

MICHAEL POLLOCK'S GAMING INDUSTRY OBSERVER

Racino trends I...

GAMING, RACING CAN LEARN FROM EACH OTHER IN SURPRISING WAYS

Consider the myriad ways in which gaming is different from its older sibling, parimutuel racing. While both are constantly seeking new ways of improving the customer experience, the similarities pretty much start diverging at that point.

Some racetracks, for example, are using new technologies and good-old common sense to make betting easier. Monticello Gaming & Raceway in the Catskills, for instance, allows its casino bartenders to accept racing bets. It's hard to imagine casinos allowing bartenders to deal table games. It might be easier for a bartender to secure a license to practice psychology than to deal most casino games. (Keno, of course, might be an exception — but keno is always an exception.)

Regulation, or the lack thereof, is but one reason behind the differing ways that gaming and racing remain on opposite sides of the gambling divide. Another is simple, basic necessity. Racetracks recognize that their fan base has not exactly been expanding rapidly over the decades. Indeed, that

see *RACINOS* on page 2

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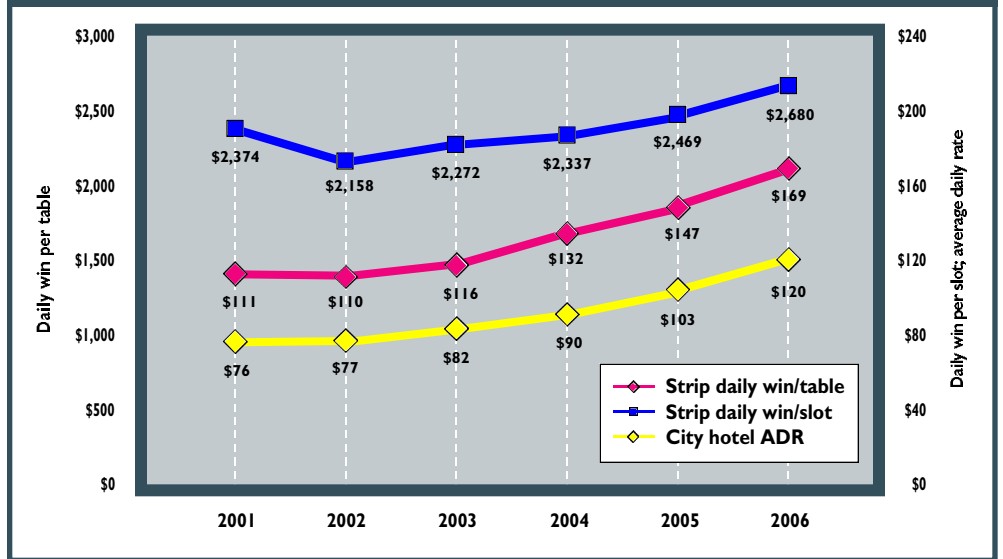
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Las Vegas: Trends in ADR, daily win per unit



Las Vegas trends ...

SLOTS, TABLES AND ROOMS: THE STRIP'S FOUNDATION BECOMING EVEN STRONGER

Amid the billion-dollar architectural wonders rising on the Las Vegas Strip, and outside the doors of the lavish dining and entertainment venues, it is easy to lose sight of the fact that the Strip's bread-and-butter business — slots, table and hotel rooms — is doing quite nicely, as the chart above shows.

Strip slot machines win two dollars for every dollar won by Strip table games, a smaller ratio than found in every other market, in and outside of Nevada.

The biggest trend in slot play that should take place in the next five to six years is still a few years away from impact: Server-based, downloadable gaming. A limited trial is now underway at Treasure Island, but wide-scale deployment is expected to be a couple of years off.

The impact of downloadable slots will allow operators to reduce the number of devices they keep on the floor while still allowing slot win to climb. The effect will be similar to the way ticket-based gaming prompted operators to reduce their total number of devices when they removed underperforming coin-

based games rather than convert them to ticket-based.

The number of slot machines on the Strip declined by 6 percent, to just shy of 54,000, during the five-year period ending June 2006. During the same time, the daily win per unit increased 52.5 percent, to more than \$169.

Downloadable gaming should allow even more device reduction, while simultaneously allowing operators to better meet consumers' game and denomination preferences, a trend will result in bigger wins. The number of slots on the Strip, however, will rapidly climb in the next three years with the opening of at least five new resorts.

Other slot trends that are expected to continue include: conversion of single-denomination games to multi-denomination games, and rapidly increasing deployment of penny — and even sub-penny — denominated slots.

There were only 64 penny slots on the Strip in June 2001, and those machines won \$50 per day. By June 2006, with the widespread deployment of coinless technology that made the penny phenomenon possible, the number had jumped to 5,221 devices and a daily win per unit of \$173, better than the average slot and much more than nickel (\$121) and quarter (\$130) machines. We expect to see this trend expand with greater penetration of multi-line, multi-

see *LAS VEGAS* on page 7

seemingly inexorable slide has focused the industry's attention on finding new means of advancing an old sport.

The most interesting advancements are in the realm of technology. United Tote is on the cutting edge, with widespread acceptance of its Fast Bet card, allowing players to store electronic funds that can then be used to make bets and (here is another shock to the casino industry) receive funds from winning wagers. Uploading credits to a slot player's account has long been a bugaboo among regulators. If that isn't enough to shock the synapses of regulators, consider that the Fast Bet data is actually stored on the card itself; it requires a PIN to activate the system.

Racing is moving quickly to allow remote handheld wagering, and has developed some rather popular betting terminals that have more in common with personal computers than they do with slot machines.

United Tote's terminals include all sorts of features that would appeal to everyone from amateur handicappers to students of advanced calculus. For example, a bettor can take every exacta combination in a given field, and start peeling off combinations that are less enticing. A bettor can also see where the late money is being bet, and have the house recommend wagers.

