

A Meeting of the Board of Directors of the Suffolk Regional Off-Track Betting

Corporation was held on October 28, 2010 at 10:00 A.M. at Corporate Headquarters, 5 Davids Drive, Hauppauge, New York.

The following persons were present:

Dominick P. Feeny	Chairman
Herbert Hemendinger	Vice Chairman
Eddie S. Wynn	Secretary
Jeffrey A. Casale	President/CEO
Anthony Pancella	Vice President
James McManmon	General Counsel
Celine Gazes	Comptroller
David Needham	Chief of Staff, Director of Executive Administration

Also Present:

Russell Kratoville	Corporate Treasurer
Tom Kilmartin	Budget Director
Debbie Pfeiffer	Director of Government and Public Affairs
Kim Edelstein	Director of Wagering Operations and Services
Kevin Snover	Board Counsel
Cathy Rice	Local 237 Teamsters Union Representative

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The Meeting was called to order by Chairman Feeny at 10:01 A.M.

**ITEM #1      APPROVAL OF MINUTES OF THE BOARD OF DIRECTORS MEETINGS OF SEPTEMBER 30, 2010**

Chairman Feeny stated that the first item on the Agenda was to approve the Minutes of the Board of Directors' Meeting of September 30, 2010. Vice Chairman Hemendinger made a motion that the September 30, 2010 Minutes be approved, seconded by Secretary Wynn and passed unanimously.

**ITEM #2      SEPTEMBER HANDLE REPORT**

Corporate Treasurer Russell Kratoville stated that net handle for the month of September was down approximately 7% compared to September 2009 both actual and as estimated. The interesting thing to note is that the September Fall meet was as strong as the March and April session but in 2009 and 2010 the average September handle is about \$11 million as compared to over \$12 million for the Spring meet. In the past whatever was the average handle was in March and April was generally the average handle we had in September. Some of the reasons why the Fall meet is less than the Spring meet will be discussed in the topic of track analysis.

Page 2 is an analysis of branch handle. Qwik-Bet locations handle continues to increase. The average cost per dollar wagered at a Qwik-Bet facility is about one-quarter of the cost at a standard branch location. Through September, Qwik-Bets have provided over \$500,000 to offset Suffolk OTB's bottom line losses. Internet wagering has surpassed the \$2 million mark year-to-date which is outstanding. Vice Chairman Hemendinger asked if we were increasing the Qwik-Bets to which President Casale replied that we are trying to. Mr. Hemendinger recalled the statement made that Qwik-Bet revenue is very good. There are upfront costs which include the setup fees. Chief of Staff/Director of Executive Administration David Needham added that there were three new Qwik-Bets just in 2010. President Casale stated that while they are valuable, the network of servicing those locations is increasingly difficult logistically as well as some management issues with nightly closings. They are closely evaluated.

Mr. Kratoville continued that internet wagering is over the \$2 million mark and is the lowest cost of all to run with the exception of touch-tone which is a very small percentage of the business. Even with the shift from operators to internet, the cost per wager for the telephone

center is reduced because it is a shared service with Nassau OTB with the cost based on the percentage of handle of each user. Of the \$820,000 decline at the traditional branch location in the month of September, over \$320,000 or 40% of it is from handle after 6 p.m. in comparison to 2009. The majority of our branches have had some nighttime hours reduced or eliminated and although some handle has shifted, there is further financial analysis being undertaken to review the fiscal and business effects of the Corporation. In discussions with Manager Kinder, she claims that customers from the St. James/Nesconset area that were going to Hauppauge have actually gone to the Forum and she believes that only about 40% to 50% of the Hauppauge customers actually did go to Commack. She does recognize some of the old Deer Park customers from when she worked in that branch and there is a little bit of a shift from Huntington. The positive news at Commack is not just totally due from a shift from Hauppauge. Grand Blvd. has seen a marked difference since the change in hours for that branch. It seems that customers from there are sometimes travelling to Sunrise and other places. Some of the customers' other comments is that it is sometimes difficult to travel to the branch although they love the branch.

On Page 3 the charts indicate that the Qwik-Bets are now 4.4% of total handle for the month, an increase of 25.4%; the internet is 3.7% of total handle; branches are 55.6% whereas just five years ago, they were 63% of total handle for the month of September. The Forum is 25.2% of total handle, a decline of 1.1%.

Page 4. As mentioned before, the September meet was not as historically strong a racing season as the Spring meet due to numerous factors. Firstly, NYRA does close additional days between Saratoga and Belmont having an effect on the days they close but also on where the

horses are travelling. Handle as compared to 2003 is down 32%. Primarily two premier tracks, NYRA and Calder, are down \$4.5 million from September 2003 to September 2010 or 73%.

He added that the track selection committee has completed their initial analysis. In addition he added that there are far fewer racing days this year than in the year 2003.

