THE UNIVERSITY OF ARIZONA®
Race Track Industry Program

THURSDAY, DECEMBER 8, 2005

THE WALL STREET PERSPECTIVE

Sponsors:
Mentor Lunch: American Quarter Horse Association and The Jockey Club Information Systems

Speakers:
David Berman, Managing Director; CIBC World Markets and Co., Inc.
Aimee Marcel, Vice President, Casinos & Gaming Equity Research; Jefferies & Company
Matt Sodl, Managing Director; Innovation Capital

MR. STEPHEN SZAPOR: This panel on "The Wall Street Perspective" we are going to be missing Aimee Marcel, who was held up for travel problems; but two out of three ain't bad. We still have Matt Sodl of Innovation Capital and David Berman of CIBC World Markets.

Matt is managing director and co-founder of Innovation Capital. He's got 10 years as an investment banker having held vice president positions at Merrill Lynch among others. Innovation Capital's specialty is in the gaming, leisure and hospitality industries. His clients include Native American entities, public and private companies, gaming operators, equipment manufacturers and private investment groups. He has a B.A. in economics from Columbia and an M.B.A. with concentration in finance from UCLA.

Meanwhile, David is managing director, group head of gaming, lodging and leisure at CIBC World Markets. He's got over 16 years investment banking, 10 years focusing on the gaming industry.

Prior to joining CIBC he managed game operations, the game and leisure investment banking group at Oppenheimer Company. CIBC is a client. They're raising over $30 billion in capital and advising strategic transactions representing in excess of one billion. He has a B.S. in business administration and concentration in finance from USC and an M.B.A. from Harvard Business School.

And which one of you guys is going to go first?

MR. DAVID BERMAN: Thank you, I appreciate that.

Let me just give a background on each of Matt and myself, and particularly the racing, racino space. While at Oppenheimer CIBC we actually were fortunate to advise Churchill Downs on four of their acquisitions in the racing area as well as do the financing for them. We've also done an advisory assignment for Magna Entertainment and their related company ME Developments as well as two financial's on that property.

I've done work with Boyd Gaming in terms of when they acquired Delta Downs and trying to do the analysis for them in terms of valuing that racetrack not solely as racetrack but a potential of putting 1,500 slot machines into that venue. And how one should look at the sort of pro forma value for an acquisition of that sort.

So we've been around pari-mutuel wagering, both on the pure pari-mutuel side as well as on the sort of convergence into the gaming side through racinos and other types of gaming alternatives.

So with that we actually spent quite a bit of time and space and are excited about it and are happy to be here today to talk about it.

MR. MATT SODL: And on that, Innovation Capital, our exploits at Innovation, we advised a gentleman by the name of Carmen Shick and his entity called Bedford Downs Management Corp., he's one of the finalists for the last harness license in western Pennsylvania. He's competing against Centaur Corp. for that last license.

They hired us to be their financial adviser in raising capital, and we brought in a strategic equity investor by the name of Merit Management to come in and invest $30 million. We're working our way through the process, to be kind.

And secondly we represent a partnership that controls Tioga Downs in the State of New York; the principals are Jeffrey Gural and a public company called Track Power. That entity has publicly announced that they're entering into a strategic equity deal with Nevada Gold, and that company is in the midst of raising capital to develop, acquire and open those properties, which will each have VLT facilities, and combined will have about 1,500 VLT machines. So we're in the midst of doing that deal with CIBC as we speak.

MR. BERMAN: I think with a two-person panel and no moderator, I think we'll try and wing it here as best possible. But we actually had some dialogue coming in to the panel in terms of some things we thought it would be useful to cover, at the same point hoping that we'd have somewhat of an interactive audience to pepper us with questions that would be helpful.

I think the first piece is talk about just the state of the racing industry, and Matt, if you want give maybe your perspective on where you see the racing industry today and the evolutions taking place.

MR. SODL: I think the racing industry is being looked at as an interesting venue by many of the gaming operators out there. There are some companies making bets to get into the jurisdictions in advance of actually a licensed market taking place, and you see it in a number of instances out in the marketplace.

But clearly it's an opportunity to get into quasi-monopolistic markets, albeit at very high tax rates, to operate VLT facilities. And you can look at the State of New York, you can look at Pennsylvania, you can look at West Virginia; Minnesota; there's some interesting dynamics out there. But I think gaming operators look at these, at the racing industry as an interesting way to play.

