

National Thoroughbred Racing Association
Strategic Plan for 2006-2010

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Letter from the NTRA Board of Directors

June 9, 2005

Beginning in early 2004, the NTRA Board began the process of updating the original NTRA Business Plan. The Board undertook a detailed review of the organization's core mission, objectives and programs. The purpose behind this exercise was to assess, in an unbiased way, what has worked, what has not and what we have learned in the process.

*One common theme ran through all of our discussions: a shared belief in the importance of maintaining our sport's national office. Clearly, there have been challenges in the NTRA's first five years and our industry remains under considerable competitive pressures from other forms of gaming and entertainment. Yet, as we assess the NTRA's past performance and chart the course for the next five years, we believe it is incumbent on all members to ask the question, **"Where would the industry be if there was no NTRA?"***

How would we have dealt with the attempted Breeders' Cup Pick 6 fraud? What would our business model look like without the favorable federal legislation allowing account wagering via the Internet? What progress would we have made on achieving uniform medication rules in all racing states? How many nationally recognized brand names like Dodge, John Deere and FedEx would be linking their marketing efforts to our sport and what presence would we have on national television and in the print media?

Having looked at these and similar questions for the past year, the NTRA Board unanimously believes that the Thoroughbred industry as a whole is significantly better off as a result of the NTRA. The Strategic Plan that follows for the next phase of the NTRA (2006-2010) is intended to build on the successes of the past years with greater emphasis and focus on the specific areas where the NTRA can be most beneficial to its membership in the future.

We look forward to your input on the plan and hope you will join us as we work together to face the challenges and opportunities of the next five years.

Part I Situation Analysis

The First Seven Years

The NTRA was launched in 1998 as the industry's first national league office representing racetracks, owners, breeders and horsemen's associations. The main focus of the organization was to create new fans through national marketing platforms and a stronger presence on national television. The original Business Plan also envisioned that the NTRA would develop legislative capabilities – primarily for the purpose of opening up new markets for the relatively new business of account wagering.

Seven years later, the programs implemented by the NTRA supporting these objectives have generated the following results:

- Marketing programs and increased television exposure have produced measurable increases in fan interest, with racing joining the roster of Top 10 sports for the first time in 2004 as measured by more than 154,000 consumer interviews by the ESPN Sports Poll.
- A recently completed eight-year television partnership between Breeders' Cup Limited, NTRA, ESPN and ABC that provides for the strongest-ever, year-long coverage of Thoroughbred racing with new network and cable windows, production enhancements and increased promotion of the Breeders' Cup World Thoroughbred Championships and other major racing days outside the Triple Crown.
- Passage of federal gaming, trade and tax legislation, including an amendment in 2000 to the Interstate Horseracing Act that confirmed the legality of telephone and Internet account wagering.
- A 137 percent increase in the number of states to have enacted account wagering legislation (currently 19, compared with eight in 1998).

Industry Changes

During this seven-year period, however, the industry has experienced fundamental changes marked by:

- Substantial consolidation of racetrack ownership; races conducted by Churchill Downs Incorporated, Magna Entertainment Corp. and the New York Racing Association now generate approximately two-thirds of total domestic wagering.
- Dramatic growth of account wagering, which now accounts for more than 20 percent of total U.S. handle and is projected to continue its rapid expansion given the increased usage of the Internet for all forms of business and entertainment.
- Continuing expansion of "racinos," whose economic impact on purses and racetrack commissions has resulted in widespread efforts at the state level to obtain enabling legislation for racinos in every major racing jurisdiction.

NTRA Changes

National Marketing

Over this same period of time, the NTRA has undergone many changes. Originally the NTRA was tasked primarily with marketing the sport on a national level to raise consumer awareness levels and reposition horse racing as an entertainment option. As noted above, these efforts were successful in generating increased fan interest for the sport. Horse racing is the only sport tracked by the ESPN Sports Poll where general interest among sports fans has grown each of the past five years.

The NTRA's role in national marketing has changed to some degree with the growth of the larger multitrack operators and decisions by many tracks to focus their efforts on their own brands in combination with regional marketing. These changes have resulted in decreased usage over time of the NTRA co-op advertising program that was developed to provide substantially all the advertising creative for member tracks to present a nationally branded marketing campaign for horse racing. As a result, the NTRA Board has determined to discontinue the reimbursement aspects of the co-op program at the end of 2005.

We recognize, however, that more than 80 percent of NTRA member racetrack organizations participate in the association's national marketing programs and that the NTRA remains the only national entity dedicated to marketing the sport and growing fan interest and participation. Major market racetracks (including Belmont Park, Aqueduct, New York City OTB and Meadowlands in the New York City media market alone) and many racetracks in small- and mid-size communities across the country have come to rely on the benefits and savings derived from using the NTRA's research-driven, award-winning advertising. The same can be said for NTRA promotions like the Million Dollar Mystery Mutuel Voucher, whose available prizes exceed \$30 million annually, and the *Daily Racing Form*/NTRA National Handicapping Championship, which has become the nation's most recognized tournament of its kind. Thus, the NTRA will continue to identify marketing programs that can be utilized by its broad-based membership.