The Fast Bet Card also illuminates something else. Technology and regulation are not the only divides between gaming and racing. The fans are hard-wired differently. This is best illustrated by the experience of tracks trying to roll out their own Fast Bet cards. Some are trying to use the cards to develop loyalty programs. A few, like Tioga Downs, require that players who get the cards must sign on to the loyalty programs, providing their names, addresses and other information to help build a database of loyal customers.

A few, such as Churchill Downs, with its Twin Spires club, allow players the choice: they can remain anonymous or they can sign on to the club.

Experts note that about 70 percent of the racing fans who sign up for the cards choose to remain anonymous. Such a percentage would be unheard of in gaming, and would simply make no sense in an industry where the fans have been weaned on a steady diet of comps.

The question then is: Can an industry such as gaming, in which loyalty programs are the spine of its marketing infrastructure, develop a program that encourages racing fans to shed their anonymity and sign on to an incentive-based program?

We will soon find out. Harrah's at Chester Downs will be incorporating Fast Bet into its Total Rewards program when its live meet begins this summer. Such

efforts will naturally raise new questions: Will more racing fans, lured by the tantalizing rewards that accompany loyal casino play, leap the chasm between gaming and racing? Or, perhaps, will a few intrepid slots players leap the chasm in the other direction and make bets on four-legged animals?

AS RACING DECLINES, POLITICS CAN HEAT UP

Thoroughbreds are known for their speed, but we were shocked when we clocked how quickly these athletes could gallop across state lines. **Bernard J. Daney**, chair of the Delaware Thoroughbred Racing Commission and Association of Racing Commissions International 2007, earlier this month put forth some very telling analysis at our Pennsylvania Gaming Congress & Racing Forum. Daney, who has unparalleled credentials as a veteran horseman who knows the industry from all angles, assessed the state of racing in Maryland: "They are just going downhill in racing and breeding."

Daney supported this assessment with various comparisons showing how nearby Pennsylvania racing is advancing, to some degree at the expense of neighboring Maryland. Daney noted, among other things, that stallions are leaving Maryland in what might be perceived as a stampede. According to Daney, about 880 mares foaled in Maryland last year, down from about 1,200 to 1,300 a year earlier. Interestingly, in Pennsylvania, the trend is reversing. About 1,300 mares foaled in Pennsylvania this past year, up from between 700 and 800 a year earlier.

Are the nascent racinos in Pennsylvania responsible for this shift? While it is clearly too soon to make an accurate assessment, such an answer is beside the point: The decline of racing in Maryland is turning the likelihood of creating racinos in Maryland into a certainty. The nature of racing as a political force means that such economic arguments can quickly gain political traction in statehouses.

In a similar vein, we note that any cutback in live racing days at the Meadowlands Racetrack in New Jersey would further fuel a similar argument being made to install slots at that facility.

Footnote: Daney shares an important quality with effective gaming regulators: This industry is founded on the principle that public confidence is essential. "Gamblers will not be satisfied unless the game is on the level," Daney said.

He noted that racing regulators must be constantly vigilant against any efforts to use anabolic steroids or other illegal substances to gain an edge. One trainer was suspended for such doping, and was told that he could not train on site, nor could he train electronically, using cell phones, faxes or other

means to communicate with staff and others. "His comment was: 'How do I train my horses?'" Daney said, shaking his head. "He doesn't get it."

IMPROVED MARKETING HELPS HARRAH'S REACH THE FINISH LINE

Can a casino operator teach an old dog (or horse) some new marketing tricks? The answer is yes, if the casino operator is Harrah's Entertainment.

Harrah's, which entered the world of greyhound racing with its 2001 purchase of Bluffs Run Greyhound Park in Iowa, will likely never be known as a racing company. However, it is known as a marketing powerhouse that can mine good marketing ideas and apply them elsewhere. One beneficiary of that prowess will clearly be Harrah's at Chester Downs.

As noted earlier, Harrah's will incorporate racing into its Total Rewards program at that facility, but is doing so as part of a comprehensive approach that recognizes some key differences between racing fans and casino patrons.

Shonette S. Harrison, Vice President of Casino Marketing at Harrah's Chester, believes that racinos must be aware of the different economic models that govern casinos and tracks, but when communicating to racing fans, the idea is to "explain, not heighten the difference."

Harrison, for example, is whittling the Total Rewards message down to its essence for racing fans: "Bet X, Get Y. Come X times, receive Y benefit."

It sounds like an algebra class, but is basically a lesson in common sense. Its advertisements at Council Bluffs tell racing fans: "You Wagered. We Pay."

Bettors are advised to present a coupon to a cashier, and receive cash back. Casino patrons perform such functions in their sleep, but there is a bit of a learning curve with their racing counterparts.

Harrison also notes some critical problems in the historic marketing efforts put forth by the racing industry to foster attendance. Most efforts have been targeted at experienced racing fans, with an emphasis on the "sporting aspect" of racing, and have targeted handicappers and other proven bettors, with "little or no emphasis on entertainment."

Harrison suggests that, rather than focus solely on big racing days, racinos should seek a "spill-over" approach leading up to or after big days to engage peripheral gaming or wagering activities."

Moreover, Harrison advises a "greater emphasis on entertainment with holistic racino approach; racing is just one of many things to do."

Not surprisingly, Harrah's is adopting a marketing approach that will do more than increase track handle, but will generate slot revenue as well. "Use big racing days with broad appeal to give a pop to slot volumes," Harrison suggests. ■

Technology trends ...

CASHLESS TAKES MORE BABY STEPS ON CASINO FLOORS

Parking meters and casinos have long been the lone holdouts in a world that is going truly cashless. Slots and tables, like meters on Main Street, are still places where you need currency to initiate the transaction, or to replenish your account.

