

Harness Racing Congress
Thursday, February 9, 2006
General Session

9:00 – 9:45 a.m. Can Racing Adapt to the New Realities of the Marketplace?

The View From Without

- **Tom Aronson, President, Racing Resources Corporation**
- **Eugene Christiansen, President, Christiansen Capital Advisors**
- **Will Cummings, President, Cummings Associates**
- **Dr. William Eadington, Professor of Gaming and Economics, University of Nevada Reno**

9:45 – 10:30 a.m. Can Racing Adapt to the New Realities of the Marketplace?

The View From Within

- **Lee Amaitis, President of Cantor Index and Cantor Gaming**
- **Charles Champion, Chairman and CEO, Youbet.com**
- **John Marshall, Executive Vice President, The Meadows**
- **David Willmot, Chairman and CEO, Woodbine Entertainment**
- **Moderator: Stan Bergstein, HTA**

Stan Bergstein: Chris Scherf and I are going to moderate this and have some fun with this panel, and I think that the idea of splitting it from within and without may provide a but of a point-counterpoint that you will find interesting. The subject is “Can racing adapt to the new realities of the marketplace? The view from without,” panelists are Tom Aronson, the President of Racing Resources Corporation; Eugene Christiansen, the President of Christiansen Capital Advisors; Will Cummings, President of Cummings Associates; and Dr. Bill Eadington, Professor of Gaming and Economics at the University of Nevada in Reno. On the interior view, Lee Amaitis, President of Cantor Index and Cantor Gaming and one of the leading authorities in the world on the subject of innovation in gambling; Charles Champion, Chairman and CEO of Youbet.com; John Marshall, Vice President and General Manager of the; and David Willmot, Chairman and

CEO of Woodbine Entertainment Group. To open the panel, another of my former Executive Assistants from HTA who went on far beyond those horizons, Tom Aronson.

Tom Aronson: Thank you, Stan. My opening announcement is entirely a personal one. Today is my birthday.

Stan Bergstein: Let me interrupt on that score because his wife called me from New York last night, where they have a world champion dog which has taken over their life and mine, from their communications, at Westminster Dog Show, where I presume he will win his third national or international title, whatever they give there, and she said, “I just want you to remember, if you will, that Tom has reached the Big 50 tomorrow.” So I did forget it, and I am glad you reminded me, because Mary never would have forgiven me. Here is the Big 50.

Tom Aronson: This is historic, Stan ignoring not just what I say, but what my wife says to him. Thanks for stomping all over my opening joke. The fact that I am 50 today, I think officially makes me part of the problem in this industry, as opposed to part of the solution. Since all the problems are the same as they were some 29 years ago when I got started in this business, I obviously have not done a very good job helping solve them, so I am now in the club. What I really do love about our business is the fact that I can come here and I am still referred to as “young man,” which is great. “It is good to see you again, young man.” That kind of thing. It is the only place I go nowadays where people actually say that to me.

Stan’s division of this into the within and the withouts is very interesting to me because I was clearly a “within” for most of the years that I have talked about. I have groomed horses, I have ridden them, helped train them, driven them, I have been in track management, I have had my own consulting company, and I have helped, most recently, to try to build some businesses and some ideas in racing through the Racing Resource Group, as Stan said. The “without” part comes from the fact that I have been for the last few years, COO of a company in Colorado that does actuary sales in complex business to business environments. I have been building that business.

I bring something of an outside perspective of the problem as well. I think to frame the issue for the panel—I am not the moderator, but what I understand to be the issue—is whether or

not we are in a position as an industry to adapt to some very significant changing realities. It is not so much a question of whether we are able to adapt, we just simply have to. We are what we are, and the question for me, having seen in the outside world how other businesses handle these issues, is whether we really have the structures and processes in place to adapt.

We are obviously heavily invested in the idea of horses running around a racetrack. That is our core business, so we are self interested in protecting that business. We have to, so we have to adapt or make changes. One other thing that we clearly are is scared, and we have been scared for 20 years. We are scared of our own shadow, and we are scared of everybody else's shadow around us, and there are some big shadows.

If there is a theme to some of the things I am going to talk about today, in the context of answering questions and responding to ideas, I do not think we have the structure and processes in place to handle the issues at hand. The organizations that we have in the industry and that we have repeatedly created over 20 years have not done a particularly good job of it because it is not entirely their job. There are reasons why we have not done a good job of creating organizations. We are a regulated industry and there is a heavy element of competition right inside this room. Harness vs. thoroughbred, harness and thoroughbred vs. greyhound, the three of them vs. casinos, and all of that combined vs. other forms of entertainment.

There is a need here still for crossed functional structures that allow us to, in a coherent way, address the problems, challenges, issues, that we have in front of us. The groundwork is in place. The groundwork is conferences like this, but what has to come out of them is very specific understandings of problems and what we try to do with them. I will give you one example, and there are many examples of the issues we face and how we have to try to do something about them. The conversation yesterday, and many times throughout these conferences, has to do with what I call horse economics, and whether or not we can compete effectively. Let me just explain how I view that. The horse is a very inefficient gambling machine. I probably put that the wrong way. I don't consider horses gambling machines. I consider horses wonderful animals, but the horse, when we ask it to be a gambling machine, in other words, to generate gambling dollars, is a very expensive way of doing that. Think about it this way, when we put on a \$20,000 claimer, think of how much money was invested in the horses and in the training and the people in order to put on that \$20,000 claiming event. We are talking hundreds of thousands of dollars right there, from buying the horse as a yearling, and so forth. Now, think about how many slot

machines that same amount of money would buy, and how many gambling dollars those slot machines would generate. This is an issue for us because it really is the underpinning of the question of whether or not we, as a business, can compete effectively just as a gambling machine. Clearly, I do not think we can. You can see from that example it would be very hard to.

What do we do about that? Well, one of the reasons that we have simulcasting, it is not so much a conscious choice, it is an effective way of extending the performances of horses electronically so the individual horse is actually generating more money. If you keep the money bet on him, if you restrict it to just one racetrack, he can only generate so much money, but if you then send his picture around the world, he can generate a lot more money and the efficiency of that horse increases. If you do that, then by corollary, what you would want to do is reduce the number of horses coming into the system so that each horse is more productive, and the horse as a gambling machine is more effective. I am just going to leave it there because there is not necessarily an answer to that, but I think that is really the way that you have to, in this one small area, think about what our real core issues are and then address the answer, whether it is through Internet betting, simulcasting, all of those other things.

Chris Scherf: Hoping to stir some lively conversation up there, I will be the first to disagree on one issue, and that is that you said we have been running scared for 20 years or had fear.

Tom Aronson: You are right. Terrified.

Chris Scherf: Terrified, that is good. It reminds me of the saying that even a paranoid can have real enemies, so I guess the issue is the new reality—what is the new reality and do we really have something to be scared of? I will throw that out and I will ask Eugene to start us off with what the reality is of where we are now.

Eugene Christiansen: From where I sit, the problem concerning racing is that its business model is changing. The pari-mutuel machine, pari-mutuel law, which served this industry well for more than half a century, is really becoming obsolete. New betting suppliers have entered the market, and they have tools that racetracks do not have. They are able to price their product. Racetracks generally cannot set the takeout or offer rebates or these other things that enter into

pricing of the product. I think these are essential tools. Racing must have these tools if it is going to compete in the changed market conditions that it is facing today. I think, in a sense, pari-mutuel law is the problem. There needs to be more freedom given to pari-mutuel operators, racetrack operators, to function in this marketplace. All of you, I think, heard Terry Lanni talk yesterday. I would endorse his remarks, every word of them. Lastly, I think part of the solution is here on this panel. Youbet.com is part of the solution. It is a way for this industry to reach out through the Internet and find the new market and rejuvenate the fan base for racing. In very short strokes, that is how it looks to me.

Chris Scherf: Okay, anyone else want to jump in? Will?