Certainly nothing's being done sizable; although you look at what's happening in New York there are some sizable opportunities there. But I think it's an interesting area that the gaming folks certainly like.

MR. BERMAN: I agree. I think what I find intriguing is that people are looking at it from various angles. There's the pure racing company; we've seen the Churchill's and Magna's amalgamate content to go that route.

And now you're being faced with the opportunity of alternative gaming in some of the jurisdictions. Magna and their most recent foray monetized one of the assets, The Meadows, to just frankly shore up the balance sheet, and that being a non-core asset in their view as to kind of tier one racing where they want to take their business. Churchill now facing the opportunity of gaming down in Louisiana.

Very different angle from what the casino companies look at. Casino companies look at — candidly, most of them have the view of, "How much money can we make on slot machines or VLTs, maximize profit margins and return on capital? And oh, by the way, there's racing."

Where I think the prudent investor in the arena looks at it as, "Here's a big box, here's a racetrack that in most cases was built in the '50s, '60s with great access, great acreage with which to do a larger development; and the fact that the more bodies you put through that box the better operating leverages of racing you'd have in any scenario."

And so trying to amalgamate both the gaming and racing, and adding other non-gaming amenities to that venue just to increase traffic.

MR. SODL: The interesting discussion that takes place between our respective clients, who are racing guys, when they're looking to do a deal with a gaming company is, you have the racing folks saying, "We really want to make a nice return on the racing side."

And their blood, sweat and tears are on the racing side, and that's their business.

Gaming guys are all about cash and cash rate of return and maximizing those dollars and even out of the VLT facilities. So the interesting discussion that takes place is, how much cap X and what dollars should be invested in the racing assets versus the VLT facilities? And getting crossover in the customer base between the two.

And that's something that will be debated for years, certainly as the gaming folks get more entrenched in this industry.

MR. BERMAN: I think on a temporary basis people will stick the slot machines and VLTs and do the grandstand just to kind of get the cash flow up and running, and than seek to build more of a traditional casino venue.

We think — at least my personal perspective is that those that try and combine the two are the ones that have the right sort of long-term vision and foresight in terms of the type of venue to develop.

If you just built a Butler Building on a parcel of the acreage a mile or two from the racing it does nothing to enhance the traffic, the visibility of racing or anything else, which really seems to be the backdrop for how a number of racinos have been legalized, which is to help the actual sport of pari-mutuel racing.

So it will be interesting to see how it continues to expand. One of the challenges being, as always with gaming, the political environment and legislation. Very challenging when you are positioned with an extremely high tax rate. And even though you have a regional monopoly and oligopoly, whatever the case, it's very difficult to end up with strong cash on cash returns when you're being sort of mired in a challenging environment from both a tax standpoint and in some situations the number of devices and hours of operation and all the issues that go with that.

MR. SODL: That's right. I mean, when you look at the State of Florida, you think Isle of Capri as one of your clients; you may think even at 1,500 slot machines, which there's a bid asked of 1,000 to 2,000 machines, in that discussion, in the legislature, I mean, I think I would say that probably would be a home run; would you agree?

MR. BERMAN: Still, I think, positive. I think you'd rather see it be more in the 3,000 machines, which is what demand would certainly be for Magna at Gulfstream, but perhaps if nothing else it gets you in the game.

As we've seen some jurisdictions, i.e., West Virginia, that allows you to continue to add devices as there is appropriate demand in that venue is an angle that makes sense.

I think the folks starting out in New York have been significantly challenged, not being an Aqueduct or Yonkers ride into the subway or a few miles from that massive population base, it's challenging to put together the marketing dollars and the appropriate type of product to attract people away from the cluster at Atlantic

City. And now we see the challenges from Pennsylvania and competing jurisdictions.

So I think a lot of the focus is trying to educate the politicians and try to learn from, whether you call them mistakes or misgivings in prior jurisdictions. And maybe one of the things to touch on we have the next page, just a little bit of -- sort of touch on Pennsylvania.

Here's a jurisdiction that we all had kind of hoped that had learned from some of the prior states and seemed somewhat organized and ready to go, and here we are 18, 24 months later, and both Matt and I working with a couple opportunities in that state. And it's challenging.

And you have just the lobbying and politics that go along with the approval of gaming in that venue, in that jurisdiction, you have challenges. So the interesting dynamic is what's right for the State of Pennsylvania and where should the tracks go?

Well, in one instance in western Pennsylvania you have a harness commission making a decision on where some very valuable gaming licenses ultimately will go. I mean, in my view the harness commission, their charge is all about figuring what's right for racing.

