

FRIDAY, DECEMBER 10, 2004

Morning Session 3A

THE NTRA PHASE II - MOVING FORWARD

MODERATOR:

Daniel G. Van Clief, Jr., Commissioner and CEO, NTRA

SPEAKERS:

Keith Chamblin, Senior Vice President, Marketing and Communications, NTRA

Greg Avioli, Chief Operating Officer, NTRA

MS. WENDY DAVIS: Again, thank you for being here on this Friday morning. It's wonderful to see everybody here. And before that last award I said I had this wonderful job through the Symposium of announcing award winners, and I think this might be my easiest job yet because I get to introduce someone who needs no introduction, so I get to keep it very short.

This panel that's titled "The NTRA Phase II - Moving Forward," will be moderated by D. G. Van Clief, the commissioner and CEO of the NTRA.

As you're all aware there have been some changes in the NTRA and he's here along with other representatives of the NTRA to let you know what's going on, let you know what's happening, and where they're going from here.

And again, we are very pleased to have you. Thank you. I'm not sure any other topic could get so many people in a room the last session on the last day of a conference, so thank you; and we look forward to finding out what's happening.

(Applause)

MR. DANIEL G. VAN CLIEF, Jr.: Okay. Thanks, Wendy. And I will try to keep this as brief as possible as well, just to highlight it, and we're going to try to leave ample time for questions if you have them at the end.

It's always a pleasure to be back here in Tucson, and special thanks to Wendy and Doug for the hard work they do, and as well as their students who help and are so critical in hosting this Symposium each year. We do appreciate the opportunity to speak to racing leaders and engage today in what is really the first public dialogue about where the NTRA is headed in what we're calling Phase II of its development.

The NTRA had already been engaged in strategic planning for 2006 through 2010 as Phase II when Tim Smith elected to step down as commissioner this past summer. We've accelerated our efforts since then, and now after a series of evaluations and discussions with staff, management consultants, and in the last two weeks the NTRA Board of Directors, we can provide you this morning with a top-line view of where we plan to point the NTRA over the next six years.

It seems particularly timely given the wide range of important topics that have been discussed and that we've heard about this week. In essence, the plan focuses around three very straightforward and interrelated goals; and those of you who can remember seven, eight years ago closing out of the old vision statement.

Number one, make racing a top 10 sport in America as measured by consumer research. We're almost in the top 10 now, we're number 11 today. And we plan to move it into the top 10 and keep it in the top 10.

Number two, grow pari-mutuel handle to reach specific targeted levels. I'm not going to be able to give you those targeted levels yet today but what we're going to be doing as we evolve this plan over the next few months and bring it back to our board in final polished form in the late winter or early spring is to tie our success or failure to very tangible handle-related benchmarks.

And thirdly, use the NTRA as the convening authority for the industry. And by that I mean use the organization's already-proven ability to bring together the industry's major organizations proactively to address obstacles to and opportunities for continued growth.

Well, the first two goals are hardly surprising to anyone in this room. The means by which we hope to achieve them do represent a departure from many of the NTRA's past programs. Our aim, having assessed where we have been more or in some cases less successful during the past six years, is to build on our success, take what we've learned and focus our resources to maximize our effectiveness going forward.

The third goal both affirms the NTRA's ability to bring together disparate segments of the industry to achieve consensus on matters of importance and builds on what was one of our least expected but has turned out to be one of our most valuable assets.

In addition, rather than simply responding to crises — and there have been no shortage of those in the past and we're sure there won't be in the future — we intend now to double down on taking an active lead in identifying and solving

systemic problems that the industry must address collectively in order to achieve growth.

I've asked our senior vice president of marketing and communications, Keith Chamblin, and our chief operating officer, Greg Avioli, who are with me today, to help explain how we hope to meet these goals with the resources that we expect to have available to us.

I'll return to the podium following their presentations, give you a few additional thoughts on the strategic planning process and its time line, and if there are any questions, as I mentioned at the top, we'll leave some time; we'll be happy to answer those. Keith?

(Applause)

MR. KEITH CHAMBLIN: Thank you, D. G. Good morning, everyone. From a marketing perspective what has been driving the strategic planning process is a vast compilation of national consumer research that we've conducted over the past five years. In fact, I would say that our industry knows more about our existing fan and our target fan than at any point in our history.

