Selected Presentations From
The Fifth Annual Joint Meeting
Of HTA and TRA
April 2007

HARNESS TRACKS OF AMERICA

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PREFACE

The fifth annual joint meeting of Harness Tracks of America and Thoroughbred Racing Associations at the Westin Diplomat Resort and Spa in Hollywood, Florida, from March 9-12, 2007. This report provides a transcript of selected presentations from the general session panels on March 11th and 12th, for the benefit of those who are unable to attend the meeting and for reference for those who were there. PowerPoint Presentations from individual presenters can be found on our website at http://www.harnesstracks.com/annualmeeting.htm.

As always, bound copies of this report are available upon request.

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March 11, 2007

8:00 a.m. – 9:25 a.m.

Slots: The New Simulcasting

- **Nick Eaves, Woodbine Entertainment Group**
- **Chris McErlean, Penn National Gaming**
- **Dr. David Reid, Horse Racing Alberta**
- **Bobby Soper, Mohegan Sun at Pocono Downs**

Brock Milstein: For those of you that may not know me, my name is Brock Milstein and I serve as the chairman and CEO of Northfield Park, and I am also lucky enough to serve as the President of the HTA. I want to welcome all of you to the first general session of the Harness Tracks of America and the Thoroughbred Racing Associations joint meeting for 2007, and start by thanking the staffs of both organizations for all of their hard work in ensuring that we have superb accommodations, informative and productive meetings, and, with help from above, plenty of blue skies, a very difficult combination to put together. I'd also like to take a moment to thank our sponsors, many of whom have been supportive of our industry for many years.

This morning we have great panelists who will shed new light on many of the opportunities and challenges that we faced in 2006 and also try to tell us what to expect for 2007 and beyond. One does not have to drive two miles down the street to Gulfstream Park or log on to the Internet to realize that tremendous change is underway in our industry. This monumental change will certainly bring new issues for all of us and I'm sure we'll hear a lot about it this morning. Before I pass the microphone over to Stan, I also want to mention that we appreciate the coordinated and unified progress that's been made between the HTA and the TRA. It is only through this coordinated effort that we will truly continue to make progress as an industry as a whole.

Stan Bergstein: Thank you Brock. The first panel this morning is addressing the issue of "Slots: The New Simulcasting." Before I start I want to mention that I thought Chris Scherf would be up here with me, but he's in the back of the room, and I want to thank him for all his efforts for TRA in making these joint sessions possible. This is the fifth one and we are committed for a sixth, which will be held next year at the beautiful Renaissance Vinoy in St. Petersburg.

As Brock indicated, the world has changed and changed dramatically, more of an evolution than a revolution. To first address that issue is the new president and COO on a newly revised team for Woodbine Entertainment in Toronto, Nick Eaves.

Nick Eaves: Certainly the subject of slot machines at racetracks or racinos is one that we discuss a lot in this forum and obviously it's highly relevant to the business that we're all in. Although I wasn't coming to these conferences in the early 1990s, I'm assuming that the same debate was underway about simulcasting. It obviously had a profound impact, as everyone in this room knows, on the economics of the racing business and on the distribution of racing, and allowed tracks and their partners to get out into new markets, and generate a revenue stream that hadn't previously been there. That dynamic obviously was what was relevant around about simulcasting, sort of regime of the day, and certainly that's what slot machines or racinos have done at the tracks in most of the markets where they exist. It's been a true transformation in terms of the business, and that's not just on the side of economics which is clearly a huge part of it, but on the side of the way racing is presented to the customer and the type of customer to whom racing is presented. To that extent, I suppose racinos are the new simulcasting, but certainly I think that if we take this a bit further and decide whether that is going to be enough for the racing industry, I think a fairly quick conclusion would be not.

A fairly widely held view would be that for the last long while, racing really has not been a true, standalone activity. And there may still be a market or two across North America where that's not the case, but I would suggest that in virtually every other market it is clearly the case. While racinos have been very helpful at least at a minimum with getting out of the standalone racing business, it's really only one step in the direction of what I personally think needs to be a broader transformation of a business to attract a very, very different customer. Everyone who was at this meeting last year heard from a panelist who's probably better equipped than anybody to speak on the matter when Terry Lanni of MGM-Mirage said that even in Vegas's casino business, they have seen a transformation over the last 30 years. They went from the 85-15 blend between gaming and non-gaming amenities in the late 70s to today, what is a shift to 60-40 in the other direction. That's a signal that, as racing participants, we really need to take a cue from Vegas. Once it was live racing only, we expanded into simulcasting which allowed us to diversify both customer-wise and revenue stream wise, that evolution continued with the racinos, but indeed if we want to continue that progress and continue to see a growth in the business and a shift in the business, I think as an industry we must be looking far beyond that sort of single source of additional customers. I know there's going to be a lot of discussion around other elements of the situation and the other panelists have their views but as a general statement that would be my view.

Stan Bergstein: Thank you Nick. I neglected to mention that the format of these panels today will be brief introductory remarks by each of the panelists and then throwing it open for, hopefully, candid and plentiful discussion on the issues. Each and every one of our panelists has been informed that they have no caveats on what they chose to say, no limitations, and by the same token all of you are invited to participate fully to whatever extent you choose and ask whatever questions you choose, favorably or unfavorably, or make comments without questions if you choose to do so. Brody Johnson of our office at HTA will be circulating, and available with a portable microphone and since the proceedings of this entire session are being audio taped, we urge you to raise your hand when you want to participate and Mr. Johnson will give you the microphone.

The next speaker is always a source of pride to me, and he's a case of evolution also, as well as racing. I hired him out of the University of Scranton for his first full-time job, and then he was taken away by The Meadowlands where he wound up as general manager of racing there and at Monmouth Park and now has left the Meadowlands and Monmouth Park for an executive position with one of the most aggressive gaming and racing organizations in America, Penn National Gaming. Here's Chris McErlean.

Chris McErlean: Thanks Stan. I guess I have the benefit of being the new person on the slots side at least, so just to give some perspective from Penn Gaming's point of view, a lot of people don't realize in terms of the scope that they're involved in on the racing side. We do own whole or part of six racetracks, we have an OTB network, an online wagering platform, in addition to casinos in 10 jurisdictions, and I believe close to 20,000 VLTs or slot machines at those facilities and a market cap of just under $4 billion which I think puts it around number five in the publicly traded companies from the gaming side. So Penn Gaming is a major player in the business and a major player in the racing business. I think other than Magna, there's only one other racetrack organization that has as many racetracks as we do, so Penn obviously has a deep interest and desire to continue in racing and obviously is very committed on the gaming side.

From a simulcasting point of view, I've had the benefit to be part of the simulcasting waves that have come forth in the business. I guess I was very fortunate in that respect, and the analogy of waves is very apt, in the early 80s and mid-80s the interstate simulcasting started. New Jersey and Pennsylvania were the leaders in that, as well as Canada. Then you had interstate simulcasting starting in the 90s and exploding and by the late 90s, just about every jurisdiction had some sort of full-card simulcasting going and now it's basically a saturated marketplace, and the growth is really coming from just people shifting market share around. The advantages, as Nick Eaves mentioned, of simulcasting coming online was that you expanded your product lines, you expanded the ability to cover your fixed costs, and the ability for racing fans to see more product and have more opportunities for wagering, and from a revenue point of view, both for horsemen and for tracks, it helped in some cases increase or at least stabilize the revenue. So simulcasting had great advantages there. The downsides, obviously, the shifting from live products to the incoming simulcasting products. There are now new partners in the simulcast pie. And it opened the door to third parties that maybe didn't have as much of an investment in the industry.

From the slots analogy—slots is the new simulcasting—we're seeing a lot of those same things happening. It's a very apt analogy in terms of the business aspect. Slots, at the racetrack, or VLTs, have definitely infused a great deal of revenue into the industry. They've given tracks new opportunities to invest back in the business and horsemen to invest back in the business, and it's added, obviously, purses to increase competition. That's been seen very well at a couple of our properties, Charles Town Racecourse was basically on the brink of extinction a couple of years ago, and is now one of the largest gaming facilities in the United States, with purses rivaling anybody on the East Coast. Bangor Raceway in Maine is a little bit lower on the scale, but just in scope they've doubled their race dates and doubled their purses up there by the inclusion of slot machines. Penn National Racecourse will be adding 2,000 slot machines later this year to the already successful line-up of tracks in Pennsylvania which will probably quadruple purses there within the next couple years.

So the slots as the new simulcasting have definitely had the same advantages that those first waves of the initial simulcasting had. However, the downsides are the same that we're seeing right now with simulcasting, there's going to be some saturation at some point, the revenues and the impacts aren't directly tied necessarily to racing, and it's creating an arms-race for jurisdictions trying to keep up the haves and the have-nots, so I see a lot of similarities between the growth of simulcasting and the waves of simulcasting and now what's happening with the casino and the VLT standpoints. The analogy that you came up with, the topic is very much on point and you can definitely draw a lot of similarities between the two.

Stan Bergstein: Thank you Chris. There is a very unique situation in the province of Alberta, Canada and it is a different approach to administration and a different approach to the entire sport of racing. To address that this morning we're privileged to have with us Dr. David Reid who is the chairman of Horse Racing Alberta. I have asked Dr. Reid to tell us a little bit about the organization, how it came about, how it's been working, and he'll do so right now, Dr. Reid.

Dr. David Reid: Stan, thank you very much. I was directed to give a little history of our evolution, so I'll do just that. The question that was posed to me really was "will slot machines eventually kill live racing?" which of course begs the second question, "can live racing survive without slot machines?" One thing is for sure, as an industry we don't want to be competing against them if we're not in the business. And that was exactly what happened in Alberta. Prior to 1990, horse racing was a major form of entertainment for many Albertans; it was economically viable. Things significantly changed with the widespread introduction of VLTs and other alternate forms of gaming in 1991. In many ways the government became a major competitor. To add perspective, in 1991 horse racing made up 22% of the gaming market in Alberta. By 2003 horse racing accounted for barely 0.5 percent, while lotteries, VLTs and slots generated 16.9 billion. There was a 48 percent decline in wagering over a 10-year period. The industry's long-term viability was threatened and purses had declined. Owners and breeders started to get out of the business. Throroughbred and Standardbred foal numbers were declining to below a critical level required for ongoing successful racing. By the end of 2000, our industry lacked direction; it was in a crisis situation. Horsemen's groups and tracks were bickering over a shrinking financial pie. In order to save our industry and create some stability, we needed to re-evaluate our business from the ground up, as well as our partnerships with government. We needed to change direction. Fortunately, thanks to a Premier and some powerful lobbying by some of the horsemen, we were given that opportunity.

We needed to develop strategies that would allow the industry to move forward with one voice and with common goals. A working committee established to accomplish this task. This committee tabled a plan in 2001 and subsequently new legislation was enacted. Horse Racing Alberta had become the governing body of the industry by June 2002, just five years ago. Government supplied us with the tools with which to revitalize our industry, namely slot machines. And since that time we've moved forward with a renewed sense of purpose and a common direction. We set up a government structure which put all of the major industry players at the table on the board of Horse Racing Alberta. We had representatives from each of the tracks; we had representatives from the owners, the horsemen, both breeders and horsemen alike. We had representation from other racing breeds, the quarter horses, the racing Arabians, the Appaloosas, and we had private members who could vote. The government had two representatives, one from agriculture, one from gaming. The chairman was considered an independent and had a vote. This industry-wide representation facilitates the foundation for a solid, working partnership. We elected slot machines for racing entertainment centers, the number of which is linked to a critical, and minimal, number of live, racing days. The number of slot machines is linked to the number of live racing days. The industry retains a significant portion of the slot revenues, the balance is returned to the government. The major industry money flows through Horse Racing Alberta and then is re-distributed to the industry to support agreed-upon programs in a manner than reflects managed, sustainable growth.

We're very concerned about throwing all the money to purses, having high days, high years and then low years. We want sustainable growth. We've negotiated a 10-year agreement with government because we believe the key to investment and reinvestment is confidence in long-term stability. It's been this confidence in the future that has allowed the planning and building of a new racetrack and the renovation of existing facilities. Horse Racing Alberta's mandate is to regulate, to grow, to market, and to revitalize the horse racing and breeding industry along with and on behalf of the entire industry, and all its partners.

The industry has settled on eight strategic areas that they wanted us to pursue: the regulatory functions, we in fact are the commission in this respect; industry and government relations to keep arrangements with government and our industry partners alive and vital and current; racetrack licensing and infrastructure, the renovation and the building of new tracks; purse structure; the breed improvement program; animal welfare; human resources because we're vitally concerned that the backstretch workers in our industry take part in this great boom that we have; and finally, marketing strategies. Marketing strategies are designed to reposition the racetrack as a fun, multi-faceted, entertainment package that includes restaurants and sports bars as well as simulcast and live racing. We must increase our fan-base. In answer to the question "what will we do tonight?" we want the answer to be "go to the racetrack, you'll have a good time." Certainly our marketing campaigns have created buzz. In summary, we have sold the government on the idea that we need to become an integral part of the new gaming mix. We think we've integrated our slot machines in such a way that their revenues are part of the growth of each of the strategic segments of our industry, not just purses. We have set slots up and legislated them in such a way that no live racing means no slot machines. We have ensured that the revenues initially flow through Horse Racing Alberta and then to the industry in support of these agreed-upon programs. We've tried to secure our government agreements way out into the future to allow for confidence and reinvestment. So what do we need to do to ensure that government continues to support this plan? We need to be accountable, in fact we report on over 30 performance measures each year, the main ones being: total industry economic impact, the economic impact of the breeding sector, total and live handle, industry satisfaction with Horse Racing Alberta and its programs. The bottom line is that we have to remain a net, economic win for the government and our agricultural component must show growth. They're very interested in the growth of our agricultural base. We have to ensure that each of our partners is able to make a profit-margin. The government wishes to see us diversify our revenue streams and build up those areas that are based upon the racing product, not just slots. If we sit back and just develop our slot machines over the next 10 years, we will lose our agreement. They say, "You must build those areas of your industry that are not dependent directly on slots." The real key to continued success, however, and their support, is the ability of the industry to stay focused on the big picture and minimize internal bickering. We need to continue to communicate with government with just one voice. Slot machines by themselves have not saved horse racing, per se, in Alberta. They are however the tool that has enabled revitalization and the successful administration of their programs. It's up to the industry to ensure that they remain a tool and not a threat. Thank you.

Stan Bergstein: Thank you, doctor.

When I first heard of Bobby Soper, I heard all these glowing, fantastic stories of his accomplishments and what a terrific and dynamic guy he was, and when I first met him my inclination was to ask "when do you graduate?" I couldn't get over his boyish features and the fact that he didn't look like an executive is expected with dignity of age and, I'm putting it kindly. Age is a very tender subject with me, but in any event, I discovered quickly that everything I'd heard about him was true and more. He is the president and whatever else your title may be up there now of Mohegan Sun at Pocono Downs, which is becoming one of the great success stories of the sport. And to talk about that, and possibly about Mohegan Sun itself, here is its president, Bobby Soper.

Bobby Soper: Thank you Stan, I appreciate the kind words. Chris mentioned, he's somewhat new to the slots-side of the industry and I'm on the other side of the spectrum, I'm the rookie up here when it comes to racing. Everybody in this room and certainly on this panel knows a heck of a lot more than I do about the industry, but, I'm learning. My background is in slots, I came from Mohegan Sun at Connecticut and worked there for 10 years and gaming is my background. We purchased Pocono Downs two years ago, in January of 2005, obviously with the purpose of transforming the facility into a casino, but also of course consistent with the purpose of the law in Pennsylvania to improve horse racing in Pennsylvania and in Northeast Pennsylvania. One of the first things I did when I moved to Pennsylvania was to look at our operations, and we own some simulcast facilities, and of course the racetrack itself, and immediately I knew there was going to be a challenge because, I come from not only an industry but an organization that believes in growth and if you don't grow then you're not succeeding and that's the nature of the casino industry.

In fact, for the last couple of decades, there was a time when it was expected that double-digit growth was the norm. Just because, one, it was a proliferating industry and two, the markets were still underserved and that was sort of the expectation and we were very fortunate in Connecticut that we had been successful, we were in a good location. But Pocono was a new thing for me. Here was an industry where there was an expectation to keep your revenue levels as they are and maintain your expenses and we're not going to expect a double-digit growth. So the challenge for me was first, understanding the industry, and second, understanding why that is the case. I think the problem itself is very easy to understand, in economic terms, the reality is demand has not been growing for the product. It's still a great product, I think it's exciting, but there's just not the increase in demand, especially with the younger generation. So to me the question becomes how do slots, and this is really the crux of the issue here, how do slots help horse racing and will it save horse racing. That is what's always talked about, and we heard today an analogy of simulcasting which I do believe is a good analogy; there are a lot of similarities. We have a little over three months under our belt now, we have 1,100 slot machines and we've made a lot of improvements to the track. I think we've seen some positive momentum, we've seen a little growth on the racing product since we've opened slots. We have 6,000 people that visit our facility every day now, which is significantly more than visited the track previously. I think there's no question that slots are helping horse racing, purses have increased, you'll see the quality of racing improve. Obviously, most importantly, you turn a property that had a proposition of negative cash-flow into one that has positive cash-flow. So clearly in the short term, the economics suggest that slots are a good thing. I think that is going to continue, what's happening is all these jurisdictions are using slots, not only to save their budget shortfalls but, on the horse racing perspective, they're using them in order to generate this positive cash-flow. What's also happening is that those jurisdictions which have not done this; their problems haven't been exacerbated in the horse racing industry because there are competitive pressures.

In the Northeast, for example, we see that with Pennsylvania coming online with slots, purses increasing, it's putting a lot of pressure on, for example New Jersey and Maryland, and those tracks that don't have the benefit of slots. So I think in the short term it's inevitable that slots are going to be around, I think they're even going to grow at racetracks. It's just the economic reality. In the long term, I'm probably consistent with the mainstream thought on this is it's not a silver bullet because as I mentioned earlier, the real problem is pure economics, it's a demand issue. You can improve the quality of racing all you want, you can build the nicest grandstand, the nicest simulcasting facilities, and put as many slot machines as you want, but until you increase demand, you're just not going to be able to clear the hurdle, these cash-flow hurdles.

The reality is, at this point, slots are merely, I think, an artificial means to sustain the business by generating revenue from other means. Horse racing, ultimately is going to have to stand on its own two feet. Clearly there are significant advantages, political and economic, the agriculture industry, and a number of reasons to ensure that the racing industry survives. But in the long term, ultimately, demand is going to have to be increased and, when I spoke at this panel last year I had one year of experience and I don't think my mind has changed in the past year. We've opened up a facility, we're now starting to track to see what type of cross-play we can generate and it's certainly our intent and we believe our duty to utilize slots to try to introduce horse racing to a new generation. But I still believe that ultimately, horse racing has to reposition itself and potentially restructure itself. It is a quality product, but ultimately it has to be perceived as a fun and entertaining product for younger generations for it to survive.

Stan Bergstein: Thank you. When I saw Bobby the other day he was wearing a Georgia Bulldogs T-Shirt and I asked him what that was all about, not knowing that he had gotten his law degree at Georgia. He's a loyal Bulldog, and I guarantee you that his operation at Pocono is one that you should see. I'm going to start the questioning and hope that it will flow liberally from you, there are no limits, as I indicated on any of your questions or a pro or con. But I want to start with Bobby in reverse order and the question of the overall structure of slots as opposed to racing, you've touched on it of course, the danger or the fear in racing is that as slots provide so much revenue that the operators of racetracks and racinos will quickly forget about racing along the line. In some states, like Delaware, where racing has the luxury of having one of the most powerful legislators in the state, Bill Oberle, who was the creator of the slots bill, he made absolutely certain in the legislation that racing's role would be maintained because he had a deep interest in racing. What is the danger of slots eradicating racing? I know you have a point of view that you touched on, but I thought maybe you could expand on it.

Bobby Soper: Well, I find that an interesting comment, you do hear that from elected officials and those involved. I think it's short-sighted to say that just because an elected official has a deep interest in saving horse racing that horse racing will not be eradicated. I think that's not the perspective that should be looked at, it should be more about how as a private industry can we improve horse racing. I don't think slots will ever be the cause of horse racing's decline or even demise. I think clearly, again, these rules and regulations and laws that require slot operators at racinos to operate a certain number of race days such as we have in Pennsylvania. I can understand the logic behind them and in the short term, again it's not a bad thing. So from a legal standpoint clearly there are obstacles and horse racing cannot be eradicated simply because legally we can't operate a slots facility without operating the race track. But over time again, thinking in the long term, when you see the numbers, when you see that your slot operation is generating strong, positive, double-digit margins, and your horse racing operation is not even generating a positive cash-flow, you have to figure out a way, as any business operator would, to reverse that trend and it's got to live on its own.

Stan Bergstein: How do you handle your publicity and advertising vis-à-vis gaming versus racing?

Bobby Soper: We're learning now, we've only been open three months, but we're starting to implement some programs to cross-market the two products. I think what you do is you create incentives for all those people that are in your gaming database, that visit your property, to get them to try the product and to educate them about the product. It can be, just simply, come to the races type of thing. You have to get at the root of the problem and that is trying to educate this younger generation about the quality and the fun that you can have with the racing product.

Stan Bergstein: You able to use any television?

Bobby Soper: We haven't gotten there yet. What we're doing is sort of grassroots at this point. One of the things I wanted to do at the track, we had a very old grandstand, 40 years old, very weathered and we had a choice we could simply renovate it, put new seats in at a significant cost, but we knew we'd be underutilized until…

Stan Bergstein: The reason I ask, obviously, is that the easiest way to get new fans educated toward racing is television and Mohegan Sun is one of the outfits that has enough money that it could do it if it chose to and I didn't know what your television was, local television in Wilkes-Barre.