What may be right for racing may not be the best thing for the State of Pennsylvania in generating tax dollars and gaming revenues.

I think that's true. One thing we've chatted about is the balance of what is the right thing for the industry and having just a significant portion of the money going to purses, while appealing and attracting other horses.

What is that doing for the longevity of the industry itself? And rather than focusing some of the dollars on breeders and other things just to increase the overall economics of the sport itself, it will be interesting to see how that progresses as well.

MR. SODL: Absolutely.

MR. BERMAN: One of the other questions that we were hit with was Internet wagering and other forms of entertainment and how that affects the racetracks and slots. And from that standpoint, my personal view is that Internet wagering is — one could take the argument that back in the '50s and '60s when the horseracing industry decided not to pursue broad dissemination on television, and arguably that lack of visibly hurt the sport some; I take the view of Internet wagering as a way to have just more eyeballs attached to the this sector.

I think that some very important dynamics, of course, a structure has to be put in place as some of the account wagering companies have, which compensates the tracks which are — without content you have no industry — but compensates them for the host fee for those that wouldn't be in another manner cannibalizing their existing business, so there clearly has to be a structure like that that helps the economics of the facility itself.

But from our perspective it's a way to frankly expand the visibility of racing and frankly introduce that to a whole new audience and generation of folks. Because what you do have in horse racing, which ties so well, in my opinion, into Internet and computers, is very mathematical; handicapping clearly is a mathematical exercise, and that is something that the computer generation seems to be excited about.

So I think it is something that, if treated appropriately, if done in a manner that compensates the various constituents that are really the drivers of the business, i.e., the content, the operators of racetracks, the race facilities and so forth, it's one that I think is a positive long-term for the business.

MR. SODL: I mean, I could think of, from personal experience, my in-laws, who are in their 60s, living in Glendale, California. They love the races, they love going to the races, but they can't get out to Santa Anita or Hollywood Park on a regular basis. They're watching their television and they're placing bets on the Internet.

So that's gaming activity that wouldn't normally take place if that Internet product wasn't available, and I think it should be embraced by the industry because it expands your handle.

MR. BERMAN: That's fair. One of our topics to touch on was one that was asked of the prior panel, was just when you build a racino development do you need to have the hotel and other amenities built at the same time?

And I think that what we have seen depends on if you're building in downtown New York City, that's one thing; if you're building it in more of a secondary or tertiary market, a strategy that's been successful and the Native American facilities have utilized is more of what they call the crawl, walk run.

You built a temporary facility to generate cash flow, and then as the demand is there, the cash flow's there to fund a build-out vis-a-vis over a master plan of the project as the demand is there. Add the other non-gaming amenities, hotel if appropriate. But we have seen sometimes where folks have the desire to build the multi-hundred million-dollar development, which is frankly too big of a development they want; and also you don't feel comfortable wagering there because it's so large and so empty that it's not a warm environment.

So you're trying to sort of build it to match demand, incremental demand as it expands.

MR. SODL: I think developers looking to build or augment existing facilities should look at the VLT facility as the cash cow, and that's the mothership around which you should be developing your mixed-use development.

The racing side, I think developers should look at that as effectively a break-even enterprise and leverage that cash cow to go and develop a permanent VLT facility that has an element of racing involved in it, and then do a phase two with a hotel and other amenities of retail and other elements.

And that's really the staged concept that should be utilized.

MR. BERMAN: That's where I think it is trying to really integrate the two. Right now many people that own facilities with a racino or VLT parlor next to it say there's really no crossover in those two businesses.

I think it's incumbent upon the owners of the facilities to try to work their best to have a combination of the two. Some of the initiatives, Cantor being an example, have come up with something new or simplified forms of betting and/or some more interesting, complex forms.

But trying to make the horse race pari-mutuel wagering more adaptable to those that aren't big handicappers, at the same time having that crossover of the vision of the female 55 to 64 that's your slot machine patron vis-a-vis your male 55 to 64 who might be more in the horse racing side of the business, trying to get more of an overlap.

And frankly, it's one where if you build the right facility with the appropriate amenities, it really becomes more where the couple goes together, or the family goes together, and there's enough for all parties to do rather than one member of the family going there by themselves.

MR. SODL: I think that's right. And the other element I would add in here is attracting a new generation of customers for this industry has probably been challenging. Because today's 20-somethings and early 30-somethings are, they're all about immediate gratification. Well, betting on a horse race isn't that type of experience.

