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Morning Session 3A

**WIN, PLACE OR SHOW — HOW DO WE ENSURE
THAT HORSERACING WINS?**

Speaker:

Jim McAlpine, President and Chief Executive Officer of Magna Entertainment Corp.

MR. DOUG REED: Good morning. Another group I'd like to thank is a very deserving group, the students. And they have done a tremendous job this week. Even have a few more tasks than they normally have. They always do a superb job in the registration office and the audio/visual assistance. Although we have a great audio/visual team here, they help out with the exhibit booths, etcetera. But they did a great job.

Pretty much 90 percent of Casino Night on Tuesday night was run by the students. And from what I heard, unless I'm missing something, things went pretty smooth. Of course, that's usually the case. As far as I know it's been a smooth week, and we appreciate their help. We could not do this without them obviously with the small staff we have at the Race Track Industry Program, so we're very grateful for their help.

And the last announcement I have before we turn it over to our guest speaker this morning is just anticipate a couple changes on the horizon.

Now, for the next two years with this conference you can expect some changes. First of all, I want to squelch one rumor; we are here next year, the conference is here at the Loews Ventana Canyon next year. However, again, anticipate some changes with this conference over the course of the next two years. We haven't made any decisions yet or else I'd make those announcements, but we're looking to keep things moving and always try to have some new ideas.

And we're going to send you a survey if we have your e-mail address, and we really, really would like your responses. In fact, we'll have a drawing for a few tempting prizes to encourage you to participate in our survey.

But the reason we're not making those decisions yet is we do want to hear your feedback and try to make this as customer-driven as we can.

Let me proceed now and introduce our next speaker, and probably he needs very little introduction. Met with him earlier this week, and someone that was there at the meeting asked him where — I think it was one of the students perhaps — asked him where he was based out of. And he said, "Pretty much wherever I am."

I think he stays on the road pretty much. Again, he probably needs little or no introduction. But Jim McAlpine is our first speaker. He is the president and CEO of Magna Entertainment. And again, everyone is familiar with Magna and certainly we look forward to hearing what he has to say about the industry and the changing times we're facing.

So Jim, welcome, and we look forward to your discussion.

(Applause)

MR. JIM McALPINE: Thank you very much, Doug. And before I begin I must tell everybody in the audience how much I think of Doug and his team for the Symposium they put on. There are really two feature events over the course of the year that I enjoy speaking at, this is one of them.

The Albany Law School's the other one. Because frankly, they're the only settings in the country where you really get a chance for intellectual exchange with a broad range of participants in our industry. And both the Albany Law School and the University of Arizona are to be congratulated for putting on these types of events.

The subject for my conversation this morning is, "Win, Place or Show — How Do We Ensure That Horseracing Wins!" And I think that's why most of the people are here at this Symposium, so that they can be on the winning team as we ensure that horseracing wins.

I like this little story about vision, because I think it's not just passion, which was Tom's keynote message the other day, it's also about vision.

And I think if I could take this a step farther I would have been happy if that guy had come up with that product and then I would have patented toilet paper. And I could tell you a toilet paper joke but I'm sworn to secrecy.

If you look at horse racing entertainment, and we put the name "entertainment" as our middle name of our company, because it's not just about horse racing, it's about entertainment as well. But if I look at the horseracing entertainment, and you think about one aspect of it, it's wagering.

And if you look at what's wagering, I'd say wagering is an intellectual competition. One of the challenges we've got is that when people participate in this intellectual competition, if they don't make money they consider themselves losers.

In the casino business when people walk away from a casino and have left all their money behind they consider themselves unlucky. We need to figure out how to change that.

We also have a challenge with regard to facilities and technology. And generally they're outdated in our industry. The rules of wagering, we have too many. There are regional differences, and they're difficult to understand for our customers. The bet types, which is part of our product, we've got too many of them and they're intimidating to new customers. The payout, there's too few, and there's very few life-changing payouts.

The one exception would be the 2002 Breeders' Cup but the payout was never made, but it was still life-changing.

