

Fifth Racing Congress

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Racinos: Racing's Savior or a Potential Road to Doom?

- **Bill Eadington, Internationally Known Gaming Authority, University of Nevada Reno**
- **Nick Eaves, Woodbine Entertainment**

Dave Johnson: The subject is racinos and the question is Racing's Savior or a Potential Road to Doom? To discuss the issue we have Nick Eaves, who is the president of Woodbine Entertainment, and Bill Eadington, University of Nevada, Reno, an internationally known gaming authority. Let me start by simply asking each of the guys up here, including Stan and maybe I'll join in, and if we can do it in 30 seconds, what is the problem? Nick, why don't you take 30 seconds, no solutions here, what's the problem?

Nick Eaves: I'm not sure there is a problem to be perfectly honest. I think we're overstating the problem. The topic is Racinos: Road to Doom or Savior? Shame on us if we're even in the position where we're even having to make that determination. The reality is there are so many opportunities that come with the reality of being able to bring a racino to your racetrack. The problem is the focus hasn't been on taking advantage of those opportunities but rather squandering them and not doing with them what is possible. So I think the discussion should be about solutions and reality, not the problem.

Dave Johnson: Bill, is there a problem? And if there is one, what is it?

Bill Eadington: I think the problem is that racing has become overshadowed, certainly on the economic side, by the revenues that are generated by slots at tracks. In 2007 for example, slot machines at the 40 plus racetracks that operate within the United States generated over \$5 billion in gross gaming revenues, made \$2.2 billion in contributions to governments and contributed over \$400 million to purses. The win for all of racing, was only about \$3.5 billion, a number that has tracked consistently for some 20 some years. In other words, given the massive subsidy that has come to racing from slot machines at tracks, not much has happened to change the fundamentals of demand for the important product, at least the important product to the people in

this room, which is the racing product. That, I think is really the challenge that has gone unanswered for 20 years or longer.

Dave Johnson: Stan, do you want to chime in here? Is there a problem and if there is one, what is it?

Stan Bergstein: There's a huge problem and it was best defined by Gary Loveman, the Harvard-trained and Harvard teacher who runs Harrah's Entertainment. He made a statement in Toronto at a convention last spring, that in essence asked the question: Why do we need racing? This is a question that's going to be asked by other track operators, it's being asked by a man who's operating a very, very big and important racetrack and it will be asked elsewhere by other operators and it's a very dangerous question for racing.

Dave Johnson: Nick, can you take us through the Woodbine experience? Explain to us how it came about and how the racino became a plus for the racing industry at Woodbine?

Nick Eaves: Sure. The slots at racetrack program in Ontario came about in the way it has in many jurisdictions which is as a result of an aggressive lobbying on the part of the horseracing industry. A couple of fundamentals to the program which I think are helping to contribute to the success of it in Ontario—it's not perfect, there are examples of Road to Doom rather than Savior—but I think one of the critical elements of the program is that at its core it's a partnership between the racing industry and the province of Ontario through their operator the Ontario Lottery and Gaming Corporation. That partnership comes in a handful of ways, I think the most important is that the province is the 80 percent partner and the racing industry is the 20 percent partner. There's a lot of talk and complaining about these tax rates and jurisdictions that are getting prohibitively high. I don't think there's a higher tax rate than 80 percent. I don't think I would want it any lower because the province of Ontario is the largest stakeholder in the program, they are by far the largest beneficiary of the revenue that's generated from slot machines at the racetracks. In the case of Woodbine alone, the net contribution from those slot machines—2,000 of them at Woodbine—to the province in 2008 was about \$405 million. So that's the core reality of it.

An argument could be made that racing has worked hard and ought to get a larger share. I agree absolutely with Professor Eadington that in time, and it's begun already certainly in Ontario and elsewhere, when the financial need is greatest and when the light is shone most intensely on the industry, where is the benefit? I think ultimately our job is to keep showing

where the benefits are and we're working hard to do that. I think a fundamental element of success is insuring that the province or the state, whatever the case happens to be, is the largest beneficiary because the reality is they have options.

Of course Gary Loveman's going to question whether or not racinos are a good model because he's probably got one racino and goodness knows how many casinos. That would be an individual perspective on his part, but those types of questions are going to be asked every day and the racing industry has got to be demonstrating how it is, in partnership with whatever authority it is working with, building its business.

