

Fifth Annual Joint Meeting of HTA and TRA

Monday, March 12, 2007

General Session

11:15 a.m. to 12:15 p.m.

Technical Investments in Racing: Part Two

- **Joe Asher, Cantor Index**
- **Timothy Capps, University of Louisville**

Stan Bergstein: A few years ago, Joe Asher burst on the racing scene and he has had a tremendous impact on it since that time. He is now the managing director of Cantor Gaming and Cantor Index and he is one of the brightest minds in racing today with progressive ideas that are going to have a long-lasting effect on the racing industry.

Joe Asher: Thanks, Stan, and thanks everyone for sticking around for the last panel on the last day. I took a little liberty and just slightly modified technology investments in racing, which I actually think was extremely well covered by the last panel, and went a little bit farther out and started thinking about technological investments in gaming. There's one aspect of that which I think I have a bit of knowledge, and it's the concept of mobile gaming. It covers racing but also casino-style games and it's been a subject that has attracted substantial attention within the gaming industry in the last couple of years since the movement to legalize it and implement it. The idea I want to cover is: What is mobile gaming? The market for mobile gaming, here in the U.S. was the principal focus of Assembly Bill 471 that was adopted by the Nevada legislature in 2005. In Europe, mobile gaming means something very different, and the advancement of it is quite a bit ahead of where we are in the U.S.

Mobile gaming is the ability to play casino-style games—horses, sports—from some sort of mobile device. It's about content and distribution, and as the last panel was speaking I was really thinking of those two concepts and funnily that's what's relevant in many industries, the racing industry being one of them. What is the content and how is that content distributed? The idea is to distribute the content in a fan-friendly way that's really consistent with the way people are used to getting their content today. It used to be if you wanted to learn the news, you

basically had two options: you could watch the evening news with Walter Cronkite or Peter Jennings, or you could read the morning paper. Today people get their news in all sorts of different ways. Nobody really waits for the morning paper to get the breaking news, you get it on the Internet or you get it on a Blackberry or cell phone, but you get it when you want it and in whatever format you want it. So really, why should the gaming industry be any different; why shouldn't a fan be able to get their content where they want it, however they want it? That's the fundamental point behind mobile gaming: it's to give the customer what he wants, when he wants it.

With respect to the market for mobile gaming, this is something where you can see all sorts of numbers. Juniper has numbers that show the market going to over \$20 billion by 2011, a substantial amount of that being in Asia where the gaming industry is really on fire, and in Europe as well, where mobile technology is farther advanced, but there is a meaningful progression here in North America as well. In Nevada, the question often comes up: What is the market for mobile gaming? The only honest answer is that nobody knows. I get asked this question quite a bit, and nobody really knows. But if you think of the statewide gambling win in the state of Nevada last year, which is as good a place as any to start, it's slightly less than \$12 billion, and so if you capture 1% of that number it is \$118 million, 3% is \$354 million. At very small adoption levels, and very small incremental amounts, it starts to become a very significant number. So whether you think of the pari-mutuel handle being somewhere around fifteen to eighteen billion dollars across the various breeds, if you increase that by one or two or three percent it starts to become a meaningful amount of handle.

The purpose for talking about the Nevada mobile gaming legislation is really to give you a concept of how the market is developing in the U.S., because Nevada has taken the forefront of it. The legislation that was passed in Nevada, Assembly Bill 471, received a substantial amount of coverage across the various media—newspapers and television coverage—I don't really have an explanation of why it gained so much coverage other than the fact that it's new, it's interesting, and gaming is hot. Technology is hot, so you have the convergence of both. The Nevada concept is relevant, particularly in the racing industry both to the racino market and the adoption of slots at racetracks. It's also relevant to people who want to be able to bet on horse races whether they're on-track but just don't want to go up to the windows, or because they're off-track and they want to bet however they want to.

With respect to Nevada, the legislation authorizes gaming on mobile devices, in the public areas of non-restricted casino licensees. Basically what that means is the public areas of casino resorts. The hotel rooms are off-limits, parking garages are also off-limits, but anywhere in the public areas, gaming is now permissible in casino resorts. A casino resort is defined as 100 slot machines and at least one table game. In Nevada, slot machines are prevalent not just on the premises of casinos, but they're at convenience stores, and in the bars, but there's a distinction in the law between bars, which are restricted licensees that have 15 machines, and anything above that requires a non-restricting gaming license. The one table game element to the law really changes the potential application with respect to one particular type of location: the Las Vegas and Reno airports, which have numerous slot machines but no table games. So the idea from the legislature's perspective was to restrict this to resort casino properties. The legislation authorized the gaming commission to adopt regulations governing mobile gaming. It created a new licensing classification called operator, manufacturer or distributor of a mobile gaming system; and the gaming commission adopted the final regulations covering this in March of 2006. What those regulations require, as I mentioned earlier, the gaming has to happen in the public area—which excludes guest rooms or parking garages. There has to be a method to ensure that the user of the technology is authorized and I'll get into that in a moment. There has to be secure communications between the mobile gaming device, which the patron carries around on the casino property, and the gaming system.