To the extent that a racetrack or VLT facility can develop those types of experiences and make it more fun for that generation, I think it could only bode well for the industry.

And I know our client, Jeff Gural all he talks about is Saratoga, is that they have this great beer tent and people are having fun, and there's just like music and whatnot. And I know that's something that, developing those types of fun experiences for that generation can only help to add to the future of this industry.

MR. BERMAN: I agree. And you look at outside of Las Vegas particularly, middle America, the river community of casinos, 75 to upwards of 85-plus percent of the gaming revenue's from slot machines. That is your simple, you pull the handle, it's the person that buys lottery tickets that's looking to win the big jackpot or simply doesn't feel comfortable sitting at a table game that has more complex mathematics or social environment to it, and it's why you see two craps tables at a riverboat versus having 24 of them; complicated game, and some people are more challenged by that and don't feel comfortable in that type of environment.

And so the more that racing can be made to be easier to understand, to wager on, and your point, Matt, to have more velocity of transactions, you know, a race every 30 minutes, yes; now you can cut it down to perhaps every 10 minutes if you import simulcasting from other tracks, but something that gives you a little more instant gratification clearly is something that the gaming consumer certainly aspires for and VLTs integrated into racing can certainly address that.

MR. SODL: Absolutely.

MR. BERMAN: Maybe with that perhaps let's open it up to questions. I want to make sure we're trying to address the issues or questions that are of interest to the audience here. So if anyone has questions that can be helpful we'd be happy to address those.

And when you ask questions if would you please mind please identify yourself too, please?

MR. DONALD A. BRENNAN: I'm Don Brennan with the Nevada Gold. One of the presentations, David and Matt, that we had, I don't know, Tuesday or Wednesday, was they were talking about how large can the racino industry grow. In other words, the riverboat industry started 10 years ago, and then the Native American went up to $19 billion now; and I think they said the racinos are at $2.4 billion now.

Now, do you ever see — I mean can racinos get up to 10 or 12 or 15 billion in 10 years?

MR. BERMAN: I personally think the answer is yes; because through the VLT rather than the slot machines it ends up being an easier legislative process, a more timely legislative process.

And racing, in other words, being agricultural and breeding and a sport that's been around for so long and it's such a significant employer in a number of states or jurisdictions, I think is looked at as something that there is support for.

It's not some fast buck guys, partypoker.com, trying to make a lot of money on illegal U.S. wagers for a poker game, but a true industry that employs other people and is very supportive to a number of important industries to the U.S.

So I think for a myriad of reasons the racino business will continue to expand. We've listed here, I think, six jurisdictions that are on the cusp of some pretty significant legislation to expand, and I think when you look at the gaming companies who have been frustrated by domestic expansion in terms of new jurisdictions, with the exception of Philadelphia slot parlors, outside of the racetracks, has really been an insignificant amount of expansion domestically.

They've been forced to look abroad, to the UK, which was going do be a big boom and ended up being a pop of a bubble, very small expansion to Macao to two facilities in Singapore, a number of international growth opportunities which are great for the larger companies such as MGM Mirage.

But those that are seeking to have some expansion of gaming entertainment in the U.S., I think the racino is, frankly, the next vehicle. The Native American gaming aspect is starting to face some headwind as the venues that are attractive and kind of a low-hanging fruit have been farmed, if you will.

Trying to do off-reservation gaming is getting a lot of political noise, and I think is going to, frankly, start to slow down. I do think that the racino vehicle is really the next engine that's well poised for growth.

MR. SODL: I would agree with that. And I think the history that the racing industry has in this country and the fact that there's some regeneration that needs to take place to invest back in that industry I think is a very interesting venue for states to consider and embrace, especially given the magnitude of the jobs that are created out of it.

I don't know that the racinos will ever get to the gaming revenue of flat-out casinos that you will see up in licensed jurisdictions.

That said, I think the growth dynamics of seeing VLT revenue coming out of the racino venue sector will be a very big growth profile.

MR. BERMAN: One of the important points and an obvious one that probably is not here but is very compelling politically is you are seeking to have another form of legalized wagering at a venue that already has legalized wagering; very important point. The old, "Not in my back yard." These tracks have been around 30, 40 years. That's very important from a political perspective to open up additional wagering, additional forms of wagering.