Your question: What has Woodbine done? Thankfully we have built the pari-mutuel business and it was a Road to Doom prior to the introduction of slots back in 2000. Since then, purses have increased, which you would expect because obviously that's a direct funding from slots, pari-mutuel wagering has increased. Between 1990 and 1998, total pari-mutuel wagering in our market had gone from \$930 million to \$770 million, so that's the Road to Doom in my view. Since 1999, pari-mutuel wagering has been back on the rise. In 2008, total pari-mutuel wagering was about \$870 million and it's diversified: it's at the racetrack, it's through the off-track system, it's online, it's elsewhere. Woodbine has been reinvesting thanks to the benefits of the slot machine program, in a way that is showing government, in my view, that the opportunity is being embraced as opposed to squandered. The word "Savior" is a little stark because we weren't on a Road to Doom totally but the reality is we've made good use of the benefits that have come from the program and more important than anything else, the province puts \$406 million a year of revenue from slots at Woodbine into their priority programs.

Dave Johnson: Bill, in your studies have you found that what Nick is talking about at Woodbine is unique? Are the partnerships across our country, with so many different jurisdictions, the same or different?

Bill Eadington: Woodbine is in a very, very fortunate situation in so far as Toronto is a very large metropolitan area that does not have competing casinos in the immediate vicinity. So Woodbine benefits from that very strong demand, which is something that other racinos would love to have but many of them do not.

This question of how the relationship between the racino and the government works, I think is a critically important one and it's one where we can look at different states and point to who does it pretty well and who seems to have missed the mark. Pennsylvania seems to have

gotten a formula that more or less works, so far, in terms of the performance of the racetrack casinos and, for that matter, the other casinos going in the state. They did so through a combination of a relatively high tax rate in effect, a 45 percent removal of gross revenues from the operator either in payments for purses or payments to the government directly, but what they provided was market protection with adequately sized markets that seem to create a viability. We have seen, as an alternative, in the states of Florida, New York—

Dave Johnson: Just to reiterate, Pennsylvania is the one with the right mode right now? Or at least it's working?

Bill Eadington: Well it's one that works.

Dave Johnson: And on the other side?

Bill Eadington: On the other side Florida and New York have been somewhat disappointing. They both have very high tax rates. And then we have Kansas and Maryland that have sort of stepped into the picture of saying, here is an approach that looks like it could fail. In Kansas, the bids did not come through because the tax rates were too high. The implication so far for Maryland is that the 67 percent tax rate seems to be enough to scare away almost all investors. The other thing we have to take into account is we are entering the great recession of 2008-2011 or so and it's going to effect a lot of industries, including this one, and a lot of our thinking needs to take into account the immediate economic crises that we have to deal with.

Dave Johnson: Nick, is there a plan at Woodbine for the financial problems ahead?

Nick Eaves: There is a plan at Woodbine for the financial problems ahead. Certainly our core business is horseracing and much of the benefit that has come from the slots program has been reinvested in the racing business from front-side improvements, customer focus, to backside improvements in terms of stabling areas, a new standardbred paddock, a new thoroughbred synthetic racing surface. That investment is with a view to not knowing what is coming. Nobody knows exactly what is coming, but we know enough to say that you can't, even with a benefit such as a slots at racetracks program, stop investing for the future. We've invested in the core racing business so that we can have a shot at remaining in a pretty dominant racing position. The hope is that the gaming offering in partnership with the province expands. We have the good fortune of being in a major market, as has already been referenced, with a significant amount of surplus land.

Today 5.5 million visitors are coming to Woodbine, in small part because of the racing business, admittedly, in larger part because of slot visitation. We've partnered with an entertainment development company to go and build out other amenities, not dissimilar to many of the ones we've seen around this town, in order to attract a totally different customer to the racetrack who otherwise wouldn't come. A customer who wouldn't come for racing and likely wouldn't come to play a slot machine, but might come in through the concert hall or at the hotel or through the live entertainment district, a customer who's looking for entertainment who's prepared to go and spend the time and some disposable income. We're not getting the share of that business today that we think we can. It's going to become more competitive obviously in the future and we need to prepare for that. Clearly what we can't do, which is what some are doing, is sit back, be glad for the benefit that came by way of a gaming partnership and hope like hell that it continues. Because we're seeing all over, and the discussion has begun in Ontario, that it may not carry on in the manner that it started and we've all got to be prepared for that.