Fundamentally, mobile gaming, at least in the Nevada context, is server-based gaming. People involved with the slot machine market are familiar with the concept of server-based gaming, which is that the determination of win or loss, the random number generator, is located somewhere other than the slot machine terminal itself. So there's a server at the back of the house, the player plays either a fixed slot machine, which is conventional server-based gaming, or the next medium for distribution, on mobile devices. The last aspect of the regulations is that there is some element of volume control, so that people don't have to listen to the noise if they don't want to. From a tax perspective, the devices are taxed as slot machines, and the reason I included this is because it becomes relevant in the Indian gaming markets, and certainly in racino markets as well where there's a limit on the number of machines you can have. The big question that will come up is whether or not each individual mobile device counts as a separate gaming device. In Nevada it doesn't matter from a number of devices perspective, but from a tax

perspective, they're taxed as slot machines. The business justification for it: the average visitor in Las Vegas who gambles spends about three and a half hours a day gaming, so if you assume that people in Las Vegas spend eight hours sleeping—which, of course, is probably a very faulty assumption—that leaves 12.5 hours for them to do something else, whether that's spending time by the pool or at restaurants or bars, conventions, shopping, golfing, all sorts of other activities. The idea behind mobile gaming is that if you can capture some of that other additional time which is theoretically available for gaming, while people are doing these other activities that they want to do, you increase the amount of time that people gamble and you increase the gaming win over the course of the day. It's really the multi-tasking concept. There's some period of time, especially now that the weather in Las Vegas is fantastic that people are going to spend their time out by the pool. If you could let them gamble when they're out there, or if they're stuck in a convention all day, if instead of checking their e-mail on their Blackberry, they could be allowed to gamble, that's going to increase the gaming turnover during the day.

The market is just now evolving, but it really got off to a very quick start in many respects, and I think what gained a lot of attention was that the biggest casino operator in the world, in terms of market capitalization, the Las Vegas Sands organization, became the first operator to jump in and announce that they were going to adopt mobile gaming. The Venetian is going to field-trial mobile gaming later this year, and also is planning to install it in their properties throughout the world, which includes Macao, and in the future, Singapore. So I think the adoption by such a prominent operator, early on, has really focused the industry on the future and the potential of mobile gaming.

I mentioned earlier the concept of content and distribution; mobile gaming is really a new distribution channel by which content providers can get their content into the market. So prominent content providers, such as Aristocrat and Atronic and Progressive, have already made deals with mobile gaming operators to distribute their content through this new distribution channel. I think you will also see other content providers focused on doing the same, and certainly in the racing industry it's only a matter of time before the content providers, the racetracks, choose to distribute their content in a different way because why wouldn't you? We already have the content, the idea is to get it distributed to as many people as we can, and to distribute it to them in the medium in which they want it.

What is mobile gaming? It's table games, such as blackjack, roulette, baccarat, poker, whatever game you might think of; slots; and then obviously racing sports. Certainly in the casino industry, I think a lot of people really focus on the racing sports as perhaps the biggest opportunity for mobile gaming. The concept really is people don't want to spend all day sitting in a sports bar, especially when the weather is nice. So the ability to distribute the content on mobile devices, I think, is something that people are particularly focused on the racing sports angle of it. Frankly, some games just don't work well at all on a mobile device. Nothing replicates standing around a craps table, that certainly doesn't replicate onto a mobile device. Slots work fairly well, blackjack and poker work very well. But I think generally that the racing sports work particularly well on this distribution medium. Just briefly from an operational level, so you understand how it works, the player creates an account so it's account-based wagering. They get the device as the casino cage or some other approved location. They have to present proper ID, there's a user name and password that gets created, and the player then funds the account by depositing cash. The player wagers on the device and, as I mentioned earlier, the win or loss is determined at the server level, and it gets credited or debited to the player's account. When the players are done, they come back to the cage, they return the device, and they can either just leave the money in the account for a future visit, which of course is great for the casino because then they get the float, or of course the player can just withdraw the money, take the cash and go home. Fundamentally, I think for on-track, it's really account based wagering, not at all dissimilar from what occurs at racetracks today.