Breeders' Cup/Shift to Big Event Days

Following an operational combination with Breeders' Cup Limited (BCL) in 2000, the NTRA assumed responsibility for all marketing and television for the industry's championship event under a 10-year licensing agreement with BCL, growing event handle from \$101 million in 1999 to \$121 million in 2004. Simultaneously, a growing number of NTRA member tracks have focused on building major racing days featuring multiple stakes races and nationwide simulcasting. This trend has produced record handle on major days, with \$173 million wagered nationwide Breeders' Cup day 2004 and \$229 million nationally Kentucky Derby day 2005.

The growth of racing as an international sport also has produced inter-country rivalries for top competitors and the staging of world-class events. Dubai now puts \$6 million in prize money toward a single race, the Dubai World Cup. Canada's Woodbine offers the \$1.62 million (U.S.) Canadian International and \$800,000 (U.S.) E.P. Taylor Stakes one week prior to the Breeders' Cup. The \$2.2 million (U.S.) Cox Plate is held in Australia the week before the Breeders' Cup.

Japan offers the \$4.5 million (U.S.) Japan Cup in November. In December, Hong Kong offers a racing festival featuring \$7.8 million (U.S.) in purses including the \$2.3 million Hong Kong Cup, \$1.8 million Hong Kong Mile, \$1.8 million Hong Kong Vase and the \$1.28 million Hong Kong Sprint.

Clearly, the worldwide trend in racing – as in other sports – is to use “big events” as the best way to reach a broad-based consumer market.

The NTRA Super Saturdays telecasts on ABC, with four Grade I races tied together by a national wager actively promoted in the program, have provided additional insight into what building blocks are needed to successfully create more national major event days. The new ESPN/ABC television agreement is specifically designed to build on the success of the Super Saturdays while expanding promotion of the Breeders’ Cup divisions from June through October.

Trade Association

The NTRA also has assumed a much broader role as a national trade association than was envisioned in its original Business Plan. With the recent opening of its legislative office in Washington D.C., a highly successful Political Action Committee that has raised \$1 million for targeted political contributions in the last three years and growing industry support for legislative advocacy, the NTRA has established a strong federal presence for the Thoroughbred racing and breeding industries.

This resource will be increasingly important as we work to protect our industry’s right to interstate simulcasting, account and Internet wagering and to establish the absolute primacy of the Interstate Horseracing Act over matters relating to domestic and international pari-mutuel wagering.

Other key association functions undertaken by the NTRA in recent years include crisis management, industry spokesman and facilitator for major industry-wide issues (e.g., uniform medication rules, jockeys insurance, offshore wagering, etc.) Most recently, the industry has looked to the NTRA to coordinate efforts to improve the wagering infrastructure and electronic security to meet the demands brought on by the growth of account wagering and expansion of the worldwide simulcasting market for U.S. racing, which now includes more than 11,000 outlets.

Future Challenges

Despite the substantial external and internal changes over the past years, many of the core challenges faced by the NTRA and its membership in 1998 remain:

- Competition with other sports and entertainment properties to attract new fans and a younger demographic;
- Integrity issues, including drug testing and electronic security; and
- Strengthening our industry’s legislative advocacy, both at the state and federal level.

As a national organization representing all facets of the industry, the NTRA continues to be well positioned to meet these challenges by leveraging the assets it has developed over the past seven years: access to a large national fan base, multiple name-brand marketing partners, long-term television contracts with ESPN and ABC and strong legislative capabilities.

Part II NTRA Strategic Plan, 2006-2010

NTRA Mission

Increase the popularity of Thoroughbred racing and improve economic conditions in the industry for the benefit of NTRA members.

NTRA Vision for the Next Five Years

- Consistent “Top 10” ranking among U.S. sports as measured by the ESPN Sports Poll;
- Increased attendance, viewership, pari-mutuel wagering and purses on major racing days;
- Licensed and regulated account wagering in all major racing states, with pari-mutuels continuing as the leading form of legal, domestic electronic wagering;
- Expanding bloodstock market;
- Integrity matching or exceeding that of other major sports and gaming businesses; and
- Strong legislative presence in Washington, D.C.

