of the things, I think, we also need to consider when you think about technologies is — I look around this room today, and I think probably all of us in this room are probably a little bit higher up technology learning curve than most of the country. You think about who our customers are. Our customers are 65 year old, tend to skew female guests. You know, one percent of our slot revenue comes from people under 30, yet, I think our technology is designed by an 18 year old. They get it. They know the younger folks who designed and engineered this stuff understand how it all works.

One of the things that’s fascinating — as I’ve watched this transformation that we’re trying to do with our guests, again, the whole purpose is to profitably influence their behavior — is when you go out on the casino floor and you got this little LCD screen. You watch Mary Midway, our typical female slot customer, looking at her code, looking at the screen, trying to figure out how to redeem our offer.

Mr. Roberts: Moving her glasses.

Mr. Andres: Moving her glasses up and down. I got to tell you, that’s a concern of mine. I think as you think about technology and how we’ve kept advancing, I think it’s a bit of a dance. A dance where you say, I want to use the latest and greatest and I want to try and use these tools to the best of my ability to influence customers’ behaviors and drive the business, but at some point we have seen turned-off customers. You get the notes from customers that say, “I don’t like your new system. This is too complicated. Go back to the old way.” Then you’re struggling with that sort of internal doubt of well do I keep pushing this technology, and they’ll eventually catch up? Or do I do a hybrid of it trying to make the best of the old and the new.

Mr. Roberts: Well that was a good segue because that was my next point; is how do you market the youth versus the older players? That was literally my next question to bring up. How do you figure out what works best for each? You’ve already addressed it. Patti, Terry? You want to take that and see have you had any problems in that regard? Does your marketing campaign go just all out for everyone, or do you try to target to the older player this certain way or something a little more youthful.

Ms. Key: Since we’ve had race book, we thought we were targeting the younger, like 32 year old male coming into the race book, and we’ve had that happen. However, where we thought we were going to have the crossover play into the slots, we didn’t have that mainly just because how we’re structured right now. We do try to target younger folks in the marketing throughout this state, the colleges. We’ve tried different things. Local colleges. It’s just very hard to get them to come. When they do come, they want to go to our patio and party outside. They

don't care about the slots. They may put \$20 in and so forth, but that's our focus right now is trying to get that younger market into the casino. We've had special events and younger bands, rock bands and so forth which have worked out well for us. It's very difficult to keep them coming and returning to the property and playing the slots.

Mr. Roberts: Well Terry, one thing you and I talked about how you were kind of pushing on the off season, when racing's not going on there, to create your — establish more as like the sports place in that area, right?

Mr. Maines: Exactly right. It's a very good question for this group, because this is also a concern I know in the racing industry. Racing also has a lot of older clients. As they get older, they eventually fall off and where that replacement comes — that new guest to keep your business going is very important. As Patti stated, we do some concerts. We do things like that. We were pushing a sports bar which is big in our town. We have 20 TV's in it. We have the NFL Ticket to get groups in, to get couples in. Because, again, a lot of times it's maybe the wife who gambles, the husband doesn't, so it's something for that husband to do.

We've seen in Las Vegas and other areas where they've expanded quite a bit too where there's nightclubs, there's shopping, there's a lot of other things. So, to get those groups in, you don't just have to appeal to that person. A lot of times you have to appeal to that person's significant other or spouse, or sometimes family. Just to make the property a little more friendly to all these people, there are things like that. I know again with Harrah's you'll have different things. It could be a spa treatment. The husband comes in and plays, and the wife goes and gets a spa. There's very significant amount of people who one gambles, and one doesn't. So there's different things. We want to make our property be a place where a couple is comfortable and happy to go to.