(Chuckles)

And we need to make wagering more accessible, which means we need broader use of technology. And finally, with regard to wagering, integrity is a key part of the equation. Whether it's information or processing or disclosure, all those integrity issues are critical to the wagering entertainment part of our business.

We spend a lot of time as an industry talking about this part of our business. But there's another part of our business which is the sport of horse racing. And again, if you look through it it's a competition, it's an athletic competition. It involves jockeys and horses. There's a stadium where the event takes place; unfortunately again, the stadiums are outdated. There are rules of racing, there are divisions, there's a grading process.

Neither of this is well understood by the public who we're trying to attract to our sport. There's a season, maybe there's even a series. There's the Triple Crown, there's the Breeders' Cup, there are regional series, there's a national series. But none of this is well understood by the sports fan that we're trying to attract to our product.

There are stars, but we're not sure who the prime stars are. There are horses, there are trainers, there are jockeys, there are owners, there are even movie stars in the audience.

With regard to distribution, there's limited TV exposure and there's limited communication of the series and engagement of the general public with our game. There's poor integration with the on-track experience and when you think between TV and the potential to cascade the eyeballs of 85 million households around the country to an on-track experience, we're missing the boat.

And here again on the sports side there's an issue of integrity. And integrity means medication issues, drug testing, disclosure, and one of the biggest challenges is the rules vis-a-vis state law and national law.

So that's our industry. That's what we've all chosen to be involved in — horse racing. And I'll add entertainment to it: two arms, the sport and the wagering side. We spend a hell of a lot of time talking about the wagering side. I think one of the areas we've got to spend more time on is the sports side.

But those are the two products that we have to sell in our business. If you look at the business activities that take place, you've got the horse, you've got the racetrack and you've got the customer, whether the customer's on track, off track or at home. And if you look at the components on the horse side you've got the breeders, the owners, the trainers, the grooms, the jockeys. And on the wagering side and the sports side you've got pedigree information, you got past performances, which translate into handicapping information.

It's transmitted in print, it's transmitted over the Internet, it's transmitted through TV. And then we've got a tote system which is like a spaghetti factory that holds it all together with a bunch of wires and computers at either end.

This is a very complex business. And there are many, many moving parts. And the only way we can make this business work is if all those moving parts are in fact working together.

And this is my favorite slide. If you look at the industry players, we're great at acronyms. The NTRA, the TRA, the AHC, the AQHA, HBPA; no wonder nobody understands our industry. Even these guys don't talk to each other. And now we've got some new ones. We've got ADW, we've got rebaters. So it's a huge challenge.

And as I say on this slide, it's a bit like herding cats. That's the backdrop for our business, the one we've all chosen to be in. And there's lots of complexity to it.

But what about the competition? The competition is other sports, other gaming, and other family entertainment. And let's look at the market size. If you look at the market size how much do people spend buying tickets to go to sporting events, how much do they spend buying pari-mutuel tickets, how much do they spend buying lottery tickets, how much do they spend putting dollars and cents through casino games? It's actually a \$900 billion market.

So if you looked at this thing as an opening proposition and said you were going to get into the sports and gaming business, you'd analyze it saying, "My God, I've got a \$900 billion market to attack."

The challenge today is horse racing only has the \$15 billion sliver, about 1.7 percent of the market, and our biggest challenge is we keep fighting over a share of the \$15 billion market and we're not focused enough on how do we broaden our

business model, our product offering so that we're actually taking aim at the \$900 billion market.

And when I look at this market and when we at MEC sit around and think big, we think, "Why the hell shouldn't horse racing have targeted 20 percent of this market as an objective?" And if you think big, that's \$180 billion.

Wouldn't it be great if the people in this room and the people we represent were participating to the tune of \$180 billion worth of handle rather than \$15 billion worth of handle? And that's the way I would challenge everybody to look at our opportunity.

Let's look at a couple of other facts. North American thoroughbred handle is \$15 billion, international on horse racing is \$85 billion. So even if you just stuck with horse racing as we know it today, there's a \$100 billion market. Not the \$15 billion that a lot of people focus on. And within just our conventional horse racing market there's huge opportunity.