Five Core Areas of Focus

Fan Development	Breeders’ Cup World Thoroughbred Championships	Corporate Sales	Legislative Advocacy	Trade Association
<ul style="list-style-type: none"> ▪ Television ▪ Publicity ▪ Marketing programs ▪ Research 	<ul style="list-style-type: none"> ▪ Build event as racing’s international championship ▪ Increase brand equity and cash value of the property 	<ul style="list-style-type: none"> ▪ Sponsorship ▪ Group purchasing 	<ul style="list-style-type: none"> ▪ Federal <ul style="list-style-type: none"> -Increase lobbying strength -Lead industry’s agenda ▪ State <ul style="list-style-type: none"> -Advance Deposit Wagering (ADW) -Improved Regulatory Environment 	<ul style="list-style-type: none"> ▪ Membership ▪ Issue management ▪ Industry spokesman ▪ Rationalize economics of account wagering ▪ Office of Racing Integrity

A. Fan Development: Awareness, Interest, Action

Objective

- Generate greater participation from racing's 29-million membership fan base while continuing to attract new fans to the sport

Strategies

- Build eight to 10 major days of racing with targeted national media buys and promotions
- Use the Breeders' Cup World Thoroughbred Championships as the cornerstone of marketing efforts
- Leverage television assets and yearlong promotional programs with ESPN to promote big event days and create stars

Tactics

- Access ESPN's array of media assets (ESPN, ESPN2, SportsCenter, ESPNEWS, ESPN.com, ESPN Classics, ESPN Deportes (Hispanic channel), ESPN Radio, *ESPN The Magazine*, ESPN Mobile and ESPN International, etc.);
- Make our television product more compelling with new in-show formats, cross-generational talent and technological advances currently in use by other major sports (e.g., improved video/audio, virtual finish line, telestrator, computer-generated race simulations, in-race jockey and owner microphones, etc.)
- Develop fresh, nationally branded advertising message for use by NTRA, Breeders' Cup and track members beginning with the new *Who Do You Like Today?* campaign to be released in the fall of 2005
- Drive viewership, attendance and wagering on targeted days through consumer promotions with national marketing partners
- Continue to use current consumer research to drive marketing programs
- Increase publicity driven by renewed emphasis on story placement and "free media" coverage in national and local press
- Develop new wireless, video and arcade games – targeted toward a younger demographic – that include education on how to wager
- Develop new fan-friendly wagering products, including the application of remote technology
- Expand "Rediscover Horse Racing" public service announcement campaign
- Provide racing information and handicapping education – with focus on nationally televised races – on revamped NTRA.com

Metrics

- Double active fan base (e.g., those who wager at least twice a year) by 2010

- Generate measurable increase in nationwide attendance, viewership and wagering on eight to 10 targeted major event days
- Obtain at least \$10 million per year in annual spending by marketing partners in support of national consumer promotions by 2010

Discussion

The Fan Base

We have learned a great deal about U.S. horse racing fans through national consumer research commissioned by the NTRA and conducted by the ESPN Sports Poll. To date the Sports Poll has conducted more than 154,000 interviews with an average of 2,000 added monthly. The NTRA also commissions research from SDS, which conducts focus groups and other attitudinal studies.

According to ESPN Sports Poll data, Thoroughbred racing has a fan base of approximately 29 million fans among American adults (18 years and older) who have wagered on the races in the past two years. The NTRA's primary marketing challenge is how to use its assets to encourage segments of these 29 million fans to attend, watch and wager more often. In short, how to turn interest into action.

Promoting Major Racing Events/Television as Marketing Tools

Both ESPN and SDS research strongly indicate that the majority of our fans are most interested in our biggest events with multiple top tier races supported by national marketing and television programming. According to SDS Research, 38 percent of target fans say they would participate more if there were more perceived big races and events.

In the past few years, racetracks globally have begun gravitating in this direction by bundling multiple Graded Stakes races on the same day or into Racing Festivals. With assistance from member racetracks in scheduling and coordination of races, the NTRA is well positioned to develop and expand eight to 10 major event days throughout the year specifically designed to attract the targeted fan base. Promotions will include radio and print media coupled with advertising from sponsors and network partners.

Television also can be a primary driver for pari-mutuel wagering and reaches across all audience types. According to SDS Research commissioned by the NTRA, 29 percent of target racing fans say they would wager more if more big stakes races were broadcast on television (SDS Research 2004).

The strategic complement to "big day" event-driven marketing is "big telecasts" – television programming with enhanced production, promotion and publicity on the national level (see detailed discussion of new Breeders' Cup-ESPN deal, below).

With the completion of the new contract between the NTRA, Breeders' Cup Limited, ESPN and ABC, we now have an outstanding array of assets to use in creating and promoting targeted big days.

This strategy is designed to:

- generate more on-track handle and purses for host tracks;
- increase simulcasting revenues at venues throughout the country; and
- attract casual and light fans to participate more in our sport.

ESPN Partnership/New Marketing Assets

The agreement completed in May 2005 with ESPN provides the NTRA and Breeders' Cup with the following benefits:

- Eight years of ESPN coverage of the Breeders' Cup from 2006-2013 and extension of all other currently televised horse racing programming ("CITGO Racing to the Kentucky Derby," "Road to the World Thoroughbred Championships – Powered by Dodge," "CITGO Wire to Wire") through 2013;
- Expanded coverage of the Breeders' Cup from five hours to seven hours (noon – 7:00 p.m. ET), allowing us to maximize pari-mutuel handle and story lines on the sport's championship day;
- Major promotion across all ESPN platforms, including SportsCenter (at the Breeders' Cup), ESPNEWS, ESPN.com, ESPN Classics, ESPN Deportes (Hispanic channel), ESPN Radio, *ESPN The Magazine*, ESPN Mobile and ESPN International, etc.;
- Enhanced television production values including High Definition coverage annually and use of other new technologies including state-of-the-art graphics, virtual signage, etc.;
- 10 hours of additional network and cable programming for a summer/fall racing series to promote Breeders' Cup and build understanding of key racing divisions;
- Recapture of Internet rights and retention of distribution rights for broadband and mobile (cellular) sites regarding account wagering applications;
- Guaranteed rights fees for international broadcast distribution to more than 176 million households worldwide via ESPN networks in Latin America, Middle East, Africa, Japan, Australia, Asia, India, Canada and New Zealand. Supplemental race coverage is provided through ESPN syndication in 25 countries, including Europe, with the potential to reach an additional 50 million households. The deal also includes worldwide news coverage, including coverage within SportsCenter in Mexico, Argentina, Canada and Singapore.

In summary, this landmark agreement affords the NTRA a new world of media assets and platforms to communicate with horse racing's target customer, including sports fans and the all-important age 18-35 demographic. It also has the potential to grow awareness, interest and television viewership for our sport's World Championship and its key divisional prep races.

B. Breeders' Cup World Thoroughbred Championships

Objectives

- Build Breeders' Cup Championships event and brand as the number one day of racing in the world
- Increase the commercial value of the Breeders' Cup as a sports property
- Improve the structure, presentation and promotion of the Breeders' Cup divisional races from June through October

Strategy

- Leverage ESPN partnership and NTRA marketing assets to supercharge promotion of Championship day and increase fans' understanding of summer/fall divisional competition
- Increase Championship day purses to remain competitive with other global racing events and attract international competitors
- Grow Breeders' Cup foal and stallion nominations and Championships participation

Tactics

- Increase Championship day purses as high as \$20 million
- Increase Breeders' Cup stallion nomination fees to support purse increases for the Championship event
- Allocate Breeders' Cup Stakes dollars to maximize benefits for nominators and reinforce the structure and quality of Breeders' Cup divisional races
- Highlight divisional races, rivalries and stars
 - Access sponsor, network media for promotions (TV tune-ins, on-air promotions, in-show features, event count-downs, Webcasting, magazine features, etc.)
 - *USA TODAY* advertising, divisional standings, handicapping tournaments, Internet contests, etc.
 - Innovative television production for "Road to the World Thoroughbred Championships" series and Super Saturdays
 - Improve summer/fall stakes race scheduling with cooperation of racetracks
 - Leverage relationship with TVG to improve fans' understanding of the Breeders' Cup and its divisional races
- Establish guaranteed minimum host track fee of \$3 million, with bonus revenues keyed to pari-mutuel wagering
- Increase simulcast wagering on divisional and Championships races
 - Distribute Breeders' Cup simulcast via Internet with support of network partner
 - Promote Breeders' Cup and divisional races to a new generation of potential fans through licensed products such as wireless, video and arcade games
 - New wagering products
 - Marketing partnerships with account wagering service providers

- Target foreign countries with favorable time zones (South America, Canada, European Union) for expansion of international simulcasting
- Increase nominations canvassing in European Union, South America and other key areas targeted for international Breeders' Cup simulcast development
- Grow foreign wagering on international simulcasts through increased participation in Breeders' Cup by foreign-based horses
- Renew emphasis on licensing and merchandising sales

Metrics

- Breeders' Cup total handle grows to \$200 million by 2010 (9 percent annual growth)
- Championship day purses increase to as much as \$20 million, with annual growth rates commensurate with event revenues
- Total nominations revenue increases from \$16.8 million to \$22 million by 2010
- Revenues from foreign nominations double over the next five years
- Breeders' Cup races maintain top ratings by International Classifications Committee
- Championship day attracts best horses from Europe, North America, South America and Australia

Discussion

A primary driver for Breeders' Cup growth is continued purse increases. Factoring in purses on Championship day and purses paid in the yearlong Breeders' Cup Stakes program, Breeders' Cup races will pay out a total of more than \$35 million in purses in 2005, including \$14 million on Championship day.

Three key factors will affect the speed with which Championship day purses can grow to the desired \$20 million: stallion nomination fees based on a first-ever fee restructuring; projected 9 percent annual increases in wagering on Championship Day made possible by a 40 percent increase in the duration of the race-day wagering card; and extensive cross-promotion of the Breeders' Cup and its divisional races by ESPN, which offers the first-ever seven-hour television window for the event starting in 2006.

With strong support from both domestic and international horsemen, the Breeders' Cup has handled more than \$100 million for each of the last six years. The 2004 Breeders' Cup, simulcast to 27 countries, attracted \$16 million in international wagers, the largest amount wagered overseas on any U.S. event. More than 11,000 simulcast outlets worldwide take the Breeders' Cup. The event is second only to the Kentucky Derby in total single-day U.S. pari-mutuel handle and in producing new sign-ups for account wagering.