From a regulatory perspective, I think a few things that regulators are focused on is there is an element of fraud reduction in that cash gets touched only once on deposit and once when you cash out. It also avoids issues of collusion, which casinos are constantly protecting against. For instance you have a dealer who has a conspirator playing at his table, each and every keystroke log is registered to resolve any patron dispute, you know exactly what cards were dealt, what the player did. And you establish age and identification before play, which is great for things such as underage gaming, but also player tracking which obviously is a very important issue in the casino industry. That's a sort of schematic overview of how it works, but fundamentally you have mobile devices connecting over a wi-fi network on the property and they connect to the game server, the casino back office, the hotel management system where you integrate the player tracking, and then there's management of the wi-fi access throughout the

property so you know that the person isn't in a room when they're playing and that really goes to the location control aspect of it.

Fundamentally, it's pretty easy to enable mobile gaming; the art comes in disabling it from the areas where it's not permitted on the property. So that's sort of the overview of mobile gaming in the Nevada sense, which really becomes the U.S. model as well. Various Indian jurisdictions and other resort properties are already focused on adopting mobile gaming. I thought it might be interesting to contrast it for a couple minutes on what mobile gaming means in Europe, where fundamentally it means something very different. In the U.S. mobile gaming really means on-premises, in Europe it's a cellular-based off-property product. It could be expanded to wi-fi or wi-max but fundamentally it's cellular-based as the European phone market is more mature than in the U.S. in that the employment of 3G networks is far more advanced. Unlike the online gaming or Internet gaming area, the user experience on mobile devices can be controlled or gate-kept by mobile carriers. The carriers really can control the access of the devices or what goes across their devices and I think that becomes important as cellular-type gaming begins to grow, not only in Europe but here as well. A significant aspect of it is the consumer inclination to go to trusted brands, brand names become very important in this context as well. I happen to think that brands on the Internet are also very important, and in Internet gambling because the customer wants to know that the game is fair and that they're going to get paid, and really that's the same with respect to cell phone gambling.

The issues are slightly different: what are the regulations that govern? The age verification? There are technology issues such as: the network roll-out of payment processing and how a customer funds his or her account, the capability and availability of the various handsets also limits what sort of content and to where it can be distributed, as do the size limitations of the screen. In Europe, the bulk of mobile gaming today is made up of racing and sports betting and it's particularly useful in that in Europe, a lot of wagering occurs after the game starts or after the race starts. As anyone who has been on BetFair or any of the exchanges can tell you, people bet after the race starts, and that can become very important to allow the player—it doesn't work if the customer has to go up to a betting window to try to bet during the game or during the race--but if you can bet from a mobile device wherever you are, obviously it becomes far simpler to do and of course that makes up the majority of the market today. Lotteries are ideal because it's a very simple game and a very small bet stake. Casinos are still

developing in Europe and it does rely on the abilities and the capabilities of the networks and the devices. So that's sort of a brief overview of mobile gaming. I hope you can see the application to the racing industry of what I've been speaking about, but I'm obviously happy to answer any questions later on.

Stan Bergstein: To conclude the general session of this year's fifth annual joint meeting of HTA and TRA, I've called on one of the sharpest minds that I know of in the racing industry. Over the years, I've followed his writing with admiration and awe, and followed his thinking. He's had a varied career, which at the moment is at the University of Louisville, Racetrack Program, where he is now a professor. So here is professor Timothy Capps.

Timothy Capps: Thank you, Stan, for the kind introduction. I've been at U of L now since the beginning of January, but I've had a number of people in the industry that I've known for years who have said "it's great you're there, it's a great fit." For a while I took that as a compliment, but recently I've begun to think that maybe it isn't, maybe people are saying that old adage "those who can, do, and those who can't teach"—so I'm beginning to wonder if people aren't damning me with faint praise a bit when they talk about this professorial role. But it's been fun; it's been a great experience so far. One of the things that I learned early is that standing in front of a class is not like standing in front of a group and talking about something because you're standing in front of that class two or three times a week and you are talking to people who are paying for the privilege of listening to you and who are expecting to be tested by you and so your level of preparation and the things that you talk about are very different. In my very first class, I introduced myself, I told them something about my own background in the horse business, how I got interested in it as a child, and so forth and so on. I asked them a little bit about themselves and I asked them "what's the one thing that's uppermost on your mind?" This was a class of mostly seniors and juniors, and I had four or five hands raised, and I called on one young lady and she said survivability—is there going to be an industry around in 10 or fifteen or twenty years for me to be a part of? It was interesting because all the other kids who had their hands raised were going to raise a similar question.