And to review, we've got about three million core fans, and those are defined as customers who attend or bet the races a couple of times a month; we've got 20 million light fans who attend once or twice a year; and there are roughly 10 million lapsed fans, people who used to attend the races but have not done so in the last two years.

Add to that, the core segment is older and skews male. Our fan skews younger and more female as you move into the light and lapsed fans.

There's also a huge group of potential fans, more than five million living within 50 miles of a racetrack who have never been to the track or made a bet, but answer nine or 10 on a scale of 10 when asked if they would like to attend the races.

These segments are what we call our low hanging fruit, and really what we're driving our marketing efforts toward. As we've identified these fans or potential fans, we've also experienced sustained increases in fan interest over the last five years, something that no other major sport can say; not NASCAR, not the NFL, not golf, Major League Baseball, and certainly not hockey or the NBA.

And you can see we've also those two highlighted blue shaded areas there, where we gauge fan interest. We've had a lot of growth in the last year in the 12-to-24 age fan base. So there's a lot of potential out there to move the sport forward.

And the reasons aren't hard to see. We've had Funny Cide, we've had Seabiscuit, we've had Smarty Jones, and they've coincided with positive factors like account wagering, TVG, more televised racing, and yes, even the NTRA. There's no denying that there's more public interest in our sport today than there was six years ago.

So one of our challenges during phase two of the NTRA is to transform increased interest into active participation. And in a big way, we're going to be measuring participation by wagering.

How do we motivate casual fans to become core fans and lapsed to become lights and so on? This is our fundamental marketing challenge as we move forward, to increase these fan segments over the next six years by as much as 20 percent.

Again, we looked at the research, which tells us that all fans, but especially light and lapsed fans, pay attention to big events and major race days. The races that are televised nationally and covered in the newspaper and through other forms of media, the simple take-away message is, "We need to create more major race days."

Currently there are only four race days on which the national pari-mutuel handle exceeds a hundred million dollars. On top of those four big days — and of course you all know them, they're the Triple Crown and the Breeders' Cup — there are 14 other dates in 2003 on which handle exceeded \$75 million.

Using that group of 18 days as a starting point, our objective is to triple the number of racing days handling more than \$100 million and thereby tripling the number of racing days that attract our target customer.

We have a number of tactics that we're going to use to accomplish this objective, and they'll include event-driven marketing programs tied to the host tracks, as well as simulcast sites and account wagering platforms from which the lion's share of the handle will come.

The programs include enhanced television coverage on eight to 10 events per year, with significant technical enhancements that will include additional camera positions, virtual technologies, high definition, and other production resources.

We'll also be expanding our focus on handicapping and fan education with regular segments included in every telecast. And we'll be seeking out media partners who will offer multiple platforms through which we can market our sport, be it TV, Web sites, print media, radio or ethnic marketing. In short, we're going to leverage our television to make it work harder for everyone in this room.

I might add that next year's schedule includes Triple Crown preps on both ABC and NBC, live coverage of a hundred graded races including 50 Grade One events. Through NTRA Communications and outside resources we'll be increasing our publicity and PR capabilities and support around these big event days and others with emphasis on promoting horse racing not only in the sports pages but also with regional and national mainstream media.

We'll be using the NTRA's interactive resources to reach existing fans and target customers. Since 2002 we've sent 13.5 million e-mail communications to racing

fans to promote your events and your races. We have a database of 250,000 racing fans that we'd like to grow to one million or more over the next six years.

E-marketing and the Internet coupled with horse racing's current legal status with respect to online gaming represent a huge opportunity for our sport not only in North America but globally as well.

From sponsors, of which we now have 13 compared to one in 1999, we hope to leverage their marketing dollars around these big events and dates, as well as other dates on the calendar. Our goal will be to add one new seven-figure sponsor each year through 2010, and a gross sponsor promotional spending on our sport from the \$2 million level in 2004 to more than \$6 million in 2010.

There will be advertising and promotional programs designed to complement strong promotion and support from our network and cable television partners. And I want to emphasize the word "partners," because that's what we'll be looking for in 2006 and beyond.

We'll continue to create advertising and public service announcements or PSAs, like the one that aired on this year's Belmont Stakes telecast seen by 33 million viewers.

(A tape was played)

We also believe that it's imperative that we tie national wagers to each of these big days, and other days as well on the calendar. The wagerer, in this case the national wager is a major component that will connect these televised races to an array of simulcast and account wagering platforms.