The Breeders' Cup is a proven success in terms of creating value in the bloodstock market. Breeders' Cup-nominated yearlings sell for seven times more at auction than non-nominated yearlings. As a result, 96 percent of all stallions standing for a fee of \$5,000 or more are Breeders' Cup-nominated.

Given the Breeders' Cup's record of success and worldwide popularity, the licensing agreement between NTRA and Breeders' Cup Limited is one of the NTRA's strongest weapons in its efforts to market the sport to a new generation of fans. The NTRA's ability to leverage the Breeders' Cup rights to market the sport has significantly increased with the completion of the eight-year television rights agreement with ESPN and ABC described above.

C. Corporate Sales – Sponsorship and Group Purchasing

Objective

- Increase roster of national sponsors and group purchasing partners to grow organization revenues and access sponsor marketing and promotional assets

Strategies

- Leverage racing's marketable assets (large and diverse fan base, yearlong schedule, industry buying power) to continue sponsorship sales momentum and deliver cost savings to members
- Build status of the Breeders' Cup and other major racing events through association with leading national brands
- Improve industry-wide participation in group purchasing – critical to sponsorship success

Tactics

- Focus on acquisition of national sponsors and group purchasing partners whose brands and products appeal to NTRA members
- Improve quality and ratings of NTRA programming to attract/retain sponsors
- Leverage Breeders' Cup global alliances to attract international sponsors
- Maintain and expand purchasing agreements with American Quarter Horse Association, United States Equestrian Federation, National Steeplechase Association, U.S. Trotting Association/Harness Tracks of America and other performance horse and breed associations to expand breadth and buying power of NTRA Purchasing

Metrics

- Sponsorship/Purchasing gross revenues increase from \$11 million to \$20 million over the five-year period with corresponding increase in net revenues from \$4.2 to \$9 million
- Grow purchasing sales by 10 percent annually
- Grow sponsor promotional spending from \$1.3 million in 2005 to \$10 million by 2010
- Sponsorship revenue will cover all costs of television

Discussion

Marketing Partners/Consumer Promotions

In 1998, the industry had only VISA as a nationally recognized sponsor of horse racing. Today the NTRA's marketing partners include Dodge, FedEx, John Deere, Emirates Airline, CITGO, Grey Goose, NetJets, Bessemer Trust and Alberto-Culver. These and other marketing partners will contribute more than \$12 million in revenues (up from \$1 million in 1998) to the combined

operating budgets of the NTRA and Breeders' Cup in 2005, helping to fund the organizations' television and marketing programs and trade association activities.

Perhaps the most often overlooked benefits from national marketing partners are brand association and sponsor-funded consumer promotions. As we look to introduce new fans to the sport of horse racing and grow our presence in the national and international marketplace, a powerful tool is the connection between our sport and well-recognized quality household names like Dodge, FedEx and John Deere that give our sport immediate credibility.

These brand associations are furthered by national consumer promotions – such as the *Dodge Drive to the Winner's Circle*, *CITGO Million Dollar Pick Eight* and *Guinness Rocks the Rail* – that are designed to increase fan participation on targeted days. These consumer promotions are entirely funded by the marketing partners, who add significant dollars to the NTRA's marketing efforts.

Our goal is to grow the number of sponsor-supported promotions over the next five years to a point where the marketing partners spend more promoting the sport than the league office – a level of success currently enjoyed by other major sports including the NFL, NBA, MLB and PGA TOUR.

TVG

TVG is the NTRA's longest standing sponsor with the marketing partnership dating back to 1998. TVG remains one of the industry's best marketing tools with its national horse racing channel now on cable television in 14 million homes in 22 states and available in an additional 26 million homes via satellite and tier packages. The NTRA and TVG work closely to jointly promote the sport, collaborating on new programming and cooperative efforts spanning consumer promotions, advertising and interactive marketing. TVG is an active participant in NTRA consumer-targeted programs including the NTRA's national wagers, the *Daily Racing Form*/NTRA National Handicapping Championship and NTRA Purchasing.

By the end of 2005, TVG's total contributions to the NTRA to support our marketing and legislative programs will exceed \$7 million. In addition to these sponsorship fees, TVG has returned over \$75 million to the racing industry in the past five years through its innovative revenue-sharing programs. The NTRA's partnership with TVG extends through 2011.

Group Purchasing

NTRA Purchasing is one of the main drivers behind the recent success of the NTRA's sponsorship efforts. NTRA Purchasing was formed in December 2001 when NTRA purchased the assets of EquiSource. In the last three years, gross annual purchases through NTRA Purchasing by NTRA members have risen from \$6 million to \$61 million. Total sales by NTRA Purchasing since its inception exceed \$100 million.