Dave Johnson: Bill, here's a question about the management. We just heard Nick say that the core business is racing, and I bet everybody in this room has professional or personal friends at racetracks who then added racinos and then management changed. So here's my question: Is the management of racetracks now moving to people who don't really get the game and that are really brought up through the racino process rather than the racing game?

Bill Eadington: Well, with all due respect, if I were running a business where 90 percent of my revenues come from activity A, 10 percent from activity B, I wouldn't say activity B is the core of my business. That is essentially the problem that racetrack casinos have. Slot machines are the core of the business. If slot players were an organized group, they would scream that their activities are subsidizing this other activity where nobody wants to play. In essence, that is the challenge that racing has. It has to somehow overcome that fundamental problem that the racing customer is diminishing in number and in importance and certainly in comparison to the slot customer. So I think over time you are going to see management, logically, going towards people who are much more specialized in all of the technologies surrounding the management of slot play as opposed to all of the technologies and nuances surrounding the technologies of running a racing operation.

Stan Bergstein: One of the problems that we have in racing is that we look at all of our problems sort of incestuously because we're in racing. We like horses, we like racing and we

feel that everyone else does and of course everyone else does not. So it's incumbent on racing to do something about the product. It's going to have to be changed somehow in the same way that professional basketball and professional football changed the rules to adjust to television. We unfortunately don't have that luxury of having television, but our next speaker has some very provocative ideas on that subject that you'll hear next.

The one other thing that is essential in this battle and it is a growing battle, and people like Gary Loveman who runs a big, huge racing operation, is making a lot of money off of it, the whole operation, of him getting up and saying that he doesn't need half of the product. The only reason there is a racetrack at Chester is because they used racing to get the slots which is the way \$50 million racetracks are being built today. Overbuilt today, I should say. The essential key to the whole thing as far as the problem exists today, is getting legislators like Bill Oberle of Delaware, who is a horse owner and breeder, to sponsor legislation that essentially writes the rules into the legislation. Of course the unfortunate problem is the legislators who see not much of racing but see a lot of money, legislators can very easily repeal or amend whatever they choose to do, it's tough to get the bill changed, it's tough to get it written but it's essential for racing that whatever friends we have or whatever friends we can generate or muster in legislatures, understand the problems of racing and have some sympathy for it.

What Greg Peck was talking about is how one of the things that you can do is to try and get them interested in racing, Leon Zimmerman, who spoke last night, did that in New Jersey by taking legislators out, having them drive, particularly harness racing obviously, but he at least got then-governor Mrs. Whitman and key legislators to get some involvement so they understood what racing was about. Most of them do not know racing. Most of them don't care for racing. In Ontario, the legislation also incorporated, essentially, a demand of how racing was to be reimbursed. The same thing was done in Delaware. If we do not get some generation of interest on the part of the people who control our fate and destiny, and that even goes to racing commissioners, we'll have continuing trouble.

Dave Johnson: We're going to go another 20 to 25 minutes and I just want to take another five minutes up here with the guys and then we'll open it up. We've got plenty of topics but if you want to join the conversation, just have your question ready and come on up to the microphone. In about 5 minutes I'll call for it. We'll have some portable microphones. Right now, I have just

one last question for the two guys up here. Nick, first, what's the best and the worst right now of the racino racetrack thing.

Nick Eaves: That's a tough question. Certainly the best is the financial opportunity that the slot machines at the racetrack have brought to the industry. Purses have gone up significantly. Racetracks, those that have chosen to do so, have been enabled to reinvest and attempt to develop a product that can be more appealing to a new customer and that can really move our business in a different direction in the future. I would say the worst of it is that while the upside is a net gain, there's no doubt that traditional racing customers, given the opportunity to spend some of their money on a different form of gaming under the same roof are choosing to do so. That wasn't unexpected, but I think there is no question that part of the pari-mutuel decline, and I don't attribute all of the decline to this, has been a lack of reinvestment. Some of the decline is a function of customers having choice. We're not going to move off of that choice and it's a net benefit, but there's no doubt that racing has to work harder to keep the customers it's got, let alone develop new customers, when there's that much more choice for him or her under the same roof.