I believe in Florida there's opportunity, in California there's opportunity, New York there's huge opportunity, if New York gets its act together. The rebaters, the bookies, the pirates, they're extracting something like a billion to two billion from our industry without us getting sufficient compensation, and in some cases no compensation.

The Internet and interactive TV represents a great potential for growth, one and a half to three billion dollars. If we can simplify the betting proposition and engage more customers in the wagering side of our business, I've got to believe there's three to five billion, and if we attack the international market and only got five percent of the \$85 billion it would be a little over four, say five; that's \$18 billion worth of opportunity; that literally doubles the size of today's business.

But we've got a lot of impediments. The other great opportunity is the customer potential. Three point two million core customers, everybody's heard this statistic over and over again; it's based on tons of research. Three point two million customers betting an average of 5,000 bucks a year is \$15 billion.

But there's almost a hundred million Americans who claim to be interested in horse racing either as a sport or a wagering proposition. That represents real opportunity.

Let's do a little product comparison if you're looking at that big market. This is the product that I just can't get my head around. I must confess I've never bought a lottery ticket in my life. I used to buy Irish Sweepstakes tickets but never bought a North American lottery ticket.

Look at this game. People go to a 7-Eleven; yeah, the girl's got a smile on her face, she puts a few bucks in a machine, gets a ticket, goes home and a week later watches a bunch of ping-pong balls come down a chute. And this attracts \$60 billion worth of handle?

We on the other hand have got the excitement of horse racing and we can't engage that \$60 billion worth of handle. What's the problem? The problem is we haven't thought enough about how to present our product in a way that would appeal to that person.

You need two things. Lottery-type bet, big payoff. Because the lottery — what's the lottery doing? It's selling a dream. But it's not very bloody exciting. We have a tremendous opportunity. We made a small attempt at this with our Magna 5 Pick-5 last year. It's a \$2 bet, runs in an hour, guaranteed pool of \$500,000. It's not yet life-changing, but as we grow the pools it can become life-changing. And we encourage others to come up with other bets that will attract that lottery player to our game.

Another product analysis, casinos. People line up to get into casinos, and when they leave they leave with a smile on their face because they say: "Oh, it was great entertainment, and I was a little unlucky." We looked at this market and we developed a machine we call the Horse Wizard, this is actually a pari-mutuel machine. And we believe it can create excitement. There are Horse Wizard machines outside in the hall here, and if you're interested we'd love to have you sit down and play them.

This is a stand-alone machine, an early version. This is what the screen looks like. Basically it's a three-step bet. You select the amount in the bottom, you pick your horse and you hit "Play." Three easy steps and you own a ticket.

A couple of features. When you pick your bet type and amount, the little boxes under the horses show the probable will-pays; because how can you tell a new person who doesn't understand our game what 8-1 means? You can't do it. You got to show them that your \$15 bet translates into X payoff.

The other feature is if you're timid and you really don't know how to do it, we've given you three handicappers. Each handicapper's got a risk profile. It's all explained on the machine. And if you were to pick Gypsy Rose for instance, it's a little bit of a stargazer, a little bit of a risk-taker.

A horse that, when you hit her button, the horse that she picks lights up with her face on it. And then if that's the horse you choose to play you just hit the play button again and you're in business. It's not rocket science. It took a long time in development. We've got patents on the product. We didn't do this just for us, we did this because we think it's a new product that OTBs across the country, racetracks across the country, could put into their environments and try to attract a new type of customer and grow the business of horse racing.

And David Kubicki, who is marketing this product for us, is out in the hall there and he'd be more than happy to take your order. And we'll even help finance them.

It comes down to environment though, it's not just about a machine. The machine has to be in the right environment. It has to be in a slots-type casino-type environment. You can't just park it at the end of a hall like an old ATM and hope that it succeeds. You've got to be focused on energy and attracting new customers.

And this happens to be one of our Horse Wizard lounges; we've got four of them set up across the country now so that they can serve as demo rooms both for new customers but also hopefully for other racetrack and OTB operators who are interested in seeing this product live in a racetrack environment.