The goals of NTRA Purchasing are simple: deliver significant savings to NTRA members on products relevant to their businesses and provide “One Stop Shopping” for corporations seeking to access the broad buying power of the horse industry. The biggest success story within NTRA Purchasing is John Deere. Deere offers discounts of up to 23 percent off the manufacturer’s suggested retail price to NTRA members. For large capital items such as tractors, the savings can add up to ten of thousands of dollars on a single purchase. NTRA members have purchased more than \$77 million worth of Deere products since 2001. More recently, Dodge has joined the NTRA Purchasing program, producing sales of more than \$20 million to NTRA members since 2003. The company will use NTRA Purchasing as a platform to roll out a new vehicle nationwide in fall 2005.

Collective savings to NTRA members through the purchasing program now exceed \$25 million.

D. Legislative Advocacy

Objectives

- Use federal legislative advocacy to protect core business activities and foster economic growth and investment in the Thoroughbred racing and breeding industries
- Assist members as requested at the state level in passing legislation to allow account wagering and obtain a more efficient regulatory environment

Strategies

- Continue to defend horse racing's current legislative authority for Internet and account wagering
- Improve depreciation schedules and reduce capital gains holding period for horses
- Define horses as livestock for agricultural emergency relief
- Reform tax reporting and withholding requirements to benefit players
- Improve access to immigration visas for farm and backstretch workers

Tactics

- Build industry's power base in Washington, D.C.
 - Congressional relationship building through lobbying and education
 - Increase base of support for Horse PAC
 - Expand permanent industry presence in Washington, D.C.
- Emphasize Internet and tax issues specific to horse racing
- Develop legislative grassroots advocacy network
- Coordinate with American Horse Council on equine disease and other all-breed issues
- Complete and fully utilize a comprehensive study with regular updates of the national and local economic impact of the racing and breeding industries

Metrics

- Preservation of federal laws authorizing account wagering and interstate simulcasting
- Passage of legislation to reduce federal tax burden throughout the industry
- Expansion of account wagering to major racing states including Illinois, Florida and Texas
- Passage of legislation at state level to obtain a more efficient regulatory environment (e.g., a grant of state authority for a national Office of Racing Integrity (ORI), removal of requirements of in-state wagering hubs that result in inefficient "double hops" for interstate simulcasting, etc.)
- Grow Horse PAC to \$1 million per election cycle by 2008
- Grow legislative activity funding by 3 percent each year, with a minimum base of \$3.15 million beginning in 2006

Discussion

Since 2003, the NTRA has built a successful legislative program that includes a substantial federal PAC as well as a Legislative Action Campaign that funds federal lobbying and educational programs for Members of Congress through voluntary contributions from buyers and sellers who purchase horses at public auction.

At the federal level, the organization's principle role is to preserve and strengthen the Interstate Horseracing Act as the sanctioning authority for interstate simulcasting as well as account and Internet wagering. During its next phase, the NTRA's top priority will be to clarify issues relating to simulcasting and interstate wagering under the Wire Act with the U.S. Department of Justice.

The NTRA's legislative activities also include efforts to improve the regulatory environment through the formulation of model rules for adoption at the state level (e.g., wagering security and medication); expand the number of states that specifically authorize account wagering by providing expert testimony in support of account wagering; and identify new opportunities to obtain tax relief for the horse industry through federal legislation.

E. Trade Association

Objective

- Address national industry issues of common concern to retain confidence in the integrity of racing and improve public perception of the sport

Strategies

- Serve as authoritative industry spokesman on issues of national concern
- Proactively build industry's image with legislators and community leaders
- Lead initiatives for improved wagering security

Tactics

- Work with regulators and NTRA members to develop plan and funding for National Office of Racing Integrity (see below)
- Develop corporate research on "hot button" issues
- Manage public relations issues with trained in-house staff and management
- Join with other organizations to address specific social issues of concern to entire racing industry (problem gaming, equine retirement, backstretch conditions, etc.)
- Empanel committees with outside expertise as needed to study and address industry issues
- Build industry's "good neighbor" status through charity outreach

Discussion

The NTRA's association activities perhaps have been the most time-intensive when measured in terms of hours and manpower commitment. Due to the breadth and complexity of the industry, the NTRA has had a continuous stream of critical issues to manage since its inception. These include:

- Negotiations with the U.S. Department of Justice regarding its ongoing concerns about the legality of interstate account wagering
- Crisis communications and issue management in connection with the attempted wagering fraud on Breeders' Cup Championship day in 2002
- Creation of the Wagering Systems Task Force to identify key drivers for purse declines and recommend corrective action
- Development of new protocols for credit card issuers enabling continued use of credit cards for legal online pari-mutuel wagering – halting damaging efforts by card issuers to stem illegal gaming by blocking all betting transactions
- The industry's first benchmark "super test" for equine medication, and the establishment of the NTRA Racing Integrity and Drug Testing Task Force
- Formation of the NTRA Players' Panel to recommend standards and practices for serving the wagering public

- Establishment of the NTRA Charities – New York Heroes Fund, which raised \$4.7 million to aid families affected by Sept. 11

Moving forward we see continued work for the NTRA in each of the areas identified above. We also know that other issues will be added to this mix, including the growing threats to our current economic model from the growth of offshore betting exchanges.