Will Cummings: I would agree with that. I think it, in part, depends on how you define racing, and racing, as everyone has said, has changed and it is going to change even more dramatically over the next ten to twenty years. If you conceive of racing as the game of a gambling product based upon picking winners or picking the order of finish of these beautiful animals putting on a performance, largely now on a television screen or a computer monitor, I think that has got a pretty good future. If you define racing as tens of thousands of horses running around hundreds of ovals across North America or around the world, that is a much more challenging issue. We have had some successes in supporting those tens of thousands of horses in the environment, as it has evolved dramatically in the past decade. Full card simulcasting has transformed the industry. We are on television, we are on the Internet. The invisible hand of the marketplace is working in all of those places to improve our product. There is a lot more competition within the industry now that I think is a very healthy engine for improving our products. As Tom said, we have got to find some institutional mechanisms to improve the pace of that adaptation and move us into the future.

Chris Scherf: At the same time, however, and I will throw this out to everyone, money into purses derived from pari-mutuel wagering has declined for four straight years, and this past year handle actually decreased as well. We are on a steady downward trend. What is it going to take to reverse that? I guess the question is more are we talking about tweaking or are we talking about there having to be significant changes to the basic business model? Dr. Eadington, could I

ask you to kick this off? Dr. Eadington is a professor at Nevada Reno, and I have read some of the things he has done at the conferences, and I guess I first got your name on a conference with some of the largest gamblers in the world, the computer wizards that are harvesting out of our pools right now. He really is an expert on the subject, so I am greatly interested about what he has to say about where we are and what is going on.

Dr. Eadington: Thank you. First I will note that I am an observer of the racing industry, I am an expert in the gaming industry, so my remarks are going to be very much from the outsiders perspective. After Stan asked me to speak on this panel, I was pondering what kinds of things I should mention. I was struck by a news item a couple of weeks ago that many of you may have heard. Western Union sent the last telegram. The interesting question is why? One can say the demand was down, the costs were prohibitive, and more efficient technologies have replaced the need for telegrams. This may have some parallels to what we are going to be discussing here. If you look at gaming industries in general, and the casino industry in particular, especially in Las Vegas, you find one of the most dynamic industries in the world, driven largely by consumer demand that continues to evolve and mutate by a wide variety of innovative technologies and a spirit of entrepreneurship that is perhaps uncommon in many corporate sectors of the economy. Capital investment has been very substantial, and again, Las Vegas is where one sees this at greatest intensity. The industry has increasingly performed based upon its specific knowledge of its customer base, its ability to categorize customers, to manage large databases, to understand what specific consumer demands are to create segmentation within that customer base and to provide products that are much tailored to the particular interests and demands and needs of specific customers. It is also, especially in Las Vegas, an industry that has gone through a considerable diversification so that it is not just gaming anymore. It is a wide variety of entertainment-oriented products, many of them offered at a standard that is not able to be duplicated anywhere else. It is an industry that historically has been under-supplied throughout the world because of the moral and social concerns about the adverse impacts of gambling. As a result of that under-supplied condition, gaming has been very political, and racing has become part of this.

I am going to make a couple of assumptions about the group to which I am speaking. I am assuming almost all of you are very devoted to racing, either as breeders, operators,

attorneys, aficionados, and your devotion is either professional or personal or both. You have devoted a good portion of your life and perhaps intellectual commitment to this. My suspicion is, if you are typical, you probably do not consider slot machine players as sophisticated gamblers, and indeed some of you may consider them as not very wise in their habits. But slot players are useful. As with other segments of the gaming industry, the racing industry has been very opportunistic to take advantage of the fact of the demand for slot machine style gambling is amazingly large. The challenge we have for the racing industry at present, and all of the panelists have said this already, the customer base is moribund, it has a bad demographic, it does not seem to be improving, and all the indicators, the life signs are moving in the direction of the telegram for Western Union. The demand for wagering cannot support the costs of running the contest, and that is one of the fundamentals that we deal with. It needs a subsidy, and opportunistically, many jurisdictions have found that slot machine gambling, or racinos, have become an effective subsidy to basically sustain the ability to continue racing in the way that it has historically developed. The underlying logic for the subsidy, I think is one that is likely to be challenged in the future, especially as jurisdictions realize the need for funds for other purposes besides supporting an industry that has difficulty sustaining itself. The racing industry has been politically fairly successful to date, at least in some jurisdictions, but the real important question is, is this sustainable in the long term? I would say this is going to be a challenging situation. Slot machines cannot save racing. What will save racing is figuring out a way to address the questions of demand for racing. Clearly, I think there are some bright spots on the horizon with some of the new media, especially the Internet, and perhaps looking at the complementarity between other popular forms of entertainment and racing. What the racing industry has not been able to do, historically, it has not done well in incorporating even radio and television into its product, and this is a fifty- or sixty-year-old argument. It is perhaps doing a better job integrating the new technologies of the last decade into its product, but it is still very much a niche market.

One of the challenges is how do you create stars around the racing industry? If you look at other sports, stars and personalities are very much why they get such loyal followings. Racing has much more of a challenge in doing that. Perhaps it is because animals are not as easy to identify with as are people, and it is hard to make the people stars in a racing environment.

I would suggest the following: Look at successful gaming industries for benchmarks, and look at successful racing industries in other countries for benchmarks that might be applied to the

United States. Among those that I am fairly familiar with, for example, with the casino industry in this country and elsewhere, is a very strong emphasis on knowing your customer, in other words, finding out the specific needs, habits, behaviors, spending patterns, and likes and dislikes of particular players. This means significant database management, player tracking, and establishing reasons for customer loyalty to develop the non-gaming amenities around your product that will compliment your core product, and to be good citizens in the jurisdictions that you operate. Clearly you already are very aware of this. This is because the political overtone that politicians can change the rules which can make things more or less favorable for your interests and take advantage of the new technology.

Let me get back to the basics. Profitability in racing is just not there, which means that you cannot afford the kind of capital outlays that the casino industry in Las Vegas has been able to develop over the last few years, so you really have an ongoing challenge. The question is, can one ever return to a self-sustaining racing industry? From a very dispassionate economist's perspective, the one way this can occur is through a significant contraction in the size of the industry so the industry will grow to the level of demand that does prevail. If it cannot extend demand, that seems to be the only realistic alternative.

Tom Aronson: I would like to pick up that theme because it really may have sounded like a corollary to what I was saying, but it is the underpinning of what I said, which is the contraction that I am talking about can take place in a number of ways, and understand it is not necessarily bad. It can be unpalatable though. The contraction that Bill is talking about would logically be running fewer live days. Fit that in with what I was saying about extending the performances of horses electronically. There is a healthy basis for what we are trying to do. We are just not doing it very strategically right now. If we had, and I am not recommending this, I am asking you to think about how to analyze a problem, if we had fewer horses and we were sending their signals out further and people were doing more betting on the Internet, the economics of the industry by definition improve. Chris' question of what can we do to stop the decline of purses really inverts the issue of cause and effect. What is happening right now is we have done a lot of things. We have tried some things, and we are seeing some salutary positive effects over on one side, and then over here purses are going down. What is wrong? We have to stop that. No, the market place is telling us something about the number of horses that are competing for purses. Clearly,

we have maintained handle numbers. You look at our national numbers and they are somehow magically staying up there. The problem is the takeouts have shifted all over the place, and in some places you have three percent dollars, and in other places you have 20 percent dollars. Then the horses feeding into those are competing for vastly different amounts in different places in the country. The places that are simulcast, net out bettors, meaning they bet more on simulcast than they do internally, are suffering in some ways. The places that are able to extend their signal are doing better, but the net result that Chris is bemoaning is actually exactly what Will said. The fine, invisible hand of the market is telling us something about what is wrong. Now, again, there is recognizing an issue and then there is doing something about it. One of the things that we are not good at doing right now is recognizing the difference between strategy and tactics. This is something that is inherent in the other part of the world that is not racing, the business world. Knowing the difference between strategy and what you want to do, and tactics, how you get there, is not an abstraction. It is something you would read in “Sales for Dummies” because it is very, very important.