So what kind of corrective actions can we take as an industry? I guess I'd start with the sport. Because that's one of the most important ways we're going to draw new customers. And we need a concerted and continuous effort to address the sport part of our business. That means get the sport better organized into conferences, divisions, get the grading better understood, and let's get major league. Absolutely critical for our future success.

We've got to get the competitive factors better understood. If people don't know what those are, they're not going to get engaged with our game no matter how many television sets we get it on in the country or in the world. And then we've got to get the sport better distributed, and that does mean television.

But we also have to invest in racetrack facilities, because if people get all excited about this in their living rooms and come to a racetrack and are disappointed because it's a dump or because the service is lousy, we didn't achieve a damned thing, we wasted a lot of money. And we got to focus on the sports fan.

The other thing we have to do is we have to have a concerted and continuous effort to gain market share from other forms of gaming and entertainment. What's that mean? It means we've got to simplify the wagering process, because we are not going to compete with lottery ticket buyers or casino players the way we offer the game and present the game, the wagering part of the customer today.

And we've got to appeal to a broader range of customers. We've got to improve our customer relationship management, we have to invest in technology, and we have to invest in customer facilities and provide broader forms of entertainment at our tracks. It all boils down to focusing on the customer.

And we have to attack regulatory reform. I mean, the biggest issue is actually the bottom point here, that we've got a national and an international opportunity and we're hung up on a bunch of state-centric legislation. And I don't mean to sound critical, but it is the biggest impediment to our success as an industry.

I mean, we have California-centric legislation, we've got New York-centric legislation, we've got Kentucky-centric legislation, we've got Florida-centric legislation. Ladies and Gentlemen, it doesn't work.

This is potentially the greatest form of entertainment. There isn't a person in the world who doesn't like or love a horse or aspire to touch a horse from the time you're six months old until the time you die. And we can't get that across. Because we have a selfish, monopolistic, local market mind set that is hurting us.

And we have a huge opportunity, if we can attack that as an industry and make this the greatest American sports product and we take it to the world, you can't visualize the potential. I wake up in the morning excited to go to work because of that potential. It's why I live where I am, and why I travel so much. Because I'm passionate about what that opportunity could be. And the more I'm in the business, the more passionate I become about it. It is our greatest opportunity.

But there's other simple stuff. I mean, I appeared at a California Horse Racing Board meeting last week and one of the applicants had to ask permission to change their race schedule so that instead of starting at one they were going to start at 1:15.

Now, what do you think the president or the chairman of Wal-Mart would think if they had to appear before some food board to say, "I'd like to open my Wal-Mart store at 8:30 instead of 9:00?" Wal-Mart wouldn't be in business. Wal-Mart wouldn't be the success Wal-Mart is. We have got these barriers to success and we're not screaming from the tallest rooftops to say, "Guys, change, change, change."

Pricing. We actually have government-controlled pricing in our industry. It doesn't make sense. This is not a staple product, this is not a product that we have to have for our daily existence. This is a form of entertainment. Nobody tells Omniplex theaters that they can only sell tickets for the movies for five bucks. The market determines what the price is. We're in the entertainment business, the market should set the price.

OTB expansion. Our customers have voted with their feet and their wallets. They've decided they won't come to racetracks on the terms we offer, they want to play somewhere else. They go to 7-Eleven to buy their groceries, they go to 7-Eleven to buy their lottery ticket. We've got to put an OTB in their neighborhood so they can go and see and play our game.

Account wagering. We've got a few states where it's absolutely legal, a few where it's absolutely illegal and a bunch in the middle. How the hell can you build a business model in a country that permits pari-mutuel wagering in virtually every state and yet you can't do legalized account wagering?

We open the door for competitors who will conduct their activity illegally to steal our customers and destroy our business. Are we nuts? And then we've got the level playing field for card rooms, slots and VLTs, that's another whole conversation.

There is a role for government and these boards, and the role is to protect the integrity of the game, ensure the safety of customers, employees, horses and the

environment, but surely to God not to protect MEC from Churchill or to give an advantage to a rebater over a racetrack operator. That's not the role of government.