Dave Johnson: Bill, best and worst?

Bill Eadington: Well I think best is a strong term, but certainly one of the trends that I think has been positive is that the quality of slots at tracks facilities have improved fairly well over the last decade especially. Certainly they are not Bellagio, but they are much better than what I saw in the 1990s when I toured a lot of the facilities which were dramatically disturbing at the time in terms of how they compared to other gaming venues.

The worst is still this question of where is the customer base for racing. There's no doubt that you have a customer base for slot machines and that is reflected in a wide variety of markets, but I think getting the crossover from those people who come to play slots to people who would become interested in racing is a tremendous challenge that has not been addressed and until it's addressed I think the industry remains at risk of surviving on a subsidy that politically could be taken away for reasonable reasons.

Dave Johnson: The last thing that I want to put out on the table is product and distribution. We used to go to the racetrack if we wanted to bet a horse race. I drove from St. Louis all the way down to Hot Springs to go to the races. If you wanted to play the slots you flew out here to Las Vegas or you went to Atlantic City when they opened.

Now it's the Internet and the games on the Internet are wildly different. I mean, a horse race, if you bet it on the Internet, it's still a fair playing field, it's still okay, but as we know just in the last couple months they discovered these people that have online casinos where you can't win poker games and things like that. So how do we, in racing, keep ourselves clean and get away from these awful thieves that are running gambling situations on the Internet? Nick, has Woodbine approached that or do you have a personal idea about it?

Nick Eaves: Woodbine has approached it, as have many racetracks in North America. Technology, in my view, is the greatest opportunity that racing has. I think racing has a competitive advantage over other forms of gaming because, while we don't like it a lot of the time, our business is heavily, heavily regulated and any form of wagering that we undertake goes through that legalized, regulated, tax-paying structure. I think the player wants to know that exists, and while most players playing online, offshore probably haven't had a negative experience yet, enough have that they're beginning to ask the question of whether they want to be doing business with these sort of pirate organizations. I think the legitimacy of the racing business and its existing systems in many ways creates a terrific opportunity.

We embraced technology at Woodbine and across Canada in the late 90s and it's the single largest growth area on the pari-mutuel side of our business and there was much discussion yesterday about looking at new bet types and new opportunities and I absolutely agree with that. We can't continue to rely on the same limited mix of pari-mutuel options and our system, the technology that we use and the account base approach that most jurisdictions have embraced is a great opportunity for it. None of us like to see this sort of evolution resulting in a thinning out of the on-track attendance. None of us like it, but it's a reality. But new technologies have the promise of exposing to and attracting a new customer. It doesn't happen overnight. The 25-year-old person who comes to us by way of technology that they're comfortable with doesn't become a fan of racing the first or second or third time, but it is a medium that really lends itself well to our business that I think, generally speaking as an industry, we've done a pretty good job of embracing and I think a lot of the ideas that came out yesterday have to be pursued and if they're not then I think we run the risk of lagging behind.

Dave Johnson: Bill, do you want to add something?

Bill Eadington: Well there are a couple of observations that I would make that I think are very interesting to follow especially for the racing industry. One is I think you should, if you haven't

already done so, look carefully at the United Kingdom which has both a more viable betting market and certainly one that doesn't have the kind of decline that we've seen in North America, and it also has legal Internet gambling which is regulated and controlled just like the other commercial gaming industries. There is some discussion now that the Unlawful Internet Gaming Enforcement Act of 2006 may be revisited. That is a very important area to watch.

As Nick says, I think there's an inherent advantage to sporting events, including racing, for Internet wagering in comparison to Internet casinos or for that matter Internet poker, because they are much more subject to manipulation. On the other hand, Internet, because of its ubiquitous presence, has the potential of generating new markets and I think racing along with other sporting events—to the extent that you are permitted to legally wager on them—create a lot of opportunity for creation of new market and new interest with younger generations. That's something that really hasn't occurred for multiple generations now.

Dave Johnson: Now we'll open it up for questions from the floor or comments. If anyone would like to? Yes, sir.