National wagers work. They create interest, fans like them and they deliver revenue and commissions to tracks and horsemen.

Finally, virtually all of our research indicates that casual and lapsed fans must deepen their understanding of handicapping in order to move up the ladder toward the core fan category. Fan education or "edutainment," as we call it, which is a blend of entertainment and education, will be a key ingredient in all of our tactics that we undertake over the next six years.

The vehicles are in place for this sport and industry to sustain and in fact accelerate its growth. They include NTRA Productions, which produces 90 percent of the of the horse racing telecasts you see on TV today, and ESPN network contracts that run through 2008.

We have strong PR assets in the form of NTRA Communications. We have a solid foundation of Internet and E-marketing including a strong relationship with the number one sports site on the Internet, ESPN.Com.

We have new products in development, including Horse Racing Play Station, X Box, and arcade games that will be launched in 2005. And we have a wireless game that was deployed earlier this year.

We have an enhanced World Thoroughbred Championships, a true world championship event to serve as an anchor to a season-long marketing effort, and we have a growing stable of sponsors willing to identify their brands with our game and even with wagering.

This week we added one new sponsor and we also renewed John Deere through 2007. Perhaps the greatest strategic advantage we hold is our legal ability to wager on the Internet. This year account wagering represented 13 percent of the total handle on the Breeders' Cup. International wagering grew by 29 percent.

In our sport, data is king, and the Internet is the perfect vehicle to deliver that data. And here to tell you a little bit more about that and some of our legislative and regulatory priorities going forward is Greg Avioli.

(Applause)

MR. GREG AVIOLI: Thank you very much, Keith. It's nice to be back here again today.

I think back to the first time I took this podium, I believe it was in 1997, right before the launch of the NTRA, and obviously a lot has changed. You've heard the NTRA get up and make lots of presentations over the last five years about what we've done, what we wanted to do, and I was thinking about that last night when I was figuring out what I was going to say to you all today.

And for some reason my favorite commercial kept coming to mind that I know many of you have probably seen this. You see a sort of a Lou Grant-Ed Asner character-looking CEO sitting behind a desk, and he's got these two very professional slick consultants in front of him. And they're saying things like, "You know, we need to decrease our distribution and our manufacturing in the United States and triple our supply lines in Western Europe."

And the CEO takes it all in and pauses and looks out at them and says, "All right, let's do it."

And the two consultants sort of look at each other and look at him and say, "Well, we don't actually do what we propose, we just propose it."

(Chuckles)

What I'm going to talk to you about today is one of the areas where we actually proposed something and, with the help of the industry, we actually did what we proposed. And it's the area of federal legislation.

Two years ago they changed the campaign finance laws in Washington and said it was no longer legal for corporations to give money to federal candidates. And all the contributions had to come in the form of something called a PAC or political action committee.

We were sort of lucky because we didn't really have — we were gearing up for our Washington efforts but really hadn't hit our stride. And we were well-timed when we created the NTRA PAC in January of 2003.

And through the help of a lot of people in this room, particularly a lot of the owners and the breeders throughout this country, we have had dramatic success in raising money for our federal efforts.

Over the last two years we're going to raise approximately \$800,000 which will be the most of any PAC in the country that was formed in 2003. Our goal the next two years is a million dollars.

What the PAC does is give you the ability to get access in Washington. Some people have issues with that morally or ethically, and they really shouldn't, but that's how a democracy works. Candidates have to finance their own campaigns and if you contribute to those campaigns, you will have a hearing before those candidates. If you don't contribute to those campaigns, you might not.

PACs work in an interesting way. Individuals can only give \$2,000 to a candidate, but a PAC can give \$5,000 to that candidate. So there's strength in numbers.

So when we on behalf of the horse racing industry can go to somebody, such as the next Senate majority leader Mitch McConnell and say, "We appreciate your support for the horse racing industry, and here's a check for \$5,000 for your campaign and \$5,000 for your leadership PAC," which is another campaign committee they have, we get their attention, they know we appreciate them.

We give out the PAC money primarily to key committee members. Just like most state legislatures, Washington works on a committee basis. And your seniority in Congress results in your seniority on key committees, and all legislation begins and very often dies in committees. The committees important to our industry you can see on the board, the two that I will tell you are perhaps most important to us are Banking, Financial Services, where most of the Internet gambling bills I'm going to talk about reside, and I'll explain that later; and the Judiciary Committee, which constantly deals with all sorts of criminal matters that could potentially affect the industry.