Slots, I mean, there's a huge misunderstanding of my personal view of this and also of our company view of this. We've never said that slots aren't part of the solution. What we have said is that slots are not the answer.

They're absolutely part of the solution. They'll provide purse money, they'll provide much needed cash flow to upgrade facilities, they'll give us new skills and databases to market to customers. But the bottom line is we're being given this opportunity because government needs money.

And government has found a new way to tax the people, and it's through gaming and slot machines are the fastest way for them to raise the maximum amount of money for health care, education, and basically filling the deficit, because of a management problem, and the demands of citizens and the need for politicians to continually get reelected.

Make no mistake, if it weren't for that fourth item there, nobody'd be talking about putting slots at racetracks. So as they give, they can take away. We just can't build our foundation, our business model on this form of revenue.

So what's the question? You know, we had a monopoly on gaming and yet now we're only 1.7 percent. What the heck happened? It's not rocket science. The other guys invested in facilities.

Go to Bellagio, how does that stack up against Belmont? They invested in marketing. They've got comps, they've got all kinds of nifty tricks. We didn't get there. And you can't, with — unfortunately with the splits in our business, there isn't enough to do a lot of really serious marketing.

And they generated entertainment. They added entertainment, and very few racetrack operators have done enough of this. But even if you do some, the facilities are lousy anyway. So we've had some responses. We've tried to do some things.

We launched Xpress Bet, we launched HRTV, we invested in AmTote, we created the Magna 5, we initiated the Sunshine Millions, and own the Sunshine Millions trademark and work with the horsemen in two states to make it successful.

And we're thrilled with the support from the horsemen and the breeders in those states. And we created the Horse Wizard. But you know, we'd be happy if everybody else were doing these things too. And we know there are competitors for Xpress Bet and we're happy to have competitors for Xpress Bet; and we know there are competitors for HRTV and we're happy to have competitors, because we think that's how you build the best damned business model, and the best company.

AmTote. You know the difference between Tom and I — I guess there are many differences. But in his conversation the other day he said, "You know, I've been talking about the tote for 20 years."

And he's right. And God bless him, because it is a problem.

The difference is we feel the same way. And we bought a tote. We bought a tote because we wanted to understand how the tote business works. We wanted to make sure that there was integrity in the system and we could interrogate a company in which we were an owner a lot better than we could interrogate a supplier.

And we wanted to be in a position to help develop new customer interfaces, because that's one of the problems. People going up to a teller's window having to explain a complex proposition, if they don't know what the hell they're doing they won't go. You put a machine in front of them that's customer friendly, is lit up with fancy colors and paint-by-numbers, they might play. That's why we invested in AmTote, not because we had some crazy strategy to isolate ourselves from the rest of the world by owning a tote, but because we wanted to understand and invest in an important piece of technology.

Having a billion bucks in racetracks isn't worth a damn if the bets can't get processed. The Magna 5, everybody's starting to do new things. It's great. We've got some Pick-4s, we've got some Pick-6s, we've got all kinds of new things happening. Let's get more.

Sunshine Millions. It's competition. Let's get people excited about their community, about their team. And let's get people feeling energized about horse racing and the Horse Wizard; let's get technology that can compete with slot machines. We don't want a monopoly on it.

On the sports side, on the racing side, we need places like Palm Meadows, we need world class training centers in major states, major market areas to support the horse population and the foundation of our game, which is the horse.

Gulfstream Park, we're rebuilding. It starts with rebuilding the racing part of the business because that's the sport. And you can only do it once. And it hasn't been done in 70 years. So now we're doing it. The track surfaces are finished, next we'll build a new grandstand and clubhouse which we believe will be an entertainment facility second to none. It will hopefully set the new benchmark in horse racing.

And then around it we'll have a retail/entertainment complex. Again, it's not rocket science. It's using underutilized real estate to bring hopefully thousands of new customers to the grounds every day who we can infect with the excitement of horse racing.

This is an artist's rendering of the new grandstand and the retail entertainment complex out front; picture yourself standing on U.S. 1 looking in. We're pretty excited about this. I'll be running in there as soon as it opens.