Bobby Soper: The answer is actually we do do some local advertising, promoting horse racing, but I don't think to the point that we need to get to. The point I was making was we need to start first, create the accommodations, create the fun atmosphere that will attract the young generation, and what we did is actually create this "Party Patio," so we took the grandstand, converted it into sort of a "Party Patio" that overlooks the whole facility, mix it up with music and other activities, you create the environment, then utilize that environment and you market it. You have to use your marketing dollars wisely so unless you believe that you can actually generate those incremental dollars, you're not going to spend those marketing dollars on it. But I think we have some momentum and hopefully we'll be able to use those marketing dollars to drive people to the horse racing side.

Stan Bergstein: Thank you. I think I saw Roger Huston back there, he's probably the best-known voice in harness racing, the reason I'm asking Roger to comment is that he does a nightly show, The Meadows pioneered that and Roger has become a major personality in Western Pennsylvania, the track's market area. He might comment on new fans and the creation of new fans through a television show. Roger?

Roger Huston: Well, we do a nightly show, five hours basically, four to five hours, and we try to entertain the folks with a show that is informative from the get-go. Somebody that tunes in to our show that possibly is a regular viewer that knows everything is probably going to get bored with the explanation, what the difference of a trotter or a pacer is or anything like that. We go back to the basics when it comes to harness racing, not once a night but maybe three or four times a night, learning process. I've found that the vast majority of the viewers that we have for the show are people who are looking for some form of entertainment and they're tired of regular television, so they watch the horses and enjoy harness racing. With the slots coming to our facility in May, we have increased purses in advance of that by 28 percent just last week. And the response from the betting public that I've received as far as telephone calls, and e-mail –I actually have a computer in the booth with me where people can e-mail questions and comments right during the show and I'll answer them right on the air—but the fan in Western Pennsylvania is impressed by the higher purses and, believe it or not, they've even said that they feel that the races in just a week and a half have become more competitive by the higher purses that we've had. If this is any indication for the first week, when our purses really get up there with the slots in operation, it is going to be something.

Stan Bergstein: You consider yourself an educator as well as a commentator?

Roger Huston: Most definitely. Everything that we do on the show has to be to educate the people. You've got to assume that there are people out there watching for the first time, all the time. That those people that are watching have no idea what harness racing's about. You have to educate from the very beginning just like you do in a college of horse sense or at Pompano where they have the morning qualifiers and invite fans out there. You have to go totally back to the basics. If you don't go back to the basics, you're going to have a person who gets involved in harness racing but doesn't know anything, and the worst thing you can have is people involved and they don't know what they're doing.

Stan Bergstein: The reason I asked the question, and this applies to thoroughbred racing as well as harness racing, is that even on TVG and on HRTV and any of the other shows, I think many of the commentators make the mistake of using terminology that is above and beyond the viewer they're trying to attract. I don't want to dwell on that point, it's a totally different subject, but I do want to ask Dr. Reid, people are asking me and I assume asking all of you, are there any new racetracks going to be built with the slots situation. Not asking are there any new racinos, because they know the answer to that. You have a huge complex planned, I believe, in Calgary, could you tell us just briefly about what that is all about?

Dr. David Reid: Well, I think it started when the working committee met and said "what does the industry need to move into the future?" And clearly, we identified success as being able to sell your product, whether that's a signal of the race, whether it's a horse at a sale, whether it's semen, whether it's breeding animals. Success is being able to export, like most businesses that are successful. We realized that to be successful we needed to elevate the standard of racing in Alberta. So we put out a request for proposals and fortunately a group of horsemen got involved and decided they'd build a new racetrack. Now these are very dedicated individuals, because when they got into this business of thinking they would develop a new track they envisaged building this track for $80 million. Four years later, that track is now $200 million and clearly, the economics are pretty daunting. The dedication of this group is shown by the fact that they were smart enough to identify land that they could purchase at a reasonable cost, at a reasonable distance from the heart of Calgary, and very near the airport, and by developing that land and getting in the infrastructure, the drains, sewage and so forth, they were able to attract a major shopping center to come in and purchase and partner on that land. So now we have an opportunity not only to have one and a half to two to three million visitors a year at the track, but an opportunity to utilize the 11 million visitors that come to the shopping mall. And the shopping mall is V-shaped, it's all on one level and it's connected to the grandstand via the racing entertainment center, the racino. And the whole thing is set up to direct and move traffic like that. The total project now is about $1.5 billion.

Stan Bergstein: It's going to be a dual-breed facility?

Dr. David Reid: It's going to be dual-breed facility, there are two tracks, twin tracks, for the standardbred, the thoroughbreds, and indeed the racing quarterhorses, the stretch run is made for that in mind and it's scheduled to open in April of 2008. Eighty-seven percent of the grading and stripping is done. The footings and pads have already been laid and we are tight but on schedule. But the point about it is that it will be a destination, it's not going to rely on just racing. So the racing is part of attracting people to be somewhere to enjoy themselves whether they shop, whether they go to the racino, whether they go to watch the horses, and the beauty of that is that of course the revenue that's generated will assist our other tracks in the province.

<u>March 11, 2007</u>

<u>9:30 a.m. – 10:15 a.m.</u>

<u>Lobbying: When it Works and When it Doesn’t</u>

- **Senator Steve Geller, Florida State Senator**
- **Jeff Gural, Tioga and Vernon Downs**
- **Brock Milstein, Northfield Park**

Stan Bergstein: Our panelists are going to address the issue of "Lobbying: When it Works and When it Doesn't." They have vastly different experiences on that issue, all of them interesting. Brock Milstein, who has had a unique experience with lobbying, is with us along with Senator Steve Geller and Jeff Gural, chairman of Newmark, Knight, Frank, a full-service commercial industrial real estate management company that currently manages approximately 150 buildings in the metropolitan area of Manhattan, of which they have an ownership in 41. Mr. Gural is responsible for all acquisitions and the managing and leasing of eight million square feet of properties in the hottest market in the United States, downtown New York City. He is responsible for the overall supervision of the company's non-institutional portfolio.

Before he joined Newmark Knight-Frank in 1972, Jeff Gural was a member of the staff of Moore Diesel Construction. I should mention that he attended Rensselear Polytechnic Institute and has a degree in civil engineering. He's a member of the Board of Directors of the Real Estate Board of New York, President of the New York chapter of the Star Light, Star Bright Children's Foundation, member of the board of USO and chairman of I Have a Dream New York, co-sponsor of the Chelsea Elliott I Have a Dream Project, and he's chairman of the board and director of the Times Square Business Improvement District, a member of the board of directors at Cooper Union, and the list goes on and on.

More important from the point of view of this session is Mr. Gural's more recent activities. In the face of strong opposition from certain quarters and some very unfair criticism from those quarters, and he will tell you about it I'm sure because he is not reticent to do so, he went ahead and not only refurbished and reopened Vernon Downs in central New York, but built a new racetrack in an era when few new racetracks are being built. He built it for racing not for a racino, primarily, and he built it for racing because if you see Tioga Downs, you will see that he has constructed a racetrack for the public. People who go to Tioga Downs come away talking about its structure and how it's built. So we're going to start this discussion in the same format that we had conducted the last one, which is to have introductory remarks by the panelists and then have you folks from the floor create your own discussion and your own commentary and your own questioning. I'm going to start by asking Jeff Gural to talk a little bit about the problems of lobbying as he encountered them in New York. Jeff.

Jeff Gural: Thank you Stan. One thing you should all know is that in New York there are eight racetracks, and the six racetracks that I don't own are profitable and the two that I own are losing a lot of money, so Stan correctly figured out that I'm a better lobbyist than anything else. Hopefully I'll be able to change that in the next couple of weeks. Basically, as far as lobbying in New York and elsewhere in racing, I think most people focus on how we get slot machines in states that don't allow slot machines. The number one rule, and I would say this is about 80%, and if you violate this rule it makes your chance of success almost minimal, you must be united, you must speak with one voice. If legislators hear one proposal from the thoroughbred breeders and another proposal from the racetrack owners and another proposal from the harness horsemen, they're going to be confused and nothing's going to get done. As difficult as it is, given all of the segments that make up our industry, they have to understand, they have to unite behind one proposal, otherwise there's almost no chance of success. And if you really want to do it right, and we were not able to accomplish this in New York, we almost got it done, you really should designate one person to speak for the industry and let the legislators know that that person speaks for the industry and that whatever that person says is the industry position, because typically your opponents will try to divide and conquer you by maybe going to the horsemen with one thing and the breeders with something else. You've got to be united and you've got to speak with one voice. The part about speaking with one voice is not that easy, we never got there in New York. I kind of spoke for the group, but I could never get them to say Jeff Gural represents all of us.

Interestingly enough, I'm now back in the legislature trying to get a new bill passed that would make all eight racetracks profitable. Now I've been in the business for a while, I understand it much better than I did before, I really got into this to try to prove to myself that you could get people to come to a racetrack to watch the horse racing and while I succeeded in that, I really didn't understand the casino end of it. I now understand the casino end of it a lot better, so the next version of the Gural bill will be much better for the state and for the industry, but this time I think I really do speak for the whole industry. Nobody seems to care other than myself, because I'm the only one losing money. I think the other tracks in the state have pretty much said "Go to it Jeff Gural, do whatever you want, try to get us some money also." So I think I'll be more successful this time because I really do speak for the industry.

The other thing you've got to do is get an outside consultant to prepare an analysis of the economic impact of harness racing, and the economic impact of what the slot machines will generate for the state. You've got to be able to hand them a piece of paper and say look, this is how many jobs and this is the economic impact, but this is what it will generate for the state. When I first started in New York the first politician I came across told me that the state budget people had come to the conclusion that the slots in New York would generate 100 million dollars, and it wasn't worth their time and effort, and I said who gave you that number, and he said our budget analysts. He said to me if you can prove to me that it will make half a billion dollars, we'll pass the legislation, and I said fine, that's a deal. And we hired The Innovation Group to do an analysis of how much money we generate and we were able to show that it would generate probably a billion dollars if NYRA gets up and running. Another thing is write the legislation yourself. Hire a lawyer, hire someone who used to work in the legislature or a law firm that does that. We wrote the legislation in New York, the legislation that we're all operating under in New York is the third version. The first two were written by the state legislatures, totally unsuccessfully, the third one by a lawyer that I hired. Hopefully the new version that I'm working on, which was written by the legislature, with my input and kind of basically what I told them to include in the bill, within reason, will be passed.

I think you also can't be greedy. I don't know Brock Milstein that well, but to be honest, when I looked at the bill they were trying to get passed in Ohio, my first reaction was they're being greedy and the public is going to figure it out, and they've got no shot. And the public figured it out and they went down in flames. Don't be greedy. This thing has to work for everybody. The public is not here to make racetrack owners wealthy billionaires; they're here to generate revenue for the state and to keep horseracing alive as an industry plain and simple. You've got to recognize that. Same problem with the horsemen, the horsemen have to recognize that they were not put on this earth to get money from some subsidy because they provide some wonderful service. The horsemen have to recognize that the public, the American public, has rejected the product that they're putting out on the racetrack every night by staying away from these racetracks in droves. And while, I love the horsemen--I'm a horseman myself--the reality is they have to recognize they're being subsidized every which way and the only reason we're in business is we get subsidized by riverboats, we get subsidized by casinos, we get subsidized by slots, we get subsidized by betting on thoroughbreds, so the horsemen have to recognize that they themselves have to be realistic and allow the state to take a good chunk of the money and the racetrack to make a profit.

The other thing is you've got to try to figure out who are your key allies, in almost every one of these legislatures, there are certain people that are on your side, they really believe in the cause, and they believe in horse racing. They recognize the economic benefits of horse racing, typically they may be horsemen themselves or they may have racetracks in their district. So you've got to try to figure out who are your key allies, and focus in on them, and work with them, get their input and hope that they can persuade the other members of the legislature.

Keep in mind, there's always going to be opposition on moral grounds to this type of product. And the best argument, frankly, what's changing all of this, is the fact that so many states have it. It's a little difficult for someone when every state that surrounds them has casinos, and they're sitting there saying it's a bad thing to have, when the reality is, maybe it's a bad thing in your mind, but your constituents are driving 50 miles, 100 miles and the money is going to other states. I think, to be honest, if it's done right, it's not necessarily a bad thing. My own observations at Tioga and Vernon are we provide something during the week for older people to do. You'll find that, I know in our casino the machines that are the busiest—penny, two penny—so people can play there for a long time. If you're betting a penny and you have 20 or 30 dollars of disposable income. Older people have disposable income, their children have gone through college, they've paid off their mortgage, so they're doing okay. And I think that it's not such a bad thing. I know I'm involved in a casino in Bethlehem, Pennsylvania and it was a joke. The opposition would get up there and talk about prostitution and crime and all this stuff and it's all nonsense. None of that is relevant at all.

I think that the last thing you've got to do is pick a cause that's near and dear to the heart of the legislatures. In New York it was education, the legislature in New York was trying to find money to fund education, there had been some lawsuits from the city of New York saying it was under-funded, so in New York the key button was education. I did not find a lot of support in New York for green space or preserving the jobs that harness racing does, the support I found was they wanted money for education. In Pennsylvania they wanted money for property tax relief. They also seemed to be more successful in Pennsylvania than we were about the open space and the agricultural aspect, but New York doesn't really consider themselves an agricultural state. Right now New Jersey, their problem also is property taxes, so that's a hot button issue. So you've got to find that hot button issue and focus, that's where the money's going to go.

I guess the reputation of a lobbyist is that they give a lot of money to political candidates and that's a fact of life. I saw it both ways. In Pennsylvania, we were just successful in getting a license for a casino in Bethlehem, not a racetrack but a casino. Right from the get-go they passed a law that prohibited anyone who was trying to get a license from making any political contributions. That was good, because you didn't have to write any checks. That law to me is the right way to do it. In New York, on the other hand, there was absolutely no prohibition on writing checks, they didn't seem bashful at all about taking money from people who had a perspective. I don't know what to tell you on that issue, you've got to look and try to figure out the political climate, there's always a risk in giving a lot of money to a candidate and having the press come out and say horse racing industry gave 300 million dollars to key government people, and it backfires. I developed very good relationships with the legislature. I did not rely all that much on lobbyists, who tend to have a lot of clients so sometimes it doesn't work exactly the way you think it's going to work. Do the lobbying yourself, get to know these people. You need a lobbyist because you can't be there on a full-time basis, but I know, I got to know the key people in Albany and I did most of it myself and hopefully there will be a new version of the bill and I'm doing all of that myself right now, I haven't even used a lobbyist, although I think I will at the very end. So that's it for me.

Stan Bergstein: Thank you, Jeff. One of the problems in racing that everyone in this room has encountered is meeting and encountering racing commissioners or legislators who don't understand, don't know racing, and in many cases don't care about racing, which is a job for racing to correct. But our next panelist is unique. He is perhaps the most knowledgeable legislator on racing in America. This is his district, he's at home right now, and it's interesting obviously to those who follow the Florida picture and the national picture, that Broward county has slots, and if you go down a couple of miles or a couple of blocks south of here, into Dade county, they do not. I don't think that's accidental. The legislation that was passed gave the counties options in Florida and the man who steered all of racing legislation in this state was kind enough to give us his time on a Sunday morning to join us right now. He was the founder of the National Council of Legislators from Gaming States and he has led that organization as president ever since he founded it. He knows racing thoroughly and he's going to give us his views right now from a legislator's point of view of lobbying that works and lobbying that doesn't. He's State Senator Steve Geller.

Senator Geller: Thank you Stan. My name is Steve Geller, welcome to my district. I actually almost was not here on time because I neglected to spring forward, however, I am the outgoing national president of the National Council of Legislators from Gaming States, I also am the minority leader of the Florida Senate. Our incoming president who will be elected in June in Las Vegas, by the way, is Bill Oberle from Delaware who is a harness horseman. I've got like an hour and a half of pearls of wisdom here, and about, maybe 10 minutes if I'm lucky, maybe 8, so I'm just going to hit on some of the highlights. First of all, lobbying is not something that you do in your state capitol during the legislative session; I should say it's not exclusively that. Some of your sessions may be six or eight months, many are two or three months. If you limit your lobbying to let's say the three months that your legislature is in session, you have done 25% of your job. When people want to see me in Tallahassee, which is our state capitol, if I really, really like them I might be able to work them in for five or 10 minutes. When I visit with people in the off-season, I have time to look at their issues. So if you limit your lobbying to the state capitol while we're in session, you will get a small portion of our attention and a smaller portion of our time. It really is a year-round endeavor.

Sometimes you will be dealing with legislators that are as dumb as a box of rocks. When that occurs, your initial reaction is to tell them that they are as dumb as a box of rocks or to storm out of their office. This would be an incredibly large mistake. You need to make an assumption that anybody that can—my district is half a million people—anybody that can stand up and say you know I'm the best person that you should, out of let's say 50,000 person district, you should vote for me. You need to assume that most legislators are prima donnas. They may want to help you, but they get great joy out of hurting you if you have irritated them. So never ever, ever irritate a legislator. It will come back and bite you in the butt. The people who are your enemies today, if you treat them nicely, may not be able to help you on today's issue, but may be able to help you on tomorrow's issue, unless, of course, you've made a permanent enemy out of them by irritating them. Don't.

When you do lobby—there was a question as to whether or not you should be giving political contributions. That's a simple question. Do you want to be beveled into the process or not? Well most people do, and so I would tell you that, typically, most people do give campaign contributions. You don't have to give huge amounts of campaign contributions; you just want to be considered one of the players. You don't need to be the big guy on campus. One thing that you do need to be careful about is if you give too much to one party to the exclusion of the other party. You may think that one political party is your friend, or one political party is the party in power, so you give only to them and not to the other party. If you are identified as someone that will contribute only to one party, the other party will probably treat you as a wing of the party that you've made all of the contributions to and say well, if you need your votes, since you are a wing of the whatever party, you will need to look to the whatever party to deliver all your votes. So it is important—while I think making campaign contributions of some sort is an important issue--I would not load up so heavily on either party that you are seen just working with that party. Even if you make substantial political contributions, when you go in and lobby, if you remind the legislator that well, you know, you owe us because we gave you lots of contributions, they will probably have you thrown out of their office. They know what you did, typically, what you will have done is you've become a player, and you may have some access. If you think that you have purchased a legislator by giving political contributions, or make a comment to that extent, you will dramatically irritate the legislator, who may in fact call law enforcement on you as well.

Do not think that contributions buy you votes; they don't, and if you imply that to a legislator, reference my earlier comments about never ever irritating legislators. What you should do is provide us with information. The best lobbyists out there aren't the ones that say hey buddy-buddy, remember I was there for you. The best lobbyists out there are the ones that say Senator, the reasons that you should be supporting this bill are because greenspace, jobs, competition, income, Indians…give us the reasons, don't give us 20 pages, we're not going to read it. If you have the time, try and go over with us in five or 10 minutes—there is nothing that you need to tell me that you can't fit into 10 minutes, I know you think you do, but really you don't. So if it's more than 10 minutes, most of my colleagues won't understand what you're saying anyhow. So you need to keep it simple and you need to give us information. A good lobbyist, the most valuable thing they provide are not campaign contributions, they're not the access, they're the ability to give the legislator information in a chart, something simple for the legislator to understand. It's important also, there's different legislators, it's important that you make friends with the new, incoming legislators. I've been in the legislature for 19 years now; I am astonished at how many friends I have. Everybody is my friend. I know that because they keep telling me that they're my friends, and the lobbyists keep telling all of the principals oh yeah, Steve Geller, he's one of my really close friends. This applies to people whose names I don't even know. But I will tell you that 19-20 years ago, I still remember the people that, in my first campaign, were there to help me out. People who were there in my first race I still remember, and I guarantee you most legislators remember that, so it's important to get them young. But it's also important to deal with—remember there are a few legislators who are the key committee chairs—you need to work them, you need to work the leadership, depending on your legislature. In some areas—I mean I can talk about the Florida House of Representatives, four years ago it didn't matter what the members thought, the speaker ran the House with an iron fist and he was all you needed. In other cases you have speakers or presidents who don't run it that well, that don't insist on it, in those cases the membership is much more important, but again that's going to change every year. Be nice, not only to the legislators; be nice to the legislators' staffs at all times. If you irritate my staff I'll never even know that you wanted to see me, so if you think that this $30,000 legislative secretary isn't an important person, you're wrong. I don't have the time to meet with everybody who wants to meet with me, sometimes I have my staff do, but I can tell you in terms of scheduling, if you're not nice to my staff I will never get that phone message and I will never know that you're trying to see me. You need to deal with the committee staff, you may not realize but the committee staff frequently are the people who are writing the bills.

In terms of the use of lobbyists, I think it's critical because, again, it is a year-round situation and everybody who thinks that they are my friend in the real world, because they met me twice—a lot of people think that government is simple, that's why a lot of people support term limits. It's not simple. There are huge intricacies in getting a bill passed. It's easy to file legislation, easy to find somebody to file legislation for you; if it's a big piece of legislation it requires tending. I don't think most of you would want neurosurgery from somebody who had watched TV. There are professionals. The last two things, quickly. Number one, I don't know Jeff, we've never met before, but I have to disagree when he says that he believes that the pari-mutuel industry will let him speak for them. In my experience the pari-mutuel industry is a circular firing squad, they are their own worst enemies, I have seen many times, I could give people 10 million dollars and if they saw somebody else getting 10 million and one dollar, they would like nothing better than to block the other guy's cause. I've never seen the industry unified on anything, or agree to let any one person speak for the entire industry. So good luck, I don't care what they tell you to your face, I know what they'll be telling the legislators. The last issue as to what you should do to lobby effectively, again you want to meet the legislators in relaxed atmospheres, join or start coming to my meetings of the National Council of Legislators from Gaming States, and I recognize probably 10 or 15 people in this room from meetings of NCLGS. You will learn a lot about the industry at large and you will have the opportunity to interact with legislators from many states, so join NCLGS. Our next meeting is in June in Las Vegas. Stan, thank you.