So in the last two years we distributed a little more than \$450,000 to federal candidates, and you see we spread it out pretty well. We generally give money to candidates in racing states. Occasionally we'll go beyond the racing state if there's someone on a key committee.

We have very good lobbyists that I work with in Washington every week known as the Alpine Group, and we give our money in a targeted fashion. We tend to back winners. It doesn't help a lot to give money to candidates who don't come back the next year. Last year we were sort of exceptionally lucky in that 56 of the 58 candidates we gave money to will return to Congress this year, so our power base and our influence will continue.

Keith asked me to talk about one of our main legislative priorities, and you've heard me, if you've been to this conference before, talk about this first one.

Our number one priority is and will remain protecting our very unique legal position, which simply put is that we are the only form of wagering that's legal on the Internet in the United States. I'll pause and let everybody take that in.

Because of that position, we are constantly under fire from very strong adversaries in Washington, including the Native Americans, the state lotteries, the casinos, the religious right. At any given time we have any number of people who are going to their congressman or to their senator and saying, "We don't like Internet gambling, and why does racing have a preferred position? What makes them so special?"

And we have a series of arguments that include the word "agribusiness" that has 500,000 jobs, that we're different from other forms of wagering; that the reality is we started wagering via phone in the 1970s, and it's been authorized in at least 18 states. We're just different.

Those arguments are good, but what makes it better is when you have X, you know, 10, 20, 50, a hundred members of Congress who are going to support you. Because there are arguments that are equally good on the other side of that.

The other areas that, when we're not keeping the Internet gambling opponents at bay that we focus on, are really primarily tax. Any of the owners or breeders in this audience know that this is an exceptionally tax-driven industry. When they changed the tax laws in 1986 to substantially reduce all the passive losses you could take, the sales industry and the breeding industry took a real hit.

Little by little we're trying to improve the tax position of the industry, particularly the owners and the breeders. When President Bush signed his tax relief package into law two years ago, it had an interesting provision at the time no one focused on very much, which was called bonus depreciation. And what that did was, without getting too technical, was effectively allow you to write off the cost of a purchase of a horse within one to two years, the full cost.

And as Nick Nicholson, who is in the audience, will tell you, we think that had a dramatic positive effect on the sales markets because it was a very strong reason to make a decision to buy a horse before that tax provision expired. And that provision will expire December 31st of this year.

And one of the things that we're going to do over the next Congress is work to get that made permanent for horses. We think we can make an argument, it's a special interest argument, but it's ours nonetheless, that there's a reason that racing should have special tax provisions because, again, we're agribusiness that supports hundreds of thousands of jobs.

The other area that we've talked about at this conference and previous conferences is opening up international markets for U.S. racing by removing some tax obstacles. Believe it or not the industry in the form of the American Horse Council started working on this provision in 1990. That was when — I have the first files looking back in 1990, we went to the Treasury Department and asked them if there's a way they could remove this restriction. And what the restriction did was say that any wagers made from outside the U.S. into the U.S. were going to require 30 percent withholding tax on any winnings.

So if you bet \$2, on an even-money bet you wouldn't get \$2, you'd get back \$2 less 30 percent. As a result of that, no countries wagered into U.S. pools. Canada, which wagers \$500 million, \$600 million a year on U.S. races does it all separate pools, primarily because of this restriction.

After a lot of work and a lot of meetings and a lot of PAC contributions, we were successful about three months ago in having this provision removed, when it was attached to the Foreign Sales Corporations Bill. So effective that as I stand here today that tax no longer exists.

In many ways I think our industry is now like the dog that caught the car. We now do have access to the world's markets without this taxation, and the scope of the world market, for those of you who aren't familiar with it, is \$15 billion wagered in the U.S. every year on horse racing, but \$85 billion is wagered around the world on racing.

So if you think about the opportunity that we have there, it's substantial. But unfortunately it's not quite as easy as that because that \$85 billion, roughly 66 percent or two-thirds of it is wagered in Hong Kong and Japan. And currently in Hong Kong and Japan there are laws that do not allow the importation of racing from another country.

So one of the things that's incumbent upon us as we move forward with our legislative efforts in Washington is to build a relationship with the U.S. trade representative, same way that the auto industry or the sugar industry might, so that when we sit down in the next round of free trade talks with the governments of China or with the governments of Japan, we can have on the list opening up their markets to U.S. racing.