Mr. Andres: Well, I got to tell you, my director of marketing, Mike Kintner, is sitting in the back of the room. He's a graduate, by the way, of the University of Arizona in the racing program here. I will tell Mike this all the time, and I'll tell it to him again. I don't care about people under 30 years old. I don't want to spend any effort. I don't want to spend the energy. That's not our business. One percent of our business from less than 30 years old, I don't want Mike concentrating on what to do. You know what? I don't as a matter of fact understand people under 30. All they're doing is sending text messages to each other. They don't talk to each other anymore. They don't even spell correctly. Y-O-U is now U. I don't care. I don't want to focus on it. I want him putting a bus in every community that starts with the word Sun, and I want him bringing 65 — people with time and money down to our casino to gamble. We'll create social fun experiences.

We talked about the free play issue. That's just part of our program. There's different segments of our marketing. We have social currency activities. Activities that make people feel good about coming to the casino, whether we'll do a barbeque. Patti mentioned the patio. We'll do a barbeque out on our pool deck.

People come down. My God, burgers and hot dogs. We'll have a thousand people, and they're happy as they can be because they're hanging out with their friends and people like them.

We think about gifts we give our customers. If we're going to think about gifts that appeal to under 30, just because our core customer will come in and regift it to their kids. So, we know who we are. We're a primarily slot-driven joint. Over 90 percent of our revenue, actually 95 percent of our revenue comes from slots. Five percent comes from table games. We know who we are. We know who we need to focus at, and it all tends to skew older. We do not need to spend time, energy and effort trying to figure out how to appeal to under 30, at least right now. Maybe let the next general manager figure it out after I retire. In the meantime, I want Mike focused on every city that has the word Sun in front of it or Margo del Lago or something.

Mr. Roberts: Those of you can't see Mike back there; he's laughing and shaking his head. You can tell he's heard this all the time. Well that's it. Geoff, you have the capacity there where you can concentrate on strictly the slot operations; where Patti and Terry it's more of the racino. They have to worry about other aspects of that. You got to worry about the racing. You got to worry about how do you bring that in? It's the old adage of the racino; the goal is to bring mom and dad in now. Before it was just dad coming in to play the horses. Now you've got to try to bring them as a couple, and Terry you were kind of talking about that. Patti is the kind of focus for you to try to get the mom and dad coming together?

Ms. Key: Well that's even difficult on the live side, our attendance is way down. The betting is down because of offshore betting as everyone knows all across the country. Even the giveaways to get people in and their wives in don't work. I just think it's very little crossover play. Like Terry said, it's a dying market right now basically that's what we're facing. For us, our racing is a loss leader for us. We wouldn't have — if it wasn't for the Horsemen's Redevelopment Act in the state, that's how the racinos came about in Delaware, our casino wouldn't be there today.

Mr. Roberts: We're not going to get too much into racing because this is slot operations, and we don't want to beat up on the racing side.

Mr. Andres: Are you sure?

Mr. Roberts: I'm sure. I'm very sure.

Mr. Andres: I have opinions on that.

Mr. Roberts: Geoff will be here afterwards with his opinion.

Mr. Andres: I love racing. No, no. I'm not going to go there.

Mr. Roberts: Well the other thing — real quick on that Geoff, it's remarkable what you were talking about when you say it to Mike, you don't want to hear anything

about any marketing under 30. When you and I were talking about your new interactive marketing on the machine and you kind of mentioned that. It actually has enhanced your customer service because you've had to use your people to get out here and help train people how to use it, right? Can you talk about that?

Mr. Andres: We've had to get people. You can't just roll out a new change without teaching people how to use it. When we rolled out the downloadable offers, we put people in bright obnoxious yellow shirts, put them out on the floor, and their whole purpose was to help people learn how to download their offers.