Stan Bergstein: Thank you very much, Steve, for some very valuable advice. Senator Geller mentioned that some are successful and some are not and that it's not a simple process. No one knows better than our next speaker that it's not a simple process to get major legislation passed. All of you in this room are familiar with the struggle and the fight that was waged in the state of Ohio to get racinos and slots, unsuccessfully. And in what may be a painful narrative, I'm going to ask Brock Milstein, the president of HTA and Northfield Park, to tell us a little bit about that battle.

Brock Milstein: Stan didn't know that I was going to be up here on the panel until a few minutes ago, otherwise he would have put tissues up here for me as I tell my story. Senator Geller and Jeff Gural have talked a little bit about the things that you need to do, and I unfortunately, and everyone in Ohio, have spent the last 10 years or so doing the things that you shouldn't do. I've learned, being the youngest track-owner in the state, that if you're not succeeding you can't continue to do the same things that you've been doing over and over again. That seems to be what a lot of people in our industry continue to do.

I guess the biggest thing that I've learned, and I've learned both in trying to work with the legislature throughout the last couple years on our specific issue that we tried to pass in November, is that lobbying by its very nature is hard to quantify. There's no set formula for success. If you work hard and you do the things that you think you should do, sometimes you fail, sometimes you succeed, sometimes it's based on what your effort is, sometimes it's based on things that you can't control. And when you talk about the legislature and all the different people who are involved—in Ohio we have 33 Senators and 99 Representatives, and when you mix that in with seven racetrack owners representing some public companies, and you also put in the horsemen's groups, there are a lot of people involved in the process. In general, what I seem to have found in my efforts is that legislators have hundreds of issues that are on their plates. You're not the most important issue. Unfortunately horse racing is not that high up on the list, at least in Ohio, and I think in other states, I don't know but I don't think it was one of the major issues in Ohio, but it was something that was compelling enough to where they took action.

The other thing is, as the other speakers alluded to, horse racing—I grew up at the racetrack, as a kid I planted flowers in the winner's circle with my family—I think a lot of us in the room have spent a lifetime in the industry. Most legislators have not, so they don't understand the industry, they can't visualize the industry and you'd be amazed at how many people, when I have them out to Northfield and I start at our TV production room and I take them all the way through the entire facility, across the track to the backstretch, many of them say "wow, I never realized how many people are involved in doing what you do." That's a general view of where I see it. As far as our specific campaign, a couple of things, mistakes that we made in trying to do it on our own, which is to pass a ballot initiative, is that we tried to make too many people happy. We had developers in downtown Cleveland who were very, very big figureheads in the area and also were involved with very large public companies that wanted it in Cleveland. Cleveland is the most favorable area in the state of Ohio towards gaming. So what we did is we tried to sit down with the developers in Cleveland and we also tried to talk to other developers and other people who were involved in other cities across the state to try and bring together a coalition because what we found is when we tried to go at it alone and we met with these other businesspeople and we met with the local politicians in all the major urban areas, they said to us, you can go it alone but we're going to fight you, and if you lose, we're going to come back with our own plan for downtown, urban revival and you're not going to be a part of it.

So, getting back to Jeff's point about us being greedy, the racetracks wanted to have a lower rate going towards operations and a higher tax rate, but a lot of the developers and civic leaders in urban areas wanted a bigger development and more tax revenue. The only way you can pay for that, when we were anticipating spending between 200 and 300 million dollars at the racetrack, and they were talking about spending five to six million downtown, the only way you could pay for that is trying to get a higher percentage towards the operations. That was obviously a big mistake, but again we tried to make everyone happy.

The other mistake that we made is we relied a lot on polling. I got so frustrated during the process because every time that an issue came up, everybody decided to poll, and by the time we were done we'd probably spent six or seven-hundred thousand dollars in polling, and I'm sure our pollsters in Washington were very happy about that. But at the end of the day, a lot of your decision-making process has to come based on common sense, and what you believe to be the case, because when people are called on the phone and asked, are you in favor of education, are you in favor of helping seniors, of course they're going to say yes, but at the end of the day do they believe it? And does that motivate them to come out and vote in favor of something? The other important thing that we realized in spending the 30 million dollars that we spent was that you need a champion for your cause. We had no champion, we didn't have a governor like Pennsylvania had, and we didn't have legislators like other states have had to champion the issue. What I've told our group is, all the fancy advertising we did, and all the money we spent, we could have spent twice as much money, we could have hired a more creative advertising company. At the end of the day without somebody who could take the lead and explain to the four million plus people who voted in Ohio that this was a significant step for our state, we weren't going to succeed. I don't think it's a matter of how much money you spend, I don't think it's a matter of how creative you are, I think it's making sure that people understand the message and they believe the message.

One other thing, the last thing I'd like to talk about, is just that when we took the tour of Gulfstream Park, it was one of those things where it was intoxicating; you had a great feeling of the progress that was being made not only for horse racing but for the state of Florida. And I don't know if we do enough to educate, not only our own lobbyists, but also the people they are lobbying, on the feel, the touch of what we do and how we do it. I really think that, as part of the whole process, we need to find a better way to communicate that. You can write letters to legislators, you can have your lobbyist meet with them; you can sit down and talk to them. Like Senator Geller said, during the session, if you're sitting in a restaurant in Columbus, Ohio, or in any other state capitol, they're not going to get the same understanding and feel that they would get if they were to come out and actually see what's happening, not only at your facility, but also with new facilities that have implemented gaming.

Stan Bergstein: Thank you Brock. From the floor, questions, comments? Brody will bring you the microphone.

Senator Geller: While he's bringing the microphone, I'll just say that the Senate Regulated Industries Committee, this weekend, coming up, in Florida is doing a site-visit to Gulfstream, to Mardi Gras, which is the old Hollywood Bowl Track, to Pompano Harness Track and to the Seminole casinos, so that we can see ourselves.

Stan Bergstein: That's interesting and you had one quick comment, before Mr. Barron comments, you talked about powerful leaders who dominated certain areas, and of course Maryland right now is encountering that problem where the president of the Senate, Mike Miller, is a great believer in slots and the Speaker of the House, Michael Busch, has been able now for four consecutive years to stop it. So when you get those kinds of situations, Maryland is in very tight quarters. Norman Barron from Ohio.

Norman Barron: Thank you Stan. Norm Barron, I'm the chairman of the Ohio State Racing Commission. One of the points I wanted to bring out that I think contributed significantly to the demise in Ohio of a constitutional amendment, which was to approve the installation of slot machines, and I think Senator Geller might appreciate this, was the wording of the constitutional amendment. I didn't realize how important the wording was until I went in to vote and the first line on the constitutional amendment was "to approve the installation of 31,165 slot machines." I didn't have to go much further than that. If I was the average person, this looks like there's going to be a slot machine in every toilet in the state of Ohio. That wasn't the way it was projected in the advertising. A lot of people didn't listen to the advertising, when they go in to vote on a constitutional amendment which is complicated enough because it's another page and a half after you get past the first line, I think many people didn't get past that first line, that was enough for them. More than 31,000 slot machines. Where are we going with this? This is a "no" vote. And of course, the other thing, and this is very difficult, any time you have a constitutional amendment the difference between "yes" and "no" is probably worth 10%. To approve or not to approve, if you can ever possibly word it so that the "no" vote is not the one against you, but is in favor of you, you have a much greater chance of succeeding. But I would say that our industry people did put up a good fight, I think there was a lot of money spent, it was well-intended, but unfortunately constitutional amendments are pretty tough.

Stan: We will continue immediately after this commercial.

March 11, 2007

10:20 a.m. – 11:20 a.m.

Integrity: Four of the toughest regulators and the TRPB's Director of Wagering Analysis discuss penalties that can help make cheating not worth the risk

- **John Blakney, Ontario Racing Commission**
- **Hugh Gallagher, Delaware Harness Racing Commission**
- **Joe Gorajec, Indiana State Racing Commission**
- **Curtis Linnell, Thoroughbred Racing Protective Bureau**
- **Richard Shapiro, California Horse Racing Board**
- **Dr. Scot Waterman, Racing Medication and Testing Consortium**

Stan Bergstein: There is no issue in racing today that commands more interest, or on which racing's welfare depends, than that of integrity. People speak about it constantly, and today we're going to have six people speak on the issue who are deeply involved in the administration of justice, if you choose to put it that way, and on what we can do about the problem of controlling our own destiny with integrity. You've all seen the articles that are starting to appear, Rob Longly and the Toronto Sun, which normally doesn't do much for racing, all of a sudden there's a long series on it. A Monticello situation got underway with a very devastating article, and then they were able to turn it around, as NASCAR did, into a positive situation by making all sorts of promises of what they were going to do. But the fact remains that once you get the devastating article, it's like trying to rebut something in print, it's very, very difficult to do and turn things around. The first speaker today is a gentleman who has played the leading role in North America in administering severe penalties, as a deterrent to wrongdoing. John Blakney is the executive director of the Ontario Racing Commission, not only a leader of the commission, but also a leader in trying to stem the problem of illegal medication.

John Blakney: Thank you Stan, and of course it's a privilege to have the opportunity to speak to you. I'm relatively new to the horse racing scene but Ontario is a rather aggressive horse racing community. To begin, I want to first pose a question to the group here this morning and that is: do you believe that good things are happening in horse racing? Well, I think, quite frankly, we can say that the Ontario horse racing community believes the answer is yes. It is due to a number of programs that have been ongoing in Ontario, and one of the most significant is medication control. Before I get to talk a little bit about our experience, I'd like to emphasize that all that is taking place in Ontario is more than just a regulator issue, it's a community-based issue, and the community is made up of not just the regulator, but owners, trainers, horsepeople organizations, veterinary practitioners, racetracks and the racing public, the wagering public.

But what is medication control? The answer is best illustrated by sharing with you our main theme driving all communications over the past year or more and that is that medication control is good for the horse, and vital for the industry. Simply stated, it means only using medications or products that are of therapeutic value to the horse, working under the fundamental belief that it is unethical to give non-therapeutic drugs to a horse at any time, and not using any medications or products prior to a race that mask an underlying health problem, cause a positive test, or undermine the testing process.

Why medication control? The acquisition and possession and actual use of illegal, and non-therapeutic drugs, whether perceived or real, was of great concern to the Ontario horsepeople, owners, trainers, bettors, and the general public. The reputation of horse racing in Ontario, and the financial stability of the industry were on the line, and the confidence of racing participants, the wagering public, and the public at large was all at stake. Action required to assist in breaking the substance abuse cycle was seen to be a significant requirement. The substance abuse cycle in our view is made up of three major components: substances, distributors, and users, and there is the interrelationship and interconnectedness of these various components that make substance abuse work. Our job, as I see it and as the Ontario racing commission sees it, is to intervene in any way we can in any one of those three components or them all.

So what's been the Ontario experience? In our view, the majority, by far the majority, play by the rules professionally and care passionately about the horse. We had and still have, as all other jurisdictions, an in-competition testing program where penalties range from a few days in suspension to five years, guidelines set up under the Ontario racing commission. But we were dealing with a few individuals who appeared to be flaunting these rules and caring very little about the horse and motivated by greed, seeking anything to change the performance by illegal means. So we were faced with these individuals who were acquiring, possessing, and using these illegal equine drugs. Ironically, it seems that the practice was tolerated by the majority, believing perhaps that there is nothing we can do, it can't be stopped, and perhaps, in my view, a certain level of complacency had set in. Some, who normally we would consider clean, perhaps joined the ranks, out of the need to just compete. My reading was that the community felt powerless, and then something quite extraordinary happened. The horse racing community in Ontario came to the recognition and admitted that action was required to break the substance abuse cycle. The community asked us, its regulator, for help to develop a system to break that cycle, and that is what would be required in any jurisdiction for the system to work.

So now what's the Ontario experience? We've developed a system, based on a horse racing community involvement, a system not of the regulator but, we believe, of the community. A system where an even greater emphasis would be placed on fairness, responsibility and due process, and where education and change of practice would send a message of the seriousness of this issue and the need to change. Initial fines and suspensions demonstrated that intention. Proactive research and testing procedures and increased investigations were an absolute necessity. So what about now? Last spring, we initiated fines of one thousand to two thousand dollars and a probation of one to two years. Small, minute in comparison perhaps, but what was intended was that this would be an increased education in communication program to the horsepeople, to the industry that what was coming in the future was severe fines, severe penalties that would follow for those who continued to ignore the medication control message. In that spring of 2006, we established an industry medication control group that was to report and work with the executive director and provide advice on medication issues.

In May of 2006, we issued a new directive requiring trainers to make their horses available upon demand for a blood test at any time. This was the start of our out-of-competition testing program, and the focus was on change in performance, reasonable cause, all leading to determining whether or not there was a case for conduct prejudicial to horse racing against the trainer involved. As part of the program we would take advantage of the latest testing technologies that were being utilized. Today, and most recently, fines and penalties have increased substantially. In August to October of 2006; we issued notice and proposed orders in the tune of $100,000 fines and 10-year suspensions against five trainers. We've increased the testing and investigations and it continues.

The horse racing community, we believe, embraces the principles of medication control. They realize they now have the power to effect change. So what are all of us in this room, and outside this room in the horse racing business, faced with? Our intelligence tells us that we're faced with a drug network that's international in scale. Although the red lines point from Ontario, I can only speak from our jurisdiction's perspective, but we do know that it's an ongoing, interrelated, sophisticated organization that really is a two-way activity. The question then is how can we, on a more global, international scale, effect the substance abuse cycle? It is of concern to the racing participants around the world, I believe, to suppress the cycle. The international horse racing community must experience a moment of recognition. We must recognize that the cycle of abuse can be stopped, or at least limped, curtailed, and we must do it together because together we are the solution. Thank you for the opportunity to talk to this group.

Stan Bergstein: I want to thank you for that inspiring and certainly accurate assessment of the problem, Mr. Blakney. Our next speaker has background as a state steward at the Meadowlands and elsewhere, he has been a long-time leader, he was an organizer of an officials group many years ago, and he currently is administrator for harness racing at the Delaware Harness Racing Commission. His mission, as he sees it, and it's an interesting assessment, is to drive good owners away from bad trainers. I can't think of a more worthy objective, and I'd like Hugh Gallagher to address the issue now.

Hugh Gallagher: It's a pleasure to be here, thank you for inviting me to join this assembly. I have several talking points that I've outlined, and I do recall, years ago, back in the '80s, being in Florida at the clubhouse at Pompano Park and having the opportunity and the good fortune to talk to the late, and great, Billy Haughton. We were talking about integrity then, and that was in '83, so this issue doesn't go away, it's been with us a long time and the mathematics has not resulted in a solution that I think is successful. Part of it is because of penalties not being hard enough, we haven't eliminated the problems. I think we're on the right path, Mr. Blakney certainly is, his operative word and concept of recognition is a driving principle: if we don't know what the problem is we can't eliminate it. When I was talking to Billy Haughton, he reminded me that integrity has two meanings. It certainly has a dictionary-meaning of honesty, and it also, in his opinion and it's something that I respected and try to keep close to me, has a very important meaning that integrity reflected a wholesome sense of tradition that was passed on in generations of horsemen. He said that a great deal of his success, he attributed to the people that taught him what side of a horse to go to and how to look at confirmation and things of that nature. I think that we need to keep the twofold meanings of integrity at the forefront of our drive and our role as regulators to protect all elements of the racing industry, particularly those of the participant. Some may disagree with that order, but there are two worlds in theory: racing itself, that's supposed to be a sporting contest on the track, and the participants who are within it and need to be protected. It's supposed to be "a level playing field" with the public protected as well as participants. That second world is, in theory, wagering on that contest legally. Both of those converge with the mandate of the regulators to provide oversight and stewardship to a fair and a safe contest. I cannot stress enough the importance of safety in racing as an integrity problem, and I think that some of the medication problems presented are a conjunction of safety as well as abuse. Some who administer foreign substances to horses are conscious of it, and some are not. The convergence brings us to the point that we protect both the public and the participants.

I was out of racing for a number of years, in private business, and it gave me a different perspective when I came back just a year ago in October. I've seen, particularly in Delaware at the two tracks that I happen to work with—Dover and Harrington, very knowledgeable and expert management, very involved general managers that care about and know about what they're putting out on the track and what we should do. It's almost a clinical approach: there's a horsemen's group, there's an association, and there's the regulators. What we are doing as an industry is trying to bring those three points of view together and move forward. But what I saw that's changed in racing is that the age of specialization has really come to the forefront with the power of slot-infused purses. No longer do the horses that have drawn the "A" haul at Harrington, say, necessarily take a soft seat and go around the track and maybe pick up a check. They're up on the gate and they're moving forward, and it has changed dramatically, in addition to the speed. I think there's more danger and more risk in that regard and I think the officials have to look at that a lot closer.

It is rare today to see distinctive and individual horsemen, such as Roger Hammer out there an owner-trainer-breeder-driver, someone that does everything. It is more specialized, more specialized in what we see, and certainly more specialized in what we don't see, about what is getting to the horses. One of the major changes that I'm grasping is distributors of compounds and elements who possibly don't know what's in them, so how could the trainer that buys these products know what's going into them? I think that's a great danger and a great risk and we do have some steps in Delaware that we're going to take to investigate that through the department of agriculture and possibly through the USDA. We're working on doing something about that for sure. I put a note down about how minor infractions could become major problems, certainly the most major concern, I think Ontario is leading the way, without any question, that medication and illegal medication is something that we really have to address and get our arms around and provide control. It's a mandate of regulators to do this, we have to do it, and we've been trying to do it for years. We've talked about it, but the results of testing are telling us that we're not getting it done.

Minor infractions, to me, and this is off-the-track of medication a bit, have to do with integrity and perception. There are integrity violations and then there are perceptional violations, I recall being at the Meadowlands years ago and one of the associates had left the stands between races, had gone to the window to cash a check for spending money. I got a call a day or so later from the general manager saying that he got a call from a reporter who was there that the judges were involved in wagering on races at the track. So something that is innocuous and harmless can lead to major problems because officials are not thinking about what they represent and what they do. Officials and money have no business at the racetrack, particularly in the paddock. We had a recent situation where the paddock judge at the time was trying to provide horsemen over the 15 races at Dover with treats and things like that and taking money. That is not the role of the regulator. We need to instill in our staff, our regulatory staff, what it means to be an official, and having the right business-like approach when they come to work. If we don't start with our people, with our officials, we can't expect the horsemen to take it seriously. Anyone that takes money, even for a good reason, is acting foolishly at a racetrack. Any official that goes to a wagering or information window, unless they're doing official business in the investigation, they're making a mistake as well.

Another thing that may be innocuous is a horse being more than a length off the gate. What's the problem there? Should the starter give them a $50 fine, and that's it. Some intelligence was provided to me by good sources that a driver was sending signals by being off the gate, whether he's aligned or not. In these days, consideration of simulcast racing is critical. The product, in the case of Dover, some nights 90% of it is through the simulcasting, 90% of the revenue that's generated, and the image is everything. So we have a need as regulators to make sure that the officials are providing every visible aspect, from the post-parade through the conclusion of the race, that everything is done within the structure that the rules are designed to cover and control.

I worked also at Pompano briefly with an official by the name of Blackjack Stewart, and he had some techniques and methods of changing the race itself. One of them, to my surprise—this was 20-some years ago—was calling up drivers for not keeping the race tight enough at the first sixteenth, and I thought this was amazing. I was a state steward, but fairly green at it, and he was calling drivers up because they did not keep a whole field right after the start, and it changed the way that the races were run for the rest of that meet. There was no doubt about it. There are techniques that officials can do to make racing different, and if there's a perceived problem with races, and the running of races, I think it's an obligation of theirs to find a cure for that and to do things that make sure that races are run more competitively. I will make a comment about the reason I think there are medication abuses. It has to do with the motivation for the risk. At Dover, over 10 million dollars was distributed in purses in a 6-week period, with 90 races a week. So there's certainly a reason that trainers and other people related to trainers who may not even be licensed are taking these risks. There's a tremendous amount of money out there and they'll continue to do it, there's nothing that's going to stop them.

One last thing I can tell you is that, we've been running pre-race blood gas violation analysis, and we've just finished a study with Dr. Soma from New Bolton Center showing that 80% of our high readings go back to 20% of the trainers. So what we're seeing are similar patterns in Ontario and Delaware. Finally, the reason that we came up with our rule for EPO, which was 10-years, $10,000 fine is because there's no doubt in my mind, from the information I've been given by experts—Dr. Sams, Dr. Waterman—is that EPO and similar substances have no business in a horse, and if they're found there those people that take that risk don't belong in racing. Ten years, in my opinion, is just the beginning for that. We should have no tolerance for black and white issues such as EPO. We should be developing ways to send out messages that there are going to be strong and severe sanctions for anyone taking those types of risks. As for aminorex, which will be addressed later, what I plan to do is look at the elements of aminorex that are common to EPO. They're different things completely, but what I mean by that is how those abstract drugs become part of the unknowing public's wagering. There is an element common to both, and that element is: anything or any substance that puts both the welfare of the horse during the contest and the driver at risk should be closely looked at and considered as an aggravating factor.