The final area that I'm going to talk to you briefly about today is what D. G. mentioned is the role of actually John Van de Camp, a former attorney general of California and former NTRA board member came up with, called it the convening authority.

You'll not find these words in the original NTRA business plan that was written in 1998. This is one, I think, of the pleasant surprises that came out of our existence.

Whenever the industry had a major issue they needed to get everybody around the table and work to sort of build a consensus, get all the facts out there. They gradually and with increasing force turned to the NTRA. This first happened after 9/11, what would the industry's position be?

Other major sports were doing X, Y and Z. What was the racing industry going to do? I think it really came together after the attempted Breeders' Cup Pick-6 scandal when the NTRA became the focal point for not only working with state and federal authorities, but conducting an investigation, an honest investigation with Ernst and Young and Giuliani Partners of what was the state of security of our tote system, of our computer backbone system?

Most recently starting in January, the industry came to the NTRA — well, the NTRA board came to the NTRA and said, "We have to figure out what's going on with this leakage problem," otherwise known as the "handle up, purses down" phenomenon.

What had happened is for years the Jockey Club tracks and puts out reports that say, "This is how much handle went up this year and this is how much purses went up this year," and the statistic that jumped out at everybody was, for the first time, according to the Jockey Club data last year, it looked like handle had gone up and purses had gone down. And people were awful concerned about that.

And so the NTRA formed a task force; and I know lot of times people roll their eyes, "Another NTRA task force;" sometimes I roll my eyes when I see another NTRA task force. But this one, I think, did the best work of any of the task forces that we've had to date.

And I really urge you all to go to NTRA.com and if you click on about the NTRA section that says, "Wagering Security Task Force Report," or maybe it's the acronym, "WSTF Report," it's there, it's all downloadable. I think it's the best piece of work that I've seen since I've been in this industry that analyzes how we live on the wagering dollar, where the money comes from, where it goes, what's changed over the last 10 to 15 years.

It's a hundred page report, so clearly I can't get into all the details now, but I'll give you some of the high points if I can.

What we've seen — a lot of this won't shock people but it will shock you when you see the depth of the numbers, the concepts. We all know that live racing is not what it used to be, in terms of the size of the scope of our business. And we all know that simulcasting has grown.

But what we hadn't really focused on is what happens with the growth of simulcasting? Because back when — I'm trying not to give you too much of a math

lesson — but back when everybody wagered at a live racetrack, assuming there was a three percent state tax, when you went, if you're the racetrack and the horsemen it's a 20 percent takeout, three cents goes to the state, and there's eight and a half cents that's shared equally with the track and the horsemen. So 17 cents stays with the industry.

Now, if you add simulcasting and you're in New York and you're simulcasting in a race from California, well, you've got to pay three cents to the California racing industry, so now you've got 14 cents that you divide up; but you've still got 17 cents going to the industry as a whole.

Same thing in reverse; if you're New York and you bring in a race you get three cents, California gets 14. It was all staying within the family.

Once we have the growth of off-shores that don't put on live racing what happens is less and less money ultimately, if the total amount wagered stays consistent, will come back to the system.

And this is an oversimplification, but assume there's a billion dollars; of every billion dollars wagered under my example, 170 million of that goes back to the racetrack and traditional on-track or intertrack simulcasting.

Now, if you send your signal to an off-shore wagering hub or Native American wagering hub they might pay you a five percent rate.

So they're paying you \$50 million, which sounds pretty good to the particular racetrack maybe; but the net loss to the industry is \$120 million. Because rather than getting 17 cent dollars as an industry you're trading those 17 cent dollars for five-cent dollars.

There's a lot of arguments and we've talked a lot with lot of the off-shore providers, that there's a bunch of nuances with the math, and these customers wouldn't bet if they couldn't bet through us. And our point was not to say what's right or wrong but to demonstrate to people some fundamentals.

It shouldn't be a shock to anybody that purses can go down when handle goes up if the handle's going up, but it's going up with entities that don't conduct live racing.

I guess in closing what I have to say is we can't do the things that I've talked about in terms of legislative and convening authority without the support of the people in this room. And we can't deliver on the promises that we make unless we have both the financial support and the moral support of the racing industry.

