FORTY-SECOND ANNUAL
ROUND TABLE CONFERENCE

On Matters Pertaining to Racing

GIDEON PUTNAM HOTEL & CONFERENCE CENTER
SARATOGA SPRINGS, NEW YORK

Sunday, August 14, 1994

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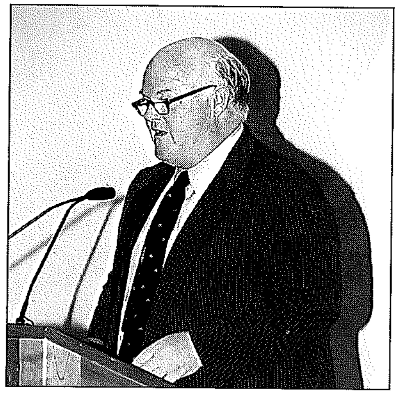

Ogden Mill Phipps

William S. Farish

J. Brian McGrath

Thomas H. Meeker

FORTY-SECOND ANNUAL ROUND TABLE CONFERENCE ON MATTERS PERTAINING TO RACING

HOSTED BY

THE JOCKEY CLUB

Gideon Putnam Hotel & Conference Center — 10:00 a.m.
Saratoga Springs, New York — August 14, 1994

Program Chairman, John Hettinger

IN ATTENDANCE:

Richard Abbott
President, Charlton Bloodstock

Josephine E. Abercrombie
Member, The Jockey Club;Owner/Breeder

Helen C. Alexander
Member, The Jockey Club; President, TOBA; Owner/Breeder

John Ed Anthony
Member, The Jockey Club; Owner/Breeder

Mrs. John Ed Anthony
Owner/Breeder

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Racing Council, American Quarter Horse Association

James E. Bassett III
Steward, The Jockey Club; Chairman, Keeneland Association President, Breeders' Cup

Mrs. James E. Bassett III
Owner/Breeder

Howard Battle
Racing Secretary, Keeneland Association

Stacy V. Bearse
Publisher, The Blood-Horse

W. B. Rogers Beasley
Director of Sales, Keeneland Association

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Mrs. John A. Bell III
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Editor, Daily Racing Form

Charles W. Bidwill, Jr.
President, National Jockey Club

James H. Binger
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Registrar, The Jockey Club

William T. Bishop III
Attorney, Stoll, Keenon & Park

Stephen Bochnak
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Frank Bonsal
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Peter Bournias
National Director, Jockeys' Guild

Edward L. Bowen
President, Grayson-Jockey Club Research Foundation

James C. Brady, Jr.
Secretary-Treasurer, The Jockey Club; Owner/Breeder

Hon. Nicholas Brady
Member, The Jockey Club; Owner/Breeder

Mrs. Nicholas Brady
Owner/Breeder

Dr. Lawrence R. Bramlage
Orthopedic Surgeon, Rood & Riddle

Marilyn Bramlage
Owner/Breeder

Gary Carpenter
Executive Director, American Association of Equine Practitioners

Jerry Carroll
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George M. Cheston
Member, The Jockey Club; Owner/Breeder

Mrs. George M. Cheston
Owner/Breeder

Robert N. Clay
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Jack Cohen
Publisher, Sports Eye

Charles Colgan
Executive Vice Presient, NSA

Terence Collier
Senior Vice President, Fasig-Tipton Company

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Owner/Breeder

Mrs. Brownell Combs
Trainer

William J. Condren
Owner/Breeder

Joseph M. Cornacchia
Owner/Breeder

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Media Relations/Development Director, TRC

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Delaware Racing Commission

Mrs. Bernard Daney
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Douglas Donn
President, Gulfstream Park

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Allaire duPont
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William duPont III
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Joseph Durso
Columnist, New York Times

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Scott Finley
Journalist

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Owner/Breeder

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Veterinarian

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President, American Horse Council

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Mrs. James M. Hill
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Clyde Hirt
Columnist, Sports Eye

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Commissioner, Thoroughbred Racing Associations

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President, New York Racing Association

Thomas H. Meeker
President, Churchill Downs

Thomas Merritt
Executive Director, TRC

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Vice President Racing, NYRA

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Jim Nangle
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Racing Commissioners International

John A. Nerud
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Nick Nicholson
Director, The Jockey Club

Kenneth Noe, Jr.
Executive Vice President, Calder Race Course

Robert O'Connor
Vice President, Sports Marketing and Television International

Dr. Joseph O'Dea
New York State Racing & Wagering Board

Cahir O'Sullivan
Keeper of the Matchbook, The Curragh

Dr. Dewitt Owen
American Association of Equine Practitioners

Ray Paulick
Editor-in-Chief, The Blood-Horse

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Ogden Phipps
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Ogden Mills Phipps
Chairman, The Jockey Club; Owner/Breeder

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Josh Pons
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Tommy Valando
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John Veitch
Trainer

Michael Veitch
Columnist, The Saratogian

John von Stade
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Major General Guy Watkins
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Jonathan Weatherby
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Charlotte Weber
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Wheelock Whitney
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Clifford W. Wickman
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Jacques D. Wimpfheimer
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Steward, The Jockey Club; Owner/Breeder

David Yunich
Trustee, New York Racing Association; Owner/Breeder

Welcome by Ogden Mills Phipps

Good morning ladies and gentlemen, and welcome to our 42nd Round Table Conference.

I want to extend a special welcome also to our many guests and friends from around the world who join us today. We hope you love Saratoga as much as we do. I hope also that the matters that we bring to your attention this morning will be of interest you.

Once again we are indebted to John Hettinger for this morning's program. John had to undergo surgery a few weeks ago, but typically that hasn't stopped him from getting the job done. We thank him as always.

As you will all know . . . and see from our anniversary banner . . . this year The Jockey Club is celebrating its 100th anniversary. So it's something of a special occasion when I ask our vice chairman, Will Farish, to open the proceedings with his report on our activities since our last meeting.

Activities of The Jockey Club in 1994

William S. Farish: In presenting the 100th annual report on the activities of The Jockey Club, you have to look back and think for a minute . . . and realize what a truly amazing century it's been . . . how the world has changed . . . how the face of Thoroughbred breeding and racing in our country has changed . . . and how, throughout it all, The Jockey Club has grown to meet those changes.

The organization was formed 100 years ago at a time when Thoroughbred racing desperately needed strong, well-motivated, competent, non-parochial leadership. The Jockey Club met those original needs and has been evolving to continue to meet those needs ever since.

This evolution has been essential because the role of government in our sport has changed, making the needs of Thoroughbred racing and breeding far more complex. At the same time, modern day business demands the highest level of modern day business techniques if we are to succeed. The reality of modern business is also less forgiving to those who fail to keep up with the pace of modern technological advances.

You'll find in The Jockey Club packet a detailed written report of our activities during the past year. That report, I believe, speaks for itself as to how diversified The Jockey Club has become in developing the efficient tools that are needed today for us to be able to manage our industry and respond quickly and efficiently to change.

The written report only tells part of the story.

(Video starts)

Let me share with you a few moments experienced by our Members earlier this year when we gathered in Lexington, Kentucky, in the heart of the Bluegrass, for our 100th annual meeting.

That membership, which comes from virtually every segment and geographic area of our broad and complex industry . . . horsemen and horse-

women . . . owners, breeders, race track executives . . . men and women from many walks of life . . . successes in industry, government, agriculture and sport . . . all with one common bond . . . their dedication to the Thoroughbred . . . these dedicated leaders had the opportunity to visit our operational headquarters.

They saw how our basic service, the registration of every one of our Thoroughbreds, is done . . . how a process which used to take months now takes days . . . how the complex task of naming - a job which involves checking every single name applied for against more than half a million other names already in use . . . they saw how that daunting task had been reduced from months to mere hours.

In the offices of our Information Systems, they saw how mile upon mile of pedigree and performance was being edited and processed almost instantaneously into the catalogue pages which are the foundation of our national auction sales business . . . how that same information could be accessed in a thousand permutations at the press of a button to help us make well-informed decisions about our racing and breeding operations . . .

In the operations rooms of Equibase they heard how racing and the racing fan were being served . . . how the record of every Thoroughbred race in North America was being electronically collected, stored and re-broadcast to race tracks and scores of simulcast outlets making essential past performance information readily available to the public just for the cost of a program.

They heard how, over 500 miles away, scientists on the Johns Hopkins Research Campus were working on the cutting edge of DNA technology, bringing a new science to the service of the Thoroughbred . . . and how the Grayson-Jockey Club Research Foundation was throwing its full weight into a competent massive fund-raising drive to raise money for research.

Finally they stood in the heart of the building, the central computer control room, where highly-skilled technicians monitored never resting machines, processing unbelievable amounts of information every second.

And they were told that this was still only the beginning . . . that it was good, but still not good enough . . . that systems were being re-engineered, services diversified . . . because, in the service of the Thoroughbred, "good" wouldn't do . . . it had to be better.

(Video ends)

Those were some of the sights and sounds you won't find in your written report of our activities.

As you can see, we have come a long way in 100 years - from quill pens to high-speed computers. But one thing has not changed. Just as it did 100 years ago, our industry now, probably more than ever, needs leadership that is strong, well-motivated, competent, and non-parochial.

Ladies and gentlemen, with this report as background, I would like to make some personal observations. Over the last 30 years, I have had the good fortune to see racing and its organization, its triumphs and its problems from many vantage points: as an owner, breeder, race track chairman, stallion manager, an officer of Breeders' Cup.

Consequently, I have witnessed deliberation on the same problems from many different chairs. Virtually all such deliberations are conducted from the standpoint of ONE interested party or faction, not the entire picture.

This is, of course, understandable. It can be difficult to race a stable and fully understand the problems of the racing office or track management. The same analogy exists between race tracks and the legislature, breeder and sales company.

So, difference of opinion and different priorities are inevitable. Nevertheless, we must endeavor to pull the leadership of this industry together under one banner. Our survival depends on it. The TRA has made a major effort to do this. The rest of the industry must follow suit.

In closing, I would refer again to that group of dedicated owners who banded together 100 years ago to form The Jockey Club. They were, above all, men of action. They saw the needs of Thoroughbred racing and they set about meeting them.

Like those founding members, The Jockey Club of today is an organization of action.

And in the ever-increasing diversity of our membership, we have evolved into an organization whose actions have benefited almost every segment of this, our multi-faceted industry.

Thank you.

Ogden Mills Phipps: Thank you, Will.

I really would like to add my recommendation and an invitation to any of you who have not yet had the opportunity of visiting our Lexington offices. You should do it. All you need to do is call either our New York office or call Kentucky and we'll be happy to arrange for you singly, or in pairs, or in groups. We think you should see it. We think we're doing a good job. We'd like you to see what really goes on in the Registry. And we would welcome the opportunity for you to come.

Last year at this conference we heard TRA president Dave Vance make a plea for racing to pull together and establish a central office. His organization set up a search committee to go out and find someone to head up the effort. And, a little over five months ago, the TRA appointed their first Commissioner, Brian McGrath.

Brian brings to racing a very wide experience of how other sports have tackled today's competitive environment. And he's here today to give us a report card on what he's found, and what his recommendations are as to our future direction.

Brian . . .

Thoroughbred Racing: Reclaiming The Winner's Circle

J. Brian McGrath: Thank you, Dinny. Distinguished members of The Jockey Club, industry leaders, Round Table guests . . .

When I undertook my position, a little over five months ago, I did so with a sense of optimism, confidence and commitment. That has not changed. I would, however, be less than honest if I did not admit that the challenges before us are greater than I envisioned. However, by the same token, so also are the opportunities.

Thoroughbred racing is a mosaic of interests. Some in harmony and others - perhaps too many - conflicting with each other at the expense of our sport.

I see my mission as the coalescence

of varied interests to create a far different mosaic, one where the participants share a common goal and willingness to restrain their short-term objectives to build a stronger future together.

A substantial amount of lip service has been paid to the concept of "we" in racing - without much result. In theory, racing does resemble other sports in the relationship of tracks and horsemen. In practice, however, it subdivides even further to include horse owners, trainers, breeders, jockeys and so on.

Thus the "we" is more diverse and complex, and we have far more interests that have to be accommodated. It is also an attitude that I believe needs changing, as well as the structure, which also must be changed.

In assessing the situation, my strong conviction is that this historical environment cannot continue to exist and must be viewed in the context of exactly what it is - history. Failure to adjust to today's world, will ultimately leave the field to our competitors.

While we may have the most exciting sport in America, we must now mold it and market it to share the excitement with new generations of fans, owners and players - those who are increasingly drawn to other sports and gaming attractions and away from Thoroughbred racing.