Stan Bergstein: Thank you, Hugh. It's interesting in Delaware that Hugh is pushing toward out-of-competition testing, which probably is the best answer to our problems, and also is instituting rules that provide that not only use of illegal substances, but possession of them is a violation. Joe Gorajec came out of the University of Arizona Race Track Industry Program, as did many of the leading figures in the sport today, including Dr. Waterman and my staff. Joe is shaking things up in Indiana where he rules with a strong hand as the executive director of the commission. Here is Joe Gorajec.

Joe Gorajec: Thank you Stan. I am going to discuss penalties and how I believe they fit in a regulator's view of the world. First off, I believe that enhanced penalties for integrity-related violations are absolutely essential. In Indiana, we are certainly to the right of center when it comes to assessing penalties for integrity-related violations. To give you a few examples, just a few years ago we suspended two practicing veterinarians for a minimum of one year for injecting horses with vitamins on race-day. In Indiana we have a 24-hour ban on any type of medication, any type of injection.

Just last year, we had four trainers who tested positive for a Class-4 substance, which typically would call for a 15 to 60 day suspension. On this particular drug, we were able to prove that the drug in question was given on race-day, in violation of our 24-hour rule, and each of those four trainers was suspended for a minimum of a year. We have one disciplinary action pending from last year, a class-1 violation, and I have recommended that person receive a 7-year suspension. So we are to the right of center when it comes to penalizing people for what we perceive as integrity violations. With regard to where penalties fit in the scheme of things, they are important, but they are not the only component to serve as the deterrent for unauthorized medication use, particularly on race-day.

If you want to look at a formula, the formula would be security + drug testing + penalties = a deterrent. You could say it in another way, in that enhanced security, enhanced drug testing, and enhanced penalties equal clean racing. You can't focus on just one aspect, penalties, and ignore drug testing, and ignore security. Why are penalties not enough? If you look at it from the standpoint of a horseman who is contemplating cheating, he knows what the rewards are; the rewards are purse money, possibly betting-income, status, success, particularly in attracting new owners, and with the rewards out there, he's looking at the risk. It's not only the risk as far as what the penalty should be, or what the penalty will be, but the key is what is the likelihood is of that individual being caught. You can have the stiffest penalties in the world, you can have draconian penalties, you can have firing-squad, guillotine, and disembowelment in the public square, but none of those things are going to stop someone from cheating if they perceive that the chances of them being caught are remote. So what we need to focus on is not only drug testing, but we need to focus on security.

When you look at security, and when you look at the unauthorized use of drugs, a very smart person, Dr. Scot Waterman, informed me that if someone is trying to influence the outcome of a race and gives a horse a foreign substance, he's going to do it shortly before post-time: two hours, four hours, six hours, maybe as far as eight hours out. So we as an industry have to develop security programs to combat the actual administration of drugs and medication just prior to post-time. That's what we've tried to do in Indiana. This past year we instituted a program that we called Integrity '06. Its sole focus or primary focus was on deterring the actual administration of unauthorized medication on race day. I'm not going to go through point-by-point what each of those initiatives are, they are available on our Website, just Google Indiana Horse Racing Commission, and you can look at the initiatives that we put in place to see if they are things that some of you may want to emulate. We have a commission meeting on Friday, with a number of rules and initiatives being proposed. Some of them are, I would think, the first in the nation regarding occupational licensing, becoming even more stringent in who we allow to race in our state. I'd like to close by sharing with you what my thoughts are on the importance of this panel and this issue, and all of the things that regulators are being confronted with. Stan has done this weekend what he always does, he puts together a top-notch convention, and I've gone through the program and there are many interesting issues out there, there are some challenges, there are some problems, there are some innovations, technological advancements, there's discussion on different ways of marketing to bring fans into the track. But I feel the issue of cheating and stopping cheating is of paramount importance because if you don't have clean racing, and you don't have the confidence of the betting public, then really none of these other issues matter at all.

Stan Bergstein: Thank you very much, Joe. California long regarded itself as the center of the racing world. It was not always regarded as such by others, but it never lacked in confidence in itself as such. Under the supervision and under the leadership of its current chairman of the California Horse Racing Board, it has duly recognized respect. The chairman has made a very strenuous effort to turn California around, and has succeeded in doing so. His most recent appointment of an equine medical chief, the respected Dr. Rick Arthur, has changed things substantially in California in all ways. Our next speaker is a third generation horseman. His grandfather owned Native Diver, and his father was the president of Western Harness Racing. He himself drove and trained horses, so he knows every aspect of racing and we appreciate you giving your weekend up with your family and flying cross-country to be with us, Richard Shapiro, chairman of the California Horse Racing Board.

Richard Shapiro: Thank you, Stan. I find this discussion very interesting, and as Joe said, I don't think there's a more important discussion we can have because what we're talking about is the core of our industry, it's the heart of what we are. It's called integrity. Frankly, I wonder where the conscience of racing is many times when we talk about it. We can talk about penalties, but penalties aren't going to necessarily solve the problem. You have to get at the cause and find the cure. It's time to tell the truth about what our problem is, and our problem is that unfortunately, we don't have the tools. In my current role I'm a regulator, and frankly I don't like being a regulator, but what I have learned as a regulator is that as much testing as we try to do, as much security as we try to provide, as much surveillance as we perform, we're outmatched. And what I see is that unfortunately, the true guardians of this industry, the true stakeholders, don't seem to want to take responsibility enough for what's at stake.

We all know that we have a war on our hands called medication, and as our purses are increasing, in those states that are fortunate enough to have racinos or have subsidies, we're seeing that there is certainly a bigger prize for people who want to take the edge. We also have to admit that what we have today is a different breed of owner, and a different breed of trainer. Today's owners want to win races, and in many cases the trainers who win races aren't necessarily horsemen. They are wonderful salesmen, they are very engaging people, and they're pretty damn good chemists, by the way. So what we're finding is that the old-time trainers on the backstretch can't fill barns anymore. The business has changed tremendously, and what I see lacking is who is going to take responsibility to change back? We as regulators, at least speaking for California, we're at a disadvantage. Every dollar that we want to spend toward testing we have to get from the legislature. I don't know about your state, but in the Golden state, we have to fight for every buck. Last year we got an $851,000 increase in our medication testing and we're using that for out-of-competition testing. Frankly, it's not enough; we're only testing 27% of the horses. The odds of somebody beating us are very good. But I also have to fault our industry overall because there's no uniformity. In California we test 800 different compounds. Some jurisdictions test 100; some don't test 100 compounds. Our penalties are all over the board.

Fortunately, through the Racing Medication and Testing Consortium we are getting guidelines and we in California have moved forward to adopt those guidelines, and we intend to continue. But we have new things on the horizon and new threats. Look at what's going on in the sales arena today. The integrity problem doesn't just start at the racetrack; it starts before horses get to the racetrack. We all know that we have horses going through sales rings that are on steroids. What are we doing to the breed? What we're doing to the breed is we are breeding an inferior animal; we are breeding a more fragile horse. What we're doing is we're bringing in people to invest in our industry and we're not telling the truth. I think integrity is at the root cause of the problem. Unfortunately, I don't see that there's a governing body, and unfortunately too many people look to the regulators. But the regulators can't do this job alone. It's going to take the industry, the stakeholders, the people that have the true stake in this industry, to stand up and say, what we need is to clean up our act. We are losing the public's confidence, and as Joe said, if we lose that it doesn't matter what we do. We already have damaged our self in many other areas, in that our racetracks are void of on- track fans.

This industry has tremendous challenges facing it, and we have to remind participants who chose to cheat that it is a privilege, not a right, to be at our racetracks. We have to follow due process; we are a bureaucracy, we regulators. But track owners, that's private property. Back in the days when I was in the harness racing business, there was a guy who wanted to bring in a barn full of horses, but we knew he was a cheater. We said "don't come here, you're not welcome."

We know we have problems, but it's very difficult to get a track owner to stand up and say we know this guy cheats, we haven't caught him yet, but we know he's cheating. In carbon dioxide testing we can get it down to 20% that we know who they are, but not one track is willing to say we don't want them. And that's what it's going to take, the stakeholders of the industry to stand up and for the industry and have a speaker, a voice, a conscience that will stop people, not just with stiffer penalties—make them as stiff as we can—but find a way to stop people from being in this business. Likely, we're going to have to get to detention barns, pre-race detention barns, because I don't know about other jurisdictions, but investigators—we don't have enough and they don't know what they're looking for. It's unrealistic to expect through a barn search that we're going to find what goes on. So what we're going to have to do is to get to pre-race testing, detention barns, but most of all, an industry that will unite, adopt stringent uniform rules and create uniform penalties throughout the industry.

Stan Bergstein: Thank you very much Richard. You now can understand why Richard Shapiro has changed and shaken up the State of California.

The aminorex situation is getting out of hand in harness racing by the devastating effects that it's having on horsemen and the sport. I have had calls from trainers with positives who, in my opinion, would not do anything adverse to a horse, telling me that they did not do it. Their horses were positive and they don't know where this stuff is coming from. To answer some of those questions we have the leading expert in the country, a man who heads the Racing Medication and Testing Consortium, Dr. Scot Waterman, to clarify that issue for us a little bit.

Dr. Scot Waterman: Thank you Stan, I'll do the best that I can. One thing I need to say up front, this is, at this point, a very fluid situation and there are multiple investigations proceeding on a lot of different fronts. There are things going on that I can talk about and things going on that I can't really talk about, but I'll do my best to sort of update this crowd on exactly what's going on. First, let me just talk a little bit about aminorex, just in case you've been under a rock. It is a drug that is essentially a close cousin to methamphetamine. It goes by a number of different street names, one of them is ice, another one is euphoria, there are a couple of others, it's essentially a street drug, a club drug, but the name euphoria tells you exactly what this drug does when a human being takes it. It is similar to things like ecstasy and some of those types of drugs that are popular in the club scene. It was marketed back in the 1980s in Europe, approved for use as a weight-loss drug, but was fairly quickly pulled off of the European market. There has been no commercial source of this drug since that point; it's not manufactured by any pharmaceutical company anywhere in the world at this point. Similar to crystal meth though, it is not that difficult to manufacture. You could do a Google search and if you look deep enough you can find recipes on how to make aminorex. So it is something that you don't need an advanced degree in chemistry to make, certainly high school dropouts can make crystal meth, aminorex is no different.

The history of this drug in racing: it was first discovered by Dr. Rick Sams and the Ohio department of agriculture lab, I believe it was about two and a half or three years ago, that was when the first positive was called. And that's the first time it had ever been seen in a horseracing sample. Because of that, and certainly because of the sort of dire consequences of finding this drug in a post-race example, the Ohio department of agriculture actually created two distinct methods for the detection of this drug. One was with GCMS, which is gas chromatography-mass spectrometry, and the other method was LCMS which is liquid chromatography-mass spectrometry. What they wanted to see was whether or not those two distinct methods agreed with each other, that they still have an aminorex positive using GCMS and then could verify it by using LCMS.

As for mass spectrometry, the basic way to think about it is that it provides you with a fingerprint, and that's essentially what it is. Mass spectrometry is a very specific method; it's essentially the same as using a fingerprint to identify a human being. These machines basically take these molecules, explode them, and these patterns, this explosion pattern of this molecule creates very unique identifiers for each individual molecule, so this is a very specific method that doesn't make mistakes.

Ohio continued to call positives for this drug, certainly reached double-digits in numbers of positives. The University of Pennsylvania laboratory also began running this method, and very shortly they had double-digit positives, Ontario began running the method, they have double-digit positives, and there have been a couple of other jurisdictions that have had one or two positives. Massachusetts has called one and Hong Kong called one. There are some very odd things about this though, and certainly the distribution of the positives is very unique. In all of the jurisdictions that have had multiple positives called, the individuals that have had positives are some of the usual suspects, people that you are not surprised would end up with a positive for something like this. But there also have been individuals who I've had people swear to me are absolute honest horsemen and have said things like "if that person's using this stuff, we might as well just all quit and go home." So that's very unique in this situation, and the other thing that's very unique is that it hasn't dried up. Most every other positive that I've ever seen for a new drug, and there have been a couple of them in recent memory: the benzel-pepperzine positives that Massachusetts called four or five years ago, the quantadine positives that were called in Nebraska two or three years ago, as soon as those positives were called, you never saw that drug again. And that's the typical pattern, once the people that are using the drug to cheat realize that we can detect it, they're on to looking for something else.

So the fact that the positives continue to roll in despite the fact that everybody and their brother knows that we can detect this drug now is very, very unique. So that really tosses you around a little bit and makes you try to understand what's happening here. Why are people that you wouldn't expect to cheat getting positives? Why is this drug not going away despite the tremendous amount of publicity it has received? So those are issues that are all being investigated.

In terms of the specific claim on levamasol, which is a de-wormer, there's no possible way that a mass spec method could confuse levamasol with aminorex, they are two completely different molecules, and mass spec will not confuse two different molecules. What we don't know necessarily about levamasol, and if that is a thread that connects all of these cases, then it's going to be looked at, but could levamasol be metabolized in the horse to some substance that is similar enough to aminorex to confuse the mass spec method. We don't know the answer to that, that's something that's actually being looked at by a couple of laboratories in the US right now. So that's something that can be solved if that's an issue. In terms of investigating this, that's what you have to do; you have to look for common threads at this point. Were all those horses receiving levamasol? If so, then that's something that's worth looking at. What other products might be administered to all of these horses that might be a common thread? It almost becomes like a disease investigation, looking at the outbreak of disease and trying to determine the common threads between all of these individuals that have this disease. And that's something that's active and ongoing.

My personal theory, and this is absolute personal theory, not expressing the opinion of the Racing Medication and Testing Consortium or anybody else at this point, I think there are two things going on here. I think initially there were definitely people who were using this drug to cheat. They were caught. But as the method expanded, we're starting to get some sort of unintentional positive at this point. Certainly in initial cases, you get a positive and usually it dries up, and now all of a sudden it seems to actually be expanding, so I think there are two separate things going on here, and it's going to take some time to sort that out.

One thing I will mention and I've mentioned to horsemen who have called me on this issue, and it's a huge problem and it actually touches on a lot of things these gentlemen have already said. There are a tremendous number of products, and I shouldn't even use the word product—that legitimizes it too much—there's a tremendous amount of junk that floats around the backstretches in this country and in Canada. Most of these products don't have labels, they don't have qualified analysis of ingredients on them, they're junk. And unfortunately horsemen continue to put these products into horses, despite the fact that they have no idea what's in them. Frankly, veterinarians are just as responsible because they also put these things into horses with no idea what's in them. It's pretty easy to see how something like this could grab some people unintentionally if they're throwing these things into these animals and they have no idea what's in them.

So this is going to be a problem that's going to continue to pop up from time to time just because all of these products are out there, they make a lot of people rich, and we certainly have no idea what's contained inside of them. We need to address, very seriously, the issue that Mr. Blakney talked about, that cycle. The way you break that cycle is you go after the distributor, and that has to be the focus of this industry. We have to have the resources to go after the people who are marketing these products, that are making these products, and that are selling them. Certainly the world anti-doping agency, which is sort of our kissing cousin on the human athletics side, has made going after the distributor of products a top priority, and I think it needs to be of this industry as well. Thanks.

Stan Bergstein: Thank you very much for clarifying, so articulately, the very complex problem now facing us. It's going to be a continuing trial for the regulators sitting at this table, and all other regulators, because they're a conflict obviously between the ideal goal of severity of penalties and of messing up people's lives and reputations on something like aminorex, where some very reputable trainers already have had their names dragged into this thing. They're going to somehow have to work their way out.

There's another issue obviously of integrity and that is the integrity of pari-mutuel wagering, and our final speaker is going to address that. He represents the Thoroughbred Racing Protective Bureau, he is probably the leading technical authority on pari-mutuel wagering integrity, and it's Curtis Linnell.

Curtis Linnell: Thanks Stan, thanks Chris Scherf, for inviting me. I do, I admit, feel like I am somewhat the black sheep of the panel, but I guess there's a point that needs to be made that horse racing is a wagering activity and if we think for a moment that violations of integrity are simply for winning purse money only, I can announce today that we are incorrect in that.

Wagering can be a tremendous source of income for the individuals involved and it can also be a tool-set in which we can look at the horse racing activity and determine who is above-board and who is not.

One thing I should mention is that, right from the start, integrity needs to be defined. It's a very overused word, and we're going to attempt to just take a shot at that quickly today. First, a disclaimer: the opinions expressed are my own, don't yell at my boss Frank Fabian, for these opinions are mine, and are not the opinions of Standardbred Investigative Services. Integrity, in my opinion, means the participants are clearly identified; the trainer of the horse needs to be the one listed to be the trainer of the horse, not somebody else saddling that horse for the trainer, not some trainer who is on suspension and names someone else as the trainer. The motivations and corresponding actions of the participants are transparent, that individuals are entering a race in order to succeed and the differences between participants are readily available to other participants, officials, and to the horse racing customer, defined in this context as the wagering public. Integrity in wagering: means that the wager can be made with the reasonable assertion that all other customers are on the same level, on the same plateau, and have access to the same general information that all other customers do. Once a wager is receipted, that their wager is valid and reflected in the wagering pool, that individuals can make decisions on that. And when the wagering pool closes, wagers cannot me made, cannot be cancelled, cannot be changed.

We at the Thoroughbred Racing Protective Bureau deal on integrity at a track level, we support, both the Standardbred Investigative Services and Thoroughbred Racing Protective Bureau, and the racetracks as they deal with wagering and the participant information that comes with that wagering, and we have developed a couple toolsets. The first tool set we've developed to support racetracks in their role, and I think Richard Shapiro talked about the stakeholders and everyone having responsibility for their own role, and we believe that very strongly because there's a toolset that we've started to develop called the Betting Analysis Initiative. We currently have started that in operation on all thoroughbred racetracks of TRA and it's scaleable to include all harness tracks. This year we will see the expansion of that to cross-reference all wagering activity at those racetracks, with participant performance and results, and pari-mutuel results. Wagering integrity: we need to verify that the location making the wager is the identified retail location and not something else, again, that the locations that are coming in to host track pools have not warehoused or sublet that out. Again, violations when it comes to participants are typically not happening on track, they do happen on track, but typically they are not happening on track, they're happening through a far-flung account wagering company, and you need to know who it is. We have to ensure that all locations in a wagering pool have an ownership and management that are legitimate. Find out how the wagers are made, and that the host track is aware of a site's operation. Again, a toolset developed for this is Thoroughbred Racing Protective Bureau's due diligence process, giving host tracks the tools to deal with their wagering information in relation to integrity.

Obviously on the regulatory side, we have some of the best and brightest regulators right up here. The racetracks have to make sure that officials are fully capable and empowered to deal effectively with rules violation. So as we support racetracks, we need to support commissions, to ensure that the policing of racing and wagering is efficient and comprehensive, and again that starts at the mutuel manager's department, it starts at the compliance officer at the racetrack and we work to support that. Obviously deterrents impact the actions of the participants. The racetrack operators; each constituent group in horseracing performs their role in their own best interest. So everyone follows their own best interest.   The operators are responsible for the integrity of their wagering pool. And that's the second point. And the toolsets that we're working to develop is supporting that very role.

Stan Bergstein: Thank you very much, Curtis, we thank the panel for a deep insight into integrity in racing and we congratulate them on their efforts to this point. One question back here and that will conclude the session.

Art Gray: Okay, I'm going to make this quick. I just want to talk a little bit about what we've done at Tioga and Vernon, for those of you that don't know, I was a trainer, steward and presiding judge for 25 years and I was frustrated a lot of that time by things where you knew what was going on and weren't able to do anything about it. Jeff Gural gave me an opportunity, asked me about integrity, and wanted the racetrack to have a level playing field. He gave me an opportunity to do this, and I can tell the owners of the racetracks here that this works. Security guards are trained, we showed them what to look for, they know how to milkshake a horse, they know what a syringe is, we do research into places where the horsemen will stop and try to medicate their horses on their way to the racetrack to race.

The very first Sunday that Tioga Downs raced, I was five miles down the road from Tioga Downs, I had the New York Post, I sat there for 16 minutes. I hadn't finished one article and a trailer pulled in. A trainer was in the back of the trailer for three minutes, jumped out, I called ahead, and they stopped the trailer, I got the three syringes out of the garbage can and those people are out of the races. One of the questions I've received the most is that well, if the racetracks go ahead and they do this it's going to create an adversarial situation with the racing commissions. The racing commissions aren't going to get mad; it needs to be a partnership. The racetrack owners have the right of exclusion; it's gone to the Supreme Court. You want to do this, you need to do it in a fair way—it can't be abused—but basically the racetrack owners can say "it's my ball and my bat and you can't play here."

There are tools that the racetrack owners have that regulators don't have, and I can tell you that I have horsemen calling me asking about whether or not they can get into races at Tioga and Vernon, because they don't want to apply if they don't think they're going to get in. So it's known, and this will work. I know that one of the things over the years that the racetrack owners were concerned about was getting sued and having legal fees, but if Tioga and Vernon can do it, and if Woodbine and Yonkers can do it, and if enough of the jurisdictions get together there might be a few lawsuits in there, but if you do it right, there's no collusion between the race tracks and you follow the legal procedures that you need, this will work. This is something that we can talk about, different policies that we can put into place for the next two years. If everyone here decided to do this Monday morning at 9 o'clock, we're going to make a huge difference in this medication issue.