I talked about Beverage on Demand. Beverage on Demand, in a conceptually intellectual way, is the most amazing thing to deliver beverages on the casino floor. I know all of you who run a casino floor at all, beverage service is a challenge. It's never been great to any casino I think any of us have worked in. So you have a system that says — all a customer has to do and is very easy — go to a menu, select a drink and it's delivered within five minutes. You would think that would be fantastic. The most easily embraceable thing. Just like I talked about before, we had some customers, the 65 year old female slot customer, goes, "Just bring me my cranberry juice. Just have her walk by and bring it to me. I don't want to learn this new system." I'm sure some of us have some older parents in the room. They just don't want to learn that fancy internet stuff.

So we've had to have ambassadors out on the floor and a big awareness program; the danglers on the machine. Ordering a beverage is as easy as one, two, three signage. We put it out in our mailers. The actual, having the ambassador on the floor to say, "Would you like a drink? Let me show you how to order one." So we see our adoption rates are climbing substantially. As people have that first success of ordering the drink, then they adopt it. There's definitely a learning process as with any kind of technology. The key is making it as easy to use as possible.

I've got to tell you, we've had our lumps with the E-rule awards in particular; where the customer can download their offers. The people that developed our system, I don't think — the term I used in a meeting recently was they had no street cred. Meaning they — you have to go down and talk to customers and feel what it's like with customers. Sometimes I think engineers in a room develop stuff without understanding how customers use it. We had our bumps, and we've had to go back and fix them, do software fixes. At Harrah's Ak-Chin., we're the second casino with the Harrah's Brand rolled us out, so we're on the front end of this. You really got to get out and listen to your customers. I mean that's the key. The key in everything else. Every business you're in is listening to your customers by getting out there and talking to them.

Mr. Roberts: Anybody have any questions or anything they want to ask the panelists? Step up. Okay. I think we all agree. Customer service is still a key to whatever business you're in, especially now when we're all competing for the same person, or same player out there. No matter how much technology is, you still got to have that interaction with the customer. You have a question, Will?

Mr. Will Cummings: A question for the panel in general. Compared to the racing industry, the pace of innovation and machine gaming is an order of magnitude more rapid, and you've talked about some of the challenges dealing with your customers and bringing them up to speed. What other types of challenges does this pose to you as operators in terms of the rapid life cycle of slot machines and the pace of innovation? How does that affect you?

Mr. Maines: We kind of touched on that a little bit earlier. You're absolutely right. Horses are evolving, as horses evolve according to Darwin. Slot machines, basically, right now we're kind of to a three to four year lifespan on a machine. You'll hear five years a lot. Some of the machines absolutely a little bit longer, but generally you're looking at three or four years. Getting the new machines in, getting the guests trained on them is a part of it and also purchasing. In the industry as we were talking about, fifty percent tax rate. Delaware's even more.

When we used to sit in other jurisdictions, we would come in and say, "There's a new machine out. We want to buy it. We think the guests will like it." It will take us about a year to pay for this machine which works out fine in that three year lifespan. When you're paying a tax rate that's effectively half your revenue, it takes that one year return on investment and turns into two years, two and a half years. That's significant because now you're talking about maybe not being able to pay for that machine, especially if it's not quite as successful in its lifespan. So as a race track looking to stay modern, which you have to stay modern, you have to be able to present to the guests what they're able to play. It's an issue. That's one of the issues in Ruidoso Downs going into there.

When you look at racing, and when you look at your casino part of this business, you have to separate the two. You have to, as you've done, recognize racing works one way. It has one guest. The betting works one way and the casino works another. You have to market them different. You have to sell them. You have to sell them to your guests and you have to present it different to people as they go. Your casino has to be easy to get into. What Geoff was mentioning earlier, we spent a lot of money to market our properties. We dress them up. We train our guests and everything else, and if somebody walks in and has a bad guest service experience, just like any other business whether it's a restaurant or a movie theater or something like that, you have a chance of losing that guest forever. There's a lot of money that you spent that can go right out the door.

If I could, real quick, you mentioned the beverage service. Harrah's with their technology and their system is great. That's a great way to get drinks because he's absolutely right, drink service is a question. If you've ever been to Las Vegas, and you sat for 45 minutes to get one of those little teeny sodas, it's frustrating sometimes.