Integrity/Electronic Security

One of the most urgent issues facing our industry is that of improved electronic security for the pari-mutuel wagering system. In the past year, it has become increasingly clear that the success of each of the NTRA's core areas of focus – creating new fans and players, increasing the value of the Breeders' Cup and expanding domestic account wagering – ultimately will depend on our ability to address fundamental integrity issues such as wagering security within our sport.

Recent Developments

Federal indictments in the *Uvari* case of January 2005 contained allegations of money laundering and tax evasion in connection with Internet wagering into U.S. pools and further heightened the need for immediate improvements in the electronic security area.

The April 2005 ruling in the *Antigua v. United States* case in the World Trade Organization has brought further scrutiny of the business of domestic account wagering by members of Congress and the Justice Department. To maintain and potentially expand our ability to conduct legal regulated Internet wagering in this environment, we must be able to demonstrate to Congress, the U.S. Department of Justice and state legislators and regulators that our wagering systems are secure.

Technology Improvements

For the past two years, leading racetrack operators and The Jockey Club have been working to develop a broad-based upgrade to the tote system. This process resulted in the release of a detailed Request for Proposal in May 2005 that attracted responses from more than 20 national and international firms. It is anticipated that this new system, when complete, will provide the basis for a new national database of wagering information to include significantly enhanced electronic security capabilities.

While the industry works towards completing this broader technology upgrade, it is now clear that we also must pursue shorter term efforts to improve the regulation and monitoring of the wagering system. Failure to do so could expose the industry to a loss of confidence from customers, regulators, legislators and law enforcement officials and ultimately inhibit its ability to continue simulcasting and account wagering.

Proposed Office of Racing Integrity (ORI)

To that end, the NTRA will continue to work with its membership and with regulators from all racing states towards the creation a new independent Office of Racing Integrity. Key objectives for this effort include:

- System upgrades to enable modern security functions
- Uniform rules and enforcement mechanisms for wagering security
- Documented technology standards for simulcast signal verification, distribution and reception
- Protocols for wagering system monitoring, detection and deterrence of wagering fraud
- Creation of a legal and operational framework for the ORI
- A permanent funding mechanism for the ORI
- Regulator support for and participation in the ORI

While achieving this result is of the highest priority to the NTRA, it should be emphasized that barring major changes to current law, the ultimate authority in this area will lie with the state regulators. Progress in this area will require unprecedented cooperation between racetracks, horsemen, wagering system providers and regulators.

Said another way, the NTRA cannot achieve the desired result on its own. However, the NTRA is in a position to keep this issue on the top of the industry's collective agenda, to serve as a convening authority to assemble the relevant stakeholders and to provide funding to support the effort. In this last regard, the 2006-2010 financial *pro forma* allocates \$1 million a year from NTRA revenues to support this initiative.

Industry Economics

With Advance Deposit Wagering (ADW) or account wagering now the fastest-growing segment of the pari-mutuel industry, 19 states – including California, Kentucky and New York – have expressly enabled account wagering via statute or regulation. This development has and will continue to affect the industry's longstanding economic model for funding horse racing purses.

A report by the NTRA Wagering Systems Task Force to study the economics of purses and pari-mutuel wagering included a series of recommended actions to allow the industry as a whole to better understand and manage this important business sector. The Task Force's recommendations are reproduced below and remain as applicable to the next five years of industry development as they did when originally drafted in 2004.

The Task Force's recommendations to address the problems of declining track revenues and purses fall into five categories: economic analysis, technology, integrity, betting exchanges/bookmakers and legislative/regulatory.

Economic Analysis

1. Each track and horsemen's association should perform detailed analyses of its wagering data to understand fully the effect of all the different *sources* of wagering (live, on-track simulcast, intrastate and interstate simulcast and international wagering) as well as the *types* of wagering (e.g., computerized wagering) on its net income and purse structure.

2. Each track and horsemen's association should review its wagering data and internal cost structure to determine whether its current revenue policies reflect its current cost structures.

Technology

3. The industry must make improving the tote infrastructure its top priority to fully address current inefficiencies and satisfy ongoing integrity requirements. The improved system should include:
 - Processes whereby the live host track controls the wagering event including when to accept wagers and when to stop the betting process.
 - Tote communication based on Wagering Transaction Protocol (not existing ITSP protocol) whereby guest sites send bet details to the live host and the live host confirms receipt of those details and advises the guests that they can print a ticket or tickets for that pool.
 - Development of a security database of wagering information to allow for real-time monitoring of suspicious activity and historical review of wagering data by regulators and appropriate industry representatives.
 - Technological advances to eliminate or substantially reduce late odds changes.

Integrity

4. Tracks, horsemen's associations, and racing commissions should diligently monitor all wagers allowed into their pari-mutuel pools by requiring and reviewing relevant information from tote companies and wagering sites. This information should be aggregated by an industry-wide, national wagering security organization (e.g., the National Office of Wagering Security called for by the WTWG report in 2003). A refusal to provide the information necessary to ensure integrity of the system could affect the willingness of industry members to permit access to their own pari-mutuel pools.
5. Tracks, horsemen's associations, and racing commissions should require an adequate level of disclosure as well as regulatory and appropriate industry access for international and Native American gaming sites and for all domestic wagering (e.g., ownership, tax status, customer domicile, etc.).