This is another version of the same picture. We think this is what horse racing needs. Unfortunately, it's a bit of a chicken and an egg; we don't make any money so how the hell do you do this? Well, if you don't do this you'll make even less money, in our opinion. So you take some risk.

You raise the capital, you borrow the money, you put your money where your mouth is, and hopefully you create a new environment that will appeal to new customers.

This is our racino that we built in Austria. It opened on April 4th this year for horse racing and it opened in September as a casino. This is the casino floor. On the right-hand side it's your conventional VLTs, on the left-hand side it's the Horse Wizard. We're not afraid to put the Horse Wizard up against conventional slot machines, because we want people to play our game. We want the opportunity to fine tune this product, and the best way to fine tune the product is watch it competing with conventional slots or VLTs.

Now, one of the challenges for the Horse Wizard is it needs content. For the Horse Wizard to work and for our industry to grow, whether you're talking about an in-home bettor or somebody sitting in front of a Horse Wizard, you need to drive a race in front of that person every three to five minutes. That takes a hell of a lot of content.

And we need the content of the whole industry to make this work, which is why we are actively engaged in trying to get the industry to understand what Horse Wizard is. Because it is a growth engine that all of us can benefit from.

This is the sports bar in our racino in Austria. Again, big center stage, lots of action, you can put floor shows, whatever.

This is an artist's rendering of the Meadows. And this is the conventional — sorry — the integrated gaming floor which on the one end is slot machines, in the middle is Horse Wizards, and at the right is a stage/sports bar like you saw, and across the top adjacent to the racetrack is the horsemen's area.

We think it will be a no-brainer. So let's talk about where we are.

I was on a panel the other day and somebody made the comment that we hadn't made any money. Well, I get that a lot. And I take it very seriously, by the way. It's not a joke. But to get where we needed to get in pursuing our vision, it was very important that almost overnight we acquire a significant amount of content. We never set out to own all the content, we don't want to own all the content, but we needed to own a significant amount of it, because that anchors our betting

platform, whatever that is, whether it's in-home, Horse Wizard, whatever, it anchors our betting platform and then gets supplemented with content from others.

So where we're at is after a period of rapid expansion we're committed to changing our fiscal trajectory, and we've got things underway to do that. We have absolutely established a great asset base. Every time we look at the map and we see where we're located, every time we visit a facility and talk to our management teams and the people who work for us, we couldn't be prouder. We've got a great asset base.

And now the challenge is to partner with companies with complimentary capabilities, capital, commitment and content. But we had to get to where we are before we could start that program in a serious way.

And today our two most important focuses are fiscal responsibility on one hand, partnership on the other hand. But what we've achieved really doesn't matter. As big as we are, we can't do it alone. And again, we never planned to do it alone. We will only succeed if our industry thrives, which is why we get engaged in all of those groups that were shown on the earlier slide; the TRA, the TRPB, the NTRA, any manner of organizations.

The challenges, there's too many of them and there's not enough focus in those organizations. But we're engaged. In our industry, if you think about it, we're already each other's customers. I mean, on the simulcast side, we buy and sell product. We're partners with the horsemen when it comes to putting on the show, and the horsemen, the breeders, the tracks and others, through the NTRA and related task forces, we are engaged.

Working together; it's easy to say, it's hard to do. Let me give you two live examples. One was in California. These are two approaches to gaming. One was in California, one was in Florida.

In California we chose non-pari-mutuel partners. We excluded the fairs and we excluded the horsemen. When I say we, we were part of this, we smart guys at MEC. Me, I was part of this. But that seemed like the right thing to do at the time.

Dumb, eh? I mean, how the hell do you exclude the fairs and the horsemen? And how do you partner with the card clubs? And how do you think you could ever do something in the State of California without engaging Native Americans? It isn't going to happen.

So as a group we blew a lot of money, we got a lot of bruises, we learned a lot, and we will be back. And next time, hopefully, we'll do it right, we'll have the right partners.

Contrast that to Florida where we have a partnership among pari-mutuel interests and the horsemen. Now, we do have some moments when we're not talking to each other, but we were successful. We got the referendum passed. So that's what I say, working together is easy to say, it's hard to do.