Lonny Powell: Lonny Powell and I've spent every day of my entire life in this business and consider myself to be most fortunate, although like the rest of us in this room certainly advocate that we need to change with the times and we need to modernize our product. I've always been a fan of the racino. Who can not like the bigger purses and the revitalization to our facilities? But I want to address a point from a narrow perspective that Stan brought up early, and Dave you tried to hit upon, and that is: With all that being said, what's going to happen to live racing in these jurisdictions over time? Now, I'm mostly speaking about the gaming corporations that are getting into the business.

I'm not being critical of their philosophy, but it is what's happening and fortunately this doesn't apply to Woodbine, Ontario as a rule or the New Mexico tracks, or New York tracks, Gulfstream, I could name a number of places where racing people are still at the top of the machine and they're hiring the best possible gaming people to support them and oversee the slots and so forth. But when you look at what's happening otherwise, I can think of three to four top racing executives who were highly respected in this country and have been replaced this past year, executives who have left and been replaced on the racing side by somebody at the level of say a racing secretary or a director of racing. In fact, the buzzword now is “director of racing operations,” while casino people come in and take over the head spot.

Dr. Eadington, I appreciate that you talk about the 90 percent, 10 percent revenue split, but in most of these racing jurisdictions, these people didn't come in and have the option to build a casino and then say, "oh I think I'll put a racetrack around it for fun." They came in not only for the economic contribution to the state, but to keep live racing in place. What's happening is there's an erosion of the wall or the rock, if you will, called racing institutional knowledge and advocacy. And what's happening is if live racing is going to get diminished over time because of its overhead, because it interferes with the slots players, because it plays a secondary role, you know, who's going to try to resist that? Obviously your horsemen will, but as long as they're being paid purses they're not in the board rooms. It's going to be in the board room where these discussions take place. As more and more racing people are being eliminated from the boards of directors and from the management teams, there's going to be fewer people to stand up and resist the idea of diminishing our product.

The regulators would be another group that might stand up and advocate live racing, but they're being combined now with gaming commissions and lottery commissions and I just caution us all to see what's going on, because over time we're going to have very few advocates within those board rooms, within those weekly management committee meetings. There's not going to be the people that are standing up for us. I'm not defending our business practices in terms of again, our need to improve and to enhance our product but again, these racinos were built as racinos and I just think over time you're going to see fewer and fewer people standing up for racing and fewer and fewer racing opportunities. I think it's slowly happening in front of our eyes right now. Again, love the revenue, love the concept, love the Woodbines of the world that continue to keep racing out there, but I think we all just need to be aware that this seems to be a trend that's happening right before our very eyes.

Dave Johnson: Let me add that the racing people are not just being eliminated from the board rooms, but from the parking lots because so many racetracks want to get our product over with so that the slot players can come in at 4:45 in the afternoon. Nick, would you like to talk about that?

Nick Eaves: Sure. Racetracks have a choice of course, and those that are choosing to focus on their gaming business only because it's 90-10, that came out of a choice. They got to the point where they're a 90 percent gaming revenue generated entity and 10 percent racing, and I realize the reality of the products moves things in that direction but if the racetrack owner-operator

allows that to happen, then depending on the balance between the need and importance for racing in that jurisdiction and the financial return to the state or province, it is going to go away. It's the job of the racetrack and then the broader industry to make sure that doesn't happen. Again, if there's no reinvestment, if racing knowledge gets wiped out and gaming knowledge prevails, then there is going to be very little racing left and unless it's such a great deal for the local jurisdiction somebody's going to look at it and say, it doesn't make any sense any longer that this be at a racetrack. That Road to Doom would be a function of choices made by the individual racetrack owner-operator and that's a controllable thing. Those that aren't making decisions in a way that perhaps prevents that eventuality, I think they're going to find themselves in a bit of a short-term spot where that benefit is there.