And we want to be the type of servants to the industry that come back and we deliver on our promises. We don't want to propose things and not fulfill them. And as long as you continue your support I think we can continue to have a lot of success in these areas.

Thank you.

(Applause)

MR. VAN CLIEF: Thanks, Greg and Keith, for that update. You know, Greg, when you mentioned that it was 1997 and you've been reflecting; I was reflecting that my first time at this podium was 1981; we were introducing a new concept called the Breeders' Cup.

I used to have a full head of hair and a 33 inch waist at that point.

(Chuckles)

Suffice it to say that was long enough ago so that I don't have either any more.

We've focused on some of the key elements of our plan going forward and reflected a bit on some of the success in the past. I want to make a few more remarks before we wrap about the plan and about where we're going, but it almost goes without saying and we kind of tend to overlook it because we're sort of deep into the strategic planning process; that the challenges that are imperative for us on a day-to-day basis and our operations just going into next year are daunting, to say the least.

I want to let you know what we have on our menu coming up immediately. Our action list for 2005 includes the following: Moving ahead to Greg's point with the industry's federal legislative agenda for the upcoming session, ratcheting up, Greg mentioned, we can't do this without the support of this industry, political action committee fundraising to the level of \$1 million per election cycle.

Finalization of next year's televised racing schedule is looking us square in the face at this point, as is completion of host site contracts for the Breeders' Cup World Thoroughbred Championships in 2006, 2007 and 2008.

We're going to try to get that process out on a forward-looking basis at least three years. We're also looking as an operational imperative at completion of a television contract for the Breeders' Cup, and we hope to find a partner, as Keith said, to expand beyond just the one day, to cover racing as some of the big days we're talking about bridging Belmont and Breeders' Cup. And we're looking for a contract that will extend us from 2006 after the completion of our current contract at the end of next year through 2010.

We're also looking at next year renewal of our sponsorship and group purchasing contracts. Those are key. General budgeting and planning for 2005 currently in the final stages of wrapping up our '05 budget. It includes a \$66 million revenue number. We've currently got \$65.8 million in expenditures tentatively budgeted. We'll be wrapping that up and bringing it back both to the Breeders' Cup board and to the NTRA board in the months ahead.

And lastly, and certainly not least, we're in the process of analyzing potential NTRA membership dues models for the period 2006 through 2010, and positioning the organization next year to renew its industry memberships which expire at the end of the year next year.

It's a serious list, it's got a lot of priorities. And regardless of how we ultimately arrange those priorities, each one is going to be reviewed going forward to ensure that whatever we undertake as a project meets the following operational discipline:

Number one, it's got to be on-strategy. If it's not on-strategy and on-mission, we're not going to do it.

Number two. It's got to be supported by adequate resources. We don't identify adequate resources up front for whatever the project is, whether it's the next task force that Greg will undoubtedly be leading — as he rolls his eyes — or any other major projects. We won't do it until we're sure we have adequate resources at our disposal to get the job done.

Third, we want a measurable return on our investment no matter what we do. Whether that investment is in the form of dollars, gross rating points, Nielsen ratings, awareness levels, however we measure it, we want measurement applicable to every project we undertake so that our membership can gauge our effectiveness and gauge it on a short-term basis, on an immediate basis.

And lastly we want a time line for every project we undertake. There will be a time line for completion of what we undertake, there will be also a time line at which point we can deliver the measurement of success or failure to our membership.

So that discipline, we feel, is a keystone of our operations going forward. It will be applied to each element in our emerging strategic plan, and we plan on communicating that, those elements and that plan to our membership by late March, early April.

Meanwhile, we're happy to say we feel there's a great deal of positive momentum that helps carry us into our next phase. Number one, the interest in our sport is up. It's increased the past five years. TV ratings, I hate to say, with the notable exception this year of the Breeders' Cup, but TV ratings elsewhere are up 50 percent over the same period.

The sponsorship of racing. Sponsorship interest in racing continues to build, and in this case, thanks largely to NTRA purchasing, whose sales will top \$50 million this current year. Favorable tax legislation, to Greg's points, has definitely helped fuel the ongoing strength in our bloodstock markets. And if you compare those, I think, recently to the European markets, you will see a difference.

And perhaps most important, as Greg also mentioned, we continue to be the only form of gaming that fans can legally bet on the Internet. This is certainly our greatest strategic advantage, and this sets us apart as a sports and an

entertainment industry.