And you won't always pick the right course of action. But we've got to learn, and one of the biggest learning's, and you should say should have been the most obvious, is we're in the pari-mutuel business, we've got to work on our pari-mutuel partners first. Actually in our case we've got to work with our horsemen first and then we've got to work with our pari-mutuel partners.

The industry must change, and we as a major player have to change. And I think we are changing. I know we're changing. We've changed in terms of the way we approach the account wagering market in '05 versus the way we attacked it in '04. We've changed in the way we're dealing with rebaters in '05 versus the way we dealt with them in '04.

We've got a new executive management committee at MEC, it's a leadership partnership but the corporate office partnering with MEC tracks and business units. And we're all working together to find other industry partners and make sure we're working constructively with other industry partners.

Tom talked about change. I think he acknowledged that he has changed. I will acknowledge that I have changed. These are positive experiences. And we're now at a point where the industry, I believe, can do some things that we've been unable to do.

What are the future opportunities? There's lots of them. But let's talk about a few. There's a tote overhaul, there's rebaters, and there's Friends of New York Racing as somebody's newest invention.

We have to have a tote overhaul. It is the guts of our business. And we're content to work with the industry to make sure that happens. We need one platform where all customers who want to play our game from home, over television, over the Internet, over the phone, can get access to all the races. Because if you had that, then it's not a big leap from there to the international marketplace.

And then we've got a concerted, common move towards the international customer base. There's lots of opportunity in the next category. Because it's not just about value for our signal, it's about maximum distribution of our signal. And we have to be a significant player in that space.

And Friends of New York Racing; we've been very critical of New York racing. But I need you to understand why we were critical. If New York racing fails, it's like cutting off a limb. If New York racing fails, American horse racing, our industry will not achieve its potential. So our criticism was more aimed at the fact that the structure doesn't work.

Frankly, I wasn't in horse racing in 1955 or '58 when it was created, but when I think about it I don't see how the hell it really even worked then. But it sure doesn't work today. And the split between NYRA and OTB, that doesn't work either.

So our criticism was aimed at saying the structure doesn't work. Frankly, we think there's been bad management because of bad structure, bad governance, and we want to provoke change. If we have an opportunity to participate, we would be delighted to participate.

And our — I guess effort now would be to hopefully be part of the Friends of New York Racing, to try to bring about that change, and if part of that change means new ownership, then let's separate that conversation from the conversation of figuring out how to do it right, get that on track, and then let's go to the mat in an auction. And may the better man win.

But between now and then, let's work together to get the right framework. And I couldn't be happier that a guy like Charlie Hayward is now the CEO of New York racing. Because Charlie gets it as a business person, he loves the sport; he's a lousy gambler.

(Chuckles)

But he really does get it. And he's really a great guy. And he'll be so good for that organization.

We as an industry can't help but win because of him taking that job. So those are huge future opportunities that, frankly, they're not Magna opportunities, they are horse racing opportunities, and we need to achieve those together.

If you look at what I would call MEC industry developments, we've got AmTote. Again, we didn't buy it for us, we bought it or invested in it — we don't own it — we invested in it to help make it better, to work with the Corckran family who we think are absolutely great business people, who understand this business better than anybody else, and who have driven to get, A, the best system; B, the best international gateway; and C, the best Internet interface in the industry, and we think that presents an opportunity for all you people who want to look at AmTote as a possible supplier.

Horse Wizard I've mentioned. Now, we're the biggest owner of stalls in the United States. Guess what that means? We handle more manure every day than anybody else.

(Chuckles)

You know if you do that, you got to think about it, right? What the hell are we going to do with all this stuff? We used to send it to the mushroom — actually the mushroom farms used to come pick it up from us, they used to pay us for it. It was a byproduct, it was great, we made money.

Guess what? Today nobody wants it, today we're paying to put it in landfills, costs us millions of dollars. Tomorrow the environmentalists will be all over us, you won't be able to get rid of this stuff at any price.