I loved one part of yesterday’s discussion. That was the discussion about the Internet, which is inherent to what we are doing here. Really, if you had boiled it down, yesterday, the first panel, if you heard it, where everybody agreed that the Internet is important, was really racing’s rousing endorsement of the Internet. If you wrote a story about it for the world out there, the story yesterday would have been, “The Internet got good news yesterday when the American horse racing industry endorsed the Internet.” What is wrong with this picture? Well, the Internet is much bigger than we are. We are catching up to it, right? It is our present and it is our future. Here is my point on that. What are we trying to do with it? That is a strategy. Or is it a tactic, leading to some other bigger plan that we have? We obviously do not have a bigger plan, but thinking about it that way helps to clarify what I call the “*Boston Globe* issue” from yesterday, which was, gee whiz, once again the *Boston Globe* has followed the trend of other papers by eliminating the agate type, results and entries. On the one hand, you are upset by that. It is just another indication that the newspapers don’t care about us. Their position was that it is just a reflection of reality. On the other hand, we are endorsing the Internet, so why worry about the fact that the *Boston Globe* is eliminating entries there? A lot of people are going to the Internet, and there is no reason why they can’t get the Internet right there. If you don’t have your entries on your Web-site, something is wrong here. If you don’t have the results on your Web-site,

something is wrong here. What are you worried about the *Boston Globe* taking it out for? The reason is that we want that to be like a little mini ad for ourselves, an unsupportable market place ad that is given to us. We don't deserve that. The *Boston Globe* is just the latest in newspapers that are recognizing that. Let's not agonize over that. The point is what do we want to use the Internet for? Do we want to use it for betting? Do we want to use it for advertising? These are things that as an industry, it has one answer, as individual racetracks, it has others. We lack the structure for dealing with something very significant like this. I am more than happy to work with you individually, and these guys are as well. There are individual actions, and then there is an understanding at a national level of what the entire industry is trying to do. That is where a huge disconnect occurs.

Chris Scherf: On January 26, Andy Beyer wrote a column, and on the same day Bob Roberts, who has covered racing for over 25 years in the Cleveland area, wrote a column. Andy Beyer wrote a column, and this has to do with the Internet. He writes, "This is a time of year when I am always preparing intensely for the upcoming season at Gulfstream Park, watching and making notes on all the races at Calder. In past years, I would have been distraught at being out of touch with the sport, but on this trip down to Florida, I carried a new 2.5 pound notebook computer and I was able to see clearly every race and replay I wanted." Basically he goes on to extol the virtue of staying home and betting on horses. Bob Roberts, the same day, and he also would qualify as an old time racing fan and one of our loyalists, said, "I still go out to Thistledown and Northfield every other day to get racing forms and programs and commiserate with other horse players, but tracks have to start making us bettors more comfortable with good seats and good food, or we will do all of our wagering at home." We have an economic model where we derive maximum income from people coming to the racetrack and lesser income depending on where they bet through the Internet or account wagering. Then you have companies like Sportsbook.com, which is part of Sporting Bet, and I will invite anybody to jump in there (I know Lee Amaitis is very familiar with it). Sporting Bet group, which is a publicly traded company, I will give you some nice figures, because we only have depressing ones here, 12 months ended July 31, 2005, this is an America facing platform, they have global, they have one facing Europe and another for Australia, the number of customers who bet on the sports betting Websites rose by 31 percent to 188,000. The number of sports bets placed by these customers and they do have a racing

component to that, rose to 33 percent, and at a rate of 135 bets per customer per annum. The average sport bet was \$58. Their margin was 6.1 percent. Basically, business is just booming. As a sports book, we get no revenue from that. At the same time, if I am a racing customer at home, and I want to bet every race in this country, I can do it. I can get rebates. I can get convenience. I don't pay extra fees. That is the reality of where we are now. How does this industry survive with that kind of competition?

Lee Amaitis: The one factor that you have to realize in what you just quoted was that all the activity of Sporting Bet is considered to be illegal in the United States because it is offshore betting. All the money that is handled through those offshore entities is, in the Justice Department's opinion, breaking the Wire Act law. So a lot of money leaves the country. I am not saying it is not continuously growing as an industry. It is. Online gaming is growing in leaps and bounds and people are making fortunes off of it. Unfortunately, those of us that are American have to abide by the rules of our country and understand that those are places where you can't go. Now you have Internet gambling, obviously, on horse racing, and I think that is a business that has grown measurably, but I would like to focus on something that I think is the fundamental problem of why racing is not catching up. I think one of the main reasons is pricing. The price of a race today, to bring people to the track to bet on horse racing is just way behind the times. If you look at alternatives, I sent out a piece of paper to the crowd that is kind of a synopsis of pricing, if you want to take a look at it, if you take a look at the alternatives, if you take blackjack, craps, roulette, and slot machines. Now you are probably not competitive with blackjack, craps, and roulette, but you are definitely competitive with slot machines because you are now putting slot machines in a lot of your racecourses. The average payout on a slot machine is anywhere between five and ten percent. The price to bet on a race is 20 percent, so there is a fundamental problem of pricing. If you go through the alternatives of what people are looking to do, and I am not saying that you should not have gaming within your establishments because it seems that it is going to at least stem the tide for a period of time until racing can get itself back on track, and find new ways to produce its product so that people are interested in it. I do not believe that it should be the end-all result for you. I do not believe that you should be thinking about turning racecourses into casinos, because then why don't you just go into the casino business. A lot of people make money in the casino business. If it is just a matter of putting

investment in bricks and mortar, and knowing your customer, and having customer databases, then you can compete like everybody else that is in the casino business, but you are horsemen and you run racecourses. This is about horse racing, and I think there is no doubt that everybody has understood that the handle has declined. The handle is declining in consecutive years. That is not news. Simulcast pricing. You all charge each other a percentage to simulcast to one another. Now that varies between three to five percent. I think that when you look at your fundamental problems here, you all work on a blended scale, that if I get between three and five percent of the pricing, that is okay with my 20 percent model, but that is not exactly correct, is it? If you take a look at simulcasting to rebate shops, it is three to seven percent back to the provider, so you are paying an enormous amount of money for distribution of your product, a serious amount of money. You have a 20 percent margin product and you are getting back seven percent. You have to put on all the show. You have to build the racetrack, you have to get the horsemen there, you have to allocate the stalls, open the doors, turn on the lights every day, and you are getting back seven percent of your handle by allowing it to go to rebate shops. Simulcasting to advance deposit wagering, Youbet, TVG, Expressbet, all of those have expanded your handle, no doubt. It is probably very good for the industry. At the same token, your price of distribution is choking the product maker. You are the product maker and your price to distribute has to change. You have to take a dramatic step in the position to say, "We are producing a show and the tickets are too cheap." Now, there are arguments to that. One would say the rebators will not bet anymore because the guys that put millions of dollars through the machines will force you by saying, "If I don't get my rebate, I am not going to give you my handle." Well, I would say that my colleague to the left, David Willmot, is a gentleman that runs a racecourse that does not sell his signal, and I think he is going to tell you some things about his handle and his profit margins in a little while. I would tell you that I think that racing as an industry is fragmented. You are a group. You are supposed to be together. You put on the show. I am sure you are competitive within your own arenas and your own environments, like state to state and area to area, but you are still considered to be one collective industry that puts on the show. I will just give you an analogy from my background. I have been in the racing business for a period of time. I am a fan of racing and very close to the racing industry, but my background is financial services industries. I am the chairman of a firm called B Gerald Cantor, which is predominantly the largest inter dealer broker in the world, securities trading between wholesale prices. Now, we are the leaders in the transfer