It may be constructive to present my remarks today in the context of :

1. Where are we?
2. Where are we going, or where do we wish to go? and
3. How do we get there?

A generation ago, as you all know, racing was the market. Now, the market has not only moved away from us, but also expanded geometrically. In support of this view, let me cite some statistics, a sort of gaming "reality check."

Six years ago, the landscape basically consisted of pari-mutuels and lotteries, with casino-type gaming restricted to Nevada and New Jersey. Today we have casinos, Indian compacts, riverboats and lotteries in virtually every nook and cranny of this country.

Thirty-seven states have lotteries, 24 have casinos, there are 93 Indian compacts, and 45-50 riverboats roam the rivers, or are tied up at docks - and this number will double in the coming year.

The New York Times recently cited some additional statistics, and I think they're very relevant:

1. More Americans went to casinos in 1993 than to major league ball parks - 93 million people.
2. More than $300 billion was wagered.
3. Legal gambling revenues reached $30 billion last year, which is more than the combined take for movies, books, recorded music, and park and arcade attendance and, importantly,
4. It is estimated that, as we move intothe 21st century, virtually all Americans will live within a four hour drive of a casino.

Additionally, the press reported last Monday that the Foxwood Casino, just east of here in Connecticut and less than two years old, will gross $1 billion and generate $400 million for its owners.

Some take comfort in the fact that there appears to be over-capacity on the horizon, and a saturation point may soon be reached. Certainly, as one looks at what has happened along the Mississippi, this will inevitably be the case. However, what we will see is a shakeout amongst those that have eroded our market share, and the redistribution of revenues within the casino sector - with the damage already done to racing.

Let's look next at a second related and important area, that being purses.

The average purse earnings, as this group certainly knows, per starter per year are less than $10,000, while it costs twice that much to keep that horse in training. With less in purse money than expenses, there is a an extraordinarily high emphasis on the "psychic income" component.

These poor economics are further reflected in the size of fields, with the number of horses available to start in races this year declining by some 15 percent.

As the costs of operating the components of the business increase - be it the racetracks or breeding and training sectors; as purses, after adjusting for inflation over the past ten years, continue to decrease; as the number of quality horses diminishes; as the number of racing days and races becomes harder and harder to support, we are left trying to maintain levels of purses with fewer live races and horses, and an increasing reliance on the simulcast product.

In the face of this less-than-promising situation, our industry's attitude to date, has been reflected in the on-going battle to carve up an ever-decreasing and ever-shrinking market.

I would suggest to you that our sport will continue to decline, if our view of growing the business is limited to fighting over who gets the next one or two percent.

The days of feuding over the distribution of components of today's business are quickly coming to an end because no one, and I mean no one, is getting rich in the process.

Which now takes me to: Where do we want to go?

If we are to prosper long-term - and I am convinced we can be competitive, we must:

1. Re-examine the presentation of our product;
2. Develop new sources of revenue; and
3. Address the structure and economics of the business.

In looking to re-popularize racing, either on-track or by some form of simulcasting, we must broaden our fan base to include a younger and more varied demographic.

While mindful of the importance of our core of regulars, we cannot afford to limit our marketing thrust only to those who have supported this sport in the past. This group is, unfortunately, a declining and, for the most part, a less affluent fan component.

In reaching out to a new generation, we must enhance our on-track product so that it is brighter, fresher, more understandable and, in some instances, with a lower cost of participation. The barriers to enjoyment, be they financial or educational, must be reduced.

We must also recognize today that our fans are extremely highly taxed, and our mission should include efforts to lower, not increase, takeout.

In this climate of instant gratification we should be striving to make racing the "in thing" to do. By exposing our fans not only to quality racing on-track, but also to top-flight racing in other parts of the country, through vehicles such as the "National Best Seven," we familiarize our fans with the best horses, the best jockeys and premier racetracks from across the country. This format also creates a vehicle to tap into broadcast television, on a regular basis, thereby attracting new fans.

But here again "lip service" in support of new concepts just doesn't get the job done. We cannot say we want something new, and then be protective of our current environment, based on a fear of cannibalization.

It is also my view, that we should strive to move this sport not only into the current decade, but into the next century. As an industry, we should examine race schedules, race times, the number of races presented, time between races, and size of fields. We should also be considering whether pari-mutuel type betting is the only appropriate form of wagering. There should be uniform standards for drugs, licensing, merged pools and simulcasting. Significant legislative and tax issues need addressing.

A long list! But one which, through our product development and planning, has been allowed to get that way. It is my belief that the foregoing can be accomplished collectively. I do not believe it can be accomplished singly.

The development of greater in-home viewing opportunities and interactivity in the form of a racing channel - which may be regional at first, but ultimately national - is a critical component to our future, and will inure to the benefit of all parties.

Access to the home creates the vehicle to present entertainment and information, thus affording opportunities to generate input in return and, through interactivity, increase awareness and, perhaps most importantly, revenues. I am also convinced that by so doing, we can increase on-track attendance.

This is not a short-term project; it is not one which would be easily attained in any industry. And, given the complexity of ours, it is a formidable challenge.

A second but related part of our initiative is the development of ancillary revenue streams. These will include sponsor programs, licensing and merchandising, and increased television exposure. All other sports do it, and Thoroughbred racing has lagged far behind. I believe we can change that.

It must, however, be recognized up front that, if we wish to attract corporate America to our sport, we must be willing to develop a comprehensive program, which delivers value for money. This would include not only the traditional name association with individual races but signage, ability to sell merchandise on-site, first class hospitality, product display and the use of a meaningful trademark - and, finally, the most important component, the use of product exclusivity. I've seen this work first hand.

We've never tapped into corporate sponsorship on a national basis for any number of reasons. These would include the perception that corporations do not want to be involved with gambling; a local possessive viewpoint that "I will only deal within my marketplace;" or the view that Thoroughbred racing is superior to other sports and "we just don't do that."

We have opportunities to attract meaningful, high-quality corporate involvement which will enhance our sport, not degrade it. We can develop opportunities for a commercial presence at our racetracks in a tasteful manner, which will not result in a carnival atmosphere. To do so will, however, require a change of attitude, a different mindset and a willingness to try something new. The mindset that "we've always done it this way" is no longer operative, certainly not in 1994.

While the foregoing represents the nucleus of a broad agenda, it is not all-encompassing. Each of you would, I'm sure, add other substantive goals and might well re-order priorities.

In looking to the future, however, I would suggest that obstructionism and self-interest will undermine the turnaround that we must achieve.

This brings me to my final point.

How do we get there?

I began my remarks by alluding to the myriad of differences which exist within our sport, as well as the high degree of fragmentation. To unite this industry is a daunting but essential task. We must put in place a structure that gives us the ability to respond effectively to the outside world - to both the challenges and opportunities that that world presents.

There are regional and local components to what we do, which are the fundamental building blocks. We talk a great deal about education, and we should. While other major league sports enjoy the widespread awareness and understanding that massive media coverage provides, we don't have that luxury. We have to lay the educational groundwork on horse racing and breeding ourselves at the grass roots level, at least over the near term.

That leads me to suggest that we each do some serious thinking about what it is that we can do, regionally and locally, to reintroduce ourselves to the public. These efforts may, in many cases, take place at the racetrack, but they are not the sole responsibility of the tracks.

My central point here is that our component groups need to improve public understanding and perception of their unique professions.

We can do it in conjunction with local race tracks and farms, but we can't simply wait for someone else to do it. By undertaking initiatives on a continuing basis, and sharing our experiences - both positive and negative - we will, thereby, enhance our opportunities.

Most importantly, on the national level, we must create a cohesion between the economic participants in this sport.

For example, as we move to develop a racing channel and interactivity, those who wish to be part of the future must be actively involved in the process.

In the conception and implementation of this initiative, there are any number of financial, technical, marketing and legislative areas which will require the input and expertise of the groups represented here.

I am not talking about just a committee or periodic board meetings but, rather, a true industry group with responsibility and authority.

For any single group to attempt to develop such a substantive and complex new area of authority in a vacuum simply will not work. At the end of the day, it will lead to further bickering, fighting and polarization.

Recognizing that it will be difficult to achieve, but I believe necessary, the differing economic interests combining racetracks and purse participants must be brought together.

As TRA commissioner, I welcome the opportunity to work with the other industry groups to try to find a structure to unite our sport. At present, however, just trying to figure out who to make a deal with, is a challenge in-and-of itself. But industry groups must recognize that this is an untenable situation.

The state in which we find ourselves calls for intra-industry leadership and well as inter-industry leadership.

We must acknowledge, however, that uniting does not simply mean "I want this share or that share" but, rather, a willingness to participate in the cost elements and the development process. It is inappropriate for any group to take the view that they have the right to sit back and second-guess, with the ultimate objective of skimming off a share at the end of the day.

The commitment to the future involves one of financial and other resources, which must be contributed by those who will participate in the benefits. Sitting back, second guessing, and demanding a piece of the future, without a meaningful contribution to the process, will not work. The challenge is to bring to the table those who not only want to, but can deliver.

Once again, I stand willing to undertake that process.

I have been on the job only five months, and the learning curve has been geometric. I believe I see the issues, and I see some solutions. And already, I think, some progress has been made. If asked to address you in the future I'd expect to make a different speech, with a far more upbeat theme - highlighting our achievements in turning around this great sport.

If we are willing to take risks, if we're willing to embrace change, the future can be one of promise and fulfillment. Together we can achieve a new day for racing.

Thank you.

Ogden Mills Phipps: Brian, that was a great talk.

We hear a lot these days about the effect of modern technology on our daily lives. It is probably true to say that nothing, in the entire history of Thoroughbred racing, has changed the face of our sport as much as the technology of simulcasting.

Our forefathers could not in their wildest dreams have imagined the sort of nationwide participation brought by simulcasting to events like the Triple Crown and Breeders' Cup Day. But the impact of simulcasting, especially on the very core of our sport - live racing - doesn't stop there.

Here to discuss that impact and suggest ways for us to use this new technology as a path to the future health and prosperity of racing, is Churchill Downs president, Tom Meeker.

Tom . . .

Simulcasting Now and in the Future

Thomas H. Meeker: Chairman Phipps, ladies and gentlemen.

Let me just tell you how the impacts of change and bringing unity to the industry was demonstrated yesterday - and I felt I should report this to the Round Table. Yesterday, as a group of about 25 track presidents gathered for breakfast, the decision was what each should have for breakfast. And that was a fairly large decision. Allan Dragone, bless his heart, suggested that we all have the same breakfast . . . and we all agreed!

What I want to do today is tell you a little bit about where we are in simulcasting and also discuss a little bit about how we got to where we are today in simulcasting. This really leads over to the final topic, and that is, why our experiences in developing simulcasting demonstrate that we, indeed, must change the way we do business. We must make fundamental, structural changes in the way we do business, the way we approach competition, the way we manage our business, if we're going to be able to compete in the future.

There is no doubt in anyone's mind that simulcasting has a unique potential for racing, particularly when you look at where the marketplace is going . . .

how the marketplace is expanding in its current configuration. But when telecommunication opens up with the "superhighway" the exponential marketplace that you will have is an opportunity that racing must take hold of.

The fact of the matter is - and I hope to prove it to you - that the way we have developed simulcasting to its current state has not demonstrated that we have the capability of pursuing simulcasting into this greater market, specifically the home.

Now, let's look at the numbers. I won't bore you too long with these, but I think they are important because they tell you a little story.

In the latest issue of *Gaming and Wagering* we see that simulcasting handle increased four percent during the period 1992 to 1993. And for the10-year period, 1982 to 1992, the simulcasting handle grew about 10 percent per year. In isolation this doesn't appear bad, but when you compare these numbers with other forms of gaming a more sobering picture is presented.

For instance, while simulcasting handle increased four percent, our on-track handle decreased 5.5 percent. Thus, for 1993 our total handle decreased 2.3 percent.

On the other hand, the total gaming handle, of all gaming operations, was up 17 percent, with riverboats leading the way with a 265 percent increase. The story goes on. Total gaming revenues, that is the handle less the amount returned to patrons, grew 14.2 percent last year, to a staggering $34.7 billion of revenue generated by the gaming industry. The bulk of this growth came from the riverboat industry.

However, racing revenues declined last year $64 million, and that takes into account the $36 million-dollar increase that we had in simulcasting. So, absent simulcasting, our net revenue loss last year, for the industry, would have been $100 million dollars. Even with the four percent increase in simulcasting, our industry lost 1.3 percent of its market share. And, today, racing occupies only 8.26 percent of the total market in the United States. Finally, it's important to note that, while our business is declining, over 50 percent of our total handle now comes from simulcasting.