(A question was asked)

MR. BERMAN: I guess if I understand the question correctly, it's sort of a couple points, one being just online wagering of racing product, vis-à-vis gaming products such as the poker or the sports betting which is not legal in the U.S., and currently the U.S. shockingly is continuing to sort of turn an eye to the appropriate legislation in allowing small start-up companies to become $10 billion companies by utilizing illegal wagering in the U.S.

Whether the U.S. decides to change their perspective, one small island in the Caribbean may not change that view; but the UK now taking on regulating that, I agree with Terry Lanni. He's been outspoken about regulation. It's an appropriate market in which to do it.

But in the interim, racing still is the only legalized form of on online wagering in the U.S. and it's a challenge that one sees with some of the offshore companies that are not operating along a business model that the industry seems to be in support of, which is giving back to the host track to compensate them for content a lot of money to cycle through the venue that is generating the content, is going to be a challenge for the industry as to how to address that, to manage that so that an appropriate business model continues to persist.

A VOICE: I guess that's my question; that is that business model? I mean, you're in the finance area so you probably have a better idea than most people in terms of what you're looking for in terms of what companies may survive.

MR. BERMAN: It's a tough one to give a definitive answer to, but the TVGs and Youbets of the world that have taken an approach that a bettor that's within a certain distance from the host facility would be perceived to be cannibalizing what would have been the on-track attendance. And compensating the track for that seems to be a model that works, or that has received some level of acceptance by the industry.

But short of that, how much control do you have over the content and how much can you regulate the content as to where it's being simulcast to or disseminated to is perhaps another way to keep others that are not playing by the appropriate industry rules, if you will, from having access to the content.

MR. SODL: I think without a doubt the host facility has to receive some kind of compensation for that content. The question is, where do you draw the lines in staging where that economic business should be referred?

MR. BERMAN: Bob?

MR. ROBERT L. DECKER: Bob Decker with Global Leisure Partners. I think maybe possibly part of what John is asking is, I think, what is the opportunity for racing without racinos? Most of your presentation had to do with racinos and the great opportunity that it provides or racing.

And actually you mentioned that operators that are doing industry casinos should look at the racing side as being a break-even operation.

So the question then is: In this, in the new environment that we live in, with expansions being made and expanded Internet and all the things that racetracks have to do with, what does Wall Street see as an opportunity for racing if it doesn't include casinos?

MR. BERMAN: I think one of the challenges on Wall Street, the two public — I shouldn't say the two public — the two largest of the public companies in the racing industry, Churchill and Magna, are covered by gaming analysts. Canterbury gets press because of the card club and the potential for gaming when they get their press. I think it's got to be more of an education to research analysts who are the mouthpiece to the buy side.

But when you look at it, yes, live attendance is going down, the days of your population base sort of within 25 miles of the track being your core customers really has evolved to that of simulcast wagering. And one can debate how fully it's sort of disseminated, the simulcast wagering, is how many more venues at least domestically can one send a signal to? So that argument is starting to slow down.

I think where the opportunity exists is international, trying to get to more of the 24-hour wagering to get people more perspective from other venues outside of just U.S. racing.

And then it is — in my opinion, it is approaching the Internet or the phone betting, other forms of account wagering, albeit with concern and diligence, but with open arms to expand the universe of eyeballs, for lack of a better word, that are in focus on racing.

If you can introduce a new generation through a vehicle like the Internet, as we touch on sort of the mathematics of racing are so interesting and compelling to that generation, that's a positive.

The operating leverage of more betting dollars or more bodies going through the wagering pool is frankly very compelling in and of itself. Forget legalized gaming, but it is building the right size facilities, spending the right amount of money on a facility and putting together an economic model that makes sense with or without VLTs being legalized.

MR. SODL: I think Wall Street cares about cash flow. And ultimately cash flow begets raising capital, and attracting investors and generating volume and interest on the street.

Having investors involved in playing in the capital markets, that's what begets the other side of the equation. And until the racetrack industry can do something to develop other means of generating operating cash flow so they're not in this break-even model on the racing side, that all the gaming guys think they're operating in, until that happens you're not going to see an influx of capital in the racing industry.

MR. BERMAN: And I think you see some great statistics about jurisdictions that have introduced alternative gaming and what that's done to purses and number of starters and the quality of horses and all that, and pulled away great horses from other jurisdictions that don't have the ability to bump up their purses. And that's a cycle that does include the gaming aspect of it.

What you don't want to see is the big profits being made, simply from real estate value. I mean, Churchill buying Hollywood Park and then selling it because real estate prices double, Magna looking at monetizing some of their real estate down at Palm Meadows because real estate down there is so hot. That's one that doesn't help the overall racing story.