of prices of the US Treasury market, to the tune of, our volumes are somewhere between \$40-45 trillion a year. That sounds like a lot. It sounds like we are all very wealthy people. We do okay, but volume is what I am going to talk about right now. In the late 1980's and early '90's, we were getting \$78 per million commission transaction, and we were doing about \$100-150 billion a day worth of transactional revenue in US Treasuries. The market, of course, said, "Enough. I am not paying you for your service at \$78 a million. It is ridiculous." We had to make a fundamental change in our environment. We invested hundreds of millions of dollars in technology. I am not saying this is the solution for you. This is just an example of pricing. We invested hundreds of millions of dollars in technology, and we built a platform, which is now called espeed, where we distribute all of our pricing as a method now. It is an open platform to many other banks and institutions around the world, so it has become the staple of where US Treasuries trade. The price to operate on that system is less than \$2 a million. We went from \$78 to less than \$2 a million in about a seven year span. If you think about what that actually means, think about that discount that is like a going out of business discount. The volumes have gone up tenfold because it is easier to trade, pricing is good, technology is better, and thanks to the United States government, there is a lot of debt, so we have had some help on that side of the coin. The model is the same. Volumes go up when prices go down. It is just the nature of the beast. I think what is happening is that early on when you made the decision to get your signals out and get your product out there, sure you made a great decision to get it out there, but then you did not sit back and wonder if you under priced it, over priced it, if you should change the price. You are the manufacturer. You can change your price whenever you want. You could sit back collectively as a group and say this is ridiculous. If you take a look at, you have 20 percent handle on win, place, and show. Twenty percent of the handle is based on win, place, and show. If you are betting exactas and trifectas at a rebate shop, you are getting a 10.5 to 16 percent rebate on your prime product. It is your product. You produce it. If you say, "I need to take my money back. I need to restructure my pricing because I can't continue to put on this show at this price," how can anybody say to you that they will not use the product anymore? That is the challenge you are up against. You either sit around in the quagmire and wait for something else to happen, or you hit the bull by the horns and say, "Look, we have to make a decision. We can't pay 16 percent rebates on a 25 percent takeout product." It is insanity. You will never make any money and you have the bulk of the business sitting in that category. Eighty percent of your

handle comes in that category, so you have to be able to sit down and get aggressive about the fact that you can change pricing. Professional gamblers will say to you, “Okay, look, I am going to cut my handle down. I am not going to do this, I am not going to do that, I am not going to make the multiple of tickets that I make to try to win the trifectas or the superfectas.” At the same token, you are the only game in town. If people want to bet horses, you are the only game in town. Sure, they could go to a casino, they could play craps, roulette, blackjack, they could play slots, and they could play them all at better margins than what you produce your price at, but you are horse racing. You have to get around the fact that, are you building fan base to bet on horses? Are you actually creating an industry that is going to be absorbed into a racino world where the prime product becomes the secondary product? Let it be said, from a horsemen’s point of view, and someone that has been involved in the industry for a long time, that would be very sad.

I think that there is another topic that I would touch on, and it is a controversial topic, and it has been controversial in the sense that I have brought it up before and I think that other people have brought it up in the sense that saying, “Well, we just can’t do that.”

Chris Scherf: Lee, can I ask you to hold off on that. I definitely want to get to that, but want to stay on the pricing thing for a second. I think that tees it up pretty well for David Willmot down there. Basically what you have said is there is a pricing issue. I think the issue also before the industry is takeout is too high comparative to other gaming options. The question is whether you would get a sufficient increase in handle by lowering that to keep everybody whole, which is part of the trauma we are going through, trying to change things, and yet take the safe route that we still have \$1.2 billion in purse money and the tracks still have the same income, can we make that leap of faith. David, I know you have strong views on pricing and how we are doing this in the industry and I will let you take the floor.

David Willmot: Thanks, Chris. Obviously, it is great to sit next to Lee. What he was saying, to a great extent, was music to my ears. The title of this is “Can Racing Adapt to the New Realities of the Marketplace?” The fact of the matter is if you look at sales, and we will talk about sales versus income in a minute, when it comes to pricing, but when you look at sales, you have basically four components. You have the product, marketing, distribution, and you have pricing.

Can we adapt? Which of those elements can we adapt or are adaptable to make us competitive? The fact of the matter is, and I will start with marketing because it is the one most quickly dismissed, I think those of us that love horse racing exaggerate the importance of marketing. We think that if we can simply put racing in front of someone who is not interested, they will immediately fall in love with the brown, furry animal. I think we are naïve about that. The fact is marketing is only worthwhile if you have a product that is attractive in facilities that are modern and pleasing, with good customer service.

Marketing aside for the moment, let's talk about the other three. Can we adapt our product? Well, horse racing is horse racing, but how we present horse racing to the bettor certainly can be adapted. Lee and I have had past discussions about new bet types, whether they be high payoff bet types, which are marketed through convenience stores, like lottery does, or whether you get low payoff ones, like a simple 50/50 bet. When groups come to our track, what I have noticed is picking a winner is difficult. You have 10-11 horses in a race. The people don't know how to bet, they get in, if they have not hit or won a bet in the first three races they are there, you can see them get demoralized. They just sit there. Well, this is just too hard. You just don't win enough. There are lots of people out there that bet 50/50 propositions. There are lots of people that bet the Super Bowl win/lose, 50/50 at an even money payoff. If we can introduce bets that provide more frequent winners to new players at our racetracks, they will get more engaged because they are going to win more often. They are not going to be winning a lot, but they are going to win more often and not get demoralized.

Very quickly, there are lots of ways in which we can change the nature of the product that we offer. Distribution, there has been a lot of discussion about the Internet here. It is absolutely right. The Internet is absolutely revolutionizing our distribution and our ability to distribute and it also has the ability to reduce the cost of processing a bet, which may ultimately enable us to lower our takeout. I will not go on about that, although I am sure that Chuck will have a lot to say about distribution through the Internet.

The last point, which Chris wants me to speak on, is pricing. Let's just be realistic and start at a starting point. As Lee said, we are in the horse racing business, we have a cost of production and we are the most expensive means of determining a winning bet. For the horsemen that are in the room, you all know that depending on your contracts with racetracks, you get somewhere, in terms of a contribution to purses, you get somewhere between 8-10 percent of

every dollar bet. That is a given. Racetracks start with that built-in cost. Then we have all the costs of our infrastructure and our unions and our employees and our utilities and all of that and that is a fact. If horse racing is going to exist, we are going to have to find a way to deal with that on a pricing basis. It is Business 101. As Lee said, you cut your price, you increase volume. What is the point of increasing volume if every sale you make loses you money? You have to take control of your pricing. Do we have the means to adapt? Yes. Do we have the will to adapt? I am not sure. We have sleepwalked through this issue now for four or five years at this convention. We talk about it and we don't do anything about it. Why? Because we are all backed up. We are fearful of anti-trust. Oh my god! We are going to get sued by all these guys. I don't give a damn about being sued. In fact, I am just dying to try it on. Of course, we do not sell to any rebators, so none of them are suing us for anything that we might do. The fact of the matter is we have a set, given price. I have used this analogy before. Lots of people would like to buy a Mercedes for \$20,000. Mercedes could dramatically increase their volume, handle, if they cut their price, but why would they do that intentionally and lose money on those additional sales. That is what we are doing to ourselves. To come to the pricing, we must, as Lee says, as an industry, we must completely change our pricing structure which we have lost control of. Here is a very short history. When simulcasting started, racetracks sold to racetracks at three percent. We recognized that the purchasing racetrack had all the costs of infrastructure, processing the bet, paying purses, and when we sold our product to Churchill, there was no Internet, so Churchill, receiving our product in Louisville, was not going to swing back around through the Internet and poach our customers at our takeout rate. The first time that we sold a simulcast product to a non-racetrack buyer, who had no built in costs, we lost control of our industry. We should have pulled it back a long time ago. What we must do now, if we do not want to die the death of a thousand cuts, is we must recognize that there is a difference between handle and income. It is income that pays purses. It is income that keeps racetracks viable, not handle. I would rather have fewer sales and greater profit anytime, than greater sales and lose money on every sale. We must collectively find the means and have the will to regain control of our pricing. Over time, again to Lee's point, let's hope that broadened Internet distribution, that new forms of technology will reduce our cost of processing the bet, and we can work our way down and become more competitive on takeout. That will never change the fact that we have that 8-10 percent purse structure because we have always had the chicken and egg argument. Can

racetracks exist without horses? Can horses exist without racetracks? Well, that is right. If we don't have horses, racetracks can't exist, so we have got to pay enough income to the horse people and the breeders that they can pay for the brown, furry animal, who is expensive. I have owned them for 35 years. That is a given, and on pricing, and you are going to hear lots of discussion on pricing, and it is very topical right now, but if we do not get a hold of this, we will die the death of a thousand cuts. I promise you that racetracks that are pure pari-mutuel operations and do not have alternative gaming revenue or do not have excess land to develop will not exist in ten years time because we are ratcheting down in terms of losing our distribution and our pricing. I am sure there is more to be said by a lot of people, but that is they key. We have those various elements. Pricing is where we have lost control. A great, great opportunity is in terms of distribution and adapting the product.