Thirty years ago, if you went to a TRA convention, and if you went to any of the industry meetings at the time, usually you could reliably count on there being a couple of panels. One

was on off-track betting and we had usually two or three people from the industry, racetrack operators, maybe somebody from a horsemen's group or breeder's association or what have you, and Mike Shagan who worked for the New York Off-Track Betting Corporation at the time. And the purpose of the panel was for the other three people to talk about how bad the New York OTB model was and, in general, suggest that off-track betting as a concept was bad, and for Mike to be the whipping boy which he did very well. He accepted that quite nicely and he'd fly around the country and go to these various panels. Now, not to suggest that the New York model wasn't bad, because it was and remains bad, but the whole purpose of it was to talk about how bad it was and to talk about what a bad idea off-track betting was. The other panel was on network television and we would usually have two or three network television executives who, in a very polished, diplomatic, professional way would explain to people why there wasn't more racing on television. As I said they were usually very diplomatic and professional and sophisticated in their approach, but that didn't stop people in the audience from standing, walking to a microphone and saying "we're at least as interesting as the NFL, and we're more interesting than the NBA, and for God's sake we're far more interesting than Major League Baseball on television. So why don't we have more racing on television?" even though we've just been told why. I think many people in the industry at that time, thirty years ago, sensed that the numbers in the industry—our aggregate numbers, our handle and our attendance on-track—were already in decline, with the exception of a few unique meets: Oaklawn was booming during that period and really had a period of very strong surge in its attendance and handle; Keeneland, of course; Del Mar; Saratoga, the niche meets that we all are so familiar with. And the major events, of course. There were consulting reports—a few of you may remember the Pugh-Roberts report that was commissioned by the Jockey Club in the mid-70s and there were subsequent ones, I think Harness Tracks of America had one done by a group at Harvard Business School around 1980 Stan addressed the general industry picture and talked about marketing. In the mid-80s, the Jockey Club commissioned another one by a research organization out of New York called the Bruskin Group and they submitted a report about customer attitudes toward horse racing in America, both our existing customers and the people who said they weren't customers, and what their thinking was. Often those reports weren't very well received; in fact they were largely ignored. We were listening, but we really weren't hearing. Perhaps because a lot of the news was sobering, and the predictions that were made of continuing decline and consolidation

or warnings about negative perceptions by fans about the sport just weren't the things that any of us wanted to hear.

If I had stood up at those conventions in the late-70s and posed two ideas to people, I would have been laughed out of the room. If I had said to any of you, at that point, that within a few years you're going to walk into your homes or your business, flip on your television and you're going to be able to access sixty, seventy, or one hundred different channels, you would have looked at each other and said "he's crazy, there's not enough quality programming out there to fill three networks and maybe one independent station in my hometown. How could they possibly come up with enough stuff to put on sixty or seventy or one hundred channels?" And if I had then said to you, by the way, you're not only going to have that, but you are going to pay for it. You're going to pay to watch television. The "Hell no's" would have been resounding all over the room, because nobody was ever going to pay to watch television were they? But we all do. And we pay a lot of money, in some cases to watch TV, don't we?

What we've heard so far this morning, and I've learned some things from the previous panel certainly, but what we've heard this morning is this: technology is out there, technology that we never envisioned or that we didn't think we would embrace or want to use is out there. Cell phones—I look around the room today, everybody has a cell phone, a lot of you have Blackberries and Oreos and blueberries and raspberries and things that I thought were fruits or food-sources a few years ago but they're now electronic devices. You have laptops, we all have laptops, I'm going to get on a plane in about two and a half hours and the first announcement they're going to make is that you have to shut all those things off because everybody's got them and people don't shut them off until we're taxiing. So the technology is going to evolve, whether we want it to or not. And we're going to have to find ways to use it, and we are finding ways to use it. It's tempting to look back over all those dire predictions and say we're still alive, we're still kicking, but we all know that that's only part of the story. We all know that the fact is that racing in North America, and really worldwide, has probably undergone more changes in the last twenty years than its entire history. If necessity is the mother of invention, then this is the era of necessity racing. We've evolved through a series of races over the last twenty or twenty-five years that a lot of us never would have envisioned even as far back as twenty-five or thirty years ago. Off-track betting parlors, brick and mortar OTBs in some instances, inter-track wagering, telephone wagering, big event simulcasting, commingled pools and full-card

simulcasting, cross-breed simulcasting. No one would have thought twenty years ago that we'd be bringing thoroughbred signals into harness buildings and thoroughbred signals into harness buildings. The evolution of the third-party operator in Internet gambling, and the coming of the racino.