That is about to change, however. In Michigan, the City of Ann Arbor recently reported a successful experiment in which parking meters can read magnetic-striped cards. In time, those meters should spread out across a nation that is moving relentlessly toward a cashless economy.

Casinos will remain the lone holdout, largely because of a rationale that rests on a questionable moral underpinning. This morality play is presently on stage in Delaware.

The Delaware Lottery is considering a measure that would nix a rule requiring automated teller machines to be 25 feet away from slots.

The rule originally said ATMs had to be at least 50 feet from the floor. A few years ago, it was modified to 25 feet. The intent behind the original rule, Director **Wayne Lemons** said, was that if players wanted additional cash, they had to get up from the machine, giving them a chance to think about their gambling expenditures. That would still be in effect with ATMs not being situated directly next to the slots.

The inching of ATMs toward slot machines is often viewed as the villainous Snidely Whiplash slowly inching toward a helpless heroine. The reality is quite different.

Casinos and patrons would clearly benefit from a system in which patrons could access debit or credit accounts — subject to the insertion of some reasonable firewalls, such as setting aside predetermined amounts — and then play off those cards, without ever touching Ben Franklin's face. The results would be more play, enhanced service and some modest labor savings.

On the same day that Delaware announced its review, we observed something much more revolutionary. Bally Technologies has developed a "PowerCash" interface that allows players to tap such an account. Bally has worked with Cash Systems Inc., a company that has been pushing hard on this cashless-gaming envelope, particularly with its wireless "Stay-N-Play" card-swipe technology.

The Bally system effectively allows patrons to do exactly what they are doing now — using credit and debit cards to get cash — without requiring them to

leave the machine, walk over to another machine and get currency. More important, this technology creates an audit trail that regulators and others can better monitor.

The technology, ready for implementation tomorrow, will not be implemented any time soon. There are two significant bumps on the road toward cashless gaming:

- Regulators and others, including the media and state legislatures, still view cashless technology as a direct conduit between slot machines and life savings.

- Casinos themselves have a vested interest in the status quo.

Casinos collect fees from banks for the privilege of placing ATMs and other cash-transaction devices on or near the gaming floor. The fees generate an average of \$300 in revenue per day per ATM. Consider this: ATMs not only outperform the average slot machine, but the revenue they generate for casinos is not subject to gaming taxes.

So, if banks find it profitable to spend that sort of coinage for the privilege of a prime ATM location, they must be generating some multiple of that fee from patrons. Indeed, in discussions with bank executives, they are targeting two sources of revenue. First, they can reap significant profits from the surcharges imposed on customers of other banks. Second, they can encourage more casino customers to become customers of their bank and thus, avoid paying the surcharge.

Ultimately, casinos will get there. Account-based wagering or other firewalls, such as daily withdrawal limits, can be instituted. As the related article on p. 1 notes, racing is already a few lengths ahead of gaming in this respect.

Other suppliers, including competitors of Cash Systems, are entering this realm — and we will have more on this important trend in future issues. Some of these technologies will make it profitable for casinos to eschew banks entirely, and do much of the processing themselves.

Of course, there will always be a place for currency in our economy. You can't toss a bar-coded coupon to start a football game.

BALLY'S MARKETING PROWESS

Speaking of coin tosses, this next section could have followed either of two topics: technology or marketing. Technology won.

Bally Technologies is not so quietly cementing its lead in systems technologies through a marketing plan that rests on certain pillars: It builds on Bally's dominance in systems, while trumpeting its player-centric focus. At the same time, Bally has quietly developed a level of agility and customer service that is paying dividends. In part, Bally appears to have fully digested earlier acquisitions, such as Advanced Casino Data Systems and Sierra Design Group, to develop a unified culture

and marketing strategy. That is no small feat, considering that the company is dealing with some serious growth, having risen from an estimated 225 to 475 employees in about two years.

The player-centric theme appears to be resonating well. The message is that bonusing and other features can be easily customized to player preferences and levels of play.

Bally now has the system of choice for 18 out of 25 gaming companies, and is grabbing an estimated nine out of every 10

new properties. Once you grab a property, you tend to keep them. Switching costs for casinos to take out one supplier and bring in another can range from an estimated \$3,000 to \$4,000 per slot in just hardware and related costs.

Two interesting sets of numbers have emerged that should allow that cemented market share to harden. Bally now has an estimated 50,000 iView modules in place in North America, and many new properties in the United States and Asia — including Las Vegas Sands properties — will have 100-percent of their floor equipped with iView modules.

These modules, which provide a visual and audio interface between players and operators through the slot system, have dramatically increased their popularity. As noted in Vol. 11, no. 3, we projected 20,000 units in the United States a year ago. The numbers are blowing past that projection.

One interesting note on that: Philadelphia Park is using its iView units to allow certain customers to order drinks at the slots. That is more than a customer convenience. In major properties, it could allow for some significant cuts in food-and-beverage staffing.

As an aside, Bally is gaining some long-overdue attention from Wall Street. **Bill Lerner** of Deutsche Bank wrote recently that: "Not unlike WMS' re-emergence a few years back, we believe Bally has *see TECHNOLOGY on page 7*

Regulators and others, including the media and state legislatures, still view cashless technology as a direct conduit between slot machines and life savings.

Cluster analysis

The cluster analysis used in this newsletter breaks down as follows: The Atlantic City Hilton and Tropicana comprise the Route 40/Exit 2 cluster; Caesars and Trump Plaza are the Expressway cluster; Bally's and the Sands are the Brighton Park cluster; Resorts, Showboat and Trump Taj Mahal are the Inlet cluster; Harrah's, Trump Marina and Borgata are the Marina cluster. Caesars cluster (not included in the totals) is Bally's and Caesars.