MR. SODL: That's real estate development.

MR. BERMAN: Right. Yes?

A VOICE: You mentioned Jeff Gural before. I'm just trying to get your thoughts on his interest in trying to get licensed for Vernon Downs in New York and Tioga Park. Given New York's high taxes and what I might consider less than optimal locations for those facilities, what are his prospects for success?

MR. SODL: I think his prospects are quite good. If you look at Vernon, which has been mired in bankruptcy and was run by some unlicensed folks, I think what he's trying to do with Nevada Gold there is a wonderful thing, to restore the racing industry's most historic, one of the most historic assets in the state, in New York.

I think the opportunity to play there is really about making sure you're making the right investments, and frankly, leveraging a lot of the traffic at — Turning Stone is spending a gazillion dollars on bringing people up from New York into that market. That can only be a good thing. And if that company and Nevada Gold do their job right and make sure they're spending the right marketing dollars in the appropriate way, they should do quite well there.

A VOICE: Even though without any control on how stop an Indian casino basically five miles away which can alter prices and change things and could make life miserable for them?

MR. BERMAN: People do like clusters. One thing is if you feel unlucky at a gaming venue you feel luckier just trying to go to a place across the street, and it's arguably why, different topic, why I'm not certain how much Pennsylvania will affect Atlantic City. People like having a cluster. You build them they will come, kind of concept.

Look at Las Vegas, all the riverboat communities that legalized gaming over the years did nothing but expand the universe of people that, frankly, thought they'd go blind if they touched a slot machine, and then figured out that wasn't the case, and they actually have some fun and it's another form of entertainment; it broadened the universe of folks that then wanted to go see the major leagues.

I think, from a cluster standpoint, similar issues with the Catskills. If you end up getting — Monticello ends up getting some other Indian casinos up there, particularly one in the same property, I think it offers an alternative to somebody that actually is already out there with a mindset of wagering.

MR. SODL: If anything, to your point about Turning Stone, I see them being more collaborative than being an enemy. They're operating a legal casino, there's nothing that could be challenged about that.

A VOICE: Well, you look at it two ways. First of all, there's an appellate court decision that says the Indian casino there is illegal; there's also a 12-year history of dealing with the chief of the Oneida in which certainly nobody from — regardless of the administration — the state has been able to deal even remotely successfully with him.

So the notion that there's going to be a collaborative effort with the Oneida seems at this time to be very far-fetched.

MR. BERMAN: That's not what we're hearing. But we'll see what happens there.

A VOICE: And what about Tioga?

MR. SODL: Tioga is in a — I would look at it as niche market. Frankly, it's near Binghamton, it's closer to the State of Pennsylvania, and we think it's a nice niche market and if they do their job right there and not overbilled, they should make a fine rate of return.

MR. BERMAN: I guess I'm not as involved in this transaction as Matt is, but I guess I make a similar argument that it's arguably a smaller version, a mini-version of the Delaware North model and what they're doing in New York, and that by having a couple of different venues, if you can actually benefit from operating leverage by one management team operating a couple of facilities, and to the extent there's the ability to crossmarket or at least gain some economies of scale from your advertising, marketing and operational and back office, it gives one a better opportunity to profit.

MR. BERMAN: Sir.

MR. MICHAEL SHAGAN: Michael Shagan. On the eve of this convention it was announced that United Tote would be merged into Youbet. Throughout the convention there have been comments by some that the business model of a tote company is such that why on earth would Youbet do it?

There have been comments by others that the synergisms of the technologies could work well for Youbet. I'd like to have the take of each of you as to what you think of it from the Wall Street perspective.

MR. BERMAN: I, unfortunately, am restricted in that we are in a lead financing for Youbet; I can't really comment on that topic.

MR. SODL: And I haven't followed the deal so I wouldn't feel comfortable talking about it.

MR. BERMAN: Sorry.

MR. BRENNAN: I have a general question, because we're going through it a little bit in New York State. But the general question is the merging of the management of the horse track people versus the casino people. And if you just look, I mean, there's a Magna and they're horse track people, but they're going to get casinos.

I mean, a theoretical example would be Del Mar, which is a great track; let's say Harrah's did a joint venture with Del Mar. Who should run that place, Harrah's or Del Mar, which is enormously successful?