The pace of this change is dizzying, confusing and yes, handle and purses are up in a lot of jurisdictions because of it although if you adjust for inflation and the double-counting that I think definitely occurs in simulcasting, then the numbers would probably look a lot more modest than they really are. Ironically, what we've done is exactly what we resisted doing thirty years ago. Why? Because we've had to. The technology that is out there has not only permitted us to do this, but it has dragged us along because the customers want it. If you can imagine a scenario, say in 1938, where we could simulcast a Seabiscuit match race, do you think anybody would have wanted to watch it? Now, we couldn't have bet on it because we had two horses in the race, we would have had to make it a betless exhibition. Nonetheless, people would have wanted to see it. And we wouldn't have done it as a match race, we would have done it as an invitational and we would have had six or seven horses in it so we could create a betting scenario for it.

Those of you who remember your economics 101, remember Jean Baptiste Say's famous dictum, Say's Law: supply creates its own demand, or words to that effect, sort of the "if you build it, they will come" school of thought. We spend a lot of time today mesmerized by the latest technological gadgetry and debating revenue distributions and simulcast pricing, ways of dealing with off-shore rebators, and we're sort of scrapping for every nickel we can. Everybody now wants to be an account wagering operator, or outside operator, or a racino. Fundamentally, sometimes I think we all avoid the obvious question, and that is: are there more customers for our product today than ever before, or have we simply been focusing on squeezing more dollars out of our existing customers, tacitly ignoring what is happening to our fan base, perhaps because we just don't know how to turn that slippage around. Now I can't stand here and tell you that I'm going to fix those problems, although I think that is a problem, but I think it's one that we have to acknowledge even though it may be painful.

Anecdotal evidence says that the economic model we have in racing today just really isn't working anymore, and it probably hasn't been for a long time, that we have more supply in the marketplace than we have demand for the product. We managed to cover that up to some

extent over the last twenty years or so with all the things that I talked about: full-card simulcasting, off-track betting in various forms, because all of this is really off-track betting. Whether its brick and mortars, whether its owned by a political jurisdiction as in New York, or whether its something that's owned by the industry, operated by the industry, it's all OTB. We're at the point where over eighty percent of our handle is being done off-track in some form and in some sense, we the industry are responsible for it.

When our numbers started to slide, however slowly back in the '60s, we started adding racing days to the calendar. Everybody was complicit in that, the tracks needed to do it because they were trying to preserve their economies of scale. Horsemen wanted to it for the obvious reasons, they wanted to be able to run for more checks. The breeders liked it because it pumped up the demand for horses. So the industry, the stakeholders, all have a reason for wanting to do that. But what we did is we started presenting a product to people that wasn't a product that they had gotten used to. We went from a seasonal sport, we started running at cold-weather climates in cold weather, and at really hot weather climates in really hot weather, things we hadn't done before, and we took away the seasonality of our business. Eventually outside forces drove us to embrace concepts that, had we been able to thoughtfully apply them earlier, would have helped us. If we had been able to thoughtfully look at off-track betting and try to figure out what the best models might be and how they might work across jurisdictional lines, perhaps we could have avoided some of the things that we have going on today and we might still have a product that would have a more seasonal outlook to it, and be able to attract a local, casual customer. Again, there's no one breed, one stakeholder that's responsible for this.

The question for us today is: can we get the genie back in the bottle, or should we even try? Right now, with all the talk about increasing the distribution of wagering opportunities through technology, which is happening and it's going to continue to happen because we're going to be dragged along whether we want to or not, it seems that our real focus is in getting into another sort of gaming industry, another type of gaming business. We want to be in a racino business. And it's certainly possible that the dollars generated by slots could also turn back the clock a little bit, to the time when we drew crowds to live racing. I say possible because, it's difficult to envision that happening if we continue to operate with the same industry model we've created, however inadvertently or however much of it was forced on us by circumstance. We need to readjust our thinking about what the sport's all about if that's to occur, and it has to

start with an assessment of why we do this: are we doing it for the customers or are we doing it for the stakeholders? I think for years we've been operating as if it was more for the latter, and when people get up and talk, as they will, and they have at this meeting and you hear it other places, and try to put a finger on who's responsible, somebody will say the breeders are responsible, and Tom Aronson pointed out earlier that there's nothing wrong with the breeders making money, and that's certainly accurate. Or the horsemen, or track operators. There is no one group responsible for it. I don't think many people would argue that our fan base has expanded over the last several years or so, even though we dramatically altered our distribution network.