Lee Amaitis: When I was suggesting that pricing actually is, if you cut prices, volumes increase, I mean, that is a natural. I think what Dave is saying is that there has to be some sort of blend in between that, and I do not disagree with that. There are three choices that you can make. You can hold the line, and you lose market share because there is going to be alternative that is going to take it away from you. You could be very clever and come up with new, clever, innovative ways to actually market your product, price your product in a range that maybe exotics to rebators get a lower percentage. Maybe you lower the win, place, and show pool to them because that is the least of their play. Or maybe you just take a look at the fact that you are selling your product far too cheap to the other people who are making money off of you. The other side would be to just lower your price completely and be the lowest priced provider, which I don't recommend because that in general just spurs more competition to drive people out of the industry. You can't do that because one of the things you have to do is you have to be back in control, as Dave was saying. You have a show to put on and the show costs you money. You have to get paid for that.

Tom Aronson: I think there is a little bit of confusion inherent in this discussion having to do with pricing internally and pricing externally. Simulcasting revenue is an intra-industry exchange. Yeah, it is incumbent on us, because we are the industry, to figure out where that belongs. Shame on us for not having done that properly and so forth and so on. The price to the public is a different issue. I don't think pricing is really the issue there. Think about a Broadway

show as compared to a movie. We are like a Broadway show. We have tremendous expenses behind the scenes, and they are now charging upwards of \$100 a ticket. Right across the street, you can go get entertained for the same period of time for eight or ten bucks watching a movie. Now, Broadway sustains itself because it has something that a certain subset of the public wants, and it has priced it properly to that public. The other entities that are competing for the entertainment dollar do the same thing. My problem with the whole pricing discussion is that we want our prices to hold stable without doing much on offering the public something better. Where I come out on this is that the single greatest tactical failure, things that we do to try to get someplace in this industry, ever since I have been involved in it, is in the area of innovation. I saw Secretariat race as a two-year-old at Saratoga. I am old, and I am willing to admit it, but that turned me on to a degree I can't tell you. I saw him as a three-year-old in New York. I saw Niatross set his 1:49.1 record at the Red Mile. These are extraordinary experiences, and they are driven by the animals. When I turn back and I look at what we have done over the years. We run every one of our harness races at a mile. We have done very little, as an industry, to create new product. As a matter of fact, if there is anything that I think I have tried to do in my little bitty career, it is to try to change a few things. I helped build TVG, I have come up with horrible failures, not always because they were bad, well, let's just say they were bad, but the point is this: It is a mix, and you try things and you figure things out and then you move on to other things, but you maximize the things you are trying. Our industry is so dead-set against or fearful of change that it is hard to have a discussion about it. The innovations that are sitting in front of us that we try to do are very minor tweaks. A new bet. I am in favor of this, believe me. A bet that allows you to pick the horses in your Pick Six, with due respect to Joe and his group, a worthwhile effort right there. Now you may have an opinion about that, and this is what really bugs me about our industry, you can have an opinion about whether or not something is going to work, but what I hear most of all from us as a group is, "Oh, that will never work. I know from my experience, my vast experience in this business that is just not going to work." Shame on all of us whenever we say that. The question is not up to us about whether we have an opinion, it is a question of whether or not the public would like to have this thing, and they ought to have the opportunity to vote on it. We ought to be investing in that. I walked into Stan's office in Chicago the first time in my life back when I was a toddler, right when he had kidnapped me and enslaved me in the racing business, and there was a little sign on his desk that said, "If that idea was any

good, I would have thought of it myself.” It is a beautiful statement in so many ways. I thought when I looked at it, that it was funny. Now, I think it is sad. Why is that? Because I have participated in this business for so long, having people feeling exactly that way or alternatively they say that will never work. Other businesses, other smart CEOs that are running their businesses, do not act that way. They say, “You know what? I don’t know. We need to figure this out. Let’s put this out there in front of the public and see what happens.” I am currently helping a company try to get started in the area of figuring out the position of moving objects as they move around an oval, so that then you can have a better video show about that race and more information, and cooler stuff, and so forth. I am not allowed to give an advertisement here. Chris will never let me speak again. That is good because it is right to the point that this is an idea. I am not even going to say it is a good idea, but it is an idea. A few companies are investing money on this, and shame on anybody in this room that will not take a call from those companies that want to talk to you about this. ‘I don’t want to talk to them because it is going to cost me money.’ The cost of not innovating is far higher than the costs of innovating. If there is a cost issue in this industry, that is the one I would dwell on. It is really a mindset, I think, that needs to change. Yes, you do have to invest in change in order to get someplace other than where you are, and if anything is the bottom line of the discussions we hear every year here, it is that we do need to change. I do not mean adapt, I mean change. That does not mean to blow it up, but that means to try a few things, figure out what works, discard the ones that don’t and move on. I am optimistic about it in the same sense that somebody who is launching a Broadway show can be optimistic that new show, with a new idea, and new staging, and new electronics associated with it can capture the market that is out there that might go, not to another Broadway show, but to the show across the street where they get no money from it. Think about that and just, please, be more open to the discussions about and to the people who have made investments in change. Listen to them and don’t say, “That will never work,” because if you say that, you have made a mistake right there.

Chris Scherf: We have Charles Champion from Youbet here. Youbet has been in the forefront as an outsider who came into this industry to try to do that, and we also have John Marshall from the Meadows, and obviously Magna has BetXpress, so they are both doing Internet business. They both have the experience within the industry, and they are both facing the same

competition we have in their business in that somebody who is betting with Sportsbook.com, you know, that is a competitor with them too. Chuck, would you like to make some remarks about where we are?

Charles Champion: Thank you, Chris. I appreciate that. First of all, Tom, I don't think you should be as hard on yourself about TVG as you just were.

Tom Aronson: Is that a failure or a success? I am not sure.

Charles Champion: I actually think it has been a tremendous success in a lot of ways.

Tom Aronson: Thank you.

Charles Champion: A lot of people in the room might be surprised by the fact that I actually agree with a tremendous amount of what is being said on the panel today. I am not going to spend a lot of time talking about pricing, just because I am uncomfortable doing that in this room today. I will talk about business economics, and I will talk about the competitive set that we all are dealing with. I know to some of you I am an outsider, and the company that I work for, and I am pleased to be representing here today, by some of you or maybe even most of you, I am seen as an outsider. As I sit here and think about the kind of value I might be able to deliver to this audience today, I would like to kind of set up my remarks in this way, and for some of you out here who have the privilege, and we greatly appreciate the fact that you served in the military, some of you may be Marines, so as I use this analogy, please don't turn to the guy next to you because you might know the story I am about ready to tell. There was a famous Marine in WWII and in Korea by the name of Chestey Puller. He happened to command a very large unit at the Chosen Reservoir in the '50's. The unit became completely engulfed and surrounded by Chinese and North Korean soldiers, and Chestey was confronted with the fact that there was an overwhelming enemy outside. He was completely surrounded. He assessed the situation and he decided how he was going to deal with it, and at the end of my remarks I will tell you exactly what he said and how he did.