Not only will it help us to reach our critical new demographic of 18 to 34-year-olds in the future, the next wave of players, but it will also help us to penetrate the potential audience of fans who are 45 years of age and older.

Jim McAlpine touched on this this morning, but virtually every sport is challenged to keep fans of all ages and stripes engaged and entertained by the live event, and we're no different in that regard.

Where we are different happily is our ability to extend participation in our sport through the Internet. And this more than any single area is vital to our growth, both domestically and internationally.

With a federal legislative agenda to preserve and enhance account wagering, we believe the sport can achieve robust growth over the next six to 10 years. That growth we believe, however, can be achieved only if we have the right mix of national marketing, advertising, promotions, publicity, PR, sponsorship, television and major events, supported at the local level through state statutes and a regulatory environment which enables, not inhibits, account wagering and the development of innovative racing product which appeals to fans.

Account wagering alone won't do the trick, it's not a silver bullet. In some ways it presents us with additional challenges, to make our product truly appealing on television and via the Internet, to bring our sport to life on the small screen we must work cooperatively to transform how we portray racing to fans at home, at work and at play. In other words, we've got to create a more entertaining, more educational, higher quality broadcast and online product.

It's stating the obvious to say this is not an easy task, but we do believe the prospect of growth is real. Seven years ago this industry endorsed the formation of a national office. The industry's collective wisdom has sustained an organization that is now positioned to guide and coordinate efforts to bring North American racing to a worldwide audience.

Although the challenges are formidable, the foundation and the building blocks are in place, and it's going to take the leadership not only from the NTRA but from many of you in this room and elsewhere, whether your constituents are vendors, shareholders, owners, breeders, or in our case members, each will be asked in the months ahead to renew support for their national organization.

And whether you view this as a sport, a gaming business, or an agribusiness, or all of the above, it is for most of us a way of life.

And I'll close with one of our PSAs which delivers that message.

(Applause)

(A tape was played)

Thank you all for listening to our 2004 report. I think we've got some time, we'd be delighted to field questions if you have them. Question from the audience.

A VOICE: In order for the NTRA to continue to be as successful as it perhaps has, I would like to maybe suggest that next year when you come, instead of having it at this time slot on Friday, you have it on Tuesday, first day of the conference. Then we can have the dialogue with you for the rest of the week; instead of now, when half the people are gone; and the times, when everybody's worried about keeping appointments.

So that's just an idea for next year.

MR. VAN CLIEF: Sounds like a great idea; I bet Wendy and Doug are listening.

Anybody else?

Yes, sir. And could you give your name, please, and affiliation for the court reporter?

MR. JOSH RUBENSTEIN: Josh Rubenstein with the Del Mar Thoroughbred Club.

D. G., can you discuss the future of the NTRA's cooperative advertising program for 2005 and beyond?

MR. VAN CLIEF: Yes, I can. The co-op advertising program as most of you — or some of you know, was a program that was launched with the launch of the organization itself. The idea at the time was that given the limited resources of the NTRA, and its efforts as you will remember, from probably those of you who were here for the original presentation some years ago, a lot of what the NTRA aspired to do was built around branding and advertising.

The branding and advertising we're not losing, but it's a good question because our strategy is going to change in that regard. The resources of the organization were never enough, regardless of how good the creativity, to break through the clutter and make an impact at the national level.

So it was determined that racetrack members of the NTRA would be able to recoup some of their dues on a matching basis, a three-to-one basis. For every \$3 they spent using NTRA Creative in their advertising and marketing campaigns, they would get a dollar back in their NTRA dues up to about a 70 percent level. It was a great concept.

Over the years it frankly has become somewhat watered down in its usage. It's our belief today that it's not having the impact and it's not achieving the leveraging effect that had been designed for it in the first place.

So as we move into the '06 through '10 plan, our objective would be to reel back that co-op plan, basically do away with the co-op plan and use the dollars that would be retrieved from it in some of the executions that Keith talked about this morning.

Anyone else? Dan? Is that Dan?

MR. DAN FICK: Dan Fick with the Jockey Club. Several years ago, but also ongoing, the NTRA's been involved with the overregulation or the regulation of racing in the states, trying to make it a more open market, which we heard today from Jim McAlpine, and especially as it pertains to advance deposit wagering.

Are there any plans to try to get involved in that in a more meaningful way in the future?

