

# Pennsylvania Gaming Control Board

August 8, 2007

Mr. Chairman, members of the Board, Board Staff, Good morning. My name is Bob Green and I am the Chairman of Greenwood Racing Inc. and Greenwood Gaming Entertainment - the wholly owned subsidiary of the parent. As you know sir, we have two regulatory masters - the State Horse Racing Commission and the Pennsylvania Gaming Control Board. It's been about a year since I appeared before this board and apart from addressing the Commission at their public meeting in July, it had been some time since I last attended that agency. As horse racing is an integral element of our operations and has relevance to what we are discussing today, I would like a little bit later in the proceedings, to spend a few minutes in assessing where we have come from and where we are now.

Before that I want to address up front the specific agenda item of a new slots facility. I am pleased to report that we have made very significant progress on our Master Plan over the last months. As you know, and I am happy to confirm, we have always seen the construction of a new slots facility as the first phase of the Master Plan and we are working assiduously to complete the planning process of that element of the Plan within the next two months.

It might come as a surprise to some people here that we have, in fact, been working on a master plan for Philadelphia Park for the best part of four years. We have spent in excess of \$4 million in the process. Has our thinking changed over this time? Sure it has. Have our plans been changed, redrawn and modified at least five or six times? Absolutely. And the reason is we are going to get it right. And quite frankly, the way you get it right is to understand the business not just theoretically but in real time, find out in depth what the customer wants, take into account the current and projected competitive environment and ensure that what you are doing makes economic sense. In the seven months since we have actually been open, we have learnt a great deal about our business. We started off with a zero customer data base, it now stands at 200,000 and is growing daily. So far, just for our casino operations, we have attracted 2.5 million visitors. As you can appreciate, this information has been critical in formulating our plans and the timing of their implementation.

We are now fairly confident as to the location of the new facility and what we are looking at is to regard the grandstand and the new facility as anchors, if you will, with an integrated connectivity between the two. That connectivity and the opening up of the acreage to the rear will mean the removal of our large satellite dish farm and an earth station and that planning process is currently under way. The space between the two anchors, in the words of our Master Planners, is

referred to as the "knuckle". The nature and timing of the connectivity and what, in the first phase, the knuckle will consist of has been a subject of intense and expensive research. The standard components, such as restaurants, bars, night club, show room etc. that tend to form part of such facilities are being analyzed on the basis of what we have discovered since our opening. The question of structured parking, the desirability and number of hotel rooms and associated amenities have been reviewed and are being repriced. One of the major elements that we have also looked at is a significant retail development and in that respect, we have commissioned and received two detailed reports from one of the major retail consultants in the country, R.K. Futterman and Co. This potential development, in itself, could play a significant role in how this area is planned, bearing in mind their report contemplates a space of up to 400,000 square foot devoted to such retail and lifestyle activity. Clearly, like a hotel component, this would be part of a later phase that we would build into the master plan.

Getting back to the first phase - that is the construction of a new slots facility - we now expect this to be a building of at least 250,000 square feet with the capacity to absorb up to 4000 machines with space available for expansion. Currently, we have a team of the top professionals, some twenty in all, such as architects, master planners, designers, engineers, general contractors, hardscape and landscape consultants, traffic, parking and code consultants, all working full time on this project. As I said, I believe the plans for this building and the relationship with our existing infrastructure will be completed within the next two months. By that time, we would also have a firmer idea of construction and completion times. In any event, whatever those time lines are - we are and will be operating with between 2400 and 2700 machines for at least two years when we otherwise would have been dark.

Back to racing for a moment, I first appeared before the Racing Commission in 1989, as Chairman of Greenwood Racing, to seek their approval as an individual and the potential purchaser of Philadelphia Park Racetrack. Those approvals were granted but it wasn't until later the following year that we closed the purchase and took over the track. It took that long because raising the \$75 million, to buy what was then a loss making racetrack, proved, to say the least, rather difficult, especially as we knew we would have to invest up to another \$50 million through development of off track facilities, telephone account wagering and other technological and broadcasting innovations that were necessary to revive the industry and make our own business viable. To cut a long story short, we achieved all that. And more.