Betting Exchanges/Bookmakers

6. Additional research and planning should be conducted regarding the impact on U.S. handle, revenue and purses from the growth of wagering through international betting exchange platforms and bookmakers.

7. The U.S. industry should work with the international racing community to better understand the extent of the global challenges posed by unauthorized wagering without host track and horsemen consent.
8. Racetracks and horsemen's associations should work with law enforcement agencies to aggressively protect against betting exchanges and other entities (e.g., online bookmakers) that illegally accept wagers on U.S. races from U.S. citizens.

Legislative/Regulatory

9. The industry should focus on efforts to secure passage of new state laws and regulations to allow tracks and other licensed operators the flexibility needed to compete in the electronic gaming marketplace. This would include passage of account wagering and flexible-takeout legislation in all pari-mutuel states.
10. The industry should redouble its efforts to ensure passage of legislation to facilitate the export of the U.S. racing product to the \$85 billion international pari-mutuel wagering market.
11. Efforts to respond to the activities of betting exchanges and bookmakers should include seeking additional legislation to strengthen current protections of the industry's wagering rights including civil remedies for infringements on those rights.
12. Members of the industry should proactively cooperate with legislators and law enforcement officials to preserve horse racing's existing legal positions regarding interstate electronic wagering as set forth in the Interstate Horseracing Act.

Part III Conclusion

With limited resources in a broad and complex industry, it is essential that the NTRA focus on core programs and strategies to achieve its membership's goals. The organization will apply the following disciplines to all NTRA programs to ensure this focus is retained. All NTRA programs must be:

- 1) on strategy;
- 2) only use resources identified in advance;
- 3) have measurable objectives; and
- 4) have clearly defined timelines (for both execution and measurement).

To achieve maximum effectiveness in a dynamic global market, the NTRA must continuously evaluate the threats and opportunities our industry will face as a result of rapidly evolving technological, political and competitive environments. It is imperative the association have the appropriate mix of executive and professional skills to be flexible, creative and capable of decisive action at all times.

This Strategic Plan is aggressive and to retain its vibrancy, should be treated as a "living document" that can be modified as necessary to address the Thoroughbred industry's needs at a national level.

This plan will require the full support of the NTRA membership to be successful. The industry has demonstrated how effective it can be when it works together. Our success in capitalizing on the potential for future growth depends on ensuring that we remain collaborative.

NATIONAL THOROUGHBRED RACING ASSOCIATION
FINANCIAL PLAN
2006 - 2010

	2006	2007	2008	2009	2010
1 OPERATING REVENUES:					
2 Breeders' Cup revenues:					
3 BC membership & management fee	\$ 40,000	\$ 40,500	\$ 41,000	\$ 41,000	\$ 42,500
4 BC annual allocation	2,500	2,500	2,500	2,500	2,500
5 Total Breeders' Cup revenues	42,500	43,000	43,500	43,500	45,000
6 Membership dues:					
7 Track dues	5,750	5,750	5,750	5,750	5,750
8 Horsemen dues	4,400	4,400	4,400	4,400	4,400
9 Sales-auction related dues	3,150	3,350	3,550	3,700	3,650
10 Other	150	150	150	200	200
11 Total membership dues	13,450	13,650	13,850	14,050	14,000
12 Sponsorship	13,000	14,000	15,750	17,500	20,000
13 Promotions	1,500	1,500	1,750	1,750	1,750
14 PAC (A SEPARATE LEGAL ENTITY)	550	600	650	700	750
15 TOTAL OPERATING REVENUES	71,000	72,750	75,500	77,500	81,500
16 OPERATING EXPENSES:					
17 Purses	27,500	28,000	28,200	28,500	30,000
18 Television	11,000	11,500	12,000	12,500	13,000
19 Sponsorship & Purchasing	8,250	8,500	9,500	10,000	11,000
20 Marketing:					
21 Breeders' Cup marketing	6,825	7,150	7,475	7,650	8,000
22 Fan development	6,600	6,750	7,400	8,000	8,250
23 Industry and membership	375	375	425	425	475
24 Total marketing	13,800	14,275	15,300	16,075	16,725
25 Legislative and regulatory	2,500	2,600	2,700	2,700	3,000
26 National initiatives	1,000	1,000	1,000	1,000	1,000
27 General and administrative	5,750	5,650	5,550	5,425	5,425
28 PAC (A SEPARATE LEGAL ENTITY)	550	600	650	700	750
29 TOTAL EXPENSES	70,350	72,125	74,900	76,900	80,900
30 EXCESS REVENUES OVER EXPENSES	650	625	600	600	600
31 Non-operating revenue	100	125	150	150	150
32 INCREASE IN NET ASSETS	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750