When I was in California, we took another angle to it. We didn't have that technology to be able to do that, so we actually set up self service beverage stations where you get your Coke, iced tea and coffee on the floor. Our costs went up probably \$75,000 a year in what we were spending on the sodas. We saved

about \$200,000 a year in the labor to service the guests, and the guests were happy about it.

The 65 year old woman, who we will all talk about all the time, is a little bit almost uncomfortable giving that tip. She doesn't mind getting her own drink when she wants it. The feedback we got was phenomenal. People loved something like that, so that's a way outside the box maybe without the technology that you can present something to your guests. Guest service is key, and it's a little bit different from one place to the other and from the racing to the slot side.

Mr. Andres: Well I think your question is really interesting. Right now it seems to me that we're on the edge of doing some pretty cool stuff from a technology standpoint when it comes to slot machines. One of the things as I look at — anybody in this room plays videogames or has kids who play videogames, the analogy of being able to play on a Playstation 2 game. They have this game called Grand Turismo. You start off with basically a sedan, and the more you play you can amp to soup up your car, get a bigger engine, better suspension, better brakes and you get a bigger car. You open up new tracks, and next thing you know it's 4:00 in the morning. You've been sucked into this game.

I really think that we're on the edge of something. I thought WMS did a good job when they came out with Star Trek and this episodic game. People want to play for that next episode to earn that new medal. I think that's going to be really an interesting evolution in gaming to kind of get people sucked into the game where they want to keep playing for something to get that new stimulus.

The other thing that I think is interesting that's coming out, or is on the horizon, is kind of the social gaming where World of Warcraft is fascinating. This ability for people to get online and play games with people all over the country is — how you adopt sort of that social activity in slot machines will be interesting. I think we're going to start to see the manufacturers come out with things where you might be able to play against other players on your bank in a friendly competitive way. That to me is going to be interesting.

As they come out with this snazzy new stuff, now of course we're going to be in this sort of perpetual replacement cycle. Those that have capital to do it will be in good shape. Terry out there with Ruidoso might not be able to have the latest and the greatest, or if he does, you're going to pay a big daily fee. That's going to be a bit of a challenge as you think about how you deploy your capital. The overall goal of people being able to — interested in playing that game for a longer period of time I think is going to be fascinating.

Ms. Key: I agree with what Terry and Geoff both said. I think interactive gaming is where it's headed; G2E this year with the Wheel of Fortune game with players playing against each other, American Idol and things of that nature. We also have self beverage and had the same results that Terry had where you can self serve beverages. It works out very well, and it's been successful for us. Fortunately, I guess we're more fortunate in Delaware than I — well I appreciate it more now

sitting here on this panel listening to you with your machines and keeping them for three years. Delaware Lottery leases our machines, so most of our machines are state-of-the-art and up to date.

If we have slow or low performers, we call the state or whatever. The vendor reps are constantly looking at our machines for the revenues they produce because that's the way the fees are structured from what they get off the play on the machines. We can call and say, we don't like — "take this bank of machines out. They're not playing or doing anything for us." Probably within six months, they're removed from the floor and something new is in there, so we're fortunate in that aspect. The other aspect, like Terry was talking about, where we're not is it takes longer to get a machine approved and into the state. I'm very appreciative now for what we have, and we don't have to worry about things like that.

Mr. Roberts: Those bad regulators. I'll tell you what. Well that's interesting. Geoff, it's interesting because you're sitting there just a moment ago telling Mike out there you don't want to hear anything about any marketing under 30; but we're kind of hearing and I — it wasn't at G2E, but I've heard that. The interactive games, that's building a client base there. I guess is what we're trying to do in the industry now is to replace the older player or give them new options that you still have — the older players still has the type of games they're accustomed to and comfortable with; and then bring in the newer players that are used to doing their gaming at home.