We've been, to some degree, salvaged by the technology that thirty years ago we didn't want to embrace. We've been more or less able to prop up that infrastructure through technology, and expanding supply. Let me give you an example of the kinds of readjustments that we have to think about, and I'm going to be self-serving for a moment and talk about something that I wrote a few years ago that I knew would get ignored, perhaps it should have been ignored and largely was ignored. But I wrote a piece that was slightly tongue-in-cheek, but not necessarily, and it was regarding the Breeders' Cup. The Breeders' Cup has been an enormous success within our business. I think every racing professional, every fan of racing around this country, around North America, around the world these days, looks forward to Breeders' Cup day. Great Day. Unless you're hosting it and then you have to deal with all the problems, but it's a huge success and no one would argue the point. But as a marketing initiative, and that was John Gaines' original idea, it hasn't been one. Television ratings are modest or mediocre or worse. We get some media attention to it, but it's a blip. Certainly not to the degree that we get for the Triple Crown Races. Well, you start and you end with timing. A horse-racing event in late October, early November is in deep water competitively. You're competing with the NFL, with college football, with the baseball playoffs, with the beginning of the NBA season, the NHL season. There are only so many customers and fans out there at a given time, and an event like that, as great as it is, is going to appeal to its own core, its own niche. So I write this editorial piece, and I didn't get much response but interestingly the ones that I got came from people who were very closely associated with the Breeders' Cup and privately they all thought this was a good idea and they all said, "but you know what? We can't do it." I said let's move the Breeders' Cup to Labor Day, and let's run it at Saratoga every year.

Labor day because it's prior to NFL season; barely prior to college football which is just kicking off; baseball season is grinding down, you're a month away from the playoffs; you're in that window where there isn't sports-wise a whole lot going on, there's a lot going on but nothing that's really impactful, really driving people. Baseball season when all but about five or six teams are basically out of it, football is not quite there yet. Saratoga because Saratoga is the Mecca, it's the shrine of American racing. It's the place that has the tradition and the age and the character to it, it's a place that people just like to go. So if you run it on Labor Day, it's a national holiday, everybody's off, and you have the television coverage and you have it at a place like Saratoga every year. If we really want to use the Breeders' Cup as a marketing tool, it would seem that's a logical place to put it. Now, are there problems with the idea, of course there are, everybody would say right away "well now we're going to have to adjust our stakes schedules all over again in the fall." Well, we did when the Breeders' Cup was graded, didn't we? Everybody had to adjust their stakes schedules; they'd have to do it all over again. What about the championship voting, year-end voting? Well there's nothing magical about year-end, we could vote for Eclipse award winners and have the cutoff date be October 31, nothing special about the calendar year, we could do it any time we wanted to do it. We've just done it in the calendar year because that's just the way we did it for a long time. Now, I'm not saying that moving the Breeders' Cup to Saratoga would be welcome; I'm not saying that it would necessarily be a great idea, or moving it to Labor Day would be a great idea.

But we need to start thinking differently about everything we do. I'm not one of those people who believe the product is broken necessarily, horses are still going around ovals the way they always have, it's still an appealing sport. Although, I would submit to you, it's a whole lot more appealing when it's seasonal and it's outdoors. When people can walk out of the building and stand on the apron and watch horses in a post-parade, and watch them go to the gate. That's where you get your casual fan, and the casual fans are the ones that begin your serious fans, at least some of them do. And those are the people that what we're doing right now won't appeal to. Simulcasting was a necessary tool, undoubtedly.

I was at the Maryland tracks at the time we started full-card and we were one of the first people in the country to really dive into the pool. We had a choice, because we were running year-round, basically, we took 10 days off a year. So we either had to embrace it, and bring in signals on top of our live or not do it at all, we couldn't dabble with it, and we dove in. We knew