I'm getting down to, how do you envision the managements ultimately merging from horse, Magna, Del Mar, Harrah's, the big guys at Nevada Gold, those guys; how is that all going to merge? And what do you guys think the future of that's going to be, and who do you want to see managing the situation?

MR. BERMAN: I think that what we've seen to date is some discussions and joint ventures where a racing company continues to manage the racing and a gaming company runs the slot facility, and they kind of work on and make sure they all click on the same direction.

I think your question, Don, is not too dissimilar, albeit somewhat dissimilar but not too dissimilar from the question that the people faced with Native American gaming. Should the tribe run it themselves, should they hire an individual to run it? Or should they hire a branded gaming company with a customer database and all that to run it?

But oh, by the way, they're going to take 25 or 30 percent of your cash flow. What's the right vehicle? I think that Wall Street gains confidence with a name they know running a venue, which is a positive. The give-up is the economics. And I think it depends on each situation.

I would rather have a racing management team run the racing because it's a business they know, and fearful of Matt's frankly candid view, which I agree with, of some of the gaming companies saying, "I don't care about the track, leave it back there. Just make sure it doesn't lose too much money and let's focus on slot machines."

And that's not a good thing for racing, it's not a good thing for the overall economic model of the development, and frankly could hurt the chances of legalizing gaming in other jurisdictions because of that view.

So I think it's important to have a confluence so it allows for the best sort of long-term visibility and view of the project.

MR. SODL: But I think in these joint ventures there needs to be a governance mechanism that kind of oversees the management element that has input from both the racing side and the gaming side, and that there's an appropriate management individual responsible for the whole thing, and one that reports up into that governance board so that the racing guys and the gaming guys can be on the same page approving the budgets, making sure that there's enough cap x going to racing and there's enough marketing dollars being spent to racing. And that the equilibrium at that governance board level, I'll call it, is really what should drive in the direction of that GM over the entire facility.

MR. BERMAN: And another interesting analogy to that question course, Don, as I think about it more, is you look at the old casino days where you have a casino, all of a sudden they built a hotel next to it.

Well now, you look at companies like Harrah's, like MGM Mirage, and the hundred thousand hotel rooms they have under their portfolio, that is significantly larger than the vast majority of lodging companies out there.

So it was a business they didn't know, they learned it, whether that was importing executives and managers to run it for them.

But I think they need to learn it, they need to realize the importance of it and how it ends up being, to a large extent, the Trojan Horse which allows them to seek new expansion opportunities.

So it's important, but I think there's a couple different ways you can slice it.

Are there any other questions? Sure, Bob?

MR. DECKER: You did not really spend any time on the other states that were on the screen. Would you and Matt handicap for us what the chances are in those states or where you think it's most likely to happen again?

MR. BERMAN: When it comes to politics I know never to bet on anything. The six states we had on the screen just for edification were Florida, Michigan, Ohio, Kentucky, Maryland and Texas.

MR. SODL: Take the easy one first.

MR. BERMAN: Florida clearly, that hopefully gets knocked out in special session. The question of how many devices, what the tax rate is and whether it's fixed or sliding scale, we seem to be focused on class three, which is a good thing.

That one, I think, finally happens and probably also sets up for, I believe it's 2007, would be the Dade County, which gives them a chance for expansion, that one seems straightforward.

A lot of talk about both Ohio and Texas, I think, would be the next group that I would sort of put on the forefront, having talked to some of our clients that have either opportunities there or have spent time lobbying and so forth. I think well positioned.

Having been the investment bank that sold Maryland Jockey Club, who would have thought that would be six or seven years ago — and I guess kudos to our client for locking in a piece of the slots for, I think it was nine years, so he still has a few years left on his shot to benefit from VLTs.

MR. SODL: I would say I concur in Florida, and Ohio and Texas are kind of in the, flip a coin kind of bucket there. But that said, there are the political elements that go into these things could drag, can drag what should be something that happens in the next 12 to 18 months out two to three years.

MR. BERMAN: I still can't even venture to guess when you'll put your first quarter in a slot machine in Pennsylvania. So Pennsylvania got done and there's so much rethinking and political elements pulling different directions it's hard to wager on it.

MR. SODL: I think that's fair.

MR. BERMAN: I think that's right.

MR. SODL: That said, Magna has been a big seller of assets to shore up their balance sheet, and I think they're just trying to tread water until they get Florida.

MR. BERMAN: I think that what they've been stated to be doing, and once again we're conflicted there as well, but it's stated their focus is on their tier one tracks and whether you can view Flamboro Downs or a management contract at Colonial Downs or The Meadows, a harness track out in Pittsburgh as core to their business to amalgamating the tier one content is a question.