Stan Bergstein: Thank you Art. Art has done a great job up there at Tioga and Vernon and he also of course is the mover of safety reins that he has been advocating for many years. I want to thank you all for being here.

March 12, 2007

8:00 a.m. – 8:40 a.m.

Internet and Disruptive Technology

- **Eugene Christiansen, Christiansen Capital Advisors**
- **Bill Shanklin, University of Akron**

Chris Scherf: Good morning everyone. First I want to thank the sponsors of this morning's breakfast, International Game Technology and WinTicket, we appreciate their support very much and I'm sure you do as well. Our first panel this morning deals with disruptive technology, which is one of the really, in-fashion, new business buzz-words. It's when a technology comes along and sort of blows your business model apart, and most commonly in these days it seems to be applied to the Internet. Certainly the horse racing industry is well-aware of the impact that the Internet has had on our wagering and how it's used by our customers and what affect it's had on their buying patterns. We're not alone in that, obviously, if it's a hot topic in business schools and business journals, there are a lot of other companies and industries that have been afflicted by this.

I can think of one industry leader who was talking about the impact that the Internet, and how it has destroyed much of what used to be their core business, or certainly had a huge negative impact, and how they are trying to adjust to it, and develop a new business model, one that takes advantage of the technology, which is always the challenge because once you're firmly ensconced in one business model, to quickly change gears is extremely difficult. But this leader was talking about the steps they were taking, his vision for the future, and also acknowledged that in five years their core business product would probably still continue, but he didn't say definitely, and it certainly got my attention because it used to be my business, it was the publisher of the New York Times, and he was saying that they have had in the newspaper industry such problems in dealing with the Internet that he wasn't even saying positively that they would have a print product in five years. That was astounding to me.

Today we're fortunate to have two speakers who have been regulars at these and other industry conferences, they've written frequently in our periodicals, Dr. Bill Shanklin from the University of Akron College of Business, he's written many articles about racing, for the Blood-Horse, Hoof Beats and Thoroughbred Times among others. He's going to start us off on the issues of Internet Disruptive Technology.

Bill Shanklin: Thank you, it's good to be back with you again. These are going to be the topics that Eugene and I talk about. Basically, the difference between a disruptive technology and a sustaining technology is that disruptive technology replaces your current business model and a sustaining technology makes it better. So therefore the Internet and telephone account wagering is both a disruptive technology and a sustaining technology in terms of racing. And we're going to look at a third point there: how companies typically react to disruptive technology. I want to talk about this term for a minute, when I was a very young person, many years ago, I went to college for about a year, year and a half, and majored in wine, women and song. There wasn't much song, so I decided after that that I needed a little maturing process.

I decided to join the army, which I did, and I was sent to Ft. Knox, Kentucky for basic training. We learned the things that you learn in basic training, how to clean a rifle, how to bayonet somebody, how to put a gas mask on and go through chemical warfare. We also talked about strategy, tactics, and most of our drill instructors had fought in the Korean War, and it soon became apparent to me at the young age of 21 that they were training us to fight the Korean War, in other words the last war. Later, I left the military went back to school, got my graduate degree, became a professor, and I had the opportunity to teach military officers at Ft. Knox, Kentucky, Ft. Campbell, Kentucky, proud home of the 101st airborne Screaming Eagles, and in Washington, D.C. I was a 20-something-year-old teaching bird-colonels, which is an intimidating situation, and that's why I've never had much stage-fright. We talked a lot about strategy and the military strategy that we talked about often times was how great military leaders can make blunders. And it's directly related to business.

If you look at some of the great blunders in history—the British fighting the American Revolution—what had worked in the past didn't work. They were fighting basically a guerrilla war and it didn't work. One of the greatest generals in history, in my opinion, Robert E. Lee, made a blunder at Gettysburg by sending 15,000 men over a mile of empty land in triple-canister, in other words three times the regular load of a canon. It was Pickett's Charge, and they were destroyed. That became so famous that De Gaulle and Eisenhower, people like that, would go and study the battle of Gettysburg for strategy. And you come up into World War II and you talked about the Maginot Line, which is still cited as a great blunder and cited in business. The French built concrete fortifications all along the line of Germany, all along the line of Italy, they were fighting World War I, and the Germans simply went to the low-country, right into France and seized it.

What I learned in teaching in the military and being in the military has direct applicability to business. If you look at the Fortune 500 companies, started in 1955; they're ranked from first to 500 based upon their revenue. If you go back to 1955, and you try to find those companies that were on that list in 1955, you won't find most of them. There's been a tremendous turnover, so it raises the question why is it that premiere companies that could go out and hire the best business people in the world, the best engineers in the world, the best R&D people in the world, couldn't sustain their prosperity. It almost always is that they were fighting the last war. The same people, the same managers that are hailed as geniuses, like at IBM in 1989, for example, are several years later hailed as dunces. IBM lost the most money in the history of mankind, three or four years after it made the most money in the history of mankind, because there was something that came along called the personal computer, and it was a very disruptive model.

I used to teach at Digital Equipment Company in the mid-1980s, they thought that the personal computer was basically for hobbyists. It was never going to be in business because business only had use for a mainframe computer of a mid-range computer. If you went to Kodak up in Rochester, they knew as long as 15 or 20 years ago, that the days of film were not long, they were not going to be around very long. But yet they weren't able to make the transition because it was the company that George Eastman built on the basis of film. They weren't able to make that transition, and hence today they're a very minor player in digital cameras because somebody came in from the outside and disrupted that industry that didn't have the investment that Kodak did in film.

So the sins of the generals simply means that we fight the last war. Companies do it, military people do it, and the racing industry has done it. There's no question that the racing industry has done it. In 1996, I had a call from a fellow, and he said that he was the president of a small NASDAQ company, and the NASDAQ Company was in dire straits and they would like me to join the turnaround team, which I did. I taught part of the time and I joined this turnaround team part of the time and we worked for stock-options, and the company had $90,000 in cash when we got there, it was our job to turn it around. So I called a turnaround manager that I knew down at Pittsburgh, who had worked for a lot of venture-capitalists out in California. In Massachusetts, he turned around three high-tech companies, and I asked him for advice, I said "what would you do?" He said, whenever I go in to a company, the first thing that I do is try to change the corporate culture. He said you go in and you fire the IT person, and you fire the HR person, and you fire the old president's chief assistant no matter how competent they are because they know too much and you've got to get them out of the company in order to change the corporate culture because they're always going to talk about the good old days and how they used to do things.

General Electric did a study very recently of fast-growing companies. What's significant about this is that General Electric didn't say we know it all and therefore we don't have to consult anybody on how to cope with growth, or how to make growth rather, cope with change. Now all GE managers that are on the fast-track and run major operations are evaluated on these criteria, and if you notice that first one up there, external focus, that means looking outward, not just within the industry that they're in, but what's going on out there per se. They evaluate you at the end of the year on the extent which you have external focus.

I'm going to skip a minute, decisiveness and risk-taking, those are definitely two traits, if you went back into those Fortune 500 companies, those would be two traits that you wouldn't see, the ones that got displaced, decisiveness and risk taking, because I asked the question how do companies typically react when they're being disrupted? The answer is, and there's a lot of empirical evidence on this, they try to save the old business model. The transistor people came along and they displaced the vacuum tube, but the vacuum tube engineers and companies poured more money into research and development on the vacuum tube and therefore perfected it to its highest extent after it was clear that it was going to be rendered obsolete by the transistor. You can site many examples of that happening.

If you look at some of these, inclusiveness, there's another one, the companies that I've been studying, and the companies that I've been in, that's where there's been a weakness. Inclusiveness: That doesn't mean it in an affirmative action sense; it means do you have a wide-degree of opinions? GE did a study, some years ago at their management institute, and they gave the attendees, who were GE executives, a problem to solve. They had people classified as either left-brained, meaning highly-analytical, or right-brained, meaning very creative, and they took one group of all left-brained people, engineers, accountants, businesspeople, and they put them in one group and then in the other group they put creative people. Creative people drive analytical people crazy because they don't think in a linear fashion, so the analytical people think that the creative people are crazy. How do you get to that solution, how can you come to that conclusion? And so the other group was all creative, so they had one all-creative and one analytical and then they mixed the group. And the creative people and the analytical people, when they were separated, they came to a conclusion, made a recommendation on how to solve the case. The third group that was mixed, they argued like cats and dogs, it took them twice as long to solve the problem, but they had a far-superior solution. Oftentimes, in companies and industries, particularly ones that have been disrupted, you don't have inclusiveness, people coming up with different opinions and being tolerated. If you look at a lot of company boards for example, the typical company board has people on it that are over 50 years old, typically males. One has to ask themselves, how much do those people know about a generation that goes on MySpace or YouTube, do they know anything about viral marketing? Do they know anything about industry change? Do they know anything about getting young people to come to a racetrack?

Even if you don't have a corporate board like Magna does or Churchill Downs does, where you can bring people in with different perspectives, if you're a private organization, you can still form an advisory board, I serve on several advisory boards and I recommend it. And when you get that advisory board, don't populate it with everybody from your industry, get an outside perspective because they'll tell you the truth. And get them of all age-ranges, and get them from different backgrounds because if two of them have the same background, one of them is redundant. I always tell people that when they want to start a business, I said if you have a capability in sales, don't get another salesperson, you'd better get an accountant or an engineer.

Domain experience, that's a tricky one, domain experience means how much do you know about the business. The reason that it's tricky is because, if everything's going along well, it's alright that you know that domain, but if there's a disruption, then what you know no longer applies, and that gets you in trouble. So when you talk about domain expertise, you have to be very careful about what that means, what do you mean domain expertise, do you want somebody that knows how to run a racetrack? Do you want somebody that knows how to do a viral marketing campaign over the Internet? We ask this question: how would we defend ourselves if we were an incumbent under attack from disruptive technology?

This is my opinion, I haven't asked Eugene about this, but it appears to me, and I've been around racing a long time, that basically what you've got is a two business model approach, on the one hand you have a group of folks that are figuring out how to get people to come on-track and I call this the slots, on-track model. So if you go to a convention like this, they'll have speakers on how to do customer service, how to serve good food, how to handle parking, that's very important for an on-track model. But the other model is, that's the Internet model, and the Internet model isn't like the on-track model. The Internet model, the account wagering model, has won because 75 or 80% of your revenues are coming from that model. And so if you come to an industry convention it almost sounds like you're in two worlds. Somebody gets up here and they'll talk about how you improve the food-quality, how you measure customer service, and then some other guy like Shanklin's going to come up here telling you about the Internet and you'd better compete on the Internet, and you'd better do viral marketing, and you'd better get young people on there and that's a different world. And so you've got a two-business model approach, just like at Kodak. On the one hand, you've got a bunch of people that were in film; on the other hand you've got a bunch of people that were in digital. And those people see the world from a much different perspective. It's just like the drill inspectors that were showing you how to fight the Korean War when there's a jungle-war brewing called Vietnam. It's exactly the same, the analogy's perfect, in my opinion.

So the question I think every racetrack has to decide is can you accommodate the two business model approach in the same company, and I wouldn't make a recommendation because I'd have to know about your specific situation, so I couldn't possibly make that recommendation. I will say this, I think it's very hard to accommodate it in the same business model, and you might want to consider splitting it. You might want to consider splitting it and telling the two components to kill each other off. And you say well, you can't do that, you can't kill off our bricks and mortar, or you can't kill off our simulcasting, well yes you can because that's what your competition's going to do. If you don't do it, they're going to do it, and that's going to make both of your business models better because the on-track people are going to have to be very proficient at what they do. Simulcasting is one thing and then on-track they're going to have to be very good at what they do, and those are different skills. I know they're different skills. Somebody that's very good at running a racetrack may know nothing about how to create a viral marketing campaign like the Blair Witch Project, which they did and made a hit out of that, or a number of other, of songs for example. So if I ask this question, how would we defend ourselves? One of the first things that I would consider is how to build a firewall between those two business models, and then I would hire the best people that I could on each side of those, and I would tell them to go after each other.

I would try to turn the Internet side of it into an iPod, which Gene is going to talk about in a minute. He's going to mention that I'm trying to turn that into kind of an iPod, because a racetrack is nothing more, if you look at it from the simulcasting side, than an iPod, because the inventory is digital. There's very little storage cost when you're talking about digital so it doesn't cost you any more to take a bet on some proposition bet or a peer-to-peer wager than it does on an Exacta where you're getting a lot of your money. I'd recommend that you read the book The Long Tail because that's what I'm talking about here. If you look at that, if you take Barnes & Noble, Borders for example, they've probably got 3,000 books, Amazon.com ranks over a million books and they make 25% of their money on books that are not even sold in a bricks and mortar facility. So there's no reason why you can't take a bet that doesn't have a lot of action. How would we attack incumbents with a disruptive technology if we were a start-up? Well one thing we would do is we would find a stodgy industry, and we would find one where the sins of the generals prevails, and we would do all of those things that I just said that a racetrack might want to do, and we would make sure that people have ready access to betting, through communications hardware, and we would make sure that they had a lot to bet on by extending the Long Tail they talk about that in that book, we would get into proposition bets, we might get into peer-to-peer wagering if we could, if the legalities would work out, we would hire a potpourri of people from various backgrounds, various skills outside the racing industry. If it was a private company I'd form an advisory board and figure out how to attack the incumbent because the incumbent is going to be bureaucratic and it's going to try to save its old business model and we would go in there and we would flank it and try to knock it out. Now I'm going to turn it over to my esteemed colleague Eugene Christiansen and he's going to follow up on what I just said, Gene.

Eugene Christiansen: Dr. Shanklin and I have been collaborating on articles and speeches quite a bit over the last two or three years. It's really a pleasure to work with him, partly because he thinks for himself and partly because he knows how to write, so it makes the collaboration much easier. This question of business models, old ones and new ones, and changing technology, I think it's extremely important for this industry. Dr. Shanklin has been talking about industries other than racing and I'd like to call your attention to this headline from the Wall Street Journal last week. What it's talking about is that the music industry, recorded music, has a new gatekeeper, the gatekeeper is Apple Computer, I'm sure there is no one in this room who doesn't know what an iPod is or what iTunes is, I think it's a perfect example of what happens when you persist with an old business model when the technology, the technological environment around you is changing. Recorded music labels could have done exactly what Apple Computer has done with the iPod and iTunes. They did not. When the Internet came along and file-sharing first appeared, the labels, which really had a perfect business model in a perfect world, a business model that had worked for 75 years and had gross operating margins of something like 90%, it really wasn't hard to make money if you were selling first LPs and then CDs. They took one look at file-sharing and the first thing they said was well, it's illegal. The next thing they said was well, we'll go into court and enforce the law and we'll put the file-sharing people out of business.

Here we are today, in 2007, and the result of that attempt to preserve or enforce a business model through the courts has produced a situation where recorded music sales are in their seventh year of declines, the seventh straight year. On the other hand, Apple Computer, with its new business model for recorded music is, as I think you all know, a tremendous growth story. Online music sales is the only sector of the recorded music sector that is in a growth posture today, and Apple and its principle shareholder could not be happier. They're doing quite well in this environment. I think that's a metaphor that says really all I have to say and I'll make a few more remarks and then I'll shut up because I'd like some questions and answers here.

To bring it back to racing, I think the problem with racing is that it is married to this old business model, most of the effort in racing is still being devoted to preserving the model, trying to make the pari-mutuel machines work, trying to make new fans with pari-mutuel machines, and at the end of the day what this means is that racing is product-centered, not consumer-centered. This industry is fixated on horses and horse races; its attitude towards the future really is that if the track surface is good and the racing is high-quality, God's in his heaven and all's right with the world. If consumers don't come to the track and bet sufficient amounts, there's something wrong with them, not with racing, not with racing companies. The racing industry is managed like an arts institution, the management mindset is that I like racing, and if the public doesn't, the hell with them. And let's get slot machines so purses can keep rising. These attitudes have created a demand-problem that will, in the long run prove fatal if it is not addressed.

Racing's problems stem from a lack of demand, not with the product. The product is good, the track surface is good and the races are better than ever. The management of this industry knows how to put on quality horse racing; it doesn't have to devote research and development to solving that problem. The problem is the business model, and the problem is demand. Not enough people care about high-quality racing, and if that isn't addressed and if we do not as an industry find what this computer company found in the recorded music situation, if we do not find a new business model, a business model that can create fans, new fans, create new interest in racing and stimulate consumer spending on racing, nothing else is going to save this industry. I do not think that slot machines can do this because that is a different product.

There are two approaches to machine gaming for racing, one is what I call the Peter Carlino approach, which is to take your racing company and turn it into a casino company where you own the casinos and now your future is married to the consumers who will spend money on that product. It's worked for Peter Carlino, I think it would work for any racing company, what it doesn't do is address this demand problem for horse racing that Dr. Shanklin and I are talking about. The other approach to machine gaming is to persuade a legislature to have machines at a racetrack under lottery law, where the machines actually are lottery machines and the first claim on this revenue is the state lottery. That has worked pretty well up till now, but in the past year at least in our consulting practice we've noticed in at least three states, serious questions being raised about well, hey is it really such a good public policy to subsidize racing with video lottery terminal revenue? Those questions have been turned back so far but they will reappear and I think the basic premise that you can bet this industry's future on subsidies from machines that are lottery machines, not your machines, might be a high-risk approach to the problem. I'd like to leave some time for questions.

Voice: I've heard viral marketing mentioned a couple times yesterday and certainly today. From your experience in racing, not necessarily involved in management but more on the consulting side, what part of the sport do you think most lends itself to that type of marketing? Is it the races itself? The personalities on the backstretch? The bettors in the grandstand? Are there any elements that strike you as ripe for the type of viral marketing we've heard discussed this weekend?

Bill Shanklin: Well, I have a couple thoughts on that. First of all, I would tie racing's big days in with viral marketing like the Hambletonian and the Kentucky Derby, and make it interactive where you have to do something as somebody at home. That's one way I would do it. And then Gene and I had an article together and we feel that, and I know I can speak for him in this because we wrote the article together, that the people that you ought to try to turn into celebrities, so to speak, are the players, like they do in the World Series of Poker, so the horses haven't worked and the trainers haven't worked and the drivers haven't worked, the horses have worked some but they get retired early, so maybe you'd try to create a Chris Moneymaker, for example, World Series of Poker. That's my view.

Eugene Christiansen: I think that's a very good question. I'll add something to Dr. Shanklin's remarks. Big events and the Breeders' Cup is probably the best example, or the Kentucky Derby, these are old business model products. They're like high negative cost movies or best-selling books. The premise of this kind of business is that you invent a product that everybody wants to buy and it's a nice trick if you can do it. The problem with it as a business model is that it is extremely difficult to do. So the ratio of products that you bring to the market to hits very, very high. The failure rate is high. When Dr. Shanklin alluded to the Long Tail of the demand curve, that's the part of the demand curve that BetFair are exploiting, where your shelf space is infinite, the number of products you can carry is not limited, it doesn't' matter if only one other person in the world wants to buy the product, you can still do that business; and the aggregate demand, it turns out in that Long Tail of the demand curve, may be greater than the demand on the part of the demand curve for these hit products: the Breeders' Cup or 300, which is a movie that opened over the weekend at $70 million at the domestic box office. I think in thinking about new business models for racing, it's important to think about the Long Tail of the demand curve. We've written a couple of articles about that which I can make available online so if anyone would like to file through those, get in touch with me or ask Stan, who knows where I am, I'll be happy to e-mail these discussions to you. Any other questions?

Voice: I'd just like to say that there's a Blood Horse article coming out on that too, on the Long Tail, I don't know when, sometime this spring.

Tom Aronson: The question that I have involves relatively intricate interplay in this business of the law and its ability to do business. And the music business was not quite as encumbered, it certainly had the rights issue that was the overarching question, and what seems to have happened, and correct me if I'm wrong and I may very well be wrong about this, but Apple managed to circumvent that whole issue by getting a licensing deal that allows it to sell music to people for 99 cents or whatever and that was the moment that it really barged into that whole area. My confusion, my question involves, I guess you might call it chicken and egg right, what do we have to do first as a business? Do we have to change the law or, because without getting too far into the BetFair conversation again, obviously it runs afoul of an awful lot of regulatory and legal issues in this country, not the least of them having to do with purses, for example, purse allocations and all those kinds of things. So how do you make whole the partners that are currently legislated and regulated into racing? I think you guys get my general question; is there an avenue that, in a self-interested way, a Churchill Downs or somebody like that can pursue, as an industry leader, to pave the path, or does it need to?

Bill Shanklin: You go offshore and you set up a completely different corporation if you want to maximize shareholder wealth, and you give them a share of stock in that company. You go to where it is legal. I asked a casino guy last year in Lake Tahoe and he said that they would take their license away in Nevada if they did that. But I don't think that racing would run afoul of that because under current interpretation of law it's legal, we don't know how long that's going to be but I don't see that that would be really illegal, do you?

Eugene Christiansen: I don't practice law, but that's exactly what I would do. I think that Dr. Shanklin and I are of one mind about that. Tom Aronson's absolutely right. The legal environment of online gambling in this country creates problems for you, for the casino people, that recorded music didn't have. I don't think that problem is going to go away; I think that the legal environment of gambling and betting on horse racing, anything else is always going to be problematic and difficult in this country and it will be threading the needle to find any solutions, but what Dr. Shanklin is saying is what I would do. To address Tom's last point, how do you make the stakeholders whole, I don't think you can. The existing stakeholders are going to get hurt no matter what happens, because the pari-mutuel model is broken. That's what happens during a period of change being forced by disruptive technology. The labels, the recorded music labels, have been horribly, horribly hurt financially by this process of technological change, but they really have no choice. They're just going to have to work their way through it and that is true for racing as well. There is no magic way to replace the pari-mutuel revenues that are leaking out of this industry. Forty years ago this industry bet the farm on the pari-mutuel machine, I'm not sure that was the right thing to do.