Bill Eadington: Well for the most part racetrack casinos came into existence based on two promises. One is the promise of revenue to the state which has been fulfilled, often well beyond initial expectations. The second promise was that it would save racing. That is the one that is really at risk. I would go back and say, without customers there's nothing to save. Customers, demand for the product is the essence of the issue. You can have people politically supporting you, you can try to keep racing people on the board, you can try to keep the voice of people who know racing active in the discussions, but if there are no racing customers then everything that Nick is saying is really a reduction in other objectives. You have to reduce profits to subsidize racing and if there's nobody there to enjoy it, it's really a waste. I think that is the essence of the argument that needs to be confronted aggressively and it's a terribly challenging one. I don't think there's any easy way to do what I'm suggesting but it has to be done or else you're swimming upstream and the current is going to push you backwards ultimately.

Nick Eaves: I don't accept that there isn't a business there that can ultimately prevail, and if the dialog is around sort of a hail mary pass to save racing, then we're all doing ourselves a disservice because all anybody's going to be paying attention to is Savior and Road to Doom and subsidy and some of the other words that have been thrown out there.

Lonny Powell: I totally agree, we're kidding ourselves. There's just one thing I'd like to add, doctor, and that is 90 percent of those companies that are in the racino business that came from outside of racing knew full and well what they signed onto when they went there and testified before the legislative committees and before they did their community events and so forth, they knew it was a high overhead, low margin business.

I absolutely agree with you about the customer base, that's one of the reasons why everybody's here, trying to figure out ways to improve that. But still, they knew they were signing on not to a casino but to a racino, and it had that crazy oval on it and all those horses and those horsemen and the funny little guys and the drivers and all those guys, and they forgot about it real quickly. I still think it's the job of those of us in this room, as tough as it is, in addition to getting more customers, to keep reminding people why that racino is there. Yes, it's contributing great revenues to the state, but they did sign on for a racino, not a casino.

Bill Eadington: I have to say that there is a high degree of political pragmatism. You are very right that racinos allowed casino gaming to come into jurisdictions because the legislature thought that racing was worth saving. But I go back to the same point. Ten years later, 20 years later, they are going to look at racing and ask: Is this really worth saving? That question's going to come up and legislatures turn over and it's really the challenge to all of you to not forget because the vulnerability I think is just very, very strong. Especially in these harsh economic times, I think we're going to get a lot of revisiting of old establishments.

Stan Bergstein: The question of who is going to run racetracks and build racetracks is an interesting one which you're going to hear more about in the next two panels, but I think I'd rather live with the devil I know than the devil I don't. People smile or smirk in racing times when Mr. Stronach's name is mentioned but he's a racing man and I'd rather have a racing man at the head of any enterprises, decisions good or bad, the personnel good or bad, changes, whatever. I'd rather have Nick's boss, David Willmot, who's deeply involved in racing. I'd rather have Penn National who at least has deep respect for racing people at its top level.

So the question is, it's not necessarily bad that casino people, gaming people get into racing, it's their attitude toward racing which is what the argument was about Mr. Loveman's, my reference to him. I'd rather have a Churchill Downs, certainly, with racing background and history that it has, than some gaming company just stepping into the picture so that they could use it as a vehicle for racing. I think it's important that we do whatever we can to imbue these people with some knowledge about racing. The next two panels after this one, this one's not over yet, but the next two panels are going to fascinate you about technology and racing.

Roy Arnold: Roy Arnold from Illinois and Arlington Park. I'm going to say something which is probably not going to go over well here but I think it needs to be said because I think it's the key of that title slide up there, Road to Doom. This discussion of us believing that racinos have

come into existence to save racing is the Road to Doom. There isn't a single legislator in my state, and believe me I've spent a lot of time in the state house in Springfield talking about these very issues, anybody who believes in a discussion in the senate or the house of any of the states of this union that have passed racinos is going to give racing an entitlement at the expense of healthcare, education, infrastructure, state jobs—is it's just not a realistic assessment. That doesn't mean that racing isn't a component of the decision, but think about what Nick said about Woodbine and Woodbine's success. I think you said something about being in a major metropolitan area with no other competition?

Nick Eaves: I didn't say no other competition, I said major metropolitan market where there's quite frankly a lot of competition.

Roy Arnold: A lot of competition in entertainment, but in terms of the gaming component.

Nick Eaves: A lot of gaming too.

