

2001-2002 NTRA

Annual Report to the Membership



Commissioner's Message



An unprecedented combination of events—the tragedy of September 11, a shrinking national economy, the loss of Kentucky foals to Mare Reproductive Loss Syndrome and a downswing in the Thoroughbred sales market after a long run of increases—created, understandably, a mood of uncertainty in the Thoroughbred industry in 2001.

Still, there were positive developments: record pari-mutuel handle and purses for the eighth year in a row, another year of growth in fan interest in our sport, and impressive new momentum for our sport's signature events, the VISA Triple Crown and the Breeders' Cup.

For the NTRA, the year also included a period of review and self-study, the result of which is a revised business and strategic plan that should make our organization and our industry stronger for years to come.

As outlined in its Revised Business Plan for 2002-2005, the NTRA brings renewed focus to five key areas: core marketing programs; enhanced legislative and political capabilities; brand development for the Breeders' Cup

World Thoroughbred Championships; building greater industry consensus on key economic policy issues; and necessary steps to strengthen the organization itself.

Already, we have made progress on those goals.

After consolidating operations with Breeders' Cup Limited, we are stronger operating as one virtual enterprise and thus much better equipped to fulfill our shared mission: improving the popularity of horse-racing and enhancing economic conditions in our industry.

The first product of the combination was a program to re-brand both the Breeders' Cup and the divisional races leading to it that help to determine our sport's annual champions. The goal: to make our most important day more understandable and accessible to the public and to sponsors.

Re-branding the Breeders' Cup as the World Thoroughbred Championships and the preceding graded stakes as the Road to the World Thoroughbred Championships elicited positive reaction from both consumers and sponsors. Three major marketing

The 2001 Breeders' Cup World Thoroughbred Championships at Belmont Park was dedicated to the families of the New York police, firefighters, Port Authority workers, EMS personnel and other victims of September 11.



partners were recruited under the new strategy: Bessemer Trust (Juvenile), Penske Auto Centers (Sprint) and John Deere (Turf).

An additional benefit—and driver—of the re-branding program was the extension of our television contracts. The Breeders' Cup NBC contract has been renewed through 2005, with increases in related programming and promotion and a recapturing of the international distribution rights, which we believe will be highly beneficial to the NTRA as we seek to market the World Thoroughbred Championships internationally in future years. We have also forged an agreement with ESPN, extending our Road to the World Thoroughbred Championships and Triple Crown programming through 2008.

In tandem with efforts to promote our sport's top-caliber events, the NTRA has updated its national and co-op advertising, significantly increased consumer promotions for the coming year and improved our use of the Internet for player development. Much of this re-energized marketing effort is directed at those nearly 20 million casual or "light" fans who enjoy horseracing but attend the races only once or twice a year. Throughout 2001, we engaged in in-depth, attitudinal research to uncover ways in which we can encourage this very large and important target audience to attend the track more frequently.

Legislative highlights

included the passage of legislation for MRLS relief and the recent passage of economic stimulus legislation that provides positive tax benefits for horse owners via increased depreciation rates for horses.

Atop our list of legislative priorities for 2002 are federal legislation recognizing horses as livestock that, if passed, would make horse owners and breeders eligible for low-interest loans and other government economic relief in the event of any future catastrophic losses; and proposed legislation to eliminate the 30 percent withholding on foreign wagering into U.S. pari-mutuel pools that, if passed, would increase domestic handle.

We also have established the Horse Caucus, a long-term program to educate members of Congress about our industry and the \$34 billion agribusiness it supports.

We have created an improved group purchasing program to deliver to our members substantial savings on products and services from nationally recognized vendors, including our marketing partner John Deere. NTRA Purchasing enables the NTRA to diversify its revenue sources while adding to its member benefits.

Lastly, we have worked diligently to gain industry input—and, wherever possible, policy consensus—on alternative gaming, account wagering, economic deregulation, tax reform, drug testing, medication policies and other issues

2001-2002 Annual Report to the Membership

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that are critical to our collective growth.

The manner in which our industry met its recent challenges—and there were many in 2001—should, in fact, produce optimism about horseracing's future. We are stronger and more focused on achieving common goals than ever. As the NTRA moves into "Phase Two," we hope that you will continue to share your views, advice and support.

Sincerely,



Tim Smith
Commissioner

2001 World Thoroughbred Championships

The emergence of the Breeders' Cup World Thoroughbred Championships was both a logical step for the event, one of the world's premier days of racing, and an extension of the tradition of Thoroughbred racing, a global sport since its founding in the 17th century.

On October 27, the newly branded \$13 million Breeders' Cup World Thoroughbred Championships brought a record crowd of 53,000 to New York for the area's first major international championship after the September 11 attack on the World Trade Center.

Dedicated to those lost on 9/11 and their families, the World Thoroughbred Championships day alone raised more than \$2 million for relief efforts from horseracing's international community. Owners, trainers and jockeys from the United States, Dubai, Ireland, Saudi Arabia, England and India pledged purse earnings from the event, including 100 percent by the Godolphin Stable of Sheikh Mohammed al Maktoum.