Voice: Gene, I had a question for you, right here. We talk a lot about the model being broken, the business model, and that leads to the idea that it needs to be fixed and in the context of what you and Bill have talked about today I'm not sure if the issue is, is it broken or is it the wrong model now?

Eugene Christiansen: I think it has become the wrong model. I think it has become an obsolete business model, I think you need new business models and not to beat a dead horse. I like things that work, and the betting exchange works.

Bill Shanklin: I don't think the on-track model should be abandoned, that's not what I'm saying because you can get people there for a big event, the Battle of Lake Erie for example, in the Cleveland area where I live. But you're not going to have them obviously like were in the 50s, that's the other model, that's always going to be the dominant model. So I don't think you abandon the on-track model, all I'm saying is that you have to have different people running it because it requires different skills. Technology people don't know anything about running a dining room.

Voice: Dr. Shanklin, you mentioned in your discussion about disruptive technology that the separation, or the bifurcation of different business tactics or models, would you address technology convergence or consolidation in that context?

Bill Shanklin: Are you talking about everything's going towards the television?

Voice: Well you talked about separating things, and I'm just asking your opinions or thoughts in that context on the convergence of technology as a tactic or strategy, or the consolidation of companies as a strategy?

Bill Shanklin: Do you understand that question?

Eugene Christiansen: I'm not sure that I do. Which specific technologies do you have in mind? It's a big world.

Voice: Well if you were to combine, for instance, all the methods of wagering into a single platform and made them available to your customers, is that convergence in your view, is that a tactic to overcome our problem?

Eugene Christiansen: Oh yes, absolutely. And I think that what Churchill Downs and Magna are trying to do now in terms of rebating is an example of that, if I understand your question correctly. Didn't they announce something last week on that?

Bill Shanklin: Yeah. Going back to this two business model, you've probably heard of the University of Phoenix, let me tell you the University of Phoenix would never have happened in a bricks and mortar university. Because I've been in that environment and people talk about, well, you have to have eyeball contact with the student and you've got to give them attention, and it took somebody from outside to really start that up. Universities do distance learning, I've done that. Several years ago I taught at four campuses at one time, but that's not the business model that universities like, they like 18-22-year-olds to come and live in the dormitories, which I think is the on-track model. And so it took an iconoclast to go out and start the University of Phoenix and they've got over 100,000 students and people say, oh, the degree is not as good. Well, it may not be as good now but wait 25 years and see how it's viewed; it might be viewed as good.

Eugene Christiansen: I'll have one point about convergence. I think it's a very good point. Pari-mutuel betting on horse racing is only a very small subset of the global betting economy, which is absolutely enormous. The other kinds of bets are betting, of course with fixed odds, and now we have the online betting exchange. If you look at that globally as we do in our consulting practice, it is enormous, it is robust, it is vibrant, it is attracting a lot of young people. It's just a terrific business, but that little part of it that is pari-mutuel betting through existing platforms in the United States is not. It could be, it would be much easier for the industry to react to this if it did not labor under these legal restraints that Tom has alluded to, and unfortunately I think those are permanent conditions, permanent part of the environment, but you can go abroad and you can do things. I will point out, I don't know how many of you have noticed but in the past year, Scientific Games, which is a vendor of betting systems to this industry, purchased the bookkeeping unit of Mandalay Bay, the people who run the sports book at Mandalay Bay, and apparently means to enter the fixed-odds betting business outside the United States, certainly using the Internet. Scientific Games is not exactly part of the racing industry, but it does supply your totalisator system. So if you think from a new point, not from the context of your old experience in racing, and certainly not in terms of putting on a horse race, but if you look at it de novo, if you look at it new, as Apple computer looked at the recorded music industry, there's an awful lot that could be done here.

Chris Scherf: I have the final word then, and I obviously think this is an important issue and I think it is a debate that our industry needs to get engaged. This is the third conference in a row in which I've brought either Bill or Gene to discuss this issue, and as I look out and think of all the business leaders I'd like to see involved in this debate, I don't see them here, I go back to wondering about how we change the corporate culture, but we'll continue to have this debate. I appreciate Bill and Gene, I think their comments are very important and I hope we all give them a lot of thought.

March 12, 2007

8:45 a.m. – 9:00 a.m.

WIN – An HTA Insurance Success Story

- **Chris Gannon, Marsh USA, Wagering Insurance NorthAmerica**
- **John Lapreay, Marsh USA, Wagering Insurance NorthAmerica**

Stan Bergstein: There are very few success stories in racing today and we're happy to be able to bring one of them to you. In 1978, coming up on 30 years, Harness Tracks of America introduced its insurance program for racetracks, specific to racetracks. And last year, on $1.8 million in premiums, our insurance program made a profit of $546,000 for our members. Those are impressive numbers, and I believe that there are a lot of racetracks in this country, thoroughbred and harness and greyhound and quarterhorse, that aren't even aware of this success story. So we thought it important to bring it to you this morning and to tell you about the insurance program, specific for racetracks. Here are Chris Gannon and John Lapreay of Marsh USA, who manage our insurance program, to give you a little bit of background on WIN Insurance, Wagering Insurance NorthAmerica, and to hopefully encourage you to consider it for your own racetracks, general liability, auto or worker's comp.

Chris Gannon: What is WIN? WIN is a group captive insurance company that was formed in 1978. It was originally created to insure the exposures of harness tracks, but has since been opened up to include all tracks, all breeds. It's significant that it was created in 1978. A lot of insurance companies that are out there, some of the big name players, are a lot younger than WIN. Ace, XL Capital are a few that come to mind. It's also interesting to note that a lot of well-known insurance companies have gone out of business since 1978, when WIN was created. Kemper and Reliance are two. There's history and stability with WIN. WIN writes worker's compensation; automobile, both liability and physical damage; and general liability.

Currently 14 racetracks across the United States participate in WIN, and each has a seat on the board of directors. One of the benefits of WIN is the control that you get over your insurance program. It starts right at the top with participants having a seat on the board of directors. Tracks currently participating are: Beulah Park, Buffalo Raceway, Jackson Raceway, Lebanon Trotting Club, Lexington Trots Breeders, Miami Valley Trotting, Mid-State Raceway, Monticello Raceway, Northfield Park, Northville Downs, Northville Racing Corporation, Pompano Park, Suburban Downs, and Yonkers.

Let's take a step back for a second. What is a group-captive insurance company? The textbook definition is an entity owned by a group of participating companies, primarily to insure or reinsure the risks of its participants, so it's an insurance company owned and funded by its policy holders. What are some of the benefits of a group captive insurance company?

Economies of scale is one, by pooling your buying power with your peers, in this case tracks, you get better pricing leverage with risk service providers. There's less pricing volatility. Because the policy holders own the insurance company, the profit motive is taken out of the equation. So removing that profit motive insulates you from the peaks and valleys of the traditional insurance market. Premiums are determined by member's losses, not other companies. In the traditional insurance market, if there's a natural disaster on the other side of the world, or the other side of the country that doesn't affect you directly, it's going to affect your insurance rates. That's not the case with WIN. The premiums are driven by the losses of the members, so that further insulates you from the volatility of the traditional property and casualty insurance market.

You gain direct access to the reinsurance market. Reinsurance is insurance for insurance companies, and it's less expensive than traditional insurance. So via WIN, via a captive, you can tap in directly to that reinsurance market without having to go through your primary traditional insurance company with the margins they bill in to get your reinsurance. Control, and this is the big one, with a captive you gain control over your insurance program. You decide whether to settle a lawsuit, or defend a lawsuit. You decide what attorney you want defending you in a lawsuit, and via your participation in the board of directors, you have a say in the premiums you pay. Insured share of the underwriting profits and investment income currently being reaped by traditional insurance companies: The profits that the U.S. property-casualty insurance market has made in the past few years are staggering. So joining WIN, or joining a captive, gives you the opportunity to stop contributing to the profits of big insurance companies and start contributing to your own profits. Here are those numbers: in 2003, net pre-tax income—this is profit not revenues—was $40.6 billion in the United States only. In 2004, that number went up to $53.4 billion. In 2005, it was $54.2 billion. This is mind-boggling to me, when you consider that Katrina happened in 2005, and insurance companies have $50-60 billion in reserves or payments set aside for Katrina, they still made $54.2 billion. In 2006, the 12-month numbers aren't tallied yet, but for the first three quarters, the profits are $63.6 billion. They could very well make $100 billion in profits this year. They don't make profits like that by charging you too little for your insurance.

I'm going to turn it over now to my colleague, John Lapreay who is going to talk a little bit more about the specifics of WIN, and what you need to do to get involved with it.

John Lapreay: I wanted to touch on the actual parameters and structure of the insurance program and how it will look to a future participant, the actual policy structure, program structure, etc. First, the actual program structure: it's a guaranteed cost, no deductible policy structure. Coverages include, as Chris mentioned, worker's compensation, general liability, auto liability and physical damage. No deductible, you pay a premium for the policy year, policy is rated based on your loss experience, exposure, as compared to the participants where, as you can see by the results, the experience has been extremely favorable. The limit-structure, which is really critical to the program, it's a $2 million per occurrence limit-structure for both general liability as well as automobile liability. Worker's compensation, of course, is statutory coverage, unlimited liability as determined by the state.

The critical feature being that your $2 million per occurrence limit will help you in negotiating your umbrella nexus program on top of this structure. Aggregate limits are applicable on a per-location track basis, so for the typical insured that would come into the program, probably buying a million dollar underlying limit-structure, this is going to be extremely beneficial. The insurance company: the policies are issued by AIG, one of the largest insurers in the U.S., in the world, A+ rated paper. You'll have extreme success with certificates of insurance with business partners; it's an AIG policy to the outside world. They do not know about the captive, it's an AIG program as far as your business partners are concerned. The claims handling is administered by Gallagher Basey, one of the preeminent TPAs in the country for worker's compensation, general liability, and auto. We'll work to control the cost to ensure that we're getting the best results possible which will further enhance the results of your program as well as the captive as a whole.

Some other features: you pick defense council, you control defensive council, the captive does. We're not at the mercy of the insurance company's directive. Participant's coverage: the program affords coverage for participants, the jockeys and drivers probably unique to some programs, a key feature here and with the control and the structure of the program, the captive has a lot of control and direction over the coverage afforded. Racinos are welcome; Chris mentioned this program is extremely flexible, as this exposure increases at existing tracks, very coverable. We're looking to include this type of exposure in addition to thoroughbred tracks and other types of facilities. Obviously, the program is endorsed by the HTA. And then just some specifics on what we would need to provide you with a premium figure, or quotation, to get you enrolled in the program. We have a very specific underwriting questionnaire which we have in the back of the room and would like to hand out, which will get into the specific details but in general, current loss history, five years will be sufficient, just showing us aggregate loss information for the three lines to be covered, any larger loss activity, and the questionnaire will show what is needed. Your worker's compensation experience mod worksheet, that would be helpful if we can just get the experience mod number, that would work as well. Projected sales, payroll, vehicles to be covered will be included in that document. I do want to say as well that even though the program affords worker's comp, GL, and auto you do not have to buy all three lines from the captive. This is just a brief description of the operation and its unique aspects. I'm sure most of you have relationships with current brokers or your agents right now, you can maintain that existing relationship and for new participants, this program will pay commissions to your broker or your agent. So a key feature to consider with the insurance company, we're not looking to change any current relationships that you currently have. Some contact information: Rick McCue of Maywood Park is the president and CEO; Dan O'Leary, special counsel who some of you may know; myself, client advisor, I lead the broker's transaction with the insurance company at AIG and the overall service throughout the year; and Chris Gannon is the client executive, overall responsibility for the account and dealing with getting members in the door and working for the overall relationship. I'll be happy to discuss any questions anyone may have, any particulars, how to get enrolled, any questions at all.

Stan Bergstein: Thank you John and Chris, I would like to mention one element and that is not to let many breed prejudices get in the way of profit. Many people probably in the thoroughbred tracks and TRA regard this program as a harness tracks program. It was started by HTA, but it is not exclusive to harness tracks, or any other kind of tracks. We welcome members, we have a successful operation and we have an operation with 30 years of experience behind it. So I would suggest, since your existing brokers can participate with commission, that you give very serious consideration next time your renewal comes up, to joining WIN and we would welcome you warmly. I would like to thank John Lapreay and Chris Gannon for their concise summary, and I should mention that I don't consider the fact that offshore captives have to meet in exotic locations as any detriment or drawback. If you're a director or alternate director of the company you’ll have to do it, you’ll have to go to places like the Grand Caymans and Nassau and so forth. Government wants you to go offshore, WIN will be happy to entertain you there.

March 12, 2007

9:05 a.m. – 10:05 a.m.

The Product of Racing

- **Tom Aronson, Racing Resource Group**
- **Bill Finley, Sirius Satellite Radio**
- **Jeff Robillard, Horse Racing Alberta**

Stan Bergstein: Our next program is called "The Product of Racing," and we have some very interesting speakers to discuss the matter. I guess I am the first person to have the privilege of introducing Tom Aronson, not as president of Racing Resource Group which is his own organization, but of introducing him as a new vice president of Churchill Downs. Congratulations, Tom, as one of the former executive assistants at Harness Tracks of America, it's a pleasure. I know Tom has some strong views on the product of racing, and everything else.

Tom Aronson: Thanks Stan. The overarching theme of what I have to say is that change is a process, it's not an event. To the extent that we're talking about the product as opposed to the process, I can simply say that Stan's original title for all of this was "What's Wrong with the Product?" and it has morphed over into "The Product of Racing." I think that's a good thing because I am also of the school that there's nothing intrinsically wrong with the product. What we do a lot when we come to these events, is, that every year something catches fire. Last night somebody suggested that the breeders were at fault in what's wrong with racing, that they're making too much money and that they're retiring horses too soon. That was Jeff Gural, who got people all excited. His point is one of those statements that tends to catch fire in our meetings, and we become like the villagers in Frankenstein, where we light our torches and try to go out and burn down the castle of a breeder because they are at the root of all the problems in racing. Obviously they are not.

Whenever somebody says that a particular group or a particular person is making too much money it always makes me nervous. I'm not a Republican, but it still makes me nervous. There's never a problem with people making money in our industry, it's a problem of people not making money. We wouldn't have much of an industry if we didn't sell overpriced horses to each other, and I'm one of the happy buyers periodically, of a piece of a horse who's way more expensive than it should be, and proves itself to be such when it races for me.

Talking about the product, I'll give you a few numbers to think about. They're just numbers. The first one is 40.3. Second one is 463. And the third one is 3.63. I'll talk about those again in a minute. But the conversation about what's right and what's wrong with our product really isn't very productive from my standpoint, I don't know what's right and what's wrong, and I don't think anyone in this room knows what's right or what's wrong. I don't think others think about it, and I don't think other industries or companies agonize as much as we do over our product. What they do is they try to change things. When I landed yesterday at the airport, I wanted some gum, so I went over to the vendor and there are 80 choices and I picked one out, and then later on in thinking about this presentation I was wondering why I picked it out. It's from the good people at Trident, and I know that they feed up into a large corporation which ultimately is probably run by Dick Cheney or someone like that, but I picked up this particular package of gum and it says "new and improved." Of course it's marginally new and improved, but I guess I liked that. It was very colorful, and what this one features is that half of the pieces of gum in are sweet and the other half are sour. So I now get to mix and choose how I chew my gum. I can have two pieces of sour and one piece of sweet, all sweet, all sour, it was incredible. This is a great experience in gum-chewing, I recommend it to everybody, simply in an exercise in remembering that repackaging, rethinking, tweaking is a big deal in this country. And what the good people at Trident recognize, but we forget all the time, is that they can launch something, they don't have to get 100% of the people in this world to buy it. As a matter of fact, just that happenstance of me picking it up is reflective of what happens all over the country when somebody is thinking about buying something or doing something. They just sort of do it. You can analyze it, you can certainly overanalyze it and God knows we do that, but the central point is there are millions, billions of people around this world who are just making choices and they really don't think about who's getting how much money out of it and whether the breeders are making too much money. It's irrelevant to the world out there. We are not relevant to them, unless we are giving them something they want.

So when I think about the product, and I know we've had a hundred debates over the years about whether it's gambling or entertainment, well gambling is entertainment from my standpoint, I don't even understand the distinction, it's just something to do. Some people do it more professionally than others, but it's just something to do. We do have a sort of a chicken and egg thing going on, of whether the product is a function of who plays it or vice versa. In other words, is this product driven by the people who already play it? Meaning we've got our market and we serve them, and that suggests a pretty limited opportunity for growth. Or is who goes to racing a function of the product we offer? Meaning if we change the product a little bit, goodness knows that more people may show up, and different people may show up. So it's not a question of right and wrong because all of us know there are plenty of people out there who would prefer to hit an exacta hard rather than play 300 superfecta combinations. They're just looking for opportunities to express what they think about a race and as long as we give them the opportunities, great; and if we give them more opportunities, hey, so much the better. And I think we are all guilty of sitting around at these events and when we go back home we start thinking, gee whiz it can't be done, or it costs too much money, or more importantly I wish someone else would do it, I'm all in favor of it but I wish that guy would pay for it. Fortunately I am now vice president of a company that can do things. Churchill Downs does have the luxury of the Kentucky Derby, no question about it just like Pimlico has the luxury of the Preakness and Belmont has the luxury of the Belmont Stakes. But it doesn't end there, certainly. We can leverage off of that, but we've got a lot of issues at stake, or a lot of issues to deal with having to do with the other 364 days of the year, so when Churchill and I had a discussion about whether this was going to be a good fit, my major issue was are you willing to invest in the change you're talking about, the answers come back a resounding 'yes,' and it came back in the context that Gene Christiansen and Dr. Shanklin were talking about just a few minutes ago. It comes back in the context of things have to change in a broad sense and at the same time we can all be working on changing them, the tweaks, the new packaging, the Trident gums that we look at, of getting people to pay attention to us more on a local basis.

The numbers I talked about before, the 40.3, 363, 3.63, and 40. I threw in the 40 there. It's a sequence. They're all related. Anybody got any idea what I'm talking about? 40.3, 363, 3.63 (there's a hint in there), 40? Ok, a tough question when you're sitting there, thinking about what you're going to do next. Forty thousand, three-hundred, is the number of combinations that eight horses can arrange themselves into at the end of a race. 363 thousand is the number of combinations that nine horses can arrange themselves into at the end of a race. 3.63 million is the number of combinations that 10 horses can arrange themselves into at the end of a race. Forty million is, what a surprise, the number of combinations that 11 horses can arrange themselves into. It doesn't take you long; as a matter of fact when you get to 13 you're into the six billion combinations range. Now we should all know numbers like that reflexively because this is our business, but I have those numbers in my head all the time because they're huge and they represent an awful lot of opportunity to do things that we don't currently do. If the best we can do is Pick 6 or Pick 7 or Pick 10, shame on us, we ought to be looking for work someplace else.

Here's the particular challenge, and I'll close with this because I want Bill Finley to get up here and express what he's feeling. Our particular challenge is what happens, think about it in reverse, when you've got 10 horses in a field and there are 3.6 million combinations possible and you knock out one of them, and you're down to 363 combinations. In other words, if I can know that a horse is going to finish last, I'm eliminating 92% of the combinations. If I can know that two horses are going to run next to last and last, I'm eliminating 99% of the combinations, and this is how bad people think all the time, right? So our unique challenge is that we're not a bunch of ping-pong balls. Ping-pong balls don't get together and say "Eh, you know I'm not going to try tonight, they're going to put me in that machine and I'm going to bounce around for a while, but I'm not trying." Now we know in racing, and I'll put it bluntly, not trying is commonplace. Fixing is not. Not trying is part of the process of having animals walk out on the racetrack, and some days are better than others and sometimes it's almost better for them not to win a race or not to try super-hard because they're not ready to try super-hard. We all know this as a fact; it's a trainer saying he needs a race. Now this maps back to the fact that we are not quite as random as we might like to think we are, but to me it maps directly to the question of what we tell people who are playing our game as opposed to what we try not to tell them, and I would propose to you that historically in our business we have all been shamefully wrong about stuff we think people can handle and stuff that we don't think they can handle. Dating back to butizoladin, through Lasix, anything. I remember the gasps of horror when, in my early days at TVG, a trainer came on and said, "We're not ready to win this race." The horse is like three to 1, the trainer five minutes before the race is saying "he's not ready." So everybody who had placed their bet up to that point is sitting at home saying, "Well, there's great news," and everybody else is saying "Hey great, I can throw out a three to 1 shot." So the answer there is: the more information the better, and the more we explain why things are happening. In a race you're dealing with human intent, trainers and jockeys, jockeys to a much lesser extent, but once in a while they get it in their head that they're going to do something that doesn't contribute to winning a race. Trainers have a bigger program, and to me I always focus on horse intent because every horse I've ever owned, when I put him on the racetrack, he doesn't seem to want to do what the trainer and the jockey and I want him to do. He seems to have his own idea of what he's out there to do. So there's a lot of intent that goes in. My only issue with our product, in addition to trying to tweak it and make it better and get people interested and all those kinds of things that we need to invest in, is that the information flow that surrounds it cannot be regulated, it has to be put out there and managed properly and everybody will understand that, just like human beings, horses aren't always on their game, ready to win races. It can eliminate an awful lot of the misunderstandings about what goes on at a racetrack. Generally speaking, we all know the horses are animals. Who knows what they're going to do? Thanks.