So, the conclusion that can be drawn from the numbers is obvious - our business continues to decline, but the rate of decline is being softened somewhat by the growth of simulcasting. These numbers, obviously, are quite disturbing.

And let's hear a little bit about what Gene Christiansen said. While I don't agree with everything he says, he does mention something pretty important in the latest issue of *Gaming and Wagering*.

He says that, in the context of expanding casinos and rejuvenated lotteries, the continuing declines in the pari-mutuel handle and revenues are exceedingly dangerous trends. For racing and jai alai, "business as usual" has become a fatal strategy. A few more years of more of the same and these industries will be shutting down.

Now his comments are worth noting. And its worth it for us as industry leaders to sit back and reflect on the basic question of: Are we running our business correctly?

I have this little story I always tell when I talk about change, and it involves a young boy who wants a bicycle for his birthday on Saturday. And he's sitting alone at home - his mother is gone - he's up in his mother's bedroom and he's writing a little note. He's writing to God. He says, "Dear

God, if you convince my parents to bring me this bicycle for the weekend I'll be good for three weeks." And he signs his name, Tommy. He gets up, walks around his mother's bedroom, crumples up the piece of paper, throws it in the trash can, goes back to this little desk and starts writing again. He said, "Dear God, if you make my parents give me this bicycle on this Saturday I'll be good for a week." Signs his name, Tommy. Stands up, walks around, again crumples up the paper, throws it in the trash can, walks into his mother's closet, picks up a box with tissue paper. It's empty. Goes to the mantle, sees a statue of the Virgin Mary. Takes the Virgin Mary, very gently puts it in the box, puts the tissue paper on top, puts the box cover on top, goes over to the desk and starts writing a note. "Dear God, if you want to see your mother again . . . !"

Change is difficult.

Simulcasting has indeed brought changes to our business. In the age of shortage of horses, simulcasting is a means for some tracks to fill their daily racing programs. However, some still argue within our industry that simulcasting has contributed to the decline of live racing. Nothing could be further from the truth. The absence of breeding industry growth and, indeed, the decline of the breeding industry and the shortage of racing stock has contributed to the decline in live racing.

The challenge for the future will be finding the correct mix of live and simulcast races. This equilibrium will be set at a point where the purse monies generated from simulcasting and important other gaming operations, coupled with your live race purse money, start to attract full fields, which in turn attract the wagering dollar to the new, improved live racing product.

And at Churchill Downs we've experienced this. We have seen a rapid growth in our simulcast revenues and, as such, our purse monies have grown. As our purses increased, our fields increased. And as our fields increased, the wagering public returned to the live races as a wagering opportunity.

Moreover, as our racing product improved we became more competitive in the marketplace. The sales of our simulcast products increased and again the result was increased purse money. We are now in the position where we currently are seeking additional racing dates to grow our live racing program, all as a result of simulcasting.

Simulcasting also provides a race track with a better means to utilize embedded capital. A race track is a capital-intensive business with very small operating margins. And the reason for this is very simple. The race track is a large facility that is generally only operated on a limited number of days. A brief comparison tells you the story. With a similar capital investment a casino will generate $2,300 of revenue per year, per square foot. On the other hand, a race track will generate only $58 of revenue per year, per square foot. Simulcasting during dark periods affords the race track the opportunity to convert its capital asset into an earning asset on a year-round basis.

Now once again, the horsemen are the beneficiaries of this strategy as they too participate in the additional revenues. And finally, and perhaps most important, simulcasting is changing the appetite of our customer.

Quality sells, and in the racing business it's no different. There's no question that today's customer wants competitive racing with full fields. A five-horse field in a $5,000 claiming race is not an attractive racing product. With racing's increased exposure on over-the-air television, and through interstate simulcast transmission, the customer has come to learn that there are places where competitive racing with full fields exist. Thus, if the live race product does not meet the market demand the customer shifts from the inferior live race product to the simulcast product.

Now, what does all this mean? Well, in the short term I believe the following will occur - and again I stress the short term. Simulcasting will grow, the number of live races will decline, purses will increase as additional purse monies are spread over fewer races. The number of participants, riders, trainers, and track executives will decline. But, most important, the quality of racing will improve.

Now, is simulcasting as we know it today a long-term solution to the problem of growth? In my mind the answer to that is a simple no. Similarly, I do not believe that riverboats, VLTs, card rooms or other casino operations will form the basis for future growth alone. They are not the panacea.

Before there is any hope for survival for our industry we must change the way we do business. In the past few years virtually every aspect of American business has changed the way it does business. Change has become part of the business culture. A predicate for survival. A means to growth and, in many instances, a competitive tool.

In the banking industry, where the checking and saving accounts were the primary retail products, today you see investment services, financial planning, mutual funds, credit cards, and a myriad of other products being delivered through an expanded distribution system of ATMs, branch banks, telephones and, yes, the personal computer.

In the health care industry, where the hospital, the former cash cow of that industry, was the primary place for the delivery of medical services. Today, you see those same services being delivered closer to the patient in outpatient clinics and, in some instances, the home.

In the telecommunication industry, where cable and telephone companies were arch competitors, you now see former competitors joining in strategic alliances as a means to gain competitive advantages in the marketplace.

And finally, in the automotive industry, which almost became a casualty to foreign competition, you see a much stronger, more competitive industry. All because of fundamental change in the way they do business, namely, they returned to quality, downsized and made a strong commitment to the customer.

The lesson learned from these examples is that the ability to make timely and aggressive changes in your business operation has become a competitive imperative.

The manner in which we developed and implemented simulcasting, in my mind, demonstrates that racing has not embraced the concept of change. Indeed, many of us are still looking to the return of yesterday and racing as it was meant to be. In today's environment that's simply will not work.

When you look at how we developed simulcasting, there are at least four general conclusions which suggest a new paradigm in the way we conduct our business. These include:

1. Simulcasting developed as a defensive response to market conditions, rather than as a part of a plan for growth;
2. Racing's decision-making apparatus - largely a system called con-

sensus building - was incapable of quickly responding to market opportunities;

3. Technology, or the lack thereof, impeded the development and expansion of simulcasting, and
4. Product development, with a strong commitment to the customer, was andcontinues to be lacking in the area of simulcasting.

Now, let's look at these more closely.

Simulcasting as we know it today was forced on the industry and at best was a reaction to internal/external market forces that, as a child would say, "made me do it."

Simulcasting has never been viewed as a proactive means to growth, rather as a means to hold our own.

Surprisingly, a clear exception to this was the state of New York in 1971, which recognized the potential of this form of gaming and stole the OTB operations rights from NYRA. Where would our industry be today if, as early as 1971, we had started to aggressively push to expand our distribution system of OTBs throughout the country? Would we not have been in a much better competitive position with respect to lotteries and casinos?

Now, our industry grew up in a monopolistic environment and perhaps that explains why we are so reluctant to force change. In the past, we could safely do today as we did yesterday and feel very, very comfortable it would work tomorrow. Well, it didn't work yesterday. It's not working today. And it sure isn't going to work tomorrow.

We can no longer wait for a lottery to come along with a computerized statewide distribution system to make us finally decide that we need to expand our distribution system with OTBs. Even today, with the explosion of the OTBs, we still take a second seat to the lotteries in terms of a distribution system.

By a similar token, why did we wait to embrace multiple-card programs, which gave the players shorter intervals between racing opportunities, until the riverboats and casinos came along? Clearly, the casino offers the patron rapid and fast action and the patron likes it. Racing could have done this many, many years ago.

Why did we wait until the lottery came along, to develop large pools, Pick Sixes, Pick Sevens and these other multiple-race pools?

Racing must immediately embrace the concept of change. We have to encourage people to think outside the margin. We have to convince our employees that what is working today won't work tomorrow. We have to embrace new concepts at every turn. We have to spend more time thinking about how to make an idea work rather than why it won't work.

Now, the second conclusion concerns the decision-making apparatus, which everyone agrees has not worked in the area of simulcasting.

It is clear to everyone that, in this new environment, a national decision apparatus must be instituted to deal with the concept of competition. While the industry was forced to experiment with simulcasting, there were few but the racetracks who actively supported it from the beginning. Many, including perhaps some in this room, still believe that simulcasting is part of some machiavellian plan to create a group of super tracks at the expense of live racing.

That is not the case. Indeed, our experiences in simulcasting demonstrate that it has the potential of drawing people together. Today, race tracks are working together for the first time, because we deal with each other virtually every day. And so simulcasting has some therapeutic value in terms of our overall need to develop a national consensus and a national decision-making apparatus.

The upshot of all this railing, and as a product of this consensus building among the myriad constituencies involved, is that the acceptance of full card simulcasting and the development of OTB operations I think has been slowed in the United States.

One indication is Texas. We should all be behind Texas at this point, to encourage those in Texas to allow those tracks to develop a distribution system on the eve of what we know is going to happen in Texas - perhaps lotteries and casino operations. But the industry, to try to promote and develop that market, should be behind those efforts in Texas.

The other problem, of course, is that the absence of a national consensus has produced a myriad of different plans, procedures, rules, and regulations for simulcasting in the respective states. This patchwork system has caused, and continues to cause, problems.

But I will say that the RCI and the individual racing commissions have proven to this industry that, if the industry comes to them with a cohesive, unified plan, they are prepared to react. And I think it's time we all recognized that the regulators, by and large, are prepared to do anything that we as an industry want, as long as we come to them with a unified plan.

Maybe age has done something to me, but it's clear to me today that in many instances we put the regulators in an unfair position, demanding that the regulators make management decisions relative to our industry because of the inability of our industry to come together and reach a consensus.

But the fact of the matter is that the regulators have demonstrated in the area of co-mingled pools and the national Pick Seven, the Breeders' Cup Pick Seven, that there is an ability to develop a uniform rule.

I must say, in talking about the regulators, there are a number of things that we need to get on with.

We need to arrive at unified rules. We need to look at the question of a unified takeout throughout the United States. Today, we are doing simulcasting and we're doing it on a co-mingled pool basis, which means that we have generally one takeout. And we should have a unified takeout throughout the United States. That's something that certainly the RCI could be easily working on, and I know in some instances they have been working on.

Now, the third conclusion you can reach from our experiences in simulcasting is that the lack of technology has impeded the development of simulcasting, particularly in the area of comingled operations. In my view we're about five years behind our competitors in the casinos and the lottery business, in both hardware and software. For instance, why does our self-serve machine look like a throw-back to a 1970 ATM, when the casino industry has these well-lit, customer-friendly machines that change virtually weekly? Can anyone explain that to me?

I think the answer to that question is fairly simple. Number one, the tote companies have been reluctant to spend money on research and development in our industry because we, the customer, have not told them what we want. Number two, we the customer have not provided them with a strategic plan that clearly indicates where this industry is going. And finally, we the customer are in financial jeopardy.

We have to change that. We have to

have a partnership with the technological component that we're going to be using in expanding our operations into the home. We have to develop those partnerships now, and they have to be financially strong and firmly committed to the same commitment that we have as an industry.

Now last is the area of product development. Our industry has generally, typically delivered to the customer what we want the customer to have. We believe we know the answer. An example, and I'm not being critical because I was party to this discussion, we, the race track presidents, decided what the national best seven should be. We huddled for hours on end, ad nauseam. We decided exactly what that bet should be. It may be good, but the problem is we never went to the customer and asked the customer what he or she wanted.

Now there's a corollary, too. Not only have we not gone to the customer - and that's the person, he or she, who's at our OTB operations or at our race track. But, more important, we have not gone to that customer, in our marketplace but outside of our operations, and asked the novice what he or she might want in terms of being attracted to our industry. We have to do that and we have to do it immediately.

Now, at this point I'm supposed to give you a big charge . . . to sort of coalesce all that I've said into a statement, and set up a plan of action. I've thought about it for several days and, quite honestly, I've come up with a couple of ideas that are fairly simple.

The first is what I call "the mirror," and I've asked our people in our company to do this. Periodically, you have to pick up the mirror and look yourself in the face and ask basic questions. Are we doing things right? Are we the right person? Are we the right company? Do we have the right products? And only by looking at yourself in the mirror and making firm commitments to change will you change.

And here are some of the things that I think, in looking at the mirror, we have to commit to.