when we went into it that we were altering the landscape, as far as our business went, forever, because once you start you can't go back. Because there was no question people were going to like it. Even people who said "I know why you're doing it, but I'm not going to do it myself." And we had people like that. I had a guy who was a regular customer walk up to me three or four weeks into it and said "I appreciate what you're doing, you guys are having to do this, but I like the local stuff and I'm never going to bet on any of this out of town stuff." Six months later, I run into him at Laurel, talking to one of our tellers, and he admits to me he started betting New York. And the reason he did initially was he came in one day and we had about 12 inches of rain and had umpteen scratches and four-horse fields and New York didn't, so he bet New York that day and he got into the habit of doing so. I can tell you that within six months after we started, with only three or four signals coming into the building a day, we were already at 50-50 split on handle, 50 live, 50 simulcast. Now I had a very prominent guy, a good friend, somebody I respect a lot in the industry, tell me at a marketing meeting, he was asking me about simulcasting and my experience and he said "we don't think our customers really would want it." A couple years later, he was at another race track and his customers wanted it and he embraced it like everybody else because the customers did want it. So when you think about the models that we followed, we followed them almost because they were out of necessity because someone else was doing it and we needed to compete.

The ideas of change in the industry are not ideas that we necessarily will create. They will be created for us. Simulcasting came about because we needed to do it. Simulcasting was something that the customers did want, even though it had its downside. The biggest downside though to what we're doing right now, on the distribution side is very simple. The product that we put out there is something that will appeal to the existing customer, the existing fan. If somebody walks into my building or a building of a racetrack that I'm associated with on a given day, someone who has not been to a racetrack before, or has been there only one or two times, they're not going to find simulcasting appealing. If they don't know Belmont Park from Yellowstone Park then they're not going to know what simulcasting is all about, are they? If they look up at those TV monitors, instead of seeing one picture, they look at 10 screens and see 10 pictures or eight pictures or whatever; it's going to be confusing. When they walk out into the grandstand or clubhouse and they see 500 people sitting there because everybody is in the building watching the monitors and sitting around in the makeshift theaters or whatever we've

created and if those people have to sit and do this, then they are going to wonder if this is really something they want to do. So again, what we've had to do, and the model that we have created, is not really going to appeal to that casual customer. So the question is: are we really doing this for the customer or for the stakeholders, and what kind of customer are we looking for, going forward?

My point really is that we really need to constantly be rethinking what we do, as a matter of routine. We need to always challenge our assumptions based on what we're seeing in the marketplace. Everybody's done market research, I remember talking to a marketing guy who's still in the business, and someone else who I respect a lot, he's worked on both coasts and I remember talking about demographic research and focus groups and stuff like that, and he was in one of the largest markets in the country and said to me, "we do all that stuff, we spend a lot of money on it, and we have probably eight million people in our market area, and they all know about us and they don't care." Well, he was really commenting on the market research and what it does for you. We've all done it, we've done these things and if you sit and listen to your own focus groups, what you'll find is that they'll say the things that you expect them to say. They'd like not to pay for parking, and admission, they'd like the programs to be given away if possible or at least cheap. They'd like food to be better and cheaper, all the things that you would expect people to say. But there's another level of this, and that's what they're doing—their habits—and whatever they are they have their feet and they can walk and sometimes they do.

I don't presume to stand here and sound as if I was summoned to the mountain and handed tablets that will define the future of racing, but I would submit to you that the technology, the new wagering concepts, the stuff that Joe Asher talked about which is very interesting, as useful as it will turn out to be in the future, won't turn us from a sunset industry into a sunrise industry unless we readjust our thinking about that economic model and decide that we want to make that product something that the customers, and the new customers want to embrace. Because otherwise those old customers ride off into the sunset, they may be taking the whole industry with them. So I'm not here to be a predictor of doom, I've actually come full-cycle on this. I still believe this sport has a lot of opportunity in front of it. I still, like a lot of you, I get a thrill when I go to Belmont in 2004 and see the place absolutely jammed with people, they're all hoping for a Triple Crown that, unfortunately, didn't happen. To watch Fleet Alex almost go to his nose and suddenly, somehow find his footing and resurrect himself and go

surging down the stretch in the Preakness a couple years ago. Those are great moments, and they're exhilarating. Or to go to Delaware, Ohio, of all places, in September and see fifty-some thousand people show up and all those campers and RVs. But the ability we have to change our future really is our ability to look at our past and to determine what it is about our past that we could have done differently and try to apply that to where we are today.

Stan Bergstein: Thank you for your provocative thoughts Tim Capps. Any questions for Joe or Tim, we will take them at this time. Any thoughts or comments?

Voice: We had this discussion last year, Stan, about the wagering model. So I was going to ask Tim about the pari-mutuel system that really came in the '20s and '30s as a response to the Chicago Black Sox and Rothstein and things like that. Is that model really still what we should have today based on the technology with the Internet where there's wide-open space and people do their own thing. The rebators, the betting exchanges, the whole system, it seems to be at least, the people that are caught in the pari-mutuel system with the high takeouts, really are just sort of the bottom of the barrel. You just can't survive with it.