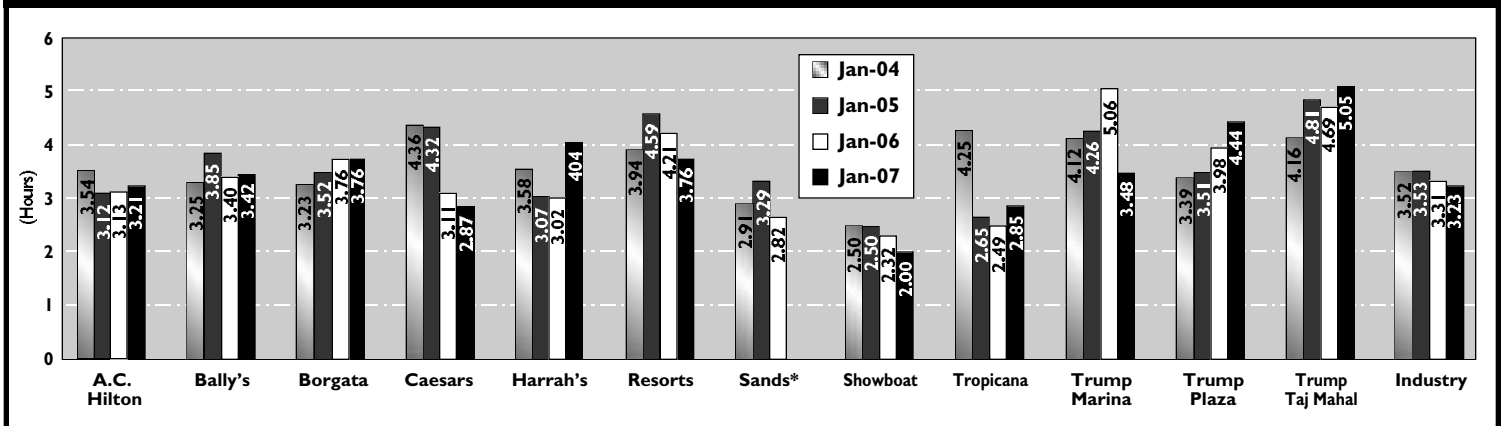
ATLANTIC CITY TRANSPORTATION DATA, YEAR ENDING JAN-07

	NO. OF BUS PASSENGERS, JAN-07	YEAR-TO-YEAR CHANGE	MONTH-TO-MONTH CHANGE	NO. OF BUS PASSENGERS, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06	ESTIMATED NO. OF CARS PARKED, JAN-07	YEAR-TO-YEAR CHANGE	MONTH-TO-MONTH CHANGE	ESTIMATED NO. OF CARS PARKED, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06
AC Hilton	50,539	4.1%	-3.1%	690,787	4.3%	48,440	-9.8%	-0.9%	678,687	12.0%
Bally's	67,091	-13.2%	-1.4%	1,154,532	10.9%	100,577	-6.4%	-4.2%	1,342,442	3.9%
Borgata	672	663.6%	31.5%	5,967	-6.9%	153,062	6.4%	0.9%	1,815,140	-0.2%
Caesars	54,488	33.6%	-5.2%	717,935	22.9%	116,508	12.8%	-10.9%	1,487,768	28.8%
Harrah's	3,742	-6.7%	37.4%	52,625	-20.0%	121,056	7.7%	1.9%	1,435,590	1.7%
Resorts	39,317	15.8%	4.0%	562,526	14.7%	37,506	20.8%	-3.2%	433,971	5.8%
Sands*				338,974	-25.4%				370,886	-9.6%
Showboat	49,915	-7.2%	18.3%	812,467	-5.1%	125,025	13.7%	8.8%	1,432,355	0.3%
Tropicana	39,335	4.9%	-3.3%	585,852	-1.0%	91,086	-17.4%	-7.9%	1,239,065	-9.3%
Trump Marina	4,599	-27.9%	16.6%	73,898	-31.8%	49,319	48.7%	-3.1%	632,324	23.2%
Trump Plaza	32,400	-11.6%	-0.5%	527,115	-27.4%	42,407	21.3%	-6.7%	579,558	3.6%
Trump Taj Mahal	31,467	-22.4%	-3.3%	548,138	-12.4%	60,832	-4.3%	-6.9%	891,531	0.6%
Total	373,565	-7.8%	0.8%	6,070,816	-2.3%	945,818	0.8%	-2.4%	12,339,318	4.1%

ATLANTIC CITY CLUSTER ANALYSIS

	NO. OF BUS PASSENGERS, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06	ESTIMATED NO. OF CARS PARKED, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06	ESTIMATED NO. OF VISITORS, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06	CHANGE FROM YEAR ENDING JAN-05	ESTIMATED WIN PER VISITOR, YEAR ENDING JAN-07	CHANGE FROM YEAR ENDING JAN-06	CHANGE FROM YEAR ENDING JAN-05
Route 40/Exit 2 cluster	1,276,639	1.8%	1,917,752	-2.8%	5,687,470	-1.8%	24.0%	\$139	8.0%	-4.0%
Expressway cluster	1,245,050	-4.9%	2,067,326	20.6%	5,999,901	14.2%	16.6%	\$143	-9.4%	-9.7%
Brighton Park cluster	1,493,506	-0.1%	1,713,329	0.7%	5,434,162	0.4%	-0.4%	\$149	-3.1%	-2.9%
Inlet cluster	1,923,131	-2.5%	2,757,857	1.2%	8,266,202	0.3%	3.0%	\$150	1.7%	4.8%
Marina cluster	132,490	-26.6%	3,883,054	3.7%	9,063,513	3.1%	0.2%	\$167	1.6%	11.9%
Total	6,070,816	-2.3%	12,339,318	4.1%	34,451,247	2.9%	10.6%	\$151	-0.02%	1.4%
Caesars Cluster	1,872,467	15.2%	2,830,211	15.7%	8,381,951	15.6%	22.2%	\$147	-9.5%	-11.7%

Benchmarking snapshot: Est. gaming position hours per visitor trip



*The Sands closed on Nov. 11, 2006. Adjustments to model were made accordingly.