First, we have to commit to the basic notion that competition will increase in the future and that currently we do not have the competitive product. Second, I believe that we have to commit to the notion that we're going to have to integrate our gaming products with other gaming products to effectively compete in today's competitive environment. What I'm talking about are things like alliances with casinos, delivering casino products, card rooms, simulcasting, a myriad of different things. We have to recognize that our competitors have multiple products that are reaching a different strata of customer virtually at every turn. We have to prepare ourselves to get into that business.

Working out the economics of that is going to be very, very difficult. But we have to recognize that that's the nature of competition in today's competitive environment.

We also have to recognize, and admit, that the home market is a primary market for racing to grow in the future. And if we make that commitment, then we have to do a lot of other things later on, in terms of developing products that will allow us to get into the home.

There is no doubt in my mind that what we have now on our national best seven is not a salable product in the home. We recognize that at the TRA. We are working right now with the national best seven to work out the logistical problems of access to the home. We as an industry have to accelerate this thing and develop plans, so that we are first in the home with wagering products that are attractive to novice players.

And then, last, I want to piggy-back on what Brian said about a national workshop or task force. I define it as a strategic planning task force. I would encourage every ABC group - TRA, HBPA, Jockey Club, everyone in our industry - to look within their respective groups and find one or two individuals. Now those individuals cannot be leaders. They can't be race track presidents, Jockey Club members, HBPA executives or regional directors, but young people, who are the heirs to our business . . . who are bright . . . who are not encumbered by the bias which we all have, having gone through this process for years upon years . . . young people who are clear thinkers. And we should offer those individuals up - not for a weekend not for a two-day telephone conference, but for a period of approximately two or three months - and bring them together and let them work on an agenda that all of the major representatives of our industry put together. But a young group, with a different perspective on life, charged with energy, in my view may provide us with an opportunity to affect the changes that we need in our industry.

And finally, having said all of that, I can honestly tell you . . . I have been in this industry now for 10 years. I can honestly tell you that our industry is the most exciting, has the greatest potential, and will be very profitable in the years to come. I don't want to be in any other place because the challenges present opportunities. And, right now, we have enough challenges to create a lot of opportunities in the future.

Again, Mr. Chairman, thank you so much for allowing me to speak.

Ogden Mills Phipps: Thank you, Tom.

Ogden Mills Phipps: Ladies and gentlemen, before we take a break I'd like to make an announcement about this year's Jockey Club Gold Medal.

As you know, we make this award each year in recognition of one outstanding individual's dedication and contribution to Thoroughbred racing and breeding.

We began this in 1984 and the list of honorees since then speaks for itself as to the wide range of their involvement in our industry .

D. G. Van Clief of the Breeders' Cup; France's Jean Romanet; trainer Jack Van Berg; Dick Duchossois; ABC Sports president Dennis Swanson; Joe Hirsch; Dr. Charles Randall; Dr. Manny Gilman; the late Rich Rolapp; and last year, Kenny Noe.

The one singular attribute that each of these people have in common has been their ability not only to put 110% of effort behind their work on behalf of the industry, but also their willingness to share the knowledge and wisdom of their experience with others.

In this respect, our 1994 medal winner is exemplary. He's a practicing veterinarian and veterinary surgeon. And he's a darned good one. He's nationally and internationally recognized for his work and expertise in the area of bone and tendon injuries and their treatment.

But he doesn't stop there. His unstinting devotion to research and continuing education is respected in both the equine veterinary industry and the academic community.

He's published more than 400 articles about his field, but still finds time to be an immensely active member of the American Association of Equine Practitioners where he participates in the "On Call" program set up to provide veterinary expertise for media coverage of our major races.

He's served on a string of AAEP committees, including Insurance; Racing Injuries; Acutely Injured Horses; Alternative Therapies; and Research. And he is presently chairman-elect of AAEP's Education Committee. He's also an adjunct professor at the Ohio State University.

In this year which we have dedicated to the health of the horse, I can think of no more worthy or appropriate person to receive our award.

Dr. Larry Bramlage, would you please step up to receive the 1994 Jockey Club Gold Medal.

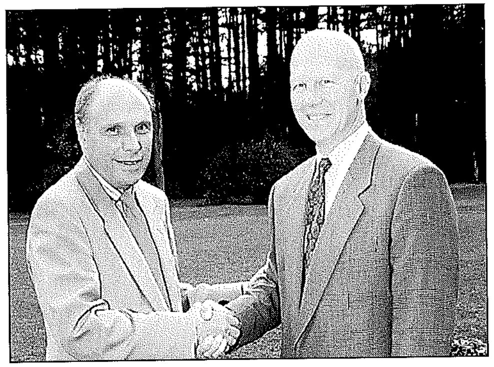
Dr. Lawrence Bramlage:

Thank you, Mr. Phipps.

To a small-town boy, who originally became a veterinarian because of the respect that the veterinaian held in the community where I lived . . . to a person who, when his father died a few years ago, began to question whether what I did really meant anything in the larger scheme of things, this is a measure of respect and assurance that I can only have hoped for. So I'd like to thank The Jockey Club and you, from the bottom of my heart.

Chairman Ogden Mills Phipps and 1994 Jockey Club Gold Medal honoree, Dr. Lawrence Bramlage.

Edward L. Bowen



Jeff Leonelli, Chrysler Corporation (right), contributors of $200,000 to the Grayson-Jockey Club Research Foundation, and Ed Siegenfeld, executive director, Triple Crown Productions.

Panelists (left to right) G. Watts Humphrey, Jr., Judith S. Heeter, John Ed Anthony and Helen Alexander (moderator).

Ogden Mills Phipps: I made a call to the industry to make 1994 a year when we gave total commitment to the health of the horse by supporting the fund-raising efforts of the Grayson-Jockey Club Research Foundation.

In early Spring we were fortunate to find the right person to head Grayson. He's well known to most of you through his writings in *The Blood-Horse,* the *Thoroughbred Times* and other leading Thoroughbred publications all over the world. I hope all of you have seen his newest book, with a Foreword by Steven Crist - *The Jockey Club's Illustrated History of Racing in America,* which is now available through The Jockey Club, or at your local bookstore.

Here with an update on the Foundation is our new Grayson president, Ed Bowen.

Progress in Research

Edward L. Bowen: Ladies and gentlemen, it is a particular pleasure to be on your program today, for it coincides with a very positive announcement. Yesterday, the board of directors of Grayson-Jockey Club Research Foundation approved the highest total for grants in its history. This funding, totalling $600,000, was made possible in large part by receipt of a grant from Chrysler Corporation. It is my pleasure to make public the fact that Chrysler had contributed the sum of $200,000 to the Grayson-Jockey Club Research Foundation to be used in the next fiscal year for research projects related to the health of the horse.

I would like to introduce Mr. Jeff Leonelli of the Chrysler Corporation. I would also like to thank the board of Triple Crown Productions and their executive director, Ed Seigenfeld, for their support, encouragement, and liaison, culminating in this $200,000 donation.

As you know, Chrysler also underwrites the $5 million bonus for any three-year-old which can win the Triple Crown. I think racing is fortunate to have such commitment from one of the major corporations in American industry. The Foundation's role is to make certain this generosity is used wisely and efficiently, and the Chrysler funding, like all of our grants, will go to support research which has stood the stringent review of our Scientific Advisory Committee as well as review by the Veterinary Advisory Committee.

So, we launch the 1994-95 fiscal year with a total of $600,000 pledged for 18 projects. As I said, this is a record for the Grayson-Jockey Club Foundation, which is the leading source of private funding for equine research. The $600,000 figure represents the first time in the Foundation's history that more than a half-million has been distributed for research in a single year.

Work currently supported by Grayson-Jockey Club ranges from reproductive to disease to a strong emphasis on safety and care of horses at the race track. In addition, of course, there are many developments in research not directly tied to our Foundation. Next month, groundbreaking will be held for a new equine research facility at Ohio State University, where the Galbreath family long has been a major supporter. In California, the horse racing board finances its necropsy program and we are pleased to fund the analysis aspect of this research which is also utilizing nuclear imaging to detect incipient injury. At the University of Kentucky the Foundation supports Dr. David Granstrom's work to identify the agent of Equine Protozoal Myeloencephalitis in horses, which is a very serious problem, as breeders, owners, and trainers are well aware.

Of course, there are some other exciting developments in equine research not directly related to Grayson-Jockey Club. Next month, ground will be broken for a new equine trauma center at Ohio State University, where the Galbreath family has long supported equine research. In California, the Horse Racing Board finances the necropsy program and also reported recently 68 cases of their scintigraphy scanning detecting potential bone problems that were not diagnosed by other means. Grayson's role is in supporting Dr. Susan Stover's work in analyzing the results.

Another potential development in equine research occurred when Middle Tennessee State University recently received a bequest totaling $20 million for horse related activities. A portion must be used to build a new stadium, but I am hopeful that some of the grant will go to equine research. Gary Carpenter, executive director of the AAEP, knows the individual in charge and he and I will be willing to meet to give any help we can. I don't think the conditions of the bequest make it possible for any of the funding to come to Grayson, but, that is not the point. If we can help them arrive at some priorities both Gary and I will be glad to assist.

It was a year ago that Ogden Mills Phipps, as chairman of The Jockey Club and host of this conference, issued a call for action in the realm of equine research. To paraphrase, Mr. Phipps declared his intention that the centennial year of The Jockey Club would be the occasion for a dedication to the health of the horse. Specifically, in response to Mr. Mellon's $1-million pledge to the endowment of the Foundation, the chairman undertook to solicit a matching amount from members of The Jockey Club. This kickoff segment of the drive would be followed by solicitation of all levels of the industry and even beyond.

Solicitation at The Jockey Club level exceeded a match of Mr. Mellon's grant. As of the end of the Foundation's fiscal year, June 30, a total of $2.2 million had been contributed or pledged by members, including the original $1 million. It is important to note that this specific aspect of the endowment drive is a one-time only request, not an annual appeal.

Many in this room are among the most generous contributors to this effort, and we thank you. I would ask one more thing of those of you who have given, and that is to canvas those friends and associates with whom you are comfortable speaking of such matters. Make sure that anyone who has not contributed has made a conscious decision on the matter, rather than merely having not thought about it.

The long-term endowment drive continues on several other fronts, as well, with the ultimate aim of increasing the corpus sufficiently to generate $1 million annually for equine research.

One element of the endowment drive was launched with the help of William Condren and Joe Cornacchia, who pledged one percent of the stakes-race earnings of Go for Gin and their other horses. John Hettinger, co-chairman of the Foundation, immediately signed on for a similar pledge. Since Nick Zito trains for both of these stables, he surely has a lot of people rooting for him on behalf of Grayson. We call this program Racing for Research, and we have been gratified by the response it has received in *The Daily Racing Form* and other trade press. A prominent advertising effort appears in both *The Blood-Horse* and *Thoroughbred Times*.

I am pleased to announce that the owners of Lure, both the Hancock family and Mrs. Perry, although they have supported Grayson in other ways already, have dedicated one percent of that grand horse's earnings to the Foundation. This began with Friday, when he won the Bernard Baruch Handicap with me rooting him on adamantly.

Also, Mrs. Penny Chenery and Tommy Valando have agreed to contribute percentages to the Racing for Research program. I have always hoped Mrs. Chenery would come up with some more champions; now, I insist on it.

Another effort which the board has approved is funding for a series of conferences on safety and health of horses at the race track. This will involve closed-door sessions with a number of horse owners, trainers, jockeys, race track management and track maintenance experts, research scientists, and veterinarians. The first conference will be held at Del Mar on Aug. 31, and I plan to conduct others in New York and Florida before the end of the year.

Out of these conferences we hope to develop a priority for various problems to be undertaken by research institutions. This we hope will increase Grayson-Jockey Club's ability to assist in influencing the direction and speed of research, in compliance with the industry's wishes. The academic community is very responsive to the needs and priorities of the industry, and the series of conferences should assist scientists further in the decision making as to what subjects to propose for the laboratory.

When I joined Grayson-Jockey Club in March, it was soon evident that one of our goals should be enhancing the image and visibility of the Foundation and its achievements and goals. Accordingly, Dr. Ed Ford, our director of research, and myself began a program of periodic press releases, updating the media on specific ongoing projects which benefit from Grayson-Jockey Club funding.

This program has met with the sort of success we had hoped. The first such press release involved Dr. Liu's work at the University of California on fertility, and became the basis of a cover article in the magazine *Modern Horse Breeding*, which is owned by *The Blood-Horse*. The Blood-Horse Charitable Foundation, as you know, contributed $10,000 to Grayson earlier this year.