Stan Bergstein: Those of you who have heard me talk about graduates of my finishing school, in fact you're probably tired of hearing me talk about it, should know that letter-writing is the way that I hire many of the people who have come to work for me and gone on to bigger things. It was the way I hired Tom Aldrich, who was a student at Ohio State when he wrote me a letter, and ultimately he's the person now who runs Northfield Park, one of our most successful stories. It was the way I hired Charlie Leerhsen who wrote me a letter and is now executive editor of Sports Illustrated, and it was the way I hired Tom Aronson who wrote me a letter which started off, "I'm Tom Aronson, I'm sports editor of the Harvard Crimson, and I'm interested in racing." I'm beginning to think, at this very late stage in my game, that I should start charging commission to these people, including Churchill Downs, the latest recipient of one of my finishing school graduates. I wish you all the best at Churchill, Tom, and I know that they're going to get all the best.

Bill Finley is one of the most multi-talented journalists in racing today, or in sport today as far as I'm concerned. He works for ESPN, writes, of course, for the New York Times, and he and Dave Johnson conduct a show which some of you may not have heard called "Down the Stretch" on Saturday mornings on Sirius Radio. Radio is one of the medium that horse-racing has largely overlooked, I think mistakenly, and apparently Bill thinks so too and he'll tell us about that right now, Bill.

Bill Finley: Thank you Stan. I promise I won't turn this into an infomercial for what we're doing at Sirius because you guys have better things to do right now and it would be more helpful if I gave some of my thoughts about the product of racing. But Stan put me to work pretty hard last night, so I think I am due a chance to just briefly give everybody some thoughts on what we're doing and some ideas. We have a unique opportunity in this sport right now to get in on the ground-floor of satellite radio, which is obviously a very strong medium to begin with and it's going to grow exponentially in the years ahead as the merger with Sirius and XM goes through, and also as more and more car manufacturers turn out these cars with satellite radio in it. Right now Sirius has six million subscribers, I believe XM has eight, so we're talking about 14 million subscribers when the merger gets through and we're nearing the day in age when there's going to be easily 20-25 million, probably in the next three or four years.

We do a two hour show on Sirius every Saturday morning, a half hour of harness racing, followed by an hour and a half of thoroughbred racing coverage. We're hoping to expand to three hours, of which it would be one full hour of harness racing, followed by two full hours of thoroughbred racing. We also have a show in the afternoons called "Down the Stretch," which is essentially live coverage of the major races of the day. On Saturday while I was here, our team did the Louisiana Derby; we'll be doing races of course like the Wood Memorial, Florida Derby, that sort of thing. There's a little matter of rights fees for the Triple Crown which we haven't quite figured out how to get by, so I don't know what we'll be doing with that. We did do the Breeders' Cup and from the harness standpoint, we did the Breeder's Crown, we're on track to do the Hambletonian this year, so again, the opportunity is out there for both breeds to get involved in satellite radio.

Satellite radio, of course, covers every major sport extensively, the four major sports along with NASCAR, all the various college conferences and divisions, so it's an opportunity for racing to latch onto something that's growing important, and as happened in many other forms, be it print media, electronic media, not get pushed aside. It is unfortunately a situation that we are in, much like Winner Communication did with ESPN, where there is a cost to doing this as far as a time-byte. But I will tell you our rates are about 1/30 of what you would have to pay or have to do to get a race on ESPN. I'm sort of the jack-of-all-trades when it comes to the show, producing, co-hosting, trying to get industry sponsorship, etc. and actually the NTRA has been very good to us, YouBet has been very good to us, Stan's organization, HTA, USTA, so we have no complaints about how people have come to the table to help us out and make this show. But the other day I called a fellow at a racetrack and asked him to get involved with the show and he sort of understood where I was going and he apologized to me and said "well, we only market locally," and he said it apologetically and I looked back at the handle numbers for this particular racetrack over the weekend—it's a thoroughbred track, and it's not a very nice place—they handled $144 thousand on-track, which was roughly about 7% of their total handle. Now I'm wondering why you would want to market to 7% of your audience and totally ignore the other

93%. That makes absolutely no sense, in this day in age. What we can bring to the simulcasting customer, the vast majority of your audience, these are the people that you can reach through a medium like Sirius. For the Saratogas, Del Mars of the world, marketing to the local audience makes all the sense in the world. But if you are what has become the typical racetrack of 2007, where your on-track business is almost down to nothing and, again 91-93% of your dollars in handle come in through the customers across the country in simulcasting, well the customer in Iowa is every bit as important to you as the customer that lives five miles from your racetrack. I would like people to keep that in mind. Enough said on that, I would be happy to answer any questions for anybody else who is interested in what we're doing there.

But I want to pick up on a theme that would be more helpful to everybody of any sage advice I could give. Just as Tom mentioned, Jeff Gural made quite a splash last night and I thought the comments he made were really on the mark, and for those of you who weren't there, he was talking as a racetrack owner about what's wrong with the product of racing. He was very blunt, which is his style, he really pulled no punches, and he said three significant things. I'm just repeating this and I can't take credit for any of this, but it was worth repeating because I thought they were so interesting. Number one, he says that racetracks need to have shorter seasons. I fell in love with the sport as a little kid growing up in Philadelphia when Garden State Park had an opening day around April and a closing day around late May, and you sat around all winter just so excited, looking forward to the opening of the season, and the opening day at Garden State was just such an event and you would rush out to the racetrack. Aside from the few seasonal meets like Monmouth Park, Keeneland, again Saratoga, Del Mar, in thoroughbred racing we have none of that anymore. So we've taken all that just anticipation of an opening day and a closing day out of the equation, and these 365-day a year places have just become betting factories. Again, I'm just repeating this but I think it's well worth talking about. He also said that we need smaller racetrack facilities, and again, I'll go back to, I think Belmont Park is the most unappreciated racetrack in the country, it's an absolutely gorgeous, beautiful place and they need to have a mammoth racetrack for one day a year, for the Belmont Stakes, so this wouldn't fall into the category that Jeff was talking about, but you go to that place on a Thursday afternoon and there's 2000 people there, and you've taken this marvelous, grand facility, which again I think is just right up there as nice a racetrack as there is in the country, and there is an atmosphere of almost, a depressing feeling. Jeff also remarked that you go and you look to see about a restaurant and if it's empty, you're not going to go there. I think he was advocating just tearing these places down and start all over again, and have a facility where you feel like there's some energy in the building. The opposite of Belmont Park to me is Freehold Raceway, which is in my neck of the woods in Monmouth County, New Jersey. It had to be rebuilt because of a fire. It is a tiny, tiny building and I'd imagine that their on-track attendance is probably in the neighborhood of 1,000 people, and the place is jammed because it is so small and you really have a feeling in there that there's a little bit of life and energy into the building. Jeff's last point, and I think that he really wanted to hit home on this, was about how the horses just don't race on anymore and the stars don't keep going. We all know that's a big problem and he was even talking about how we've got a point where maybe it's time to just take a step back and almost eliminate 2-year-old racing to encourage people to continue to keep these horses and point them for 3-year-old and 4-year-old campaigns. Now, having said all that, I thought there was one element missing in what he said. He talked about the smaller tracks, things that are good for racetrack management, things that are good for racing and for the horses, but typically of what you get out of these conversations, of people who meet at symposiums and seminars like this, no mention of the fan. I do a lot of things in media, but I came to this sport as a fan and a gambler so I think it would be more helpful if I really talk along those standpoints.

What can be done to make it obviously a more fan-friendly thing, and to make people have more interest in racing? Let me give you an analogy. Suppose that I manufacture shirts and I make nice cotton shirts and I charge $30 for the shirt. Then I decide one day, I'm going to increase the price of the shirt to $60, I'm going to double it, and not only that I'm going to turn the cotton shirt into a polyester shirt. Now I took the $30 cotton shirt, now I'm selling it for $60 and I'm giving you an inferior shirt. What do you think would happen to my business? It would go into the pot, we all know that. To me this is exactly what horse racing has done. And if you look back, what is the cost of making a bet, to a customer, that is the takeout at a racetrack? Now when racing was in its heyday and pari-mutuel wagering started in this country in the 40's, the general takeout was in the neighborhood of 10% on a bet. So the cost of making a bet was 10%, essentially if you bet $2 on the four horse, the cost of making that bet was 20 cents. Fast forward to 2007, the melded takeout rate at any track is in the neighborhood of 20%. So now we've doubled the price of making the bet. And also, back in the good old days, the product was a little bit better. The horses raced more often, there were seasons, opening days, closing days, we didn't have all the problems with drugs that we have now, the situation where we think we're betting not on who the fastest horse is but who has the most clever veterinarian. So I would argue that the product is not as good as it used to be, we took a game, doubled the price of our product, came out with an inferior product, then everybody wants to scratch their heads and say, "Why is our business down?" To me this is the most obvious thing in the world, yet people almost never talk about this or mention anything about well, what's the problem here? Again, go back to the shirt analogy. How is it any different than the shirt analogy? Thirty dollar shirts now cost $60 and they're going from cotton to polyester, well of course your business is lousy. Now back in the good old days, or maybe until about 1975 or so, you could get away with this because you were a monopoly for gambling. Not a monopoly anymore, so what does the customer do? Well I'm not going to buy the $60 polyester shirt, I'm going to go around the corner and buy somebody else's $34 cotton shirt or something like that. How do you solve this problem? Well racing has essentially painted itself into the corner by foolishly selling its simulcasting signal so cheaply for those three and four percents which never should have happened and now you have a trend so how do you reverse that? I have one thought and it's perhaps so off the wall that it's crazy but maybe then again, you need these kinds of crazy ideas. We're thinking about how the game has changed with slot machines, and what have slot machines done for the sports of racing? Well they've made racetrack owners wealthy in some cases, they've made states' governments wealthy in some cases, and they have put a ton of money into horsemen's pockets while doing essentially nothing else for racing so far as attracting fans. Again, one of my pet peeves in racing is you go to any racino at almost any racetrack and there's no betting window, there's no television monitor, it's almost as if we're embarrassed that we have horse racing here. But why not take some of these riches and give them back to the bettor? Now here's Yonkers Raceway, a good example, this is now the latest, greatest success story in racing with these tremendous purses and they're stealing horses away from the Meadowlands, the Meadowlands cut back to four days a week, you had an on-track handle of $40,000 the other night at Yonkers Raceway. Now, how much money is made from that vis-à-vis the slot business? I mean, I wouldn't know where to begin; it's so infinitesimal that it's almost meaningless in on-track betting business. Now I know you would have to hurdle all sorts of state legislatures and racing commissions and, again it's easy for guys like me who don't have to do these things to come up with these ideas, but why wouldn't you take a place like that and, if you can get your racing commission to do it, and virtually cut your on-track takeout to zero, or one percent or two percent? It wouldn't affect your bottom line in any way. I mean, if you're handling $40,000 on-track, now I know you can't do it with the simulcasting because if the guy is only paying the 3% that's not going to work, but why not try a wild idea like that? What would happen to on-track business and rejuvenating the product? If you're handing $40,000 in live product, what do you have to lose? What is your take on that, a couple hundred dollars, a thousand dollars, two-thousand dollars whatever. Why not something as crazy as that to revitalize the product, to make it fan-friendly. What's the problem with horse racing? We're still a gambling game; it's too hard to win. Nobody can win money gambling on horses, nobody. The only people who are possibly winning or doing well are the people betting through the rebate shops, the reason why: with the rebates, they're now betting with a manageable takeout, 5%, 6%, 7%. These guys are flourishing, the rebate shops are flourishing, they're pumping millions of dollars into handle and all they've done is take an unwinnable game and perhaps make it where the guy's got half a chance to at least break even or maybe earn some money. So don't forget these aspects of what's wrong with the product, I would say very simply, you've created a gambling game, which is what this is still all about, where the player doesn't have a prayer. You hear these guys big boasting, you know, "I'm killing 'em at the track." They're all lying. Everybody is losing money. Everybody. And what sensible person is going to keep on doing this? You'd have to be a degenerate gambler to do this, and to keep on betting and betting and betting when all you can do is go broke. It makes absolutely no sense.

I don't want to drone on too long but I just want to bring up one other point and, again, I'm stealing someone else's idea, but the whole issues of integrity in racing, and the problem of reeling in the cheats. I personally never thought it was that big a deal because I came around NY racing in the mid-80s when Oscar Barrera was the biggest scourge in the history of racing, where he would claim a horse for $12,000 on a Wednesday, run him back for $30,000 on a Saturday, three days later and the horse would win by 10 lengths. I always thought the fans just adjusted, ok well Barrera claimed a horse he just lost by 20 lengths for $12,000 he's running back for $30,000 three days later and he's six to 5, which was literally the situation. But I found something very interesting in this ongoing story out of Toronto, where they've had so many problems with the drugs and the cheating, alleged cheating to be fair, with people going on in the Ontario racing circuit and the Toronto Sun wrote a big story about how the Woodbine

Entertainment people found that their handle was just being decimated and was just going down, and they thought that the reason was that because the races were just not trustworthy anymore. It was not the fastest horse, it was just who had the best drugs that night. And I really learned a lesson from that, that people do care about this, and I still don't think that the sport takes the integrity issues seriously enough. And I would applaud harness racing because I think they're far ahead of thoroughbred racing in dealing with this. Anyone in this room who's involved in a thoroughbred racetrack, take a look at what harness racing has done with the detention barn systems, there's not, as far as I understand, there may not be a single major race in harness racing that is not run out of a detention barn. I believe the Little Brown Jug is something like 72 hours before, NYRA has done something here and they're on the right track, I've argued with my friends there that they don't have them in the detention barn long enough. But for any major race to be run in this country without using a detention barn system is outrageous to me as a fan and a gambler. To not know that the grade-1 race on a Saturday afternoon is going to be squeaky clean and it's going to be won by the best horse and not by the guy who's using the latest cone snail venom or whatever it is, is an outrage and there's an easy way to do this. To hell with the horsemen, let them scream. In the previous NYRA administration one thing I disagreed with so much was they were going to put them in the detention barn for the Belmont Stakes, and Bobby Frankel, who was going to run Empire Maker, screamed and yelled, you can't do this, and they bowed down, okay, Bobby, and they banned it. The heck with the horsemen, integrity has to come first, and thoroughbred racing has made small steps in this but has not done nearly enough. I think that's the first start here. Major races in this country, graded stakes races, I don't care how much it costs to put up the barns, security, you cannot be running these races without a detention barn system, which is basically a fool-proof way to see that your horsemen are not cheating. With the exception of the New York Racing Association, virtually nothing has been done in thoroughbred racing; I think that's something that has to be done immediately. So those are my few ideas, if anybody is interested in the Sirius thing, I'd love to talk afterwards. Thanks for your attention and time.

Stan Bergstein: You understand now, very easily, why ESPN, New York Times, and others have sought Bill's services. I neglected to mention, in my last boastful essay about my finishing school graduates, Chris McErlean. I hired Chris right after he graduated from Scranton

University and now he is with Penn National after his career with the Meadowlands. I can't take credit for Bill Finley, but I do remember now that you came and sat on the sofa in my office in Morristown, NJ and we discussed your career when you were just a kid.

Bill Shanklin: So you take some partial credit then?

Stan Bergstein: Ha. The next speaker is not, as listed in your program, Jerry Bouma of Northlands Park, but he is a man who produces the most creative advertising in North American racing, in my opinion. He is Jeff Robillard. Unfortunately, because he works in the Province of Alberta, many people in racing don't see his work. It's unfortunate for you that you don't and it's unfortunate for racing that more people don't. This guy has turned out some of the most creative stuff in racing that I've ever seen and we're going to ask Jeff Robillard to talk a little bit right now, Jeff.

Jeff Robillard: Good morning, I was asked to, in terms of our product, speak specifically about success in the media with our product. I'm going to talk to you about a thoroughbred horse by the name of Brother Derek who you all know by now after this year's Kentucky Derby. He was owned by a gentleman in Calgary, an elderly gentleman who owned horses for years. The horse was trained by Dan Hendricks who was confined to a wheelchair, and of course we all know his jockey Alex Solis was in a bad accident, was told he might never ride again. This horse brought these three unique gentlemen together, and we decided to do a documentary and follow this horse's progression, hopefully to the Kentucky Derby where the rumor was at the time, he could be one of the early favorites. As we started shooting the documentary, the stories continued to get more and more intriguing and we went to the media and spelled it out for them, what we had, and thought it might be a good storyline. The response back was pretty clear, they weren't interested. After all, the Oilers were going into the playoffs and there was just no real interest in our product, even with this unique story.

Finally, a gentleman at a major newspaper in Calgary, Alberta, and one of the bigger sports radio guys sat down and said "Jeff, look, I'm a baby, spoon-feed me, make this really, really easy for me." So we took that approach with all the media, Cecil Peacock, the owner, opened up his house from eight in the morning until 5:00, we won't call it a press conference, he was intimidated to talk about it, and so were the media that got assigned to write about this unique story. His wife served you coffee, served you sandwiches, and made the forming of this story a lot easier for them. As we went to the Santa Anita Derby and eventually the Kentucky Derby, we provided written updates, backgrounders, quotes on our website for all media, conducted live radio interviews, provided photo images on an FTP site, and beamed back images to the broadcast media whether or not the horse galloped, trainer interviews, for the whole time. The results were close to staggering when we did a recap, and believe me, at the mile mark at the Kentucky Derby when the horse was in 16th place I was wondering why I was doing a documentary. Fortunately enough the horse surged on to finish fourth, as you know. Facilitating and placing the story out to the media created 191 local, national, and international stories on Brother Derek. Local media, community newspapers, The Washington Post, The Miami Herald, USA Today, all utilized the service. Fifty-one live radio interviews were done on Brother Derek, his trainer, his owner. Feeding them the information, and numerous print stories including five full-page color stories on the front of the sports pages. So Brother Derek developed a following in Alberta, and on Kentucky Derby day the handle was up 30% from the previous Kentucky Derby. Short and sweet, we had to physically assist the media with this story. The morning, the day before the Kentucky Derby we went from 4:00 in the morning to 12 midnight facilitating media requests and assisting the media in the formulation of this story. So maybe all of us can take a step back now, as we did, and leverage our product with the media in the future by extending your media services. Remember the story of Brother Derek.

Stan: If you'd like to see some of Jeff's work, let us know and we will make sure that you get examples of it. Questions, anyone for any of the speakers? Any questions for Tom Aronson or Jeff Robillard or for Bill Finley? If not, it means that you've covered the subject either so comprehensively or you have so intimidated them with ideas and flooded them so they can't even respond. Chris Scherf will address the issue of Technical Investments in Racing, Part One.

March 12, 2007

10:15 a.m. – 11:10 a.m.

Technical Investments in Racing, Part One

- **Don Codey, Freehold Raceway**
- **G.D. Hieronymus, Keeneland**
- **Todd Roberts, Roberts Communications**

Chris Scherf: Our next panel is going to discuss the technical investments in racing, and as everyone is well-aware, capital is a precious commodity in our business and the best use of it is important. We have turned into a television production through simulcasting to 87% of our audience. To most of your audience now, you are not the front gate, you are not the beautiful paddock, you are your television signal and there is a wide diversity in the quality of those signals and there has also been a sea change, I think, in the public's technical savvy, their demands for quality as everybody is moving to digital television. High definition signals are taking off like crazy and our industry is investing some into the quality of television production and display. The question is whether we are investing enough, and also the question is whether we can do this piecemeal, everybody goes their own way, or if we have to come together to make this a real priority. I guess where this topic hit home with me was Delaware Park. Last year it opened a wonderful video wall, and they brought in all new monitors and they brought in 20, maybe 25 tracks and they're all up on this huge wall and on these great monitors and you just look at these pictures and the difference is unbelievable. Some of them are crystal-clear and they look beautiful and others you sit there and go "what's wrong with that picture?" and obviously, Delaware Park on the receiving end, with the monitors, made the investment but the investment hasn't been made on the transmitting end. It can only be as good as the signal they get and we have the question of going from digital signals to analog monitors or from high definition signals to analog monitors or the other way around where you're going into the LCDs and things like that, but the signal quality is just not there to take advantage of that. So we've assembled a panel to talk about the issues of the signal transmission, the product we actually are presenting to our simulcast players. Our first speaker promised he would bat in the leadoff spot and he's much quicker than he looks, he's always a threat to steal second, and he is the president of Pennwood and the general manager of Freehold Raceway, please welcome Don Codey.

Don Codey: Good morning. Thank you Chris, and as Dennis Dowd and I have always said, we use the word "liberate" instead of stealing second. Back in 2002 I became the general manager at Freehold and I saw a need to make changes in several areas. One of the first things we did was we changed the wagering format, added some more exotics and everything. But as Chris said, 80% of our audience is not on track anymore, so the next thing I thought that had to be changed was the way people viewed our product and I thought we needed to make it a little jazzier or sexier, whatever term you'd like to use.