MR. VAN CLIEF: Dan, I'll take sort of an initial cut at that and then I'll ask Greg maybe to follow up a little bit.

Probably there's a two-part answer to that. We talked about ADW or account wagering, and certainly look at account wagering as a keystone of the strategy going forward.

That's going to take some further evaluation to determine exactly how and what our role will be in expanding ADW markets. In the past the organization has been somewhat inhibited from taking a very active role at the state level based on a policy that was struck amongst the members and the board early on, that the organization would only enter the political fray at the state level if it was invited in by the horsemen and track members in that state unanimously. So our activities at that level have been a lot less than at the federal level.

Greg, anything further?

MR. AVIOLI: I'd add that the state issues can get very complex very quickly. It used to be that everyone said, "We just need to open up more and more states for account wagering," but as you look at the laws that are passed on a state-by-state basis, they vary a lot compared to how they purport to treat out-of-state operators.

Do they restrict operations to licensed entities within those states? Do they make it a matter that's left to the racetracks in those states? It's more complicated as a national organization to come in and get involved in how each state's going to treat these various issues.

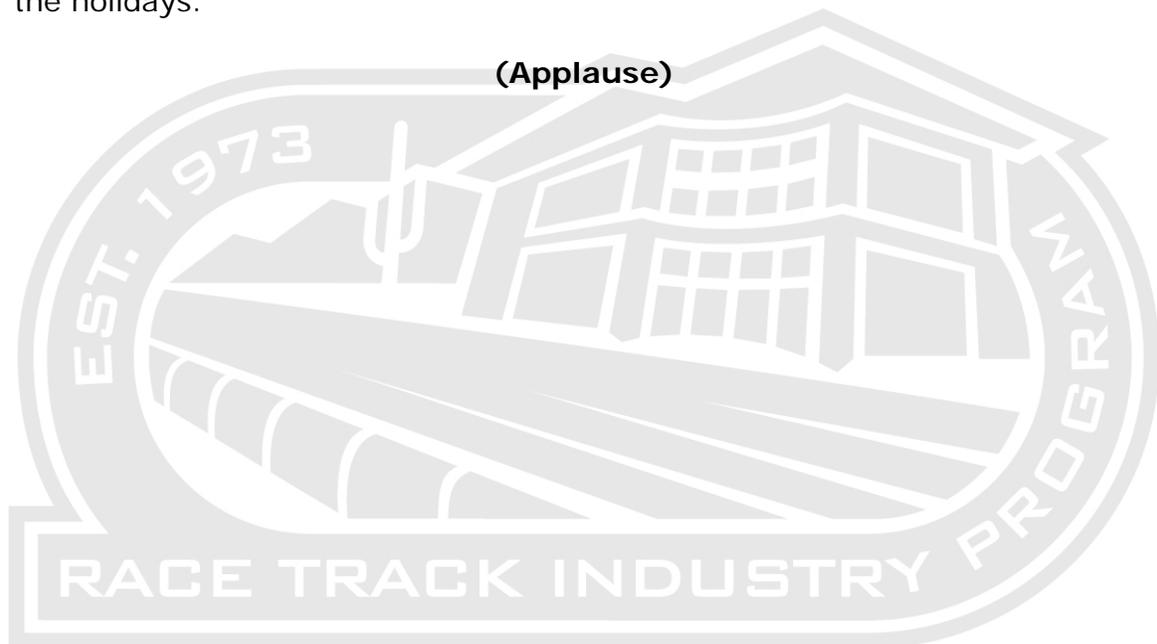
We're strong proponents that all states should pass some form of account wagering legislation. The three states that everyone has their eye on, probably no surprise to anybody in this room, are Texas, Illinois and Florida. Those are the three biggest racing states right now without this legislation.

We're there as a resource to help. We have a pretty strong compendium of information as to what every state's laws are; we've seen pretty much most all the presentations that have been done over the last four or five years of what's worked and what hasn't worked in various states. And I think our best use in this area is as a resource to members who want to do this on their own.

But it's been tricky. In the past — NTRA historians will know that in the past we tried to get very involved in some states' legislation's and got in between member tracks and member horsemen's. And that's a position we don't want to find ourselves in again.

MR. VAN CLIEF: Anybody else? Okay. In that case thank you for listening and best for the holidays.

(Applause)



**COURTESY OF UNIVERSITY OF ARIZONA
RACE TRACK INDUSTRY PROGRAM**