A later press release updated the media on Dr. Horohov's fascinating research on the effects of exercise and other stress on the immune system of horses. This project at Louisiana State University has attracted the interest of the United States Army, which is always faced with a high sickness rate of new trainees. This press release was the basis for a thorough article published in *Thoroughbred Times*.

The trade press also was very supportive in reporting the launch of our Racing for Research program. Obviously, these are professional publications. They don't just print something merely because you send it in. The emphasis which the trade press and general press has put on our projects underscores their own interest and support of equine research, for which I am very grateful.

We also have received gratifying cooperation from race tracks in agreeing to run our printed and video advertisements as space and time permit. NYRA has been especially cooperative, playing our 30 second television commercial daily, not only on its own in-house monitors, but in its farflung simulcasting network to other tracks, other countries, the Caribbean, etc. This is not a small favor; it it is a large favor. As a charitable foundation, we would not be in position to pay for so much advertising.

Another stage of our endowment drive will be to develop programs in which we solicit the cooperation of race tracks. By this I do not mean simply dropping by with our hands out and assuming a track will earmark a percentage of handle for good ol' Grayson. I am proud of what we are all about and believe very much our cause is a good one, but I also recognize that there are a lot of worthy causes out there. I believe our job is to work with individual tracks to seek some program that they regard as beneficial to their best interests as well.

Just as we hope individual contributors will believe that their industry is well served by research, we hope that race tracks, in a day of decreased size of fields and increased scrutiny by animal welfare groups, will regard signing on to help equine research as good business as well as good charity.

I am happy to report that Fred Grossman, former editor of *The Daily Racing Form*, has come on board to assist in promotions with the race tracks.

To summarize, I believe we have momentum in various avenues at Grayson-Jockey Club. I see our role as assisting your industry and sport in several ways:

First, the straightforward proposition of funding scientific research which will enhance the ability to keep horses sound and healthy and to treat and save them when emergencies do occur;

Second, to promote the increased knowledge of the nature of the horse and its physical relationship to what we ask of him, so that the genetic direction of the breed proceeds with reasoned choices;

And third, I believe our Foundation has the ability to help your industry make the statement that it is properly committed to the welfare of the horse.

This third point, of course, involves an aspect of public relations, specifically the PR of answering concerns of animal welfare groups. I hasten to underscore that I see good PR as a byproduct of good policy, not the only reason to pursue good policy. We seek to do the right thing on behalf of the horse because of a love and respect of the animal. In this pursuit, the Grayson-Jockey Club Research Foundation is your constant ally. Thank you.

Ogden Mills Phipps: Ed's done a lot of work and made a lot of progress. And especially we want to thank the Chrysler Corporation for their generous support this year.

But we really have only started the ball rolling. And any of you sitting here in this room who haven't yet made your commitment to the cause, I urge you to do so. It is the responsibility and I think it's a duty and every one of us in here needs to support equine research.

Ogden Mills Phipps: It isn't by chance that we've been reading a lot in our trade press recently about ownership. We hear about the ranks of our owners continuing to decline. We read how, on both coasts, owners have formed new alliances aimed at ensuring that their interests are better represented.

The role of owners in the future of Thoroughbred racing, therefore, is a most appropriate and timely subject with which to close our conference this year. Especially so because it was the determination of a group of owners which, 100 years ago, originally brought responsible organization to our sport with the formation of The Jockey Club.

I'd now like to turn proceedings over to Helen Alexander, who will moderate the discussion and introduce our panelists.

Panel Discussion: The Role of Owners in the Future of Thoroughbred Racing

Helen Alexander: Our first panelist, Watts Humphrey, is fortunate to have been a part of a long heritage of active involvement in breeding and racing. A second generation owner-breeder with 30 horses in training, Watts Humphrey is one of the most respected of racing's leaders.

He owns Shawnee Farm near Lexington, Kentucky. He is a member of The Jockey Club and serves on the boards of directors of The Breeders' Cup, Keeneland Association, TOBA, and the National Museum of Racing. He is the new chairman of the North American Graded Stakes committee and chairs the TOBA Publications Committee, which publishes *The Blood-Horse*.

Watts Humphrey . . .

G. Watts Humphrey, Jr.: Thank you, Helen. Good morning ladies and gentlemen.

In many ways, there's nothing new about what we are here to discuss this morning. We are at the very core of horse racing. From the beginning, racing needed two elements: horses to race and places to race. In today's vernacular, we're referred to as owners and race tracks. As Helen alluded to, that gap has widened from where it had been in the past.

We've always co-existed during this time. But, as you may expect,with any relationship that has transcended centuries, there have been peaceful times and turbulent times. I'd like to refer to a few of those to get to where we are today.

A little over a hundred years ago our sport of Thoroughbred racing found itself in the hands of an organization called the Board of Control. While the intentions of the Board of Control may have been honorable, it was dominated by owners of race tracks.

They, understandably, tended to put their own interests ahead of those of owners.

So it came about, 100 years ago, that a group of owners gathered together in December, 1893 in the Fifth Avenue Hotel in New York City to protest against the reduction of the value of sweepstakes and purses, which the racing associations had announced as a result of a decline in revenues that season.

This meeting was chronicled by Walter S. Vosburgh, and I quote: "In an address to the meeting, Mr. James R. Keene took the ground that the Board of Control was unequal to dealing with the exigency that had arisen, owing to its defective organization.

"A majority of its members were representatives of racecourses, hence took the interest of racecourses as paramount. The balance of power" said Keene, "should be invested in the owners of race-horses, who had no pecuniary interest in race-meetings but in the general welfare of racing."

"The general welfare of racing" as opposed to individual gain was the keynote of that gathering, which in turn generated a series of meetings. This spirit and those meetings led to the formation of The Jockey Club of New York early the next year, in 1894.

Two decades later in Kentucky, the Thoroughbred Horse Association was founded in reaction to this same conflict between owners and racetracks.

Secretary Thomas Cromwell wrote an article entitled "How It all Began" for the silver anniversary of *The Blood-Horse*, and I quote: "I presume readers of *The Blood-Horse* generally know that this magazine evolved from a little bulletin which was published by me for the now defunct Thoroughbred Horse Association. I presume also that it is quite generally known in racing circles that the organization of the Thoroughbred Horse Association, pioneered by a group of Kentucky breeders, was necessitated by paucity of purses and the disinclination of race track owners voluntarily to increase distribution to the horse owners who were then, as now, and as always, making possible the existence of the sport - and gain for the track owners."

There is, in short, nothing new about owners wanting the chance to win their fair share of the pot. And that, frankly, is as it should be when the owners are the sportspeople who finance the product without which there would be no racing.

Along the way, a lot of other things happened, some negative, some positive. The HBPA was born and in many instances was the most successful bargaining entity over purses. The pari-mutuel system became the norm and the exclusive gambling franchise granted by states brought with it increased state regulation and powerful state racing commissions. The American Horse Council was formed, as a splendid example of cooperation to deal with some of these changes.

Racetracks also boomed in the post-war years; when Jimmy Kilroe wrote the article "Change in the Racing Scene" in 1966 commemorating *The Blood-Horse's* golden anniversary, he counted 50 new tracks that had opened since World War II. Yet, as Kilroe noted, this boom did not necessarily assure quality in racing. In fact, American racing had become so big, encompassing so many different interests, that the business of racing had become an affair where each entrepreneur scrambled for their share of the gold.

Big purses, for races run at shorter distances, and at more and more venues, increasingly shaped they way racing was conducted in America.

These historical references not only illustrate the ever on-going conflict between owners and racetracks, but also the inability of both sides to develop an effective mechanism to resolve these conflicts.

But in 1969, something happened that remains a testimony to the combined power that owners and racetrack management have when common interests prove stronger than individual gain.

When National Industries, a Louisville based conglomerate not involved in racing, attempted to secure a controlling interest in Churchill Downs, horsemen such as Warner Jones and A.B. Hancock created the Kentucky Derby Protection group and successfully thwarted the attempt. Just as Matt Winn bought Churchill Downs, a track that was losing money in 1902, in order to preserve the Kentucky Derby, these horsemen worked with racetrack management to preserve what they thought was important.

To quote the letter that was sent to all of the stockholders in Churchill Downs, it was better to remain with "stockholders primarily interested in Thoroughbred breeding, racing, and maintaining the tradition of the Kentucky Derby, rather than in any corporation which might well have business interests conflicting with these objectives."

It was a legacy that could not be measured solely by dollar value or earnings per share. I am not sure that is the case today.

So we have cooperated effectively in times of crisis. If we could learn to show the same effective cooperation as a normal course of business, this would be a much better industry.

Unfortunately, the principles of active owner involvement and cooperation between owners and racetracks are the exception rather than the rule. In fact, there is no single, guiding hand for the owner to influence decisions which have direct and long-term effects on the future welfare of racing. We owners, for all our tireless check-signing exercises, have little say in the business decisions of racing. Many decisions are made without our participation or, even worse, without our knowledge.

Racing has become a commodity being bartered helter skelter on the airwaves, with little concern for the long-term results. If it doesn't work one way, flip the switch, turn the satellite dish and bring in five more signals. And when they finally decide to try the really easy way out, they may just pull the plug and turn the race tracks over to slot machines and crap tables.

They often are forgetting one thing. They're forgetting the horse. The horse is the sport. The horse is the product. And the owner owns the product. Let me say that again. We own the product. Not the race track.

As such the owner has every logical reason and right to be a party in the decision-making process which governs how that product is used and how its future is to be protected and fostered.

That decision-making process does not stop with agreement on purse distribution. It ranges wide and far, from the long-term effects of whole-card simulcasting, to the potential hazards of a shrinking number of race tracks and live races, to the effects of the ever-increasing proliferation of other types of gambling.

As owners, we should, and will, claim the right to be a part of the decision-making processes which passes judgments on such matters and, in doing so, directs the future of Thoroughbred racing.

Thank you.

Helen Alexander: Judith S. Heeter is a shareholder and director in Shughart, Thomson and Kilroy, a major law firm in Kansas City, Missouri.

She has extensive experience in planning and structuring business opportunities involving publicity rights and other valuable commercial property rights.

Ms. Heeter and her law firm currently represent the Major League Baseball Players Association and the National Hockey League Players Association. She serves as Director of Licensing for the Major League Baseball Players Association and in that capacity has responsibility for drafting, negotiation and administration of all license agreements and enforcement of publicity and trademark rights on behalf of all active Major League baseball players.

Earlier this year, Ms. Heeter and her firm were retained by the Thoroughbred Owners and Breeders Association to advise with respect to the property rights of owners in the racing performances of their horses.

This morning Judy is going to share some of her thoughts on that topic with The Jockey Club Round Table.

Judy . . .

Judith S. Heeter: Thank you, Helen, for my introduction - and sincere thanks to the Thoroughbred Owners & Breeders Association for the opportunity to help you explore this important and timely topic and to discuss it today with such a distinguished group. I'm honored to be here. But we have a serious issue to discuss, as there could be few matters of greater importance to owners than how to re-position themselves for effective leadership of Thoroughbred racing today and tomorrow.

Technological advances have transformed entertainment industries around the world, creating opportunities, to be sure, but also creating problems in industries such as yours that have yet to adjust to the faster pace and keen competition for the entertainment dollar. As you know better than I, the Thoroughbred industry has experienced its share of frustration in making this adjustment and in perhaps in discarding some outdated traditions.

I do have more than passing familiarity with these issues, however, as I have spent my professional career on the frontiers of this developing area called intellectual property law, and I literally come to you today from major league baseball, another sport which is openly and notoriously attempting to reconcile competing business interests in a changing economic environment.

Like baseball, pari-mutuel wagering on Thoroughbred horse racing is very big business. In 1993 alone, more than 45 million people attended Thoroughbred racing in the United States and wagered 9.6 billion dollars. Thirty-six states conduct pari-mutuel betting on horse races, 32 of them also conduct interstate wagering. Much of this betting is conducted through simulcasts, live television broadcasts of races occurring at another location. In a very real sense, technology is dragging Thoroughbred racing into the 21st century; yet the racing industry, in many respects, still behaves as though the world were flat.

Ladies and gentlemen, I'm here to tell you that the world is no longer flat. Although conflicts between owners and racetracks are not new (and this kind of conflict certainly is not unique to your industry), increasing revenues from simulcasting, off track and intertrack wagering inevitably increase the conflicts as to who - trainers, jockeys, owners, breeders, tracks, or others - have the right to share in those revenues.

In some racing jurisdictions, the legislated or contracted splits of revenue are fair. In others they are not.