Then along came Autochart who wanted to try an auto positioning system in New Jersey and they asked me what might be the best way to go about it. I have no interests in Autochart, nor does Freehold Raceway, but I directed them to one of the training centers in New Jersey where they might try it out to see how it would work. And they did so, with great acclaim from, particularly the horsemen. They went to the New Jersey Racing Commission and got permission to use it at our qualifying races at Freehold and once again, we filmed the qualifiers and the horsemen immediately fell in love with the product because, in harness racing, horsemen want to know how fast their horse went in the qualifier, did they make it, did they not, and most times they're waiting a half hour or an hour for that information by the time the judges get the sheets done and that kind of thing. So during these qualifiers, when the races were over, within seconds the time of every horse went up on the screen so naturally they fell in love with it because they knew their horse had made it, or their horse didn't make it. The next step in the process was they came looking for permission to use it for our pari-mutuel racing, and after seeing what they had done at the qualifiers and everything, watching it, seeing the reaction, our fans were able to view the qualifiers, we played them on a channel all day long during the races, it became quite evident that this was a product that certainly merited consideration. The New Jersey Racing Commission then gave permission for it to be used in pari-mutuel races. In August of 2005, we began using Autochart for our timing and our television and our graphics. Overwhelmingly, our fans, horsemen, and ourselves enjoyed the product very much. It has enabled our handicappers, our patrons to get information in a way that had not been presented before, and as a great example, there was a race several weeks ago in which a horse was far behind the gate and in the old days it would have been a recall, and he was a good 20-25 lengths behind the field, the information went up after the race because this horse's time from the beginning of the race, with the chip being in the head number, when the information went up on the screen, I didn't happen to notice it at the time but certainly some of the horsemen did and the patrons, this horse had actually paced the fastest mile in the race by about 3/5 of a second. So that was information that our handicappers, especially the ones that are very keen, put into their memory bank and about an hour later or so, the trainer called me and he said "wow, did you see how fast my horse paced? I never would have known had it not been for that system." So it's helping our patrons with handicapping information, it's helping our horsemen as they prepare. Now one of the original ideas in looking at the system, in that it consolidated our timing, graphics, and photo-finish, while also giving us a charting system.

As of right now, that system hasn't been able to be incorporated as the official charts, but it does have that capability which eventually, down the road, to everyone here who has a racetrack, you would be able to do away with your charter at some point. Perhaps the judges would put in a break or an interference, but it would automatically give you that parked out symbols, two-wide, three-wide, during the course of the race. And when we talk about that, that's one of the things that our players certainly have enjoyed because, at the end of the race it gives you actually how much more than one mile the horse has paced or trotted during the race. And it may only be a certain number of feet, it may be a larger quantity of feet, and when you figure that into your handicapping, which our players are doing, it seems to give them the information they are looking for and as a result it creates greater handle. The system has basically operated without an awful lot of problems. As I said, the positioner is in the head number, but that is being changed so it is going to go into the saddle pad. As Murphy's Law would have it, once a month the horse's head number would fall off, and again Murphy's Law, it would always be the lead horse. So the system times the race automatically. In the event that the lead horse loses its head number and the correct timing is not apparent at first and then it is re-corrected. But it does happen, basically about once a month.

During all this process, there have been many changes made to the system as it improves. There were a couple of bumps in the beginning, mostly with head numbers, but it operates very efficiently, the customers really enjoy it. Now they've added something that has become the big thing now, the little chicklets at the bottom. Our patrons who have not seen it yet see it, they're just going to awed at how they're going to be able to follow a horse during a race, either in the video or with the little chicklets, see that there's three-wide. And I think that when you get to use this in a thoroughbred product with a 12-horse field on the grass, I think it's going to be a better product than it actually is on a half-mile harness track. The other question my people have asked me is, how does it operate in rain, snow, everything. There's been no effect, no matter what it is, and actually on a couple of foggy days, where you literally, even on a half-mile track, couldn't see the horses, the timing and the graphics and the horses as they were running with the order on the board, worked very, very well. The other thing is now the photo-system that comes with this happens to be digital. It is presented to judges with a much clearer picture when they go to look at the picture on the television screen, and the same with the patrons, they'll say, you know, "my horse won," or "I thought it was a dead-heat" and they'll put the photo up which very clearly delineates who the winner was and who was second or third, whatever the case may be.

Video Plays.

When I first saw that, I thought *that's going to be very, very good for novice people and groups that come in to the racetrack*, because it's something different, those little chicklets, I mean, it will make it easier for those first-time people that come as groups or novices who have only been to the races one or twice. Something new and it might get them interested in racing, and there's other products out there like that, but I think when making an investment in technology that we certainly have to spruce up our product as it appears graphically, make it a little jazzier, and I think it will help us in the long run, through attracting more people, keeping the people that we have, and I thank you very much for your time this morning.

Chris Scherf: Thank you very much Don. Just as a point of information, how many people have high definition at home? How many have bought the sets? I think that speaks to how we're getting more and more demanding in the quality of what we receive. I also think the previous presentation was awfully helpful in watching a race, and even most of the people at a racetrack are watching on television, and one of my pet gripes or thoughts that we need to do better and I didn't know how we could do it and I think we're getting there now with the quality now that the tools will be there. But standing under a monitor at a racetrack and watching with a group of people as they hit the finish line and invariable somebody who's sitting there watching with me goes "who won the race?" Watching a race is a really difficult thing, especially if you're not a very experienced race-watcher. For a new customer, we are like ping-pong balls going around almost. It's very difficult to follow. Unfortunately last year, I had to go home for the Breeders' Cup so I didn't get to see it, but then I got to see a Breeders' Cup telecast on high definition, which I've never seen, and it's a whole different ball game. I mean, if you're talking about following horses, it's just night and day. There has been a major investment in that kind of improvement at Keeneland, and our next speaker has a long history in our industry and in the television business, and I first met him 25 years ago when he was doing the video presentation for the Eclipse Awards and I worked with him all through his career at Hammond Productions, and now in his position as the director of broadcast services and simulcasting at Keeneland and he has made a lot of changes in what they've been doing there and some very dramatic ones that were evident last year. Please welcome G.D. Hieronymus.

Don Codey: I agree, Chris, about the Breeders' Cup in HD—I was at Churchill, but I made sure that I DVR'd it so I could watch it as soon as I got home. Drives my wife nuts but I have to sit back and watch every replay and it really does a lot to enhance the game.

G.D. Hieronymus: Thanks, Don. As the director of broadcast services, I really feel like this is very important, technological investments in our game today, and we're doing a lot of great things at Keeneland and I appreciate the opportunity to talk about it. Our number one focus is the live main customer, as at most racetracks, and our research tells us that on any given race day at Keeneland, 20% of our fans are visiting for the first time, and we also attract a large number of casual and novice fans, so we have got to make that presentation to them very informative and create a destination for them to come back. To ensure that final product, they're watching more than 1,100 TVs and seven LED tote displays and it's a rare opportunity to turn that first-time casual fan into a lifelong racing fan. The last couple years, we've been taking an objective, critical look into how our customers and end-users are receiving our content. We took a complete inventory of all the televisions in various areas, and then we prioritized which ones needed to be replaced first and it's a very methodical process. We've taken room by room and making sure that from simulcasting to the live main customer, that the back-end of that product is the best that we can make it. We've improved our displays throughout the facility and at the end of the day we're really making even an analog signal look better, I know Chris says that, we do have to improve on our production on the front end, but the LCDs and the resolution really even helps that analog signal.

Regardless of how many upgrades and additions you make there never seem to be enough screens for all the signals of course. We have 35 analog channels, two in-house digital channels, and four digital modulators that allow us to get that HD broadcast into our system. So even in our sports bar, you guys can come in and watch the NCAA tournament in HD which we feel like is a very important part. Any racetrack that has a sports bar, you want to be able to offer a wide variety of those channels. To top it off we added another channel this last fall on-track, which I will talk about in just a little bit. Delivery of our final product shouldn't be narrowly defined to just television screens. I firmly believe that large screen displays on your paddock and infields are a must. When you think about it, when was the last time you went to any sporting event and there wasn't LED technology? You're always following the game: football, NASCAR events, all over, you've really got to have that for the fans, they expect it. You'll really get a return on your investment after only a few years. A lot of other places can really help pay for these things through advertising. We don't do a lot of advertising at Keeneland on our board but it's very valuable as you can see for our race sponsors. At Keeneland we've had a new LED tote board on the drawing board for about five years, and when we embarked on our track renovation last summer, we incorporated that into the renovation. It's been a huge hit among our fans, in fact it was really the second most talked about thing besides our track services—the addition of polytrack or synthetic racing. LED is not revolutionary, it's been around for years, but what makes ours different is we really took it to a different look and put it in the hands of our TV department. A lot of times many tracks make that same investment in LEDs and they'll really turn it over to the tote company for more or less just data but you put an operator behind the system and it can really help make a creative fun thing for the fans, and you can really take a little better advantage of that display.

We elected early on to run full motion video on our display, to incorporate various camera angles to augment that traditional split screen and give the patrons very many options to watch and follow a race. Now everyone really wants to be track-side during a race. Before we had a couple LEDs out in the paddock area and before they would really gather a lot in that paddock to watch the race. Today we found that everybody moves trackside because they want to get out trackside and it brings them closer to the race as well. I know that lots of tracks are faced with facility limitations and need upgrades, the cameras and ambiance of the facility itself, but that's just one more step in investment in technologies. You look around the country at most sporting venues, shopping malls, airports, even coffee shops; put a lot of emphasis on investing in technology. They constantly monitor their facilities, how comfortable their patrons are, employing upgrades and strategies they create an attractive, inviting environment that makes you really want to come back time and again. We're asking our fans to commit five or six hours a day to our product, we'd better be prepared to offer a comfortable, inviting environment with well thought out displays and the content is a major part of that. We made a lot of major upgrades and broadcast is part of the track renovation. One reason we're able to do that was not only because Keeneland's solid polytrack but we reconfigured the track's layout to be a more symmetrical track. So we jumped at the chance to really install conduit-accommodating things like the tracks, polytechnics and of course, Trakus. During the planning stages of the renovation project we worked closely with Trakus to make sure our needs were part of the display option as well. We thought this an important element in adding more entertainment aspect to the live racing experience.

Over the past several years, Keeneland was a test ground for Equibase, testing several types of tracking systems, GPS, and we've finally settled on RF-based technology. We first heard about Trakus in 2004 when they were doing some tests at Laurel, and followed their progress to Woodbine, and then in 2005 started talking to them seriously at the Racing Symposium about integrating Trakus into our system. At the time everybody was really looking at tracking systems as a means of gathering data, and we took a little different approach again and really thought of this as a great opportunity to bring that Trakus look to our fans on our LED boards, which we were already thinking about video-wise, camera-wise. But it really enhanced the delivery and display of a racing product, and I'll tell you our fans, even the hardcore fans, have really appreciated it. We also employed it on TVG, got midway through the meet and they got great response out of it as well, the running chicklets, and it will once again be on TVG and ESPN this next coming spring meet. Our infield board showed live video of the race, on center display, with a vertical full-field running order, then on the left side we had the animated horses, and on the right side we had the running chicklets, and this gives patrons a lot of options to follow their horse throughout a race. Following each race we displayed feet traveled, and our hardcore fans really devoured this information, and it's all on our Website, and very, very popular. Our in-house channel devoted to Trakus, showed various replays in a number of different animated formats, including the jockey view on a winning horse who was making a late run. Our casual fans really responded to Trakus because whether or not we want to admit it, our next generation fans were all raised on video gaming technology, it's a perfect principle for them.

Last summer we invested in phase one of our broadcast center the purchase of 11 HD cameras, lenses and controls, next phase is new master control, technical ops center for TV and radio broadcast and soon through IPTV technology you'll be enjoying around the clock thoroughbred programming produced by our broadcast facility. The broadcast facility goes hand in hand with a couple other initiatives at Keeneland, one being our digital asset management project, including IT communications, our TV department working with a library to archive our sport. Plans are underway to digitally scan every issue of the Daily Racing Form and historical documents, and from our end, film and video preservation. So some day it will allow you to come in to our website or to the library and cross-reference in any number of ways. Speaking of our website, comparisons of usage from 2005 to 2006 showed that our traffic has nearly doubled. This illustrates a need for technological investments in website and we're launching a new look prior to our spring meet, it's going to be a very video-intensive site, and we've invested a lot in encoding equipment, to allow us to do multiple video streams, and this initiative gives us a better opportunity to manage the video content and products of our site. Thanks a lot for your time, and I'll look forward to any questions or comments.

Chris Scherf: Interesting that Keeneland's in the forefront of using technology now. Last track to get an announcer, that was racing the way it's meant to be, but I think Keeneland now has adopted racing the way it has to be, and obviously you're taking great advantage of that. There are a lot of questions with technology and how you use it and what it does and most racetrack managers are not expert in that, we all need expert consultants and certainly from the TRA's perspective in its 2020 committee, which is the technology committee, we have drawn heavily on our next speaker for his expertise. He's not only extremely knowledgeable but has a real talent for putting things in terms and layman's language that even us dummies can understand. He's continuing to work with us, he's working with the committee, a subcommittee that has been formed in the 2020 committee for broadcast security, it's a major issue for example after our first meeting we pretty much figured out as an industry we have, in terms of signals, probably 100% penetration of South America, unfortunately we're closer to 0% on revenue from that penetration. Other people are getting rich off of us, so obviously security is a big issue, but for years he's been railing about the need from end to end to have basic standards and we're looking to create that and to illuminate all of us on what the issues are and where we need to go and what we need to do. Please welcome the president of Roberts Communications, Todd Roberts.

Todd Roberts: Thank you Chris. I appreciate the opportunity once again. Today I'm going to talk about two technology investments that I think need evaluation by our industry. The first is our current use of the Internet for video streaming, and second is a potential use of High Definition for the broadcast segment. As far as the Internet goes, the best thing about it that I see is that the Internet makes us and our problems related to our simulcast model look good because the Internet is now experiencing the same growing-pains that resulted in our simulcast model, growing too quickly and without a lot of long-term thought put into the process. The problem with the Internet is that theirs is a global problem, fortunately for us it's just an industry problem, but our use of video streaming is yet another example of us acting as an industry too quickly and without long term thought. Now, 20 years after simulcasting has run its course, I think we have enough sophistication to nip this one in the bud before it's too late.

The positive aspect of using the Internet for broadcasting purposes is that it's a cheap way to get content to the viewer. The negative aspect of this use is that it's a cheap way to get content to the viewer. And by that I mean: the broadcast requirements for your signal are so much stricter than the requirements for Internet streaming that it causes a lot of problems, in fact there's no licensing required to stream on the Internet, whereas on the broadcast side we all have to have FCC licenses. The cost of entry for video streaming is next to nothing compared to the broadcast segment: the bandwidth is cheaper, the equipment is cheaper, and everybody all of a sudden is a communications expert and is streaming things all over the Internet, some of them even from their bedroom, which is a lot different than in the broadcast world. This leads to the careless handling of your content and that of course leads to piracy issues and copyright infringement issues that we're just now starting to face. So if I could make one comment or raise one question about our use of streaming, it would be this: the export simulcast model is based around the fact that the host track provides a broadcast, and only one broadcast, and it's controlled by the host and everybody in the industry who wants to use the broadcast has to go that one broadcast that's on the air. With video streaming, it's completely the opposite, there are up to five, six, or seven streams of the same broadcast all over the Internet, none of which are controlled by the host. Now, this usually means that the buyer of the signal, whether it be an account wagering company or somebody in South America or in international markets, is providing the stream. Now think about that for a minute, this is supposed to be somebody who is skilled in the reception of signals and the running of a venue to create wagering, say a simulcast or an OTB parlor, yet you've allowed them to also be in the video streaming business. What qualifications do they have? No one ever asks this question, and they just say "I want that revenue; oh you'll take care of the stream? Great, we've got a deal." And now we've got problems to deal with as a result of that. Not all video streamers do the wrong thing, but not all of them do the right thing either, and the one thing that really bothers me is that broadcast hackers are always a pain for the broadcaster, but Internet hackers are worse and you do not want to give an Internet hacker seven chances to your broadcast and misappropriate the content. You just can't do that, and yet every day when we look at the video streaming operation, we know that we are just one of six, seven or eight different people that are streaming the broadcast. So this has got to be stopped and the solution is very simple: the host has got to put his simulcast, broadcast hat on, and produce and control one video stream that anybody that wants to buy his signal and use a video stream for their operation would have to link to. And it's really simple from a technical standpoint, the users would link to the stream produced by the host track, the cost would be shared based on a usage basis of the bandwidth. This would create the lowest possible cost for anybody that wanted to use streaming because we'd get a volume buy on the bandwidth, it would eliminate all of the careless and fly-by-night operations that are in the streaming business because they wouldn't have the infrastructure to control a video stream that an entire industry was using, just like the broadcast segment, and best of all to protect the perception of your product in the marketplace. Right now, in our streaming operation, we see all the time complaints from users about the quality of the streaming but it's usually related to their computer systems and problems on their end. Yet that perception is that the host track doesn't have enough bandwidth, has a lousy vendor providing the stream, and we can't afford to do that right now with all the content that's out there fighting for our eyeballs. The best thing about this plan is that the account wagering companies, who all use video streaming on their Websites, would still be able to use video streaming but it would be controlled by the host and they can still customize around that stream which was their intent in the first place, in my belief. So this is something I think we can correct now, and I think we have to correct it now or I guarantee you, five years from now we will be talking about the problems related to video streaming in the next 2020 meeting and we will not have learned our lesson from the mistakes we made with simulcasting 20 years ago.

So enough with the warnings, let's talk about something a little bit more positive and that's High Definition. The shame of high definition to me, as it relates to our industry, is that when I walk through the national association of broadcasters convention every year, which is held in Las Vegas in April, the number one use of content on everybody's high definition displays is horse racing, and yet we as an industry are the lowest-level user of high definition, pretty much G.D. is the only one that has anything related to high-def going on for our industry. Quick synopsis of what it takes to implement high definition: you've got to replace all the production equipment as G.D. showed, that's a host track function; you've got to replace part of the transmission equipment that companies like mine utilize, that's a host track requirement; you've got to replace all the display equipment, such as TVs, that's a guest requirement; it takes 50% more bandwidth than we currently use if we used the next standard of compression which is MPEG4-advanced video coding, and that's a host requirement. This all costs money and it requires the cooperation of the host and guest. It is, in my view, a unique problem because it's a host track driven change but the last leg of the change requires the guest to cooperate.

I have waffled on my own thoughts on whether high definition is the right answer for our industry and whether it would do anything for our industry. We all know it would cost money, the question has been, will it drive handle? I am now convinced that the change to high definition is inevitable for our industry, and the reason I feel this is as simple as the same dilemma from 20 or 30 years ago when the issue was do we go from black and white television to color? There is no question that that is going to happen with high definition, the question is rather, when is it going to happen? As I see it, the early adopters of high definition in our industry will get an advantage as far as attracting viewers. It will be more expensive to be an early adopter, but you will get an advantage. The late adopters will have no advantage; it will be a defensive move because you don't want to be the last guy to have an OTB that doesn't have high definition. The good news is that the late adopters will enjoy the benefits of all the prices coming down. Now, with that, I'd like to tell you a story that helped convince me that this was what's going to happen for our industry. How many people, just show of hands, heard about the craziness related to Las Vegas with the NBA All-Star Game? Ok, well let me tell you, with 21 years of living in Las Vegas, I have been through every convention, every New Year's celebration, every big event that hits that town, and I have never seen, in 21 years, a more ridiculous, scarier, dangerous situation than the crowd that invaded Las Vegas for that All-Star Game weekend. Part of the problem was we had an event that was held in a 15,000 seat arena, yet 150,000 people showed up to participate with the festivities. So literally, as I walked through the Bellagio on a Thursday night, it was the most surreal scene I'd ever witnessed because I literally thought it was like the gangs of LA invading Las Vegas. I thought somebody was filming a movie, it was that surreal. The scene at the Fashion Show Mall was strange, it was strange to see that type of crowd invade Saks Fifth Avenue and Neiman Marcus, the two didn't fit. And the stories were endless, and the stories were true, most of the things you read about were true. But the unique thing was that, what the hotels tried to do to get more people be able to see the game, and I happened to read about an experiment that was going on at the Mandalay Bay related to a high definition broadcast of the game in one of their ballrooms and I thought, well that's interesting, it's a good idea. Lots of times during the rodeo, our company provides a closed-circuit broadcast to about 20 casinos that show the rodeo. The unique thing about this high def broadcast was it was going to involve high definition and 3D. Now think about that for a minute. I didn't grow up in the 3D era, but many people did that are in our industry and the combination of those two intrigued me enough that I fought through this crowd, found a way to get invited and get in to this private party to see this broadcast, and I anticipated that I would stay for five minutes, get an opinion on the technology and leave. What happened in that visit changed my viewpoint on high definition forever as it relates both to my industry, with this audience and other industries. And that is—I not only stayed more than five minutes, I stayed for an hour and a half, but I wasn't even watching the NBA All-Star Game, I was watching the skills competition held on a Saturday. Now I'm a big sports fan, but I just don't have time to watch games, and if I'm going to watch something on TV, personally I'm going to watch a golf telecast and that's it. Even though I like basketball, I just don't watch. I would say that I was more a fan when I was 12 years old than I am now, but the broadcast I saw made me a fan. The technology that was being used intrigued me so much, the experience was so great that I said I want to sit here and watch this even though I'm watching a skills competition, which I really don't care about. And as a result of that experience, I am convinced that an early adoption of high definition for our industry, even though it doesn't involve 3D yet, could make a difference. I believe that the early adopters of high definition will attract new fans, something that we've all strived for. And if we can do that, we have a very small window right now to do it, but if we can do that I think we can get the long-term benefit. If we wait five, six, seven more years to adopt high definition, then we're going to be on the defensive end of this switch, and that won't be a bad thing, but we won’t be special and we’ll be just like every other sport out there. But what we can’t afford to do is lose more viewers by not having some kind of early adoption of high-def. So with that, I would say that I am now firmly convinced that high definition has a place in our industry and it needs to be sooner than later. Thank you.

March 12, 2007

11:15 a.m. – 12:15 a.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 ideas 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 Says 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.