Mr. Andres: And just learn the lessons from these videogame manufacturers. Obviously they got something that works for them and be able to apply some of those lessons that the older players would enjoy. Our older players love playing that Star Trek game. They love trying to open up that new episode. If they somehow, if our technology burps and they lose their medals, they get mad at us.

Mr. Roberts: Yeah I forced my kids to go see the new Star Trek movie, and they were just shaking their heads. Then afterwards, "So this was a series a long time?" When I showed it to them they were just, that was ridiculous. You can only teach an old dog new tricks.

So let's go onto the next thing that I have on here that we kind of talked about a little bit, server-based gaming. Is that going to be the future for all of you also? I don't think any of you have it yet, but it's what we hear out there. Whether you are here or go to G2E. Server-based gaming is next out there, but it hasn't really expanded yet.

Mr. Maines: That's because none of us really know where it's going. If I could give you a quick rundown of server-based gaming, it basically takes the guts of the slot machine and moves them to a central based server. As the manufacturers have sold to all of us, it's going to be the most wonderful thing in the world. You'll be able to change game themes as you go. You'll be able to change denominations. Whole percentages you'll be able to market straight to the person.

They'll be able to make their hotel reservation, buy a car. Everything they want to do from this gaming machine, and it's going to be a wonderful thing.

That being said, for the last four years, it's been about two years away. We're still right now about two years away is what they're saying. When it happens, it's going to be great, and happen in one shape or form. As we're moving forward, I think a lot of places two years ago were kind of making plans of how their future would go to server-based gaming. We're not really doing that right now. We're proceeding as usual as they work out the kinks. There's a lot of issues with different manufacturers being able to connect on the same server; because you don't want to have four, five servers; one for each manufacturer in the back room to run the game. They've still got to communicate with the ticketing system. There's jurisdictional issues as we go to different places on what they will and won't allow going forward. It will be a great thing when they get it. As we see, it's still a ways away. Geoff, if you want to add to that?

Mr. Andres: Anybody in the room from WMS, IGT, Bally? Would you admit it if you were? Okay. Hey. You know if I'm WMS or Bally or any game manufacturer, obviously all these guys what do they want to do? They want to have some sort of perpetual revenue stream. It's the never-ending battle between the revenue share, the game lease, the wide air progressive and all of us who put slot machines on the floor. We all get pissed off and go to G2E, and the best product is revenue share. I think we all probably take a bit of a sadistic joy in trying to torture the game manufacturers, because you don't want to have them in your back pocket paying those high prices. It's no fun when you look at your monthly operating statement and you see a number like \$300,000 or \$400,000 in what you paid out for a daily fee.

Now when it comes to server-based gaming, the thing that, quite frankly, irritates me the most is, I think these guys are trying to get a daily fee on every game. I don't want to pay a daily fee on every game. That's a big concern. How they are going to price those things is to me a big barrier to whether or not, I think, operations adopt it. The other thing I'm concerned about is our customers already think we change the floor too much. How many times your customers come in and say, "Where's my machine you put in?" You say, "Oh you were the one who was playing it. Well sorry but it's gone. We have something I hope you'll like better there."

Mr. Roberts: Geoff, I could add real quick. The one thing we've always heard in Las Vegas and other jurisdictions is, "Man, the machines were doing good and somebody flipped the switch and they got tight." For the longest time, we said, "I'm sorry but we can't do that. It doesn't work that way." With server-based gaming, technically you can flip the switch.

Mr. Andres: That worries me. You get some slot performance managers, a little over exuberant, and changing and adjusting his floor. I think we could tick off a lot of customers. That's a concern, so I started off by saying you first. I'm going to sit

back on the sidelines and watch somebody else lead the way on server based gaming, and I'll be a late adopter.