For example, I recently read that the new off track betting law in Ohio is the first in the country which treats a dollar wagered off track in the same way as a dollar wagered on track. Now, 50-50 splits might be very fair. Probably would be considered fair to most people, but, I wonder, what about the horse owners who provide the talent which generates the revenue in other jurisdictions where the splits are not so fair? I submit that:

1. Those owners do have rights in their talent;
2. That their rights are increasingly valuable;
3. That their rights are legally protectable and cannot be taken from them without just compen sation; and
4. That their rights are susceptible of being lost by unwary owners who unwittingly contract them away, waive them or otherwise fail to protect them.

Equally importantly, I believe that Thoroughbred owners have power they haven't yet discovered.

Of course, others have power, too, and it is important to recognize the balance of power in the industry in order to devise a fair split of revenues for the future. Unlike baseball, or hockey or any classic labor-management dispute, the economic conflicts in Thoroughbred racing divide along property lines. And remember that property - whether it's real estate, horseflesh or your pocketbook - can be taken away from you if you're unaware or unprepared.

One method by which track owners have attempted to take property rights away from owners is language in stall applications or race entry forms which states that the owners or trainers waive rights, consent to rights or assign rights to the tracks. There is a very real legal question as to whether any of this language is valid to accomplish its purpose. There's also is a serious question about the trainer's authority to contract in this fashion on behalf of the owner. But the practice in itself, it seems to me, is a tacit admission by the tracks that owners have rights.

The Interstate Horseracing Act of 1978 also plays a role in defining the relative rights of the parties in this dispute. This is a federal law that requires that before an interstate off-track wager may be accepted, the host track must obtain the consent of the horsemen's group. Again, there may be some difficulty from time to time in clearly identifying the horsemen's group in a particular case. But it seems very clear that the horsemen have the ability under this statute, quite literally, to stop simulcasting and off-track betting by exercising their power to withhold consent . . . unless, of course, they have given it away by signing an entry form or a stall agreement.

This controversy erupted last year in a federal court in Kentucky in the case called *HBPA v. Turfway*. I won't try to discuss that case in detail here and the case was settled before it came to final judgment. But before the settlement, two important things happened. First, the Federal Court of Appeals confirmed the constitutionality of the Interstate Horseracing Act and the veto power

that it gives to horse owners. Second, and equally importantly, the Turfway case represented successful collective action by horsemen against track owners. Asserting their rights at Turfway together gave horsemen more power than any of them would have had alone.

We can't talk about the rights of horse owners without acknowledging that there is no federal or state law which expressly says that owners own all the rights in their horses performances. It is my very firm belief, however, that these rights are implicitly recognized by the law. First, as I've explained, the Interstate Horseracing Act recognizes the rights of owners and gives them a veto power which at a bare minimum provides undeniable bargaining power when dealing with track owners or others concerning a split of offtrack revenues.

Owners' rights are also implicitly recognized in a new statute in the state of New York, which allows jockeys to wear advertising on their clothing. On one condition. And that condition is that the owner of the horse for whom the jockey is riding must first consent in writing. Again implicitly, the New York legislature is recognizing that the jockey appears in connection with the horse; that the horse is the property of the owner; and that no one can associate that owner's property for their own benefit for commercial gain without his or her permission.

Rights of horse owners are also founded in fundamental property law which has existed for centuries. One of the most basic of legal concepts is the right that an owner of property has to use his property and to exclude all others from using it. You may recall what happened to horse thieves in the Old West, for example. Similarly, race horse owners have the right to exclude others from using their horses without their permission. No one would argue that another person could ride your horse or have breeding rights in it without your permission. The performance of a race horse in a race is simply another element of ownership - another use - of that horse. And it follows that no one can take that use away from you without your permission, or at a bare minimum without giving you fair compensation for it.

Another lesser-known principle of law is the right of publicity. Traditionally, the right of publicity recognizes that a person has the ability to protect his identity from exploitation by anyone else. This is the reason that Coca-Cola or Nike can't put up a billboard of Cal Ripken or another famous baseball player wearing their shoes or drinking their product without his permission. The right of publicity gives him the right to stop that use by anyone else.

Traditionally, the right of publicity has been applied only to human beings. But there is support in the law for the principle of extending the right of publicity to cover horses. There's also authority in the law in the form of a United States Supreme Court decision recognizing that there may be a right of publicity in a performance. The theory being that if a performance is valuable enough to be taken by someone else for commercial gain, then the performer is entitled to prohibit anyone else from misappropriating that performance.

Another area of the law which gives support to the owners' position is the law of unfair competition. The theory here is that in simulcasting a race there is an implicit, and in this case, sometimes false assumption being made that the owners have sponsored or in some way sanctioned the simulcast. The laws of unfair competition act to stop that simulcast unless in fact that consent or sanctioning has been given.

All of these legal theories, I believe, establish that horse owners may not have their property taken from them to enrich others unless they knowingly and willingly agree to the taking. But there is one additional right which horse owners have that could not and should not be forgotten here. In addition to the strength of their legal arguments, horse owners have the right to refuse to race their horses at any track which does not treat them fairly, as well as the ability to act collectively, at the bargaining table or otherwise, to assert their rights. Horse owners must not be naive. In order for their legal rights to be meaningfully asserted, they must act together, to make it clear that they have not only the right, but the power, to demand a fair shake.

Can you imagine, for example, what kind of clout could be achieved if just the owners in this room today decided to band together under a single unified leadership organization to negotiate for a fair distribution of revenues with the racetracks that are represented in this room this morning? I have been told that just the people in the room today probably own several hundred - maybe even a thousand or two - of the stakes and allowance horses currently in training. That, ladies and gentlemen, is power!

Opponents of a collective strategy on the part of owners will probably be quick to point out that litigation frequently results from collective action. I certainly would not want to minimize the risk of litigation, but I have analyzed the most obvious legal exposures and concluded that it would be very difficult for uncompromising racetracks to successfully challenge or overcome owners acting together in the courts.

I believe that owners should be prepared for litigation, but I emphasize that litigation is not the goal and it need not have to be the result in this kind of an economic conflict. In fact, I think used effectively litigation is simply one more tool to extend with the invitation to talk.

In summary, I'd like to suggest that the role of owners in Thoroughbred racing depends not only on their legal rights, but on their ability to organize effectively under sound leadership. As in most contests, success in this arena will be determined by a combination of power and skill.

Owners who are inexperienced in such matters, who are unable to devote the time or unwilling to devote the time, or simply unwilling to be adversarial, should consider entrusting the enforcement of their rights to a representative organization, with skilled negotiators who will act in their best interests, on their behalf, and at their behest. Only with effective organization, preparation and sound leadership can Thoroughbred owners establish a sound basis for the racing of tomorrow.

Thank you very much for the opportunity to be here today.

Helen Alexander: Our final speaker is John Ed Anthony. He is to me the personification of the modern multi-state, multi-racing circuit owner. Last year he was licensed in 15 different states. And he has the fingerprint stains on his hands to prove it! He has more than 30 horses in training.

John Ed is a member of The Jockey Club and serves as a Vice-President and Trustee of the TOBA. For twenty years he has been an active owner and breeder and has campaigned such standouts as classic winners PRAIRIE BAYOU, TEMPERENCE HILL, and PINE BLUFF, and handicap champion VAN-LANDINGHAM.

John Ed is an activist. He speaks his mind and has no reservations about saying what he thinks. We are all looking forward to his comments today.

John Ed . . .

John Ed Anthony: Thank you, Helen. Mr. Chairman, ladies and gentlemen.

The nominal subject of my remarks is entitled "Problems Facing Current Owners," a broad subject - and, of course, the problems are many. Let me touch on a handful before moving to what I consider the core issue.

Clearly the massive cash losses being suffered by owners ($1.2 billion in 1993) is a problem. This is well documented in *The Blood-Horse* by David Heckerman. In reality, this $1.2 billion difference between training costs and purses - $11 billion in the last 10 years - is nothing more than outrageous subsidy being paid by owners to tracks and government.

Let me also share one of the products of my extensive research and analysis. I have moved from being a mild critic of off-track betting to a strong advocate because of its now massive contribution to purses. I also learned - to my shock and surprise - that in some instances off track betting contributes more of its handle to purses than on track.

It seems that during the transformation of the wagering process, when all the new factors were introduced - OTB, ITW, simulcasting - the split has gotten out of hand. Owners have not been properly involved in the decision making or adequately represented in purse negotiation.

This problem will only be solved when a representative of owners draws up a chair at the table in every state where racing exists with the authority and clout to negotiate an equitable distribution of all revenues generated by the use of the horse.

Let me quickly add that I believe it necessary that this representative of the owner be a hired professional. The issues are complex and there are 36 different states with varied statutes and regulations to deal with.

This need not be a fearful thing for tracks. Owners understand business principles. In most instances an equitable split can be accomplished by the reallocation of only a small percentage of the revenues.

Another point. The tax codes are a serious negative for today's owner. In my time as an owner I've seen yearling depreciation schedules go from 3 to 7 years; mares from 5 to 8. A huge amount of our Thoroughbred capital is now locked in - we've lost our churn.

Some of the points I've mentioned you will have heard before; some you may not have considered at all.

But there is one problem which

now confronts owners - and everyone who makes their living from racing as well - which dwarfs all other problems. That issue is casinos, which I believe represents the greatest threat to our industry in modern history.

Most of us have vacillated on the question of racetrack sponsored casino gambling. It's been difficult to clearly focus on what was - or is - being proposed and how it will impact us.

However, recent developments and statements by racetrack principals have been very revealing. I believe we can now see what is in store for racing if we leave our fate to those who wish to convert racetracks into facilities offering both racing and casino gambling.

Our problem is not casinos per se. Our industry can't influence the spread of casinos across America. Our problem is casinos at the racetrack. We can - and must - influence that.

Many people prominent in racing own or have interests in tracks. They are leaders in our organizations. We do not wish to confront or go to war with them. However, those of us who focus on the horse are being forced into a desperate situation - and a firm response is required.

As the industry has struggled with more competition from every side, it has become increasingly apparent that horse owners and track owners are once again in an adversarial relationship. Horsemen have convinced themselves that "we're all in this together" and that "the tracks must have the horses" and "they can't survive without us." While that logic may have been sound at one time, efforts by tracks to move to casinos now refute that position. Some tracks are stating very clearly - in a number of ways - some obvious - some less so - that they are giving up on Thoroughbred racing. They are getting out of the racing business and moving to casinos. However, they are not doing so in a straightforward way and in many cases do not appear to be sensitive to what they leave behind.

Some tracks are using their state granted pari-mutuel licenses as an excuse to also offer casino gambling. We've seen how efforts to allow Indians to conduct traditional tribal games have been expanded far beyond anyone's wildest dreams. Clever lawyers, gambling company managers and equipment vendors are in the process of attempting to extrapolate charitable gambling laws into wide open casino operations in some locations.

These efforts are not going unnoticed by the tracks. They say "let's keep all gambling in the same place" or "we're already here, why clutter the landscape with more gambling establishments?" That sells well to the public, and the tracks know it, but what they propose to give back to racing is a mystery. Tracks talk about "improving purse structures" and "helping racing." However, despite frequent general statements implying that a percentage of the "win" from casinos will be dedicated to purses, nowhere have I seen a figure. In fact, significant effort has been made to avoid answering that specific question. What we usually hear is "trust me."

Mr. R. D. Hubbard has been candid in his statements. According to *The Daily Racing Form*, he made it clear that horsemen are not in line for any casino profits. And I quote, "We have an agreement with the horsemen . . . and there is nothing in the contract that involves the card club at all."

He further states, "This is the wave of the future. Cella, Duchossois and Meeker are trying to do the same thing."

Mr. Hubbard appears well informed.

In Arkansas, Oaklawn's bill to allow casino gambling at the track will be on the ballot in November. During the petition drive, Oaklawn management was often quoted in the press as saying that casinos would improve purses, frequently projecting a level of $400,000 a day. However, in the 20-page bill, no mention is made of the casino making a contribution to purses. In fact, Thoroughbred racing is not mentioned at all.

And the early results of jointly owned track and casino are beginning to come in. At Louisiana Downs, the joint ownership of a riverboat and track was heralded in May as a marriage made in heaven. Three months later the track is cutting purses 15 percent - small stakes by 22 percent - and eliminating a graded stake.

Casinos are our competition - poison to racing. We must not allow tracks to lead us to accept the argument that racing and casinos are compatible, for even they know that they are not. In the same location, under the same ownership and management, either casino gambling or live racing will die, and we know which it will be.