The fact of the matter is the world is changing, and it is changing at an accelerated rate. You have new competitors on the front that you did not have some 5 to 20 years ago, and I dare say they are merging at an accelerated rate. There will be more tomorrow and the day after. Having said that, I am extremely optimistic that as a group we can come together and get a lot of things done. First of all, my background is not in horse racing. As some of you know, I have been to four horse races in my life before 2002 and joining Youbet.com. I have also told a lot of you that I did not plan on staying. I intended to do what every other greedy executive in the world did, walk in, grab my options, turn the company around, walk out, and hopefully get paid. Well, the fact of the matter is, and this is god's honest truth, I fell in love with most all of you and I fell in love with this business. I now am a proud horse owner. Admittedly, more quarter horses than thoroughbreds, and the ones that don't run are the ones that I ride. The fact of the matter is I have begun to understand exactly the kinds of problems that all of you face on a daily basis. It is, in fact, becoming a more and more expensive business to produce, and that is not going to change. Also, I think the tools that are available to you are growing at the same rate of speed or even greater. The Internet is available to you and there are other business tools available to you that you can use, and you can be effective, and you can compete. I would also agree with Lee that you really need to take a hard look at the economic models and what you distribute those products for. I agree with Dave Willmot that anybody that walks up to you and tells you that if you shut off a rebate shop, those guys are not going to get back into the pools. They are not going to bet, you are going to lose the money. I own one of those, and that is the most absurd argument that any human being can make. It ain't going to happen, ladies and gentlemen, they are going to find their way back in. I might disagree with how they exactly do that with my colleagues to the left and right. My fear is that those individuals will in fact find serious volume discounts. They will just find them further outside of the pari-mutuel pools, because I have some news for everybody. If you don't know, and I think most of you do, in the UK last year, an \$11.4 billion IPO went off that 70 percent of the customers were US based on the London Stock Exchange, an \$11.4 billion company. This company is engaged in clearly illegal activities in the US, because they are basically taking money from customers to play poker. There is virtually nothing that the US is inclined to do against that company, which, by the way, are US citizens. The fact is, we can stamp on the rebate companies and we can do those kind of things, and the risk that we run is we chase them further outside of the pari-mutuel pools and into hands of

people that you have less knowledge of than you do of the individuals you are currently working with. I would strongly suggest that what you do is look at the models internally and you think about the economics of those models and start thinking about the partners that you have had, and possibly what we can do is reframe these issues. We continue to look at them at the same way and approach them the same way over and over again. The outcomes will be identical. If you believe that to be different than that, I think someone once said if you do the same things over and over again the identical way, and you think they are going to turn out different, it is a form of insanity. We do have to reframe the issues that we have. Much like if railroads, which you have probably heard this analogy before, would have reframed their mindsets and not see themselves as railroads, but saw themselves as transportation companies, they would not have lost their passengers and they would not have had freight moved the way it is today. They would have been as large and as strong as they once were. They did not accept it. They refused it, and what happened was railroads got into big trouble. Someone else mentioned earlier today that in communications, the last telegram was taken, and the reason why is because consumer demand found a more efficient, more convenient way, in order to have what they needed done done. Today, all of us know that we are literally in touch 24 hours a day, seven days a week, with anybody that wants to get a hold of us because most of in this room are carrying cell phones and we are not getting telegrams. Well, Western Union missed it. Others emerged because they understood that technology, they understood the models, and they got it. I sincerely believe, and there was another issue that popped up that I would like to comment on, and that was an article by two columnists who I have a tremendous amount of respect for. You would think as a chairman and CEO of an Internet company, I would have been particularly excited that I was named in Andy Beyer's column. Any ink is good ink. I have to tell you that article scared the hell out of me in one respect. That is that I am not one of those people who thinks it is a great thing that guys sit home and do nothing but wager. I think there needs to be a good mix of an individual going to the track and enjoying the experiences that I got to learn about over the last four years. I would even preach to you that there is nothing, standing on that rail, watching that little brown furry animal come around. It is fun. It is exciting. It is terrific, and if we do that right at the racetracks, we create environments in which they want to come, you know, I think that is a good thing. I am going to do everything I can to promote customers that I have at Youbet.com to participate in live events because I think it strengthens my business. I also am a big believer that

the reality of life is that between commuting times and work and everything else that is done, these people may want to get to your tracks, but don't have the time they once had. They don't have the time. Think of your own lives. You collectively don't have the time. They have also got other things competing for their entertainment and their interests, so we do need to do some things in the sport to spruce it up. Make it a little easier for younger people to get involved. The fact of the matter is I am really optimistic that we can do that. The industry came to us, or we came to you, however you want to put it, maybe some would even say uninvited, but when we got together, we listened to what you had to say. Don't cannibalize my live audience. Grow it outside of at least 25 miles, if not 50 miles from your tracks. Don't grow it deliberately against the current set of customers that we have because those are aging, we are losing them, and we have better yield off them. Don't do that. So Youbet.com went from mass marketing to targeted marketing. Our fastest growing segment today is 21-30 year olds. Our second fastest growing, 31-40 year olds. Fifty percent of our revenue now comes from people under 50 years old. At the end of the day, I take out too much money from you. What did he just say? I said, I take out too much money from you. I get six percent at the end of the day. I pay everything else out of the six percent, no matter what I take in. At the end of the day, I am getting about six percent. It is on about \$500 million of handle that four years ago was about \$65 million worth of handle. I believe Youbet.com will grow to closer to \$2 billion in handle. When I do that, you now have me on the record that I will cut those rates in half because I absolutely agree with my colleagues to the left and the right that it has got to get more efficient. It has to make more sense to you. If it does not, the overall ecology of the business cannot survive. We have to become collectively more efficient. Guys like us have to lead it. The other concept that I want to put out in front of you to think about is it is not just about yield in its entirety. It is about retention and turnover of the money. If I go out and I basically get about \$130 million in deposits, and I have about \$27 million dollars in withdrawals, overall my customer base is turning about \$110 million into the system. Whether you get it at 3, 6, or 12 percent, frankly all of you are getting it, the pari-mutuel community as a whole through transactions, through hubs, through host fees and source market fees, are getting the money. It is much like sitting at a blackjack table, where if you play the game perfectly, the odds for the house are at about 1-2, if you stay there long enough, you are going to have all your money taken by the house. They may take it from you slower if you play it perfectly, but they are taking it from you. The net winners at Youbet.com are very small and

basically what they do is they churn, so the money keeps going in. The fact of the matter is I have to get more efficient and everybody else around it has to get more efficient. Let me tell what Chestey Puller said when he was surrounded. He said, “Fantastic. Now I can attack in every direction.” By the way, lowest fatalities are at friendly fire. He knew who his friends were, he knew who the enemy was, he killed the enemy and he was very successful at the end of the day as a result of that. It does not mean there were not casualties. It does not mean it was not hard, but that man’s mindset was, you can’t beat me, I am going to beat you and this is an opportunity, not a problem.

Chris Scherf: John, you want to follow that with Magna’s take on where we are?