ATLANTIC CITY PRODUCTIVITY DATA I*

	NO. OF FULL-TIME EMPLOYEES, FEB-07	ONE-YEAR CHANGE	TWO-YEAR CHANGE	THREE-YEAR CHANGE	NO. OF PART-TIME EMPLOYEES, FEB-07	ONE-YEAR CHANGE	TWO-YEAR CHANGE	THREE-YEAR CHANGE	NO. OF OTHER EMPLOYEES, FEB-07	ONE-YEAR CHANGE	TWO-YEAR CHANGE	THREE-YEAR CHANGE
AC Hilton	2,254	-4.7%	-7.8%	-15.4%	335	7.7%	34.5%	37.9%	236	17.4%	-7.5%	-16.3%
Bally's	4,596	-3.1%	-18.0%	-22.7%	303	-20.9%	-46.1%	-39.4%	683	-19.2%	9.1%	7.4%
Borgata	5,478	19.8%	11.8%	22.5%	1,272	35.5%	58.2%	135.1%	275	-18.2%	100.0%	100.0%
Caesars	3,251	4.5%	-2.8%	-27.3%	360	21.6%	25.9%	20.4%	578	-4.0%	17.2%	18.9%
Harrah's	2,941	16.3%	20.6%	13.2%	137	-16.0%	5.4%	20.2%	335	8.8%	-7.5%	14.7%
Resorts	2,194	-4.7%	-3.3%	-0.5%	328	6.5%	18.4%	285.9%	232	-3.7%	-0.4%	-48.2%
Showboat	2,204	1.4%	3.6%	-7.1%	220	17.6%	122.2%	86.4%	437	7.4%	8.2%	-9.9%
Tropicana	3,307	-19.6%	-18.3%	-8.7%	577	-9.8%	-11.6%	27.1%	239	-19.8%	-15.5%	-27.1%
Trump Marina	1,820	-8.9%	-14.6%	-19.7%	266	1.1%	0.8%	-8.0%	94	-18.3%	-27.7%	-40.5%
Trump Plaza	2,136	-11.8%	-15.7%	-18.4%	191	-14.0%	-23.9%	-27.1%	199	19.2%	47.4%	25.9%
Trump Taj Mahal	3,379	-10.8%	-13.6%	-17.1%	550	-3.2%	6.2%	38.2%	295	-19.6%	-19.0%	-16.9%
Total	33,560	-6.0%	-10.4%	-12.1%	4,539	2.2%	6.2%	30.9%	3,603	-11.5%	4.1%	-6.0%

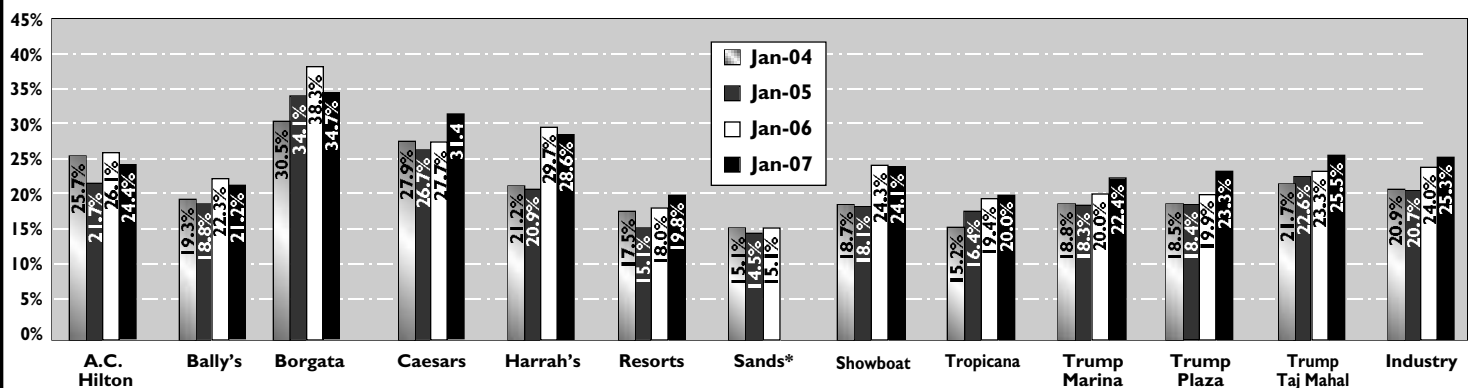
* Larger italic numbers indicate the highest number in that category.