Once horsemen accept the fact that such tracks and their owners have no confidence in the future of racing and are rapidly moving toward the development of casinos to replace or utilize their racing facilities, it should be easy for us to recognize that their promotions are for their own benefits, not ours, and that our future must not rest in their hands.

But, as bad as that is, it is not the most dangerous part of where we are headed if the tracks have their way. As tracks move to casinos, they also want to continue to control racing. Under present conditions the question of "who owns the signal" is an issue between people who own horses and people who own tracks for horses. What we are about to be exposed to is a situation where the people who seek to control the signal or control the conditions of racing are not even focused upon racing; racing may be only a sideline to a major casino operation. Unless we prevent it, major casino companies may control racing.

Let me offer the scenario I believe will unfold if we allow the tracks to do with racing as they please. If a casino becomes a part of a racetrack, the focus will naturally be for portions of existing facilities or grounds to be converted into a casino. Most available capital will be invested in the construction and development of casinos. This will inevitably result in the decline of racing facilities.

Obviously the tracks will have the capability of focusing the public's attention toward whatever facet of its operation it chooses. That will be the most profitable and trouble free operation.

While a number of prominent track owners say that they "want to help racing," and I believe they're sincere, how long before major casino companies reach out and buy the prosperous track-casino? How long will live racing exist when Vegas corporations own the tracks?

As leaders of our industry it is our obligation to find ways to ensure that racing continues to exist in a viable form.

It's also important, I believe, for us to recognize a bit of our own persona. Most of us are entrepreneurs. Most of us believe in the free enterprise system. Most of us respect property rights and most of us have a difficult time with the idea that we should force our views upon our friends and associates who have invested enormous sums in racing facilities.

I believe what we can agree on is that we do not wish to try to tell track owners that they cannot turn their racetracks into casinos. My position is that those in authority in the various states should require tracks to make a decision. Be a racetrack or be a casino, but not both. To be a casino, the track should give up its license to be a racetrack. Let someone else be the racetrack.

Only a few decades ago baseball was king. Suppose the commissioner of baseball had argued that since they provided the public with sports entertainment, they should control all sports. Where would pro football be today if the owner of the Yankees owned the football franchise - and the hockey - and the basketball? Only a few years ago - 1980 - the NBA finals were telecast in tape delay - after the late news. Where would basketball be today if it were controlled by another entity competing for the entertainment dollar? Why should casino owners control racing - any more than a football franchise should control hockey?

The casino movement will almost certainly cause racing significant grief. Racing may have to downsize. It will certainly have to adjust. However, we must take a position to ensure that racing will survive. This done, we can seek methods to grow our industry and to claim our rightful place in the field of sport and entertainment - smaller, larger - it will be up to us to influence the decision.

It must not be left to others to deal our fate.

The same professionals to be hired by horse owners and breeders to negotiate the splits with tracks should be in place to support state organizations in their efforts to pass laws, change statutes, appear before panels, offer legal advice and promotional materials to enhance each state's effort to expand the Thoroughbred industry.

Of course, we must have a place to put on our show - a place where people who love horses and love horse racing can attend (as thousands do every day - even with casinos available). The scenario I consider likely is that if those in authority in state government will require tracks to choose between racing and casinos, some tracks will choose racing.

In some areas, we may have to race in an open field and view the events from tailgates and the backend of pickup trucks. But we will control our industry. And we will be free to go forward in ways we believe in our best interest . . . without casino issues being a factor . . . just as all other types of competing sports do today.

For years we have complained that tracks have failed to promote our industry; that tracks have been slow to innovate and to move in sophisticated ways to improve our audience and interest in our sport. If they leave us, we can take the lead. I'm convinced that the first critical step for racing is to coordinate our efforts to pass the Thoroughbred Horse Industry Promotion and Research Act of 1994 - the check off legislation. I challenge those of you who don't like this idea to show us a better way to raise $25 million dollars to promote our sport!

We must defend our turf. We have a good product! Racing has a significant audience which we should work to service and expand. We now know that you do not have to be at the track to wager on a race. This is not true with casinos. This is where we have the edge. Casinos cannot have remote wagering on their most lucrative fast-paced games. Give the public the right to choose how it spends its entertainment dollar. Racing will survive and gain new heights if it will grasp the wave of the future by moving toward more simulcasting, interactive television and electronic wagering.

And hopefully, while in the process of making all this happen, the owner will be allowed to earn a fair share!

Keep in mind - change is not always bad. In fact, considering the current economics of the owner, I welcome change.

Thank you.

Closing Comments

Helen Alexander: That's a tough act to follow! I guess we'll all have to come next year to hear John Ed's real "fire and brimstone" speech . . . which he decided not to give this year!

Thank you John Ed, Judy and Watts. Thank you all very much.

You have all given us many stimulating thoughts to consider in coming days and weeks. And you have challenged us thoughtfully and professionally to do something about the issues you have raised.

John Ed, I remember well a TOBA Executive Committee meeting in Lexington last fall when we were struggling with some of the questions you and Judy discussed this morning, and, with arms uplifted, you urged us to quote "do something . . . just do SOMETHING!'

He's right! That's just what we intend to do . . . do something.

So let me add a concluding thought or two about what that "something" ought to be.

I love this game. I know you do, too. Otherwise you probably wouldn't be here today. And there are thousands - indeed tens of thousands - of others who are not here this morning who love this game, want desperately for it to survive and succeed, and would like to help make it better.

As an owner and breeder, I have serious concerns about the direction in which our industry and sport are headed.

On the industry side, and by that I mean the financial side, we are in a time of change that has come so fast and furious that we are almost at a loss to come to grips with it. The new technologies of this world have embraced us, but how will they affect us?

When race tracks need us they do not hesitate to come to us. When they need our numbers, our geographical reach, our diversity and, yes, our clout - then they come to us. Then we are some of their best friends.

But when it comes to many of the revenue matters which directly affect us, race tracks do not think we need a seat at the table.

They routinely ask our trainers to sign away our consents to interstate simulcasting and broadcast rights on stall applications and stakes entry forms, but are reluctant to disclose the economic terms or, in many cases, meaningfully share the economic benefits of those same broadcast agreements or simulcasting arrangements.

They are quick to tell their shareholders that "simulcasting is going through the roof," but they apparently don't think the owners have a significant stake in the sharing of those expanded revenues.

It seems everyone has the right to make a profit - race tracks, jockeys, trainers, veterinarians, agents - everyone. Everyone, that is, except the owners . . . the owners who have lost $11 billion in the last ten years.

While this figure may not surprise you, it should jolt you into the reality of why the industry is losing owners.

Owners are not only disenfranchised. They are disenchanted.

I am here today to serve notice on race tracks, and on the industry in general, that owners are aware of their rights, and the value of those rights. They are no longer prepared to stand still while those rights are taken away from them.

It's time for the owner to pull up the chair at the table.

Helen Alexander

G. Watts Humphrey, Jr.

John Ed Anthony

Judith S. Heeter

Ogden Mills Phipps: I think you can say we've had a number of very diverse thoughts today. I really believe that this has been the case for a number of years.

There is one thing about these meetings however, which really disturbs me. Year after year we have gathered here and called for unity. Countless times The Jockey Club has called for committees to discuss this problem or another. Horsemens' groups, race tracks, almost every segment of our industry calls for unity. But, while the words have been strong on good intentions, results, if anything, have been weak. The calls for unity, correct as they may be, have resulted in inaction.

While we may bemoan the fact that our quest for unity has so far resulted in nothing but stagnation, it's important to remember that unity in itself and of itself is not our ultimate goal. Our goal is action. Action resulting in the betterment of this entire industry. Calls for unity are only the means to achieve that action and those results.

That quest for unity has actually become a diversion. What is becoming clear is that we can't have unity without action . . . so, let's start the action. From successful action may come the unity which we've all been looking for so long.

Our industry needs an action plan to meet head-on each and every challenge that faces us. Unification will come as we pull together to implement those plans.

I should stress that I'm not talking for myself or for The Jockey Club. During the last few days here in Saratoga the same sort of frustrations have been expressed by others. From these discussions and exchanges a small group of organizations has emerged with an agreement to get together to try to fulfill our obligations as responsible industry citizens.

Representatives from the TRA, Breeders' Cup, TOBA, and The Jockey Club have discussed this and will meet every single month. We will start tomorrow.

We're going to be looking at a strategy for television. We simply can't wait another year without taking some positive action about it.

We need more racing on television. We need a racing channel or a network. We need to plan for the world of interactivity and in-home betting. This industry needs a stragegy to deal with casinos. It may well be that different action is called for in different geographic and demographic areas, but we just can't sit back passively and let things develop at random. This is certainly an issue within the TRA as well as with owners.

Yes, and we must also discuss how to expand our total business, and I mean both horsemen and track owners. Owners need to be heard and they must be equal partners at the table with race track owners. Race tracks will not be viable without strong owners. And both groups need to join in the solution.

Ladies and gentlemen, we have tried it every other way. And it just hasn't worked. The more people we assemble around a table, the less gets done.

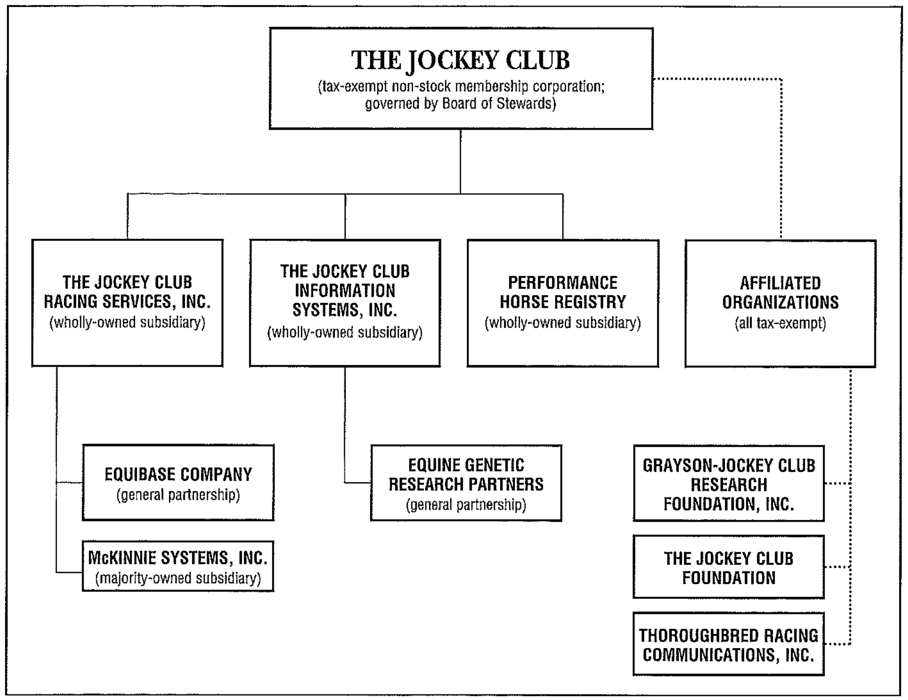
Our large committees fade almost as soon as they are formed. 100 years ago motivation and dedication to Thoroughbred brought order to racing in this country. This year I pledge the same motivation and dedication in our efforts to influence a healthy and prosperous industry far into the 21st century.

The help and support of everyone will be needed if we are to succeed. I really thank you in advance in this endeavor, and we look forward to seeing you next year at our Round Table conference where we can present our proposals, our failures and our successes. Thank you very much.

Annual Report of
THE JOCKEY CLUB
AND RELATED ORGANIZATIONS

The Jockey Club

Responsibilities of The Jockey Club consist primarily of maintenance and publication of The American Stud Book in a manner which insures integrity of the breed in the United States of America, Canada, and Puerto Rico. As an organization dedicated to the improvement of Thoroughbred breeding and racing, The Jockey Club also pledges its support and assistance in all matters concerning the Thoroughbred industry.



REGISTRY

The primary responsibility of The Jockey Club is to maintain and publish The American Stud Book in a manner which insures the integrity of the breed in the United States of America, Canada and Puerto Rico.

FOAL CROP DECLINE CONTINUES BUT REGISTRATION FEE STILL ON HOLD

The projected 1994 registered foal crop of 34,600 represents the eighth consecutive year that the foal crop has decreased.

In the 1985 breeding season which produced a record 51,293 registered foals, 92,921 mares were reported bred.

During the 1993 season, an estimated 62,000 mares were reported bred. This represents a decrease of 33% in the number of mares bred against 1985 statistics. During the same period the number of active stallions declined by 25%, from 8,585 to 6,450.