John Marshall: Sure, and not so much Magna, but the Meadows itself. My perspective is looking at the topic at a different slant. Not so much of can racing adapt to the marketplace, but what is racing doing to adapt to the marketplace? My view from within is coming from the floor of the grandstand at the racetrack, from the floor of the OTBs. Realizing that every marketplace is different, each racetrack and location is going to have its own individual market demands to adapt to. This type of adaptation that I am about to talk about is not adapting by choice, but a matter of adapting for survival. For a racetrack to survive with the external environment in our marketplace, to not deliver a bottom line loss to our parent company, which we have not. We are proud to say we have not. Racing is a business and it has to be operated like one. Racetrack operators are challenged right now to operate within the means of their business, within their own means. I am concerned that racetrack operators have, not so much forgotten how to punt, pass, block, and tackle, but have put those items to the backseat to the more romantic issues that involve racing economics and pricing and all of the things that my superior colleagues have spoken about. An example of what we have done at the Meadows to adapt our operation to our marketplace is with our 5 OTBs and racetracks, we have reorganized to the point where we no longer have mutuel managers. We no longer have food and beverage managers, and we no longer have admissions/program managers, we have teams of multi-functional, cross-trained managers, individuals that can operate and troubleshoot tote issues, operate control room TV equipment, open and close food and beverage operations, open and close the money room, and respond to guest’s needs on the floor. We are proud of the fact that we have come out of the one

dimensional point of view, and now we are multi-dimensional. We have a team of people back home at the Meadows who are proud of accomplishing the same thing. The best thing I can do to horsemen, regulators, management, track owners, is to encourage them to take action. The question is not, today, can racing adapt? It is, what are you doing to adapt? What is everyone doing? A horseman could work towards creating legacies and creating champions in our industry that are not too quick to go to the breeding barn. Regulators in Pennsylvania were very fortunate to have a racing commission that performs their activity of control of our industry with limited bureaucracy. In other jurisdictions, I would encourage that bureaucracy to be as limited as possible. Management, to innovate and to be creative, operationally, on the floor, and also marketing to the external and using the technologies available to integrate into our bricks and mortar businesses. Of course, our track owners investing in development that leverages returns on investment, and not developing operations that could fail, or have a high risk of failing. With those approaches comes the balance between the history and the rich traditions of what we have seen last night at the Night of Champions, that is important to our business, and it has to exist for us to operate pari-mutuel wagering. To balance that component with the components of the new generation and the new race fans, the new people involved in our industry, and at the same time navigating our business to be break even or better, and to produce profits. One thing I would like to share with you is in preparation for integration of racing and gaming with our prospective racino operators and our new owners, we did a survey of 200 members of a player rewards program who are from generation x and generation y, those 30 years old and younger, we asked them what they want, what would they do, what their interest in horse racing is like, whether they would be interested in owning a horse someday or bringing a friend and coming out to the racetrack? We asked if they are interested in handicap seminars, if they would bet on races, what type of entertainment they would like integrated into the racetrack to make it a more desirable destination. It is the integration of sports, basketball, football, hockey, baseball, into the overall experience. It is entertainment, the boxing, the nightclubs, the dining options, a place to go with friends. Also out of the survey, we got the criticism of racetracks that the aura is not in fashion and not en vogue. Of course, that involves new capital investments, so we are taking it one step at a time. So what I have to ask everybody here, everybody in this room, for us to avoid coming back here next year and asking ourselves, can we adapt, perhaps Stan's topic for next year is

what have we done to adapt? I am challenging everyone to contribute to the answer of that question and hopefully be able to share things that are working for everybody.

Chris Scherf: We are near the end, but I had promised Lee that we were going to give him the opportunity to talk about exchange wagering, something he has practical experience with. I would just ask, in your comments, in discussions about exchange wagering is commissions are so much lower than pari-mutuel commissions and we tend to start from the position that we need to have eight or nine percent in revenue from each bet to the track, and eight or nine percent for purses. Can we afford to continue to have those kind of mandates on the pricing of the product? If you would incorporate that into whatever your remarks on exchange wagering are going to be, I would appreciate that.

Lee Amaitis: Two points that I would like to make. One is that, it is probably going to be annoying to hear it again, but I think the industry has to raise their price to rebators. You put on the show, you have to raise your price. It was said today that they will find a way back into the system. That is exactly what you want them to do, but get your money for it and raise your price. You are the producers of the product. Therefore, if they find a way back into the system, they want to come back into the system, they will pay the price.

On exchanges, I will be brief. Exchanges have been controversial in the United States, obviously don't operate in the US, and have been a very successful model in the UK. One of the reasons why exchanges are successful in the UK is because there is theoretically no pari-mutuel wagering. Everybody bets with a bookmaker, and basically you do not have as much on exotic betting as you have in the US. You don't have a lot of multiple options in terms of racing in the UK. You do in some respects, but nowhere like the industry has presented in pari-mutuel wagering. I think to focus where exchanges would matter to the industry would be, in an industry-owned exchange (this is not a plug for business, by any means, for any organization) an industry-owned exchange could operate and save your win, place, and show pool models. You command an eighty percent market share on your exotic bets, but your win, place, and show pools are the ones that are dramatically depreciating. What you could do is take a lower takeout rate on a smaller portion of your turnover based upon the fact that turnover will guarantee to double treble over the course of time. When you make the client the layer, the client keeps

coming back, and there are a lot of transactions that take place. It is a proven model, it is successful in the UK, it has taken off, there are no exotics to speak on, and it will probably never crack the exotic market because the permutations are too calculated to do. I do not think that anybody that is a layer on exchange is going to sit there and try to lay superfectas until the cows come home, to make a buck, to risk a couple of hundred thousand on a superfecta, I do not think is the model for exchange layers. The model for exchange layers is to lay horses in the win, place, and show categories, where the industry is losing some momentum. I think that racetrack operators should get together and at least have a conference or a talk about whether you can own one, build one, and operate one that you control, and do not let anybody take it away from you. It is your pricing model then.

Eugene Christiansen: I just wanted to endorse that suggestion. What I have gotten from this discussion is I don't think anyone in this room realizes the extent to which the pari-mutuel model is broken. The takeouts you have, the takeout levels you have, this statutory framework, where all the money has to go through the pari-mutuel machines, this is, for this industry, a suicide pact. Betting exchanges, which are something that evolved on the Internet, the consumer likes this. The consumer all over the world has endorsed this. To try and circle the wagons, and say this does not exist, not to create your own betting exchange, I just think it is horrifying. If you got nothing else out of this, it is just a horrifying response.

Tom Aronson: Just for the record, I completely disagree, but we will save that for later on.

Maury Wolff: The question is for Lee. Lee, your comment was that they have to come back. The whole offshore business is a statement that they don't have to come back. Absent US enforcement of making all that wagering illegal, why, if you kick players out of the rebate shops do they have to come back to the business? And don't they end up at the offshores?

Lee Amaitis: I am not suggesting that you kick players out of the rebate shops. What I am suggesting is that I think the industry as a whole, when they were challenged for distribution, gave away their product too cheaply, and I am suggesting that I think the industry should take a look at re pricing their product, so that they can actually get paid for putting on the show that hey

do. You, as a bettor, would probably be in the position to say you will take your alternative someplace else, and they have every right to do that. But if you are a true fan of racing and you are a true fan of betting on what I would call quality product in the US, it is up to anyone that enjoys it, and makes money out of it, or has access to it to understand that it cannot continue at the pace it is at today.

Tom Aronson: Maury has been accused of being the devil in disguise many times, and that is just one more of them. I think the problem for the betting exchange concept is really the arch of where we are today to where that would take us. They're pari-mutuel today, betting exchanges in the future. The only way you can make up the difference in the purse monies that are currently coming from pari-mutuel is in the volume of betting exchange. The biggest problem in a significant alteration in business like that is the disruption that it causes on the way. I am certainly open to the discussion about it, but everybody has to understand that racetracks, in taking a step toward endorsing exchanges, if we are going to promote exchanges, we will promote exchanges, and we want everybody betting over there because it is better for the industry long term. Short term, you don't have the volume, you lose a tremendous amount of purse money, you cause a tremendous dislocation in the industry. Again, this gets back to one of the points I was making before about strategy versus tactics. If the industry as a whole ends up agreeing one way or the other, and I don't mean everybody voting, but strategically, at the top end we decide we want to get over to betting exchanges. The tactical issue of how to get there is brutal and there is going to be a lot of bloodshed along that route.

Jerry Connors: I said this in Tucson, I believe, it costs six times as much to develop a new customer as it does to keep an existing customer happy. Should most of our efforts go after the 21-38 demographic, or are we in racing doing a poor job in providing the necessary information that might stimulate our current customers to bet more and to understand the game more, which leads to betting more, and that is one nice vicious cycle there.

A Voice: If your current customers never died, that would be a great plan.

A Voice: Like Bogart said in "To Beat the Devil," obviously you have to do both.