Roy Arnold: Think about our industry up through the 70s. That's exactly a description of the racing industry through the 70s. We were a local, state authorized, gaming monopoly which drew 100 percent of its revenues from a local, defined marketplace. That still is the business model of the casino, or the racino. It is not drawing people over the Internet. It is not broadcasting games out over the Internet to compete. It is an entertainment destination that brings people in from a defined market area or markets to bring them to that market to physically consume the product on the premises.

What we now have in racing is a market where 80 percent of our revenue, I think that's probably accurate, somebody here can correct me, but I think 80 percent of our racing revenues don't come from the local marketplace. So what's the Road to Doom? The Road to Doom is the discussion where we use our influence and power, which we do have, through horsemen's groups, through grassroots efforts, during the process of getting gaming legislation, put in place barriers to adjusting our own industry to grow our industry. So what do we do? There are 52,000 plus thoroughbred races in the United States today. I would say to you that if we're concerned about growing the value of our product, that's too much product. But what is the first thing that horsemen's groups want when they go to that senate or house smoky room to talk about getting gaming legislation to put a racino in? They want mandated racing opportunity. So the Road to Doom is not recognizing that the business model of racing is now an international, national marketplace that we're producing content to be consumed across the entire nation. We

have to recognize where that customer base is and we have to adjust our industry to be able to produce a product that wants to be consumed by that broader customer base.

Now that doesn't mean we turn our back on the local market, the local racing fan. We have to do both. But if we use racinos as a way to lock in what was a monopolistic, local monopoly business model for racing, then it will be a Road to Doom because what's going to happen is the debate that's going on at Prairie Meadows right now, and elsewhere. When you have people out of work, when you need to keep teachers employed and firemen employed and policemen employed and you all come from communities where this is happening, and you're told that the racing element of an operation is losing \$30 million, while the other side of the equation is producing \$160 or some million in tax revenues, you have to ask yourself the question from a public policy perspective, why would you continue that? We know why we would like them to continue it; but why would anybody continue that?

So to me the Road to Doom is this: We have to change as an industry and there's lots of things that technology can do to help us reach a population and provide them a product which is going to be a quality product where we're going to get a fair price for that product so that horsemen are compensated, purses go up, we can attack cost structure elements of the business. If we use the pursuit of racinos to divert our attention to just simply trying to keep it like it is for that local agricultural industry so that there's no change required, then I think that we are on the Road to Doom because sooner or later, and this is one of my first political lessons as we started getting into some of this legislation, was it was made very clear to me by many of the leaders at least in our state house that there is no ability to lock in a future legislature's actions.

No matter what the law says today, no legislature can mandate that that will never be revisited. We have to accept that reality and the fact that we have to come up with an adjustment to our business model that's going to allow us to grow our industry on a national basis, not at the expense of the local market, but in a compatible nature with the local market. So we're pursuing slots at tracks in Illinois. I think it's an important element because I think it gives us the breathing room and the capital infusion to be able to figure out how to do this, but we've got to be focused beyond the borders of Illinois in our case, and looking to produce a product that's going to want to be consumed across the nation. It's as simple as that. I'll just be quiet, but I thought it's important because I think it goes right to the heart of this is that failure to look at

racinos as a way to go back to the way it was in the 70s and not have to change anything. Thank you.

Nick Eaves: Well I agree absolutely with that. We've never met, I think you're new to Arlington Park, and welcome to the industry. That's exactly it. I think one of the weaknesses is that in many of these programs in most jurisdictions it's obviously been a jurisdiction-wide solution. There's some real logic behind that and it enables the industry as a whole to attempt to move ahead, but I think what it ends up perpetuating, which becomes the focus of the problem, it perpetuates those markets, those facilities, those operations which can't make it as a racing business and no state or provincial decision maker, even in good times, is going to be prepared to allow that to happen. I think it's about making those tough choices which start with, just because it's been the way it's been forever, doesn't mean it can be that way going forward, in fact it's got to change radically. We've all seen it, so I wholeheartedly agree with what you've said.

Bill Eadington: I guess here I'm skeptical on the ability to do it. I think the industry is its own worst enemy because it wants to preserve the status quo because so many people have a stake in the status quo, but if we were to look at this as a generic industry that has the kind of demand pattern that we can see with pari-mutuel racing over the last 40 years, it has to contract, it has to shrink down to a considerably smaller size.