When I first went before the Commission those many years ago, there were four racetracks in Pennsylvania - two thoroughbred tracks (Philadelphia Park and Penn National) and two harness tracks (Pocono Downs and The Meadows). Since that time, Pocono Downs and The Meadows have each seen three different owners and Penn National, once the announced private equity, leveraged buy out occurs, will have seen two owners. Only Philadelphia Park remains under the same shareholders, investors and senior directors as it did then.

Not many people remember this but back then Philadelphia Park was a seasonal racetrack - it did not race during the summer months and the only permissible simulcasting was of the Triple Crown races and subsequently, the Breeders Cup. When we took over, we began racing all year round and began a legislative campaign, that within a few years ultimately proved successful, to introduce full card simulcasting - and that has become the lifeblood of the business and now accounts for about 80% of the industry's handle.

As your colleagues at the State Commission are aware, we have a proven record of unswerving and unbroken commitment to horse racing and, despite some of the ill considered and uninformed comments to the contrary, that commitment continues today and will be reflected in my report to you on the gaming side of our business.

As I said at the outset, Mr. Chairman, it has been almost a year since I last came before this Board. In my mind, it feels very similar to an annual stockholders meeting. And despite the fact that you are not actually holding share certificates, the reality is that this Board, on behalf of the Commonwealth, is our major stockholder. By taking 60% of our gross revenue, straight off the top, as it were, the Commonwealth has easily, and by far, the most to gain or lose by the performance of our gaming operations. We are, as they say, in this together. As shareholders, Directors and employers, we know that we have to run our business as efficiently as we can, to serve our customers to the highest standard possible, to treat our employees well and give them opportunities to grow; and to invest whatever capital is required to sustain and develop the business wisely and carefully.

How have we made out? Before I answer that question, I would like to quickly move you back to Monday, July 5th, 2004. I remember it well. It was a bright, sunny morning and I went to the racetrack and was there while the early morning exercise riders were on board their first mounts of the day. A dignitaries table and podium were set up in the winners enclosure and I awaited the arrival of the Governor, the honorable Edward G. Rendell to sign a piece of historic

legislation, HB 2330, better known as the Slots Bill. As in his wont, the Governor was a little late in arriving but that was understandable. The bill had only passed the Senate in the early hours of Sunday and it was probably after 4 a.m. that people finally got to bed. Anyway, the Governor duly arrived and in front of the T V cameras, the press and assorted media, he signed the bill. The fact that he had chosen Philadelphia Park as the place to herald the legislation into law was not purely symbolic. It was, in fact, and recorded as such, recognition of the pivotal role that Philadelphia Park had played over the preceding 10 years in spearheading the campaign that had finally led to the legalized expansion of gaming.

Now I would like to fast forward two years to last summer. During that 24 months interval there had been somewhat of a hiatus because of various matters that you are fully aware of - the Constitutional Challenge in the Supreme Court and the issues that confronted this board on distributor and associated policies. However, during that period, the board began to move forward with the application and licensing process, so that in December 05 it had received the various applications for all three categories of slot licenses and by last spring you had started your review and evaluation program that, for prospective Category 1 Licensees, culminated at your public hearing on September 27, 2006. That was when I last appeared before you and when your board awarded Philadelphia Park a slots license, essentially based on an application that had been made 9 months earlier. Our original thinking had been to move directly forward with a new stand alone facility - but that would not have been completed until well into 2008, at the earliest.