So as the biggest owner of shit we said, "How could we turn shit to gold?" And we came up with this product. And basically what it does is it's crushed and then pelletized straw, ship it to the stall in absolutely simple way; pick on a daily basis a minimal amount. The big advantage, by the way, is it's four times as absorbant as straw.

The other big advantage is it composts in a matter of weeks, compared to wood chips that compost over a seven-year period and straw that composts over a few-year period. So we are doing that. We have converted that "S" word into a product, a soil supplement; black soil, black gold. And we can do it right on site.

If you go to Palm Meadows — and we're extremely proud of this, it's a totally enclosed environment. It comes in clean and it goes out as a clean soil supplement.

We didn't do that just for us, we did it because we thought it was a good thing for us. But now we're engaged in selling that product around the country. And it's not just being picked up by the thoroughbred industry; polo people, many other people who've got horses, are actually buying it from us today. I called this MEC's new mantra. I mean, really it's more than that. It's our new being.

And unfortunately Dennis Mills, who's our new executive vice-chairman, couldn't be here because he had to go to another business meeting today, but he has a great phrase. He says, "It's like we're all in a canoe, all in one canoe. If we don't work together we tip and drown. And by the way, the person who has to be most careful is the 800-pound gorilla," and I think by that he means us.

And that's absolutely true. If there is an 800-hundred pound gorilla, or even a 400-pound gorilla in the canoe, or even a 200-pound gorilla in the canoe, those players have to be more careful than the other players.

And I can assure you that we at MEC strongly believe that what's good for the industry is good for MEC. You know, a General Motors guy once came up with the reverse phrase. He says, "What's good for General Motors is good for America." Well, they're not in great shape today.

We believe that what's good for our industry is good for us. We're approachable and we're sincere, and we do believe strongly that by working together, horse racing will be in the winner's circle.

And I'll go back to lunch the other day and Tom's speech, and he said, "You know I hate coming to these meetings because we come, we talk, we get energized and then we all go home and we don't do enough."

And I think this slide is the answer to that. We have to have a common vision. If we find that common vision, then we will go home and we'll work on pieces, each of us, and we will make progress.

And that's what I challenge everybody leaving this room to do. Think about the vision, think about your part in the vision, be passionate, embrace change, and have a great day.

(Applause)

I think I'm allowed to take a question or two if anybody has one? And if not — yes? Mike? Yes?

MR. MIKE SHAGAN: Excuse me if I don't stand up. You commented on ADW and the rebaters, and that you didn't know in '04. Could you elaborate a little bit what the attitude is and what it will do?

MR. McALPINE: Well, it's broadest possible distribution, maximum return; as opposed to looking at a deal here or a deal here. It's really, let's get everybody together, let's talk about what the potential is. You still can't partner with everybody, but let's pick a broader range of partners, pick them wisely and make sure that it's not a short-term relationship or where you're not looking at it solely as a short-term relationship, but you're looking at it as, and recognizing it as an important piece of the business. And that applies to both account wagering and rebaters.

Yes, sir?

A VOICE: On your account wagering, I have a suspicion about TVG, but I wondered about the Triple Crown this year, because you wouldn't make the Preakness available to them. I understand you have a tentative plan to give them that in some kind of context to get maximum distribution and product.

MR. McALPINE: That's a very good point. But it takes two to cooperate. And we've had good conversations with TVG over this past year, regrettably we haven't been able to come to an arrangement yet, I'm hopeful we can. And I'm hopeful that you would ask that question of TVG when they're on this podium later today.

We have absolutely no problem with a content exchange, but we are not going to give a piece of our content to somebody else without getting something in exchange. And they happen to have other content that our customers would love to see.

So we're all ears, and we've said we're — since we started in 2001, we have been endeavoring to get a content exchange.

Now, both of us have been through three years of hard work to get our business's up. I think there are compelling reasons for us today to reexamine our relationship and see if we can't come to a sensible business agreement that benefits you. You're the customer.

But we had to get here, we are here; I can't turn the clock back. But looking forward, we would very much like to find a relationship to exchange content.

Anybody else?

Okay. Well thank you very much, have a great today.

(Applause)



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