Mr. Roberts: I agree completely. Also going back to the question we said — because this fits in very well — when you're a smaller property, when you have limited revenue, it's very risky to be first at anything. You know what? Be very comfortable seeing a machine come out; see how it works; see what the performance is; and then using that as your machine. You take a chance on a new machine. We talk about games like Star Wars and stuff. There's some great ones. They look fantastic. Sometimes they just don't work. They don't work in your area or whatever. Sometimes it's just the math of the machine, the look or something like that. Don't ever jump feet first.

Mr. Maines: I almost think sometimes going back to Will's question. Now when you buy a machine, you just need to negotiate a couple of conversions, and the price of buying the machine so that you got a couple shots of getting a good game in there and keeping that cabinet going.

Mr. Roberts: Patti, you stayed awful quiet during this. Now in your area, are you looking forward to something that technology? Where you're battling so many facilities nearby that you can target, on a certain day, these types of machines or this penny machine. Or this time of day versus the quarter machine, etcetera? Are you kind of put like Terry's saying, let someone else do that battle first and then we'll look at it.

Ms. Key: We definitely won't be one of the early ones to do that. I don't think the lottery would take that risk, number one. Our player tracking system that we have, we can see right now basically what's happening. The problem is we want to increase or decrease a whole percentage, then we have to get a new chip and that's a six-week to two month process. I don't know. Like Terry said, as soon as you touch a machine, you open it up especially if someone's hitting. It's like, "Oh, you knew I was hitting. You're in that backroom. You made this machine jam so you had to go change the TITO tapes or whatever in it." You hear all the time, "Now, I'm not hitting," so I think we risk what Geoff said. Of course it's going to be in the press everywhere how casinos are ripping everyone off, and that is a risk. It's a concern.

Mr. Roberts: Well it is. What the customer sees or perceives is really crucial, and it doesn't have to be in the slot area. It can be any of the businesses that we're in. The customer has to feel like they're safe. The integrity's there and there's no questions on any of that. You don't want to open that door up anymore. I think it's kind of a lesson with more technology coming; we still have to sit there and make sure the customer's happy with what they're playing at. Feel comfortable and feel safe. Don't you all agree?

Mr. Andres: Perception is reality.

Mr. Maines: Yeah. The key, when I was in the restaurant business, you were mentioning before, you can have 20 great experiences 20 nights in a row, great experience. That one bad night you have where your food got messed up. You never got the beverage that you wanted. That's where people will go out and just tell everybody in the sun. They won't talk about the 20 good times that you had. They'll talk about the bad time, and they'll hang it over your head, and they'll tell everybody in the world about it. It's frustrating.

I still think one of the things here is just customer service is so key to your operations. What I'm hearing is that no matter how much technology, whatever we do, we still have to drive — whatever you market, whatever your operation is customer service to make sure that customer feels happy and safe so they can spend more and be happy and have an enjoyable experience.

Mr. Roberts: Any other questions? We're getting down to the end here. Are there any topics I didn't hit on that you wanted to bring up? I was kind of leaving a little time at the end. I didn't have them do a little introduction in the beginning. We dove right into it, but is there anything we didn't hit that you wanted to talk about? Any innovative things that I missed? No.

Mr. Maines: We're going to leave you on the mic for a minute.

Mr. Roberts: Oh you're going to leave me on the hook, okay. All right. Any questions out there? Will, did you have another follow up question, Will? All right. I don't want to take. We have a couple more minutes. I think we'll go ahead and end it here unless anybody else had something else. I want to thank you all very much; Geoff, Patti and Terry. You bring great unique experience to each of your different type of location, your facility, and I think gave us a lot of insight. So thank you very much.

Mr. Andres: Thanks everybody.

Mr. Maines: And also folks, if you have any follow-up question coming down the road, I think you can reach any of us through the program. Find us at our properties. I myself, and I'm sure the rest of the panel will be glad to answer.

Mr. Andres: And bring your show badge and come see me at Harrah's Ak-Chin for a free buffet.