As I said in my address to you last September, that would have been for too long, in our opinion, to wait before we began operations, bearing in mind the time that had already elapsed since the passage of the bill in July, 2004. So, our application contained a plan that we could implement quickly by a reconfiguration of our existing grandstand. It began as a modest enough proposal for a single floor of 1250 slot machines. However, by the time we got around to the end of September last year, the scope of the plan had increased significantly. We were now about to take over two whole floors of the grandstand for gaming and gaming related amenities plus an entire administrative floor for the necessary back of house space. This meant that we could open with about 2000 machines and substantially improved food and beverage operations. Our total investment including construction, machines, systems and licensee fee was now at \$185 M compared to the \$80 M that was contemplated in our December 5 application.

So on September 27 this board granted us a license and as you know, there was tremendous pressure, (both politically and economically) for gaming operations to be actually up and running as quickly as possible. In less than twelve weeks, we

opened Philadelphia Park casino, with two beautifully fitted out gaming floors, 2000 of the latest slot machines, the most advanced technical systems for security, surveillance, player tracking and valet retrieval. Plus the finest bars and restaurants. By the way, during those 12 weeks, we totally fulfilled our normal racing schedule. We did not lose one day of Philadelphia Park live racing and we maintained our daily simulcast schedule.

I come back now to my original question - How have we made out? Well, up to yesterday, we had processed 2,065,565,000 in slot play and we had paid out 1,883,359,000 in winnings. More to date than any other operator in the state. Up to yesterday, we had generated 100 million in taxes based on gross terminal revenue and our local authority payment. We have created over 800 new jobs and had a major beneficial impact on the state's economy. As far as racing is concerned, last year our annual purses and breeders awards were about \$30M. In 2007, that number will more than double to \$63M. In 2008, our purses could well be the highest in the United States. Two Saturdays ago, we had the first one million dollar day, just for Pennsylvania bred horses. As far as the back stretch is concerned, work has already commenced on our \$12M commitment to barn and dormitory improvements - \$5M more than that mandated by statute.

Moving back to our slot operations, I come again to the subject of our future plans and their current status. As you are aware, on April 6 this year, just three months after we opened, we submitted a petition to this board, seeking approval to add a further 336 machines, that would take us to over 2400 machines. It entailed a further \$12-15M of additional capital expenditure, taking us up to \$200M spent on this project to date.

However, the demand for our product continues to grow and even though we are now at 2250 machines and within two weeks we will be at 2415 machines, (which will be the completion of the expansion plan we submitted in April), we are firmly of the view that we need additional capacity now - especially on Fridays, Saturdays and Sundays. Accordingly, in the next month or so, we anticipate seeking the necessary regulatory approvals to add 140 machines to our ground floor and 120 machines to our third floor. What we are looking at on the ground floor level is to create a new enlarged area for our pari-mutuel operations to the western side of the grandstand and then reallocate the vacated space on the east side for gaming. On the third floor, we will utilize unused space in the rotunda bar and the rear room of the current park buffet. Assuming these proposals are submitted and approved, it would give us a total of approximately 2700 operational machines.

That is my current status report, Mr. Chairman but before I conclude, and I know this report has gone on somewhat longer than you may have expected, I would like to take this opportunity to reiterate a couple of sentences from an address I gave to the House of Representatives Gaming Oversight Committee back in April after we had been open for 3 months. I posed to them the question "what have we learnt over this period of time" and I replied rhetorically "Well I think we've learnt the childish but pleasurable right to say "Told you so." Since the early 90's when we first embarked upon this journey, our opponents both in and out of the legislature painted a picture of woe and despondency, moral depravity, increased crime, prostitution, traffic nightmares - you name it - we would cause it or make it worse. We said "No" - "none of your fears will be realized". And we were right and they were wrong and those of you who supported this historic piece of legislation have been entirely and unequivocally vindicated."

In a similar vein, Mr. Chairman, you and your Board, by successfully shepherding the legislation through the regulatory, approval and award processing have also been entirely and unequivocally vindicated. Thank you sir, I am still standing, or sitting to answer any questions you or your colleagues may have of me.