Tim Capps: Since I can get on a plane in two hours and I don't have to be held accountable, I think it's clear that the model is not workable anymore. It's part of the whole issue with the economic model. As was said earlier, we don't have a monopoly anymore; we lost the monopoly in the U.S. when lotteries came on the scene in the mid-60s and much more now today with the advent of casino gaming in various states. So we don't have the monopoly, and as far as the gaming dollar goes, it's not a viable game if somebody's approaching it in the standpoint of trying to make money. But having said that, I can't sit here and tell you I've got a viable way of changing it. If we could get ourselves to a point where we could lower takeout, and not just in a marginal way where we experiment with cutting our takeout on win-place and show pools for example, people tried that or people have tried that on certain exotics and all you do is you end up shifting money from one pool to the other. So if you can't do it across the board and you can't do it collectively, and when you're in a highly regulated environment such as we're in, it's very difficult to do that. But clearly, that's part of the economic model problem, at least in my judgment, is that as long as we're doing that pari-mutuel agent, it's going to be very difficult to

compete and to draw the gaming customer who's got so many other options that are cheaper for them.

John Marshall: I was going to direct my question to Joe Asher. I've got one of these great little Blackberry phones here and I'm interested about the mobile device here. Do you see any application to domestic racing for the U.S.? I know the people in Europe are early-adopters and they use these phones everywhere for so many more things than we do. What do you think, domestically, might happen with mobile gaming as it relates to racing?

Joe Asher: I think unquestionably, a year or two from now, or three years from now certainly, the technology will have been instituted in racing so that fans can, not only on-course or on-track where you can bet while you're at the paddock so you don't have to go up to the windows, or at some point we'll sort of get into the ability to bet on races from off the track as well. So the fan would have an alert sort of system, where you get a message saying "Afleet Alex is racing tomorrow" and tomorrow you get a message saying "Afleet Alex's race is coming up in five minutes, do you want to bet on him?" So there's a messaging and a prompt for the user to bet because I get e-mails all the time from the horses that I put into Equibase and DRF at some point in the future, and these are horses I don't even care about and I'll still get the e-mail saying "Philadelphia Jim is getting ready to race," if there was any ability to have that stimulate me to want to bet then of course people are going to do that. It's really not an inability, the technology is there. And certainly as people become more and more comfortable with the technology, they'll be doing more and more things with it. During the course of these presentations people are checking their e-mail on their Blackberry, and that's just what we do. And if people get messages telling them that their favorite horse is going to run, and by the way you can actually watch the race on your mobile device so you don't have to be at the track or you don't have to be sitting around your computer at home, I think there's no question that customers are going to adopt it.

Stan Bergstein: Theoretically I suppose that the march of technology raises the specter of one racetrack and all the other technology carrying it around the world.

Joe Asher: There's always going to be a market for different types of content. Twenty-some years ago a gentleman named Sid Alpert came up with the idea that he was going to build a racetrack in Pennsylvania, but fans would not be permitted to attend, only horsemen would be able to attend, and he was going to send the signal out all across the country, but he didn't want anybody to come on-track.

Tim Capps: That's pretty much the way it's turned out actually.

Joe Asher: Yeah, it largely has. Sid was way ahead of his time, undoubtedly, but the way racing has evolved is not fundamentally different than that except for certain meetings and obviously big days. So the race itself being the content, or one form of the content that's available, the distribution of that content allows more and more people to bet on that one event. I'm not saying that it's only going to be one racetrack, but certainly fewer.

Stan Bergstein: I know this is devil's advocacy, but when television started and racing was on television first, the argument was presented by people in racing that if you'd watch it on television, you wouldn't go to it. And all I can think of today is when I see National Football League, and I'm not comparing the two sports as people do because there is no comparison, but when I see NFL or NBA or whatever it may be, and see the stadium packed, every seat filled at whatever those prices are. It stuns me to see the stadium filled when television is what has carried it and stimulated it. So I was only playing devil's advocate, but I know there are people out there who think and say that if that happened you would narrow it. Kent Hollingsworth used to write a column, all the time, about the restriction of winding up with one or two racetracks. And there's still an appeal to local racing and the thrill of watching live racing that carries its future. Anyone else for a final word? Not seeing any, I will take the liberty of adjourning this last general session, thanking you for participating in the fifth joint meeting of HTA and TRA. Thank you for being such a great audience to the very end.