ATLANTIC CITY PRODUCTIVITY DATA II*

	EST. WIN PER FULL-TIME EQUIVALENT EMPLOYEE FEB-07	ONE-YEAR CHANGE	TWO-YEAR CHANGE	THREE-YEAR CHANGE	FOUR-YEAR CHANGE	EST. AVERAGE WIN PER FTE 12 MONTHS ENDING FEB-07	CHANGE FROM 12 MONTHS ENDING FEB-05	CHANGE FROM 12 MONTHS ENDING FEB-05	CHANGE FROM 12 MONTHS ENDING FEB-04	CHANGE FROM 12 MONTHS ENDING FEB-03
AC Hilton	\$9,357	-2.0%	20.5%	11.9%	32.1%	\$10,625	12.0%	24.2%	23.9%	25.3%
Bally's	\$10,230	4.6%	26.7%	20.4%	47.1%	\$11,097	26.9%	30.9%	29.2%	31.9%
Borgata	\$9,532	-13.5%	-10.3%	-5.9%		\$10,188	-6.4%	-3.6%		
Caesars	\$12,120	-0.9%	14.0%	14.5%	54.4%	\$12,903	4.6%	20.8%	24.8%	28.2%
Harrah's	\$12,470	-10.8%	-6.5%	-7.3%	19.3%	\$14,746	-1.9%	7.6%	13.7%	17.7%
Resorts	\$9,132	5.2%	7.1%	11.1%	45.7%	\$9,367	7.6%	15.1%	24.3%	18.6%
Showboat	\$12,497	-12.5%	-1.4%	2.5%	47.1%	\$14,280	-4.1%	7.9%	25.4%	34.8%
Tropicana	\$8,875	14.8%	16.4%	17.9%	27.3%	\$9,043	12.5%	23.3%	21.9%	18.1%
Trump Marina	\$9,120	4.6%	-4.1%	8.3%	10.5%	\$10,342	13.2%	13.4%	27.2%	22.0%
Trump Plaza	\$8,778	4.4%	-2.7%	-3.8%	25.0%	\$10,066	6.4%	5.6%	15.8%	15.9%
Trump Taj Mahal	\$10,359	8.5%	5.6%	15.9%	35.6%	\$11,005	8.4%	13.1%	21.9%	24.5%
Total	\$10,235	1.0%	7.2%	8.8%	35.6%	\$11,010	7.3%	14.0%	22.9%	24.2%

* Larger italic numbers indicate the highest number in that category.

Benchmarking snapshot: Est. pct. of time gaming positions are occupied



*The Sands closed on Nov. 11, 2006. Adjustments to model were made accordingly.

Racino trends II...

WHEELING'S F&B OUTLETS WILL SERVE IT WELL IN COMING TABLE ERA

Wheeling Island Racetrack & Gaming Center is, by any reasonable standard, a solid performer in the racino world. Its daily win per unit has averaged about \$240 over the past three years, second only to Charles Town Races & Slots in the West Virginia market.

As West Virginia evolves into a tables market, we were intrigued to see that Wheeling Island's rock-solid performance extends into other arenas as well, most notably food and beverage, thus giving its parent company, Delaware North Companies, a good foundation to compete in that segment, in addition to its 151-room hotel. Many pathways exist to a table player's wallet. One of them is through the stomach.

We'll start with the concession stands that are open on racing days. After all, a hot dog remains the breakfast of choice for many racino patrons. Wheeling Island's two concessions serve non-alcoholic beverages and draft beer, and boasts a 50-cent Beer and Hot Dog Special on Friday. The average check is \$3.45, but that average generates \$500,000 in annual revenue. The mind boggles (and the stomach rumbles) when trying to imagine how many Friday specials may be hidden within that annual figure.

Racing patrons can also partake in the clubhouse Terrace Dining Room, a buffet with 396 tiered seats overlooking the dog track. There, the average check is \$13.50 and food costs average 43 percent of the total.

The Club House Lounge and Bar also seats 186, and has a full-service bar that offers a complete menu from the Terrace Kitchen.

Racino patrons tend to flock to the Islander Buffet, which serves between 7,000 and 8,000 lunches and dinners a week, with an average check of \$12.50.

About 63 percent of the players who occupy the buffet's 244 seats receives comps or discounts. The buffet, with its three stations, is an effective marketing tool for Wheeling Island.

At the 134-seat Pirates Cove Food Court, the average check is \$5.57, with 56 percent of patrons receiving some form of comp or discount. The total annual revenue reaches \$1.3 million, generating an average of 5,000 covers per week.

The Starbucks outlet boasts its own success story, generating \$450,000 in annual revenue, with an average check of \$5.50. About 53 percent of Starbucks patrons have earned some level of comp or

discount.

Wheeling Island has other successful outlets that will serve it well in the table-game era. The Pointe Steakhouse, which seats 110 and opens at 4 p.m. daily, has an average check of \$35.

The more casual Breezeway Café offers three-meal dining and opens at 7 a.m. The 144-seat restaurant generates \$2 million in annual revenue, with an average check of \$8.70. The Breezeway averages 4,500 covers a week, with 43 percent of patrons receiving some form of comp or discount.

While Wheeling Island has other F&B arrows in its quiver, including three bars, we take note of its three 75-seat banquet rooms and 500-seat show-room. These assets will also play a role in marketing to table players. The banquet rooms, when combined, can seat 250, and are already marketed heavily to a local clientele.

President and General Manager **Bob Marshall** noted that F&B is a critical marketing tool for his property. The introduction of table games — assuming passage of a local-option election this spring — will require higher-level dining options. Wheeling Island has proven adept at satisfying the hunger of its slot players, and we expect that it will similarly provide a dinner tables worthy of those who sit at the blackjack tables. ■

Legal trends ...

SIRIUS'S ARGUMENTS ARE SERIOUS AMMUNITION FOR FUTURE GAMING MERGERS

Mel Karmazin, chief executive officer of Sirius Satellite Radio, could someday become the corporate darling of the casino industry. Not that the longtime media mover-and-shaker will move into the world of slots and dice. Rather, Karmazin — who made his name running, building and merging such corporate names as Infinity Broadcasting, CBS and Viacom — is presently putting forth an argument that, if successful, could lead to even more mergers and acquisitions among other industries, including gaming.

Ultimately, if Karmazin's arguments resonate in Washington, the mergers in gaming could be unprecedented in scope and breadth.

Karmazin is seeking regulatory approval for a \$13.6 billion merger between Sirius and XM Satellite Radio, the two sole competitors in the growing but unprofitable satellite radio industry.

In seeking to influence lawmakers, Karmazin is putting a new scribble on the law of unintended consequences.