If we draw parallels with other sports, and I think you have to view racing in the same context, you need a major league and racing doesn't have it. You need to have stars and racing doesn't have them. You need to somehow consolidate and concentrate where the activity takes place and that has not happened. I think your point is very well taken, racinos are just a way of postponing hard decisions. So I think an interesting mental question that you should run through while you're together is: If you could start from scratch, how might you organize the entire industry? Regrettably you're caught up with all the baggage of the 100 years plus history that have gotten you to this point, and it's going to be very difficult to move away from that because so many people's specific interests are threatened with any kind of change away from that status quo.

Dave Johnson: Bill, is it difficult or is it impossible?

Bill Eadington: The two run together at some point and I leave that to you. You people know the industry much better than I do.

Lonny Powell: Dave, if I can, and I promise this is the last time, this 30 seconds. How can you not agree with what the colonel just said? But my guys with Churchill Downs, they're a racing company, do we think the gaming companies have that same passion? To say, let's build international account wagering and create this great big horseracing industry. Of course Churchill and Arlington are going to feel that way. I applaud them and I totally agree. That's not who I'm talking about. I mean, it would be great if everybody had that perspective like Churchill Downs does on how racing and gaming can fit together. My whole point is there's a lot of other people that look at one as a necessary evil that needs to be shaved down and there's no priority into growing it.

Nick Eaves: And Lonny, they may not make it.

Lonny Powell: Oh that's correct. There's got to be more contraction, and not all of it will be bad. But I'm just saying we as a whole just need to keep in mind that this is happening on a daily, yearly basis and if we're advocates and if we want to try to kind of find that happy compromise or balance, we need to start working on it now because this train is moving I think much faster than we ever predicted. Again, I love the racino concept, I love the revenue.

A Voice: It's a dead industry. This is a casino guy who now is a decision maker with a number of racetracks, thoroughbred and harness, both racinos and non-slots venues. Obviously from what we've heard this morning, that's not an isolated opinion in the gaming industry. Of course we know that Woodbine and Penn National and Churchill and others have a commitment, or somewhat of a commitment to racing, but I'm just wondering what you think, other gaming executives that are saddled with racing operations, if you think that's the prevailing attitude in those companies, in those board rooms.

Nick Eaves: I suspect so. The only reason gaming companies got involved with racinos is because they couldn't build casinos in the same market. I can't believe there's a gaming executive out there who pursued the racino model by choice. Surely it was the only option they had in whichever jurisdiction. I think racing in some jurisdictions is dead. That's a grossly unpopular sentiment, but it's reality. We've heard it a dozen times in the last day and a half. There are plenty of examples of where it isn't dead and plenty of examples of where there is fantastic opportunity and again it's about change. It's been said so many times, but if the resistance to change remains and the effort becomes keeping it the way it's always been going forward, then there's going to be more dead rather than more that have opportunity. I think

change has to come, consolidation is inevitable, some markets have a future for racing and others do not, and those realities have to be recognized.

Dave Johnson: Our time is up, but one more question for our wonderful guests here today. So the patient is on the gurney, let's not say it's dead, we don't know. If you could snap your fingers and do one thing or a couple of things, quickly, what would they be in order to make the game better and get rid of this gloom and doom? Nick, can you snap your fingers and one or two things that would happen?

Nick Eaves: I can snap my fingers, I'm not sure what would happen but as utopian as the professor believes it is, in these times in particular, there has to be investment. If there isn't investment in racing, not in the traditional old ways, bricks and mortar and otherwise, but investment in attracting that new customer, if the investment doesn't start then there's very little opportunity. It really comes down to having the confidence to spend the dollars in a business that a lot of people have shared some pretty negative views on, because there will be survivors and that has to begin now.

Bill Eadington: If I could construct a parallel world and construct within that a racing industry that had evolved in a way that I would say is sustainable, it would be one that has a significant presence on television, it has its stars in the jockeys, the trainers and the horses, it has major tracks that it performs at, and it gets followed by a significant part of the population. I'm actually describing the United Kingdom, but I would say something like that would make sense. As it exists now, I fear the patient is going to be terminal.

Dave Johnson: Won't you thank this wonderful pair up here, Nick Eaves and Bill Eadington for joining us this morning, and I'll turn it back over to Stan. Thank you very much.