Pages 5 and 6 illustrate the statewide handle comparison by region. For September Suffolk is right around the statewide average decline of 7.2%. A review of the suburban handle (all regions with the exception of New York City), Suffolk is about 18% of the total handle and our decline was about 30% of the total handle. It seems Suffolk is now in line with the other regions.

As a preview to October, through the 27<sup>th</sup>, Suffolk is down 5.7% for the month of October.

The budget committee is now providing weekly gross revenue reports to the President and Vice President which take a look on a weekly basis what our commission is from handle, what the total revenue distributions are from the track and then what we have to pay out to Suffolk County in surcharge. The average of about 11.75% of gross handle is what Suffolk OTB has left for operating expenses. Operating losses through June were about \$2.2 million and the third-quarter estimates are approximately an additional \$1 million loss. The next two quarters will obviously be the worst. Cash is being managed daily and the budget committee meets weekly and making some business decisions. President Casale advised that Tom Kilmartin is working on the budget for the next Board meeting. In those discussions, various scenarios will be considered.

**ITEM #3      TRACK ANALYSIS**

A written analysis has been prepared and is distributed to those at the meeting. President Casale stated that a track performance analysis committee has been formed and is being overseen by Comptroller Gazes. He further stated that future decisions will be based on the information derived from the analyses. Comptroller Gazes reported that handle is really only part of the picture. The new analysis of the revenue by track is definitely going to be more useful. The report indicates profitability so that choices of tracks that Suffolk takes can be made. That however is not the only factor in the decision making process of track selection. Time of day is one of the factors considered so that we provide enough product for the customers to bet on. The bottom two lines show the totals for both harness and thoroughbred and clearly indicates that harness is more profitable especially on the out-of-state tracks. President Casale added that it is definitely a good tool for the Corporation to make future decisions and how the Company does business. Vice President Pancella further discussed the process of track analysis. In addition, this information will be of assistance during the contract negotiation process.

**ITEM #4      WRITE-UP BY WILSON ELSER**

President Casale stated that he had asked Debbie Pfeiffer to add a writeup by Wilson Elser in the meeting packets. The writeup is a summary of comments that were made at the NYS Racing & Wagering Board meeting on October 27<sup>th</sup> with respect to when commission payments should be paid. The law in New York is silent on when payments are due. Over the years, the OTBs collectively have tried to send payments within thirty days after the close of the month. In these tight economic times however some payments have been delayed but not in violation under any law. He believes the lack of a payment due date under the law allows for flexibility in

times when revenue is lower such as the winter months. The situation with New York City who lag payments ninety days or more has brought this issue to the forefront at the behest of the Federal Bankruptcy Court to the NYS Racing & Wagering Board. The Board has now decided to impose a payment schedule on the OTBs in an effort to avoid the backlogs created by New York City's failures. Robert Hemsworth from Capital represented the suburban OTBs and we were also represented by lobbyists, Wilson, Elser. Although Suffolk requested a quarterly schedule, it is likely that the Board will impose a 30-day period for payment with fines imposed for late payments.

**ITEM #5      NYRA CONTRACT RENEWAL**

President Casale advised that we are expecting a renewal contract from NYRA. From what he hears NYRA is looking for an increase in they get for internet wagering which will greatly reduce any profit we are making. In addition they are talking about lowering the takeout which NYRA figures will increase business. The bottom line is that the Corporation will make less money. President Casale predicts less racing days and therefore less product for the customers because the majority of their revenue is derived from VLTs.

Efforts are being stepped up to request the legislation necessary to help the OTBs stay in business. The Governor has called for a November 15<sup>th</sup> session at which time the New York City OTB bankruptcy will be a topic and plans made for a re-structure. Suffolk OTB has certainly streamlined the Company in an effort to stay afloat. Any legislative changes made to keep New York City OTB open are bound to shortchange the taxpayers. President Casale stated that while the outlook is rather grim, all efforts will be made to step up the push for legislative change for all the OTBs. There are many issues yet to be resolved. Chairman Feeney spoke on

behalf of the Board and assured the President of their support. Vice President Pancella announced the creation of an email list for use in promoting the internet wagering program plus any other promotions the Corporation may undertake. Such a list will result in very low or no cost advertising. Talks continue with the regional Presidents to see what services can be combined to stay in business, reduce costs and increase revenue. The vehicle pool has again been reduced by selling off some of the older vehicles.

With the need to go into Executive Session for discussion of some personnel matters and potential litigation, Vice Chairman Hemendinger made a motion to go into Executive Session, seconded by Secretary Wynn and unanimously passed.

Upon re-convening after Executive Session, Counsel McManmon stated that during said session, no votes or actions were taken.

A special meeting of the Board of Directors if necessary will be held on November 18, 2010 at 10:00 a.m. at Corporate Headquarters.

Thereafter, Vice Chairman Hemendinger made a motion to adjourn, which was seconded by Secretary Wynn and unanimously passed.

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Secretary