Speaking before the antitrust task force of the House Judiciary Committee, Karmazin argued that

viewing the merger of two competitors as potentially monopolistic is short-sighted. Satellite radio would, instead, gain the ability to compete in the marketplace against other technologies. As *The New York Times* wrote: "Mr. Karmazin's essential message is that satellite radio is competing with all forms of audio entertainment and information — from commercial radio to iPod jacks in cars to Internet radio and maybe even people humming as they walk down the street."

The New Yorker wrote: "XM and Sirius, which offer real diversity across 300 channels, are a gain for consumer choice. And there's no reason to think that this diversity would ebb after a merger; no one wants to pay \$13 a month to hear the same songs he could have gotten free from his local KISS-FM."

Karmazin told the committee: "Satellite radio is a David operating in a land of Goliaths and is hardly a threat to controlling the audio entertainment market."

Committee member Rep. **Anthony Weiner** (D-NY) put it rather well: "This monopoly argument has been wildly exaggerated. ... No one needs to have radio. No one needs to have this product. One hundred percent of computers have the ability to download content, to download podcasts. ... Sometimes mergers serve to help an industry."

Longtime readers of this august newsletter know that we have been making a somewhat similar pitch for more than a decade: When securities analysts, consultants and regulators draw pie charts around gaming markets and then proceed to project how projects will forever eat into that pie, we dutifully protest.

Our argument, first put forth when Bill Clinton was in the White House, is that gaming does not simply compete against gaming.

Gaming competes against every industry that targets discretionary income, that seeks to grab a slice of adult consumers' most valuable asset: their free time.

The far-sighted gaming companies are those that recognize they compete on a broad battlefield. When adults visit a Broadway theater, or watch the Detroit Tigers (at home or in the ballpark), or when they dine at TGI Friday's on a Friday night, the casino industry has lost another opportunity.

Make no mistake about it. The industry is still replete with executives who view their competition solely as racinos, tribal casinos and other forms of casino entertainment. Regulators and analysts, with some exceptions, still refuse to shed their blinders. When mergers are proposed, or more states legalize gaming, they trot out the trusty pie charts.

Regulators still rely on the Hirfendahl-Hirschman Index to determine whether a proposed merger is monopolistic or, at the very least, represents "undue economic concentration." That index, favored by the U.S. Department of Justice, analyzes *see MERGERS on page 7*

bet devices with an operator focus on growing the average low denomination wager to \$3.50 per play. Increasing production per square foot is the goal.

The emerging trend at the top end is also favorable, which is not surprising given the luxury phenomenon overtaking the Strip. While the number of \$5, \$25 and \$100 machines dropped in 2001-06 period, win-per-device increased at a conversely higher rate.

On the tables side, not surprisingly, blackjack and craps have seen their table counts decline while the games traditionally favored by the biggest bettors, baccarat, and to a lesser extent, roulette, have seen their counts increase.

Baccarat tables dropped from 98 tables on the Strip in June 2001 to as few as 84 in June 2003 before rebounding sharply to 127 by June 2006. Daily baccarat win per table was \$14,514 in fiscal 2003, dropped to \$11,548 in 2002, then bounced back to \$16,029 in 2006 — despite the big increase in table numbers and increased international competition from Macau.

The numbers suggest a couple of factors that came into play: Before the opening of Wynn Las Vegas in April 2005, MGM Mirage controlled two-thirds of the market. Wynn has captured almost half of the baccarat market, but the market has grown considerably.

The number of roulette games stayed in a tight range in the 220s from 2001 through 2005 before increasing to 241 in 2006.

With MGM Mirage's and Wynn Resorts' highest-end properties — CityCenter and Encore, respectively — opening in the next few years, baccarat and roulette play should continue gaining on blackjack and craps play.

Operators are less inclined to pay the licensing costs associated with branded table games that no longer excite customers, a trend that should continue. Caribbean Stud and Let It Ride have reported steep

mergers on a scale from 0 (perfectly free market) to 10,000 (perfectly monopolistic). In our view, it has rarely been applied fairly or accurately to gaming, since in most cases its unimaginative practitioners refuse to consider any other form of entertainment in making such calculations.

If Karmazin's argument proves successful, it would likely prompt some thoughts on Wall Street and elsewhere that gaming could also absorb more mergers since it would — and should — be viewed as a competitor on a broad playing field.

Casinos, of course, are regulated by states, not the federal government. As more states add casinos, each state becomes less effectual in its ability to stop

drops in table counts, while 3 Card Poker has seen a big increase (all Shuffle Master products).

Just as daily slot and table unit metrics have risen, so, too, have average daily rates in the hotel rooms — which have become a point of differentiation among operators. With a citywide room count approaching 133,000 and hotel occupancy of 93.2 percent for 2006, small upward moves in the average daily room rate made a significant impact.

The ADRs began to take off when the Venetian, Bellagio and Mandalay Bay (and their subsequent hotel tower additions) upped the ante with even bigger rooms — double the average size of a decade before — and combined the added size with suite-style amenities.

The escalating rates at the top properties, including Wynn Las Vegas after its April 2005 opening, allowed lesser places to raise theirs, allowing near-10 percent daily rate increases in the overall Las Vegas hotel market in 2003 and 2004, and better than 10 percent in 2005 and 2006.

There are two key emerging room trends that should drive rates even higher over the next half-dozen years: boutique hotels feeding bigger resorts and an increasing inventory of suites.

Buoyed by the strong results of the Four Seasons (at Mandalay Bay) as well as THEhotel, a separate tower added to Mandalay Bay, operators plan to open new properties with exclusive boutique hotels to feed more big spending visitors into the rest of the resort. MGM Mirage plans two boutique hotels at its CityCenter project, while Boyd Gaming plans three at its Echelon Place resort.