Charles Champion: That is unfortunately the reality of it, and that is that we are going to have to do both. We need to make the experiences at racetracks as exciting as we can make them within the limitations that we have. We have to be innovative and do things at tracks today that retain customers. We have to think about how we park people, to how we charge people, to the kind of amenities and the food and everything and the experience that they get at the tracks. We have to understand that the fan of today is very different than the fan of 20 years ago. They expect and want different things, and I applaud Magna and Frank specifically for the kinds of investments he is willing to make in the industry. While some might disagree that everything he did in terms of Gulfstream and whatever that he has done may not have been absolutely perfect, at least the man is stepping up and putting a lot of money into the industry to try to come up with a different way of approaching it. I think we all need to kind of think about that very carefully and more closely work together. One clarification I want, again, being an owner of a rebate shop, I don't disagree that, in fact, the industry needs to get control, individually, over its own price. I don't think that these customers are as price sensitive as some of you may think. I also believe there are a lot of people that are coming in through these shops that you might not want in through the shops because their volume levels would not indicate that these are individuals that need to be given rebates. That is why we have decided to buy one of these and wrap it with a compliance committee that consists of very senior law enforcement officers to give you the insurances that this is a transparent, compliant pipe that gives you full and total control over your pricing downstream. The way it really works is you set the prices up front, I tell you how much I am going to take. You can be assured that through a pipe like ours or like others that will be created, because I do not suggest that we need to have the only one, I think there are others that should and could be created, but you have to have those things. I would argue that you need to know who these people are. Some of you take up to 3,000 guests into your host. The most important thing from my perspective that we have to do is keep the integrity of the pari-mutuel system sound. You need to know who these people are, you need to know who their customers are, and you need to know how they run their businesses. You need to control your price, and I would argue that you need to look at your business economics because there is room in it to do just that.

Tom Aronson: Remember that innovation is its own inherent publicity and PR campaign. Whether you install a new bet or a new charting system or whatever, these are the kinds of things, technology is a story itself. Guys like Bill Christine and Charlie Leerhsen and the people you heard from yesterday love a story about something that is different. If nothing else, think about moving your marketing and publicity budget over into some innovation and you get some bang for your dollar right there.

Jerry Connors: David Willmot, for example, has a very good model and he is making it work in Canada. I mean, you can look at it. Admittedly it is integrated and he has partners with the government and he has partners and a lot of the stuff he does himself, but I think it is a great model. He puts on a great show. It is augmented admittedly by slots. He has an ADW platform. He has a sports bar where there is all this stuff going on. It works really well and he understands his pricing.

A voice: As a group, I am going to tell you right now that we are appealing to both. Companies like Youbet and Xpressbet are appealing to the generation x and y people and our regular, everyday customers are being appealed to by us through all of the player rewards programs that we have. Where the follow through is and what is missing is the integration of those two pieces. Eventually there will be a day where Youbet and Xpressbet platforms are at the racetrack, commingled with tote technology to be able to accept wagers from those of all generations.

Charles Champion: Not to dominate this, but think about it from this perspective. Doesn't the industry want and need an integrated solution from front end to back end, so when the customer comes to the track, you know who they are, you know what their play is, whether they are there with you, whether they are in one of your OTBs, or whether they are online, or on the phone, or on their device. You want to know that. You need to know that. You need to have an integrated solution. If an individual feels comfortable basically at home downloading DRF and Equibase data and other tout sheets, and does their handicapping and all the rest of the stuff, don't you want to know what they are doing, what they are watching, how they are doing it with an integrated solution from front end to back end. Wouldn't, eventually, some of you, as long as you were certain that we were not looking to cannibalize your businesses and looking to

deteriorate your margins and cause a bigger problem for you at the tracks, wouldn't you want that technology available to your customers when they arrive there, as long as we could work out the economics, as long as we did not disrupt the pari-mutuel clerks in the process, or disturb other things? Wouldn't you want that convenience?

Stan Bergstein: I have three more questions here and then we are going to have to wrap it up and move on to our next panel.

Christian Hellmers, Betfair: We operate the world's largest betting exchange in the UK and we are looking to partner with racetracks and horsemen in the United States. I hear the same things at every conference that I go to, "We should raise prices on our product." I never see a customer, and never yet to see a player, well maybe Maury one time. I don't think that enough people in the industry are listening to the customers, and I think it is evident by some of the products that are available. A recent study done on DRF.com indicated that 75 percent of people would like to use betting exchanges. I want to talk about growth. My question is how are we going to grow? I keep hearing the same things. That raising our prices is going to help the industry grow? It will give you more control, certainly. How are you going to grow? I want everyone here to at least offer some suggestions, constructive suggestions as to what racetracks or their partners such as Youbet or potential partners such as Betfair can do to help grow the game. Is it going after younger fans? If it is, what are you going to do to get to them?

Tom Aronson: Christian, how do you answer the question of the disruption that occurs if we move to betting exchanges here immediately? How does that work? The purses that are paid in Britain, compared to the number of horses that are competing for Britain has a completely different model. Very interestingly close to what we were talking about early on in this where a smaller number of horses compete for a dramatic amount of betting due to the off-track betting shops and the bookmakers and so forth. The question is not the facile question that you just asked, which is do you want to grow or not? It is how do we get from here, where we are today, to there, given the fact that we have a particular model here that has a lot of live animals running, a moderate amount of purses, and a very, very significant infrastructure that cannot afford the disruption that conceivably can happen.

Stan Bergstein: That discussion will have to continue until next year or he will have to ask the question individually. Next question is probably going to be a dissenting view from Warren DeSantis.

Warren DeSantis: Thanks, Stan. I am a director of Racing and Gaming Services. We were the first one in the rebate business, offshore depository. We started about ten years ago, by way of background of a horse owner and an official for 25 years. One of the things that we did, and Mr. Willmot talked about the horses and the racetrack, what came first, and what is most important, but we always felt that the product and user or customer determined success or failure. With our program and our methodology and business plan, we said, "Let's keep the end user alive longer. Let's give him his money back." Granted, we do not pay purses, but almost the entire part of our income goes back to the customer. Gentlemen, as you know, and any of us that bet horses, it is an extremely difficult game win at. Without the rebate, most of our customers would not be playing. Any money we give them back, they just recirculate and rebet. You can make a nickel 21 times or a dollar once. The question I would like to address the panel, where we give the end user the product, determined success or failure, his money back and pay a premium for all our signals across North America, the OTBs in New York have a discounted pricing system and charge the customer six percent to cash the ticket. I have not heard anyone question that methodology. I was just wondering why there was not focus on that rather than companies such as ourselves that give the player his money back.

A Voice: Mr. DeSantis, wouldn't you agree that with rebators it is going to be at some form of market rate that is determined by racetracks themselves, and as long as those are competitive with what the offshore bookmakers can provide, those customers will be retained or they will find places to go where they can get those rebates?

Warren DeSantis: There is an optimum number that works and if they don't play with us, they do find someone else to play and that money does not recirculate back. I agree with your earlier opinions, where Lee before said you have to increase price. I am telling you that if you lower price, in the end, you will get the nickel 21 times rather than the dollar once because all the

money goes back to the bettor. It is not kept marginally profitable. It is a profitable company, yes, but a great part of the revenue goes back to the customer. If we don't have it, then we will find pinnacles of the world that do billions of dollars of business and keep it and do not pay one cent to the horsemen or the racetracks.

Dan Fick: We heard some talk throughout the panel on repricing, readjusting the pricing, and reengineering the racing product. What would be your advice and your message to the horsemen, and especially the breeders going forward?

Tom Aronson: I think that as much as I am on the side of horses, my wife writes books about them and rides, and I live horses, I think we all have to anticipate a day here where fewer horses are competing for hopefully more money, each one of them being worth dramatically more than the individual horses are today. It is the only economic model. Either we start taking steps toward it, or the marketplace will force us, as it is already, making horse ownership increasingly untenable. We have to expand the number and the ways that we electronically use horse performances expecting, unfortunately, that the number of horses in this country competing for the purses may decline, but that each one of those horses increases in value.

Stan Bergstein: On that note, I want to thank the panel for a profound discussion of the issues of racing here this morning. Thank you very much.