In spite of these declines and the resulting drop in revenues used to support the fixed costs of the Registry, the basic registration fee has remained the same since 1987. This is being accomplished by simplifying registration procedures and expanding data services to the breeding industry.

The simplification of these procedures has in no way threatened the integrity of the American Stud Book, however, which continues to boast the highest standards of integrity.

The registry continues to seek improvements and long term security of basic registration fees by vigorously pursuing all avenues of technological and scientific advance, including the drive to lead the world by introducing DNA-based techniques for parentage verification.

If successful these efforts could result in indirect savings to breeders.

In other areas, the Registry is undergoing a complete re-engineering of its processes and computer systems with a view to streamlining registration procedures. The effect of this advanced technology has already been felt in the naming of horses where the approval of names - a procedure which once could take weeks - can now be secured within hours.

TJCIS

Incorporated in 1989 as a wholly-owned for-profit subsidiary of The Jockey Club, all the profits from which are reinvested in the Thoroughbred industry, helping to stabilize Registration fees and funding industry projects.

ENHANCED DATABASE HERALDS SECOND GENERATION INFO SYSTEM

The Jockey Club Information Systems, Inc. (TJCIS) is aggressively taking advantage of the opportunity afforded by the migration of The Jockey Club's computer systems, combined with the availability of additional Equibase data, to make significant enhancements and additions to its on-line information service, Equine Line.

TJCIS is using this opportunity to apply the knowledge gained over seven years of Equine Line operation to build a more comprehensive, versatile and user-friendly line of reports. Customers will be given capabilities that are unprecedented and unique to the marketplace. The design and layout of the "new " Equine Line is TJCIS's number one development priority for 1994. Initial introduction of the new product line is scheduled for first quarter 1995.

TJCIS continues to be the industry leader in preparing camera-ready catalogue pages for North American Thoroughbred sales. The same unique skills and pedigree knowledge of the cataloguing staff is also being used to produce such useful products as pocket pedigrees, consignor updates, parchment pedigrees, etc.

The Software Consulting Division continues to expand its services in both equine and non-equine related areas, which has lessened the division's financial vulnerability to Thoroughbred industry fluctuations. The growth of this Division reflects the potential for technology-related services in the nineties. The Consulting Division continues to position itself in such a way to capitalize on these opportunities by building a staff of widely diversified technological experts.

EQUIBASE

A partnership between The Jockey Club and TRA to establish a single industry-owned database of racing and pedigree information.

INDUSTRY'S DATABASE HEADED FOR INFORMATION SUPERHIGHWAY

Equibase continues to consolidate its position as industry provider of past performance information for use in racing programs and other information services to the benefit of racing fans.

The race track program revolution, triggered by the new availability of industry-owned historical racing data provided by the partnership, is virtually complete.

Services have been extended to almost all the major race tracks in the country, in addition to simulcast support at 65 receiving sites and an expanded customer base of a wide variety of communications, information and handicapping services. In fulfillment of the initial goal of the partnership, detailed racing information is now easily and economically accessible by a wider range of the general public than ever before.

The performance database, which already contains information on more than 2 million starts at every race track in North America, is now fully integrated with The Jockey Club's central database.

Service agreements have made it possible to enhance Equibase Company past performance lines with handicapping information, including speed figures and, now under test at the current Saratoga meeting, class and pace ratings. These refinements afford the general public access to sophisticated handicapping aids previously available only through subscription to costly publications and private handicapping services.

Equibase Company is now actively exploring a variety of new opportunities to expand its reach and help the industry capitalize more fully on the database it has built. Continuing improvement in cost-effectiveness, the quality of information and the speed of service are matters of top priority as the Company pursues the immense potential of the "information superhighway" explosion.

EGRP

A general partnership between The Jockey Club Information Systems, Inc. and biotechnologists Molecular Tool, Inc. Its first project is to develop a commercially viable DNA test for equine parentage verification.

STATE OF ART LAB OPENED FOR DNA PARENTAGE VERIFICATION TEST

Equine Genetics Research Partners (EGRP) opened a state-of-the-art testing laboratory at the Johns Hopkins Bayview Research Center in January. The new facilities are specifically designed to handle the high-volume DNA-typing demanded by implementation of DNA-based parentage verification as a requirement of Thoroughbred registration in The American Stud Book.

The initial transfer of proven science to a production line environment needed more fine-tuning than anticipated, but the DNA-typing implementation program continues to follow a carefully monitored and logical progression.

Development of the DNA-based parentage verification test by Molecular Tool, The Jockey Club's partners in EGRP, has been monitored by a distinguished Scientific Advisory Committee which includes 1993 Nobel prize-winner, Richard J. Roberts. The innovative test has received much interest from the genetic community, as evidenced by a major contract Molecular Tool has signed to adapt the equine test for human application.

Unlike blood-typing, DNA-sampling involves a non-invasive procedure which can be done without professional intervention, thereby immediately reducing costs to the breeder. Other savings come from reduced mailing expenses. And the extensive automation possible with the proprietary genetic bit analysis process used by EGRP could lead to further stabilization of costs and ever-improving accuracy in the future.

GRAYSON

The Grayson Foundation, established in 1940 to raise funding for equine veterinary research was combined with the similarly-chartered Jockey Club Research Foundation in 1989.

LONG-TERM ENDOWMENT DRIVE AIMS TO FUND $1 MILLION ANNUALLY

In response to the $1-million donation made by Paul Mellon after his 3-year-old colt Sea Hero won that amount in the 1993 Triple Crown Bonus, the Grayson-Jockey Club Research Foundation has embarked on a long-term endowment campaign, with the goal of increasing the endowment sufficiently to fund $1 million annually in research grants.

The initial stage of the drive has already matched Mr. Mellon's pledge and came almost exclusively from Members of The Jockey Club.

More recently, a separate form of the endowment drive has been launched with the cooperation of William Condren and Joe Cornacchia, who became the first owners to pledge a share of their stable's stakes earnings to "Racing for Research." In addition the owners of Lure later pledged one per cent of his future earnings.

Last year's distribution of funds approached $500,000 in support of 14 research projects at nine universities, shared equally among various medical disciplines. Although substantial, this amount still falls far short of the funds needed to support the many vital projects among grant requests submitted this year for consideration by the Scientific and Veterinary Advisory Committees from 29 universities nationwide.

In March, the Foundation's by-laws were amended to create a full-time position of president, and Edward L. Bowen joined the organization in that capacity. Dr. Ed Ford, formerly executive director, filled the newly created post of director of research.

Contributions in support of the Foundation may be addressed to: The Grayson-Jockey Club Research Foundation, Inc., 821 Corporate Drive, Lexington, KY 40503.

TJC FOUNDATION

Established in 1943 to provide relief of poverty and distress among indigent members of the Thoroughbred industry and their families.

CHARITABLE SUPPORT CONTINUES TO EXPAND COVERAGE

Grants from The Jockey Club Foundation and Cavanagh Trust increased last year to nearly $550,000.

In addition to the 48 recipients who receive a monthly stipend to help them meet their day-to-day living expenses, the Foundation also assists individuals in paying for their medical expenses. Again last year the Foundation awarded grants to many charitable organizations which provide direct assistance to backstretch personnel and others employed in racing, including the Maryland Horsemen's Assistance Fund, the Racetrack Chaplaincy Program in New York, the Backstretch Employees Assistance Team (BEAT), and the Thoroughbred Horsemens Health and Retirement Fund.

Support was also extended to the Race Track Chaplaincy Program of America, to assist with their program of help to stable personnel across the country.

Distributions from the Cavanagh Trust included grants to the University of Arizona Race Track Industry Program, the Race Track Chaplaincy of America and Windrush Farm Therapeutic Equitation, Inc. Windrush Farm operates a rehabilitation center for the handicapped.

TRC

Funded by The Jockey Club, Breeders' Cup Ltd. and the TRA, and founded in 1986 to meet the highly competitive need for distribution of Thoroughbred news and information to sports and other media.

"THOROUGHBRED WORLD" REACHING 36 MILLION HOMES

Thoroughbred Racing Communications (TRC) has focused its efforts to increase awareness of Thoroughbred racing on projects that serve the electronic and print media as well as reach prospective and current racing fans.

One of its most ambitious endeavors is "Thoroughbred World," the monthly national magazine TV show which appears on PRIME Network cable affiliates throughout the country. The show, produced by PHoenix Communications and hosted by Tom Durkin, includes features on personalities and events in Thoroughbred racing and can be seen in over 36 million homes.

In June, 1994, TRC initiated the publication of an informative newsletter for school-age children called "Post to Post: A World of Thoroughbreds for Kids." Thousands of sample issues have been distributed to children, who can "subscribe" to future editions.

In the past year, TRC also published a "Newsroom Guide to Thoroughbred Racing" and "The Thoroughbred Athlete and the Racing Industry," a reference providing background information on Thoroughbreds and racing in North America.

Among other ongoing TRC projects are: TRC Media Update, a weekly media newsletter; TRC video News Features; TRC National Thoroughbred Poll; TRC Notebook, which appears on the Associated Press wire each Thursday; TRC audio feeds from important races and events; and TRC media teleconferences previewing major races and/or events.

SPECIAL PROJECTS

The Jockey Club continues its support of special projects in many areas. These include:

PERFORMANCE HORSE REGISTRY

Preparations are in the final stage for The Jockey Club's Performance Horse Registry (PHR).

The Registry will bring together in one central database the pedigrees of performance horses and their actual performance records in non-racing equestrian events.

All horses which can be shown to be at least half-Thoroughbred will be eligible for registration. For the first time the North American performance horse industry, dominated by the Thoroughbred influence, will have the ability to relate pedigree and performance and have access to the sort of information which has been available within Thoroughbred racing for years.

The project has received universal support and approval from national performance industry organizations and breed registries, especially the American Horse Shows Association, the United States Combined Training Association and the United States Dressage Federation. Equestrian disciplines of these three organizations will be the first performance records to be entered into the central database.

The first applications for registration will be available this month.

The primary goal of the new Registry remains the promotion of the Thoroughbred influence in non-racing equestrian events with a view to stimulating the market for Thoroughbreds in these areas.

Future plans call for an extensive awards program for all PHR horses at both national and local levels.

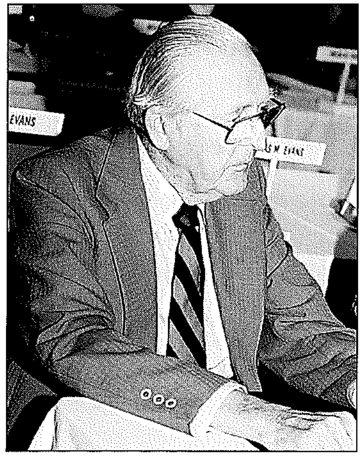
MCKINNIE COMPANY

The Jockey Club recently acquired a majority shareholding, through its wholly-owned subsidiary, The Jockey Club Racing Services, Inc., in computer management system pioneers, McKinnie Systems, Inc.

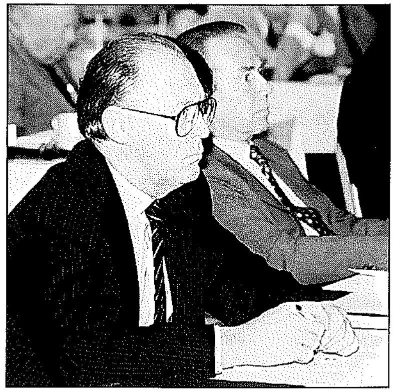
The acquisition was made to protect the extensive investment racing had made in McKinnie, whose "Track Manager" system has become an integral part of race track management at more than 30 tracks in North America.

McKinnie personnel will work with Jockey Club technicians to ensure the maintenance of adequate support and adapt programs to new technology and changing markets.

The acquisition not only offers a long-term guarantee of high operating and service standards to subscriber tracks, but will also enhance data acquisition and dissemination improvements being developed by The Jockey Club in association with the complete re-engineering of its computer operations.



Fred W. Hooper



Robert Charley, chairman, Australian Jockey Club (left) and Major General Guy Watkins, chief executive, Royal Hong Kong Jockey Club.

Tristram Ricketts, chief executive, the British Horseracing Board (left) and Jonathan Weatherby, chairman, Weatherbys, England.

Frank Hardy, Deputy Senior Steward, Irish Turf Club (left) and Cahir O'Sullivan, Keeper of the Matchbook, Ireland.

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Helen C. Alexander
Joe L. Allbritton
John Ed Anthony
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