Some of the non-core real estate I think clearly has been stated to be non-core and they want to monetize, but I think they are well positioned. But as we've learned, just expecting legislation. Hell, Florida, that was a year ago and you're still sitting where you're sitting. So it's just trying to bank on timing of actual implementation is a challenge.

Every time I guess it I'm wrong, it's just a matter of whether it's three, six, nine or 12 months.

Yes, sir?

MR. SHAGAN: On the question of tax rate, there seems to be some general agreement to the concept that there's some minimum rate below which it's not, quote, fair to the government, in other words they won't make enough to incentivize them and some maximum rate above which it's not incentivizing enough for the track.

I wonder if you gentlemen can give your perspective as to what those minimums and maximums are?

MR. SODL: I would start with the State of New York, just as kind of a comment. The tax rate there is effectively 32 percent plus they're giving, it's the inverse of that, it's actually 68 percent so call it 70 percent, and the operators effectively don't have to pay for the machines. I think if you ask the developers and operators in that market if they'd they pay for the machines I think they'd do it all day long for a much lower tax rate there. So that's in terms of establishing the bounds.

MR. BERMAN: I think it depends on the jurisdiction. I mean, if you are in Nevada or Atlantic City where you have a much lower tax rate, big benefit. But you also have, particularly in Nevada, unlimited competition. You're spending a billion dollars every four or five years to keep up with the Smiths and the Joneses down the street, that's a challenge. It's got its own different economic challenges there.

If you have a regional monopoly, an oligopoly that is in close proximity to a significant population base, 50, 55 percent tax rate, while not Nirvana, is a model that could work.

You look at something seems to be more than your 40 percent rate or something that people view as perhaps more of an appropriate level, if you're in a good jurisdiction with a nice population base some of the limited license jurisdictions; I mean, look at Colorado which is not pari-mutuel wagering but it's limited stakes wagering, has a sliding scale; but the larger properties top out at 20 percent. That's a model that makes sense.

MR. SODL: You make money.

MR. BERMAN: It's profitable and you can make money. What you don't want to have is, it used to be days where you liked the fact that states were running at deficits which would put pressure on them to legalize gaming. The problem is you then have extreme politicians that look at it as a sin tax, "And let's just take as much as we can. Because, oh, by the way, we're in a deficit."

And that's an inappropriate business model, doesn't work for anybody, and frankly just hurts the industry and it hurts the credibility of the politicians that supported the original legislation.

So you need to have an economic model that works because, depending how much it costs to build the facility, to acquire the land, to market to get the appropriate patrons there, and in the case of racing to support the industry and the various contributors to the industry, breeding, jockeys, purses, all that, there's a lot of mouths to feed.

So I think the overall, you need to look at the overall spectrum of what the tax is, not just the state tax but all the other, quote, unquote, taxes.

MR. SODL: That's exactly right.

MR. BERMAN: So get you to a bottom line.

Yes, sir?

MR. BRENNAN: Again, back to New York, any thoughts on what you the VLTs at Yonkers and at Aqueduct will bring in as per machine per day?

MR. BERMAN: We did some work on behalf of the Casino Association of New Jersey in the discussion about slots at Meadowlands, and did some work and I reviewed some analysis that PriceWaterhouse does great work, and they've done that as well. And you've seen numbers all over the range

But something in the four to $500 win per day is I think very achievable in both of those venues, given their proximity to market and going north of that depends on the facility, depends on the marketing job being done, the high tax rate affects how big of a facility and how much marketing you can do, and it may affect the quality of the patrons. So maybe $400 or $500 is a reasonable starting range.

MR. SODL: And I think the market averages a buck 45, somewhere like that.

MR. BERMAN: Yes.

MR. SODL: So the better properties are doing in the buck 80 to $200 range, and given their location to New York City, they should be able to do at least $300.

MR. BERMAN: You look at the eight or nine casinos in the Chicagoland market just the other side kind of Indiana and Illinois; and Chicago, I think the top one, Elgin still is doing something in the $850 range win per day, but I think your overall average is probably $500 or $600.

Now, those guys are limited to 1,200 devices per venue. But it simply gives you a similar number of devices as what you'd have at Aqueduct and Yonkers with a more appealing population base.

We thank you very much for your time; and if you have any more questions, Matt and I will be here for a few minutes afterwards.

(Applause)