Room sizes will continue to climb, as the main hotels at CityCenter and Echelon as well as Las Vegas Sands' Palazzo and Wynn Resorts' Encore will all have standard rooms with about 700 square feet. And high-tech gadgetry, to include wireless connectivity and plasma televisions, will be standard in the high-end hotels. ■

any proposed merger. That trend is not likely to be reversed any time soon.

We already expect some significant mergers to be announced over the next 24 months between Atlantic City operators and Pennsylvania casinos, not to mention other states as well.

If Karmazin succeeds in carving out a new way of looking at audio entertainment (think of satellite radio as fighting for a share of the ear drum), he would help gaming fight for its rightful share of the consumers' wallet.

Before that occurs, however, an interim step must take place: More casino companies must begin to view themselves as entertainment providers, competing against a much broader spectrum of consumer options. ■

undertaken a similar strategy (unifying its video and mechanical slot platforms, building a content library and revamping its systems business) and is at a point where execution (not technology improvement) remains one of the biggest overhangs. Importantly, Bally product continues to gain traction (across all product lines). Further, it is clear to us that Bally is making headway in the ever-more-important category of video slot, which is supported by conversations with casino operators and casino visits.

“What still keeps us up at night? We are still left with a handful of questions, namely the risks associated with 1) execution; 2) cost structure; and 3) legal (intellectual property litigation surrounding wheel, bonusing and optical patents). Clearly, management has plans to address all three, but we believe it could take a few years to play out (especially costs and legal).”

We would add one addendum to Lerner's analysis: Bally will also benefit from remaining true to its commitment to stepper slots. The latest trends in reel technology could cut short the migration toward video, and foster a resurgence in stepper slots. Far too many players and potential players have a higher comfort level with steppers, and we would not be surprised to see a perceptible resurgence in demand over the next 12 months.

IGT HAS ADVANTAGE

Close on the heels of Bally's multiple slot accounting and player tracking systems is the IGT Advantage system, which provides an innovative set of slot and table accounting, player tracking, player reward and player identification features. We have seen several demonstrations of the system and conducted interviews with operators who have migrated to the IGT platform from Bally's platforms. We agree with converted operators that the IGT system is a powerful tool to manage the gaming business.

Several of the key features in the IGT Advantage package are:

- Window SQL technology running on window servers versus IBM AS 400 platforms
- Integration of eight-player bonus features
- Dedicated reward redemption kiosks
- Integrated handheld devices to assist gaming floor personnel to locate and identify “hot players” who are playing at operator presubscribed levels and the optional integration of RFID chip tracking with player ratings at table games.

The IGT Advantage system clearly raises the bar to competing accounting and marketing systems and sets the stage for operators to have greater flexibility in not only system selection but also operating and marketing processes. ■

Regional trends ...

INACTION IN MARYLAND SHOULD ALLOW NEIGHBORS TO FORTIFY THEIR RACINOS

Stacking a casino with capital investment dollars is much like stacking cinderblocks: Eventually, it creates a wall that, while subject to dings, dents and cracks, is ultimately impregnable.

Atlantic City is proof of this concept. Because of its \$10 billion-plus mass of capital investment, Atlantic City has been able to withstand the introduction of more than 31,000 slot machines within a three-hour drive. Its annual gross gaming revenue has never declined since the first casino opened in 1978 and although we expect that boastful trend to end this year, it will prove to be only a dip in its revenue chart due to arrival of more than \$5 billion in additional investment between now and 2012.

Operators in Delaware, Pennsylvania and West Virginia — and their elected representatives — should take note of this when considering what just happened in Annapolis: The Maryland Senate rejected a plan to fix the state budget by allowing slot machines. Maryland over the last few years has fallen into the category of “it’s not a question of if, but when,” and its most recent inaction will not change that status.

The delay of the inevitable in Maryland is an opportunity for its neighbors to build their existing racino businesses. This is already happening to an extent, although the legalization of table games in West Virginia and the expansion of slot machines in Delaware (as well as deregulation) were reactive to the launch of gaming in Pennsylvania.

A proactive move to ensure the long-term health of what is typically one of the chief industries in any state would be to lower the tax rate, which would

have the simultaneous and immediate effects of causing major expansion at the gaming properties and inciting panic among state budget officers. Lowering tax rates, as we have said in this space before, defies conventional wisdom and takes both foresight and political courage to accomplish (two qualities not often seen in tandem in statehouses).

New York is the rare case study on the impact of lowering taxes. When the legislature in 2005 lowered the effective 79.8 percent rate to a graduated rate that works out to be about 65 percent, the results were swift: Increased gross gaming revenue, greater capital reinvestment, opening of new properties.

Delaware has the unique opportunity to put sports betting into its gaming mix, and both it and Pennsylvania will, at some point, follow West Virginia’s lead by allowing table games. Such initiatives would not only expand the customer base but they would result in the construction of amenities — such as hotels and gourmet restaurants — suited for their new breed of player. The result would be more cinderblocks in the wall, making it more difficult for the eventual Maryland properties to crack.

Meanwhile, Maryland has become the Chicago Cubs of the gaming industry. (“Wait till next year!”)

Footnote: Amid the compelling economic argument to legalize slot machines in Maryland comes this cry from **Alan Foreman**, general counsel for the Maryland Thoroughbred Horsemen’s Association. “Why is this year different from any other year? We have cut days. We have cut races. We have cut stakes. We have cut purses. We have people leaving the state. But the simple fact is, we’re out of money. ... It’s all over now,” he told the *Baltimore Sun*. It has to be especially galling to see that racing in Pennsylvania and Delaware has prospered as a result of slot-machine revenues — to some extent at the expense of Maryland (see p.2 “As Racing Declines ...”). ■

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