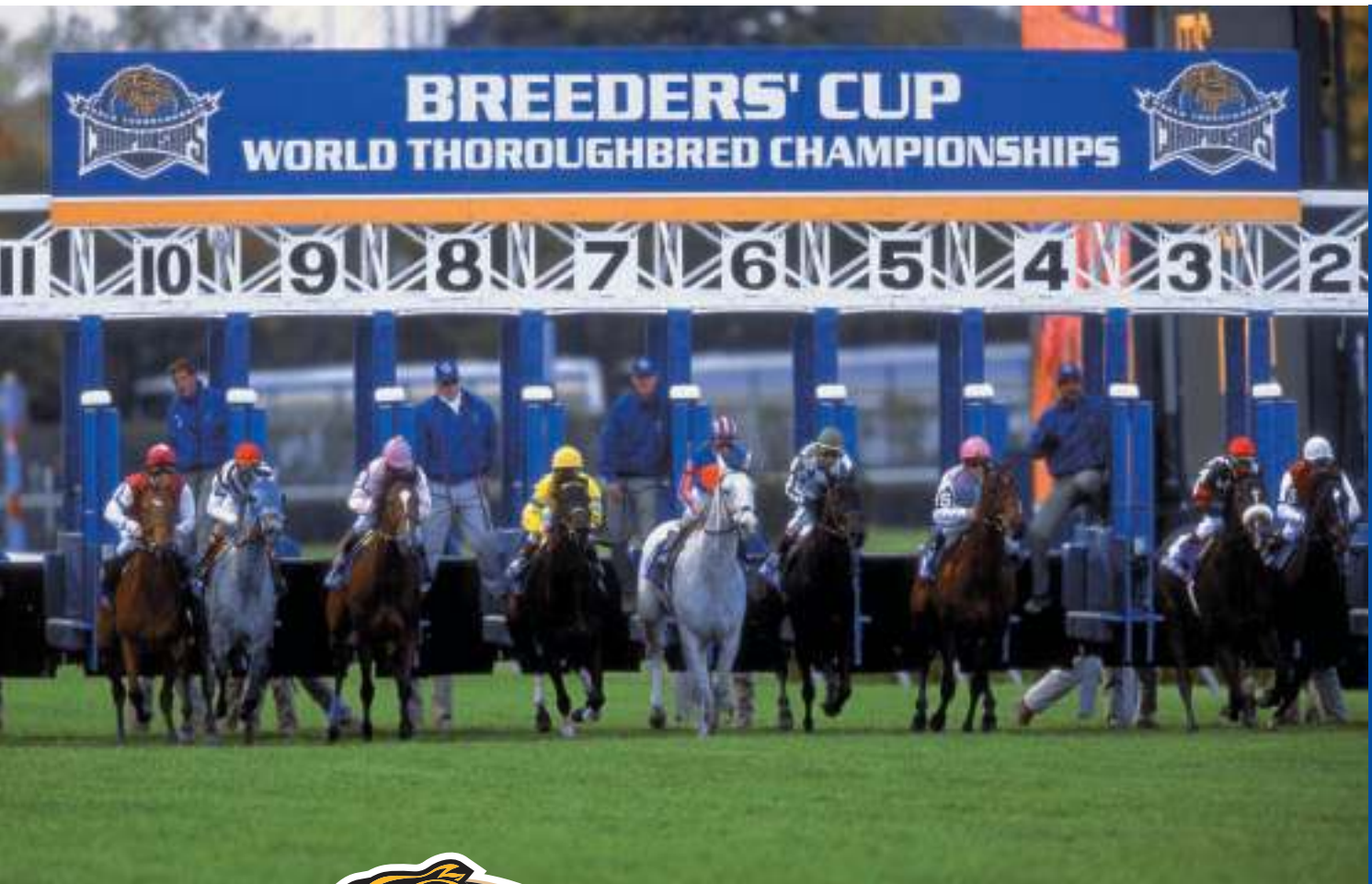
The strongest-ever fields of U.S. and international runners assembled, their brilliance underscored by record on-track handle of \$13 million and total handle of more than \$104 million. Three of the eight Championship races, each featuring horses with international connections, were won by European-based runners.

The Breeders' Cup has steadily progressed as an international event since its founding in 1984, growth made possible by a global infrastructure of racetracks, training centers and breeding farms and a worldwide audience of horseracing fans. With a presence in 53 countries, Thoroughbred racing attracts \$100 billion in annual wagers.

To continue that growth, NTRA and Breeders' Cup are working this year to build Thoroughbred racing's world media presence with more internationally televised races, foreign sponsorship extensions, published rankings for leading domestic and international horses pointing to the World Thoroughbred Championships, extended simulcasting and improved free television coverage of the event in key foreign markets.

Thoroughbred racing has its origins in international trade. The Thoroughbred breed began in the 17th century, when stallions from the Middle East were imported to England and bred to local mares.





Kentucky Derby winner Zev defeated Epsom Derby winner Papyrus in a \$100,000 match race at Belmont Park on October 20, 1923. The race, the International Special, marked the first time an English champion had been sent to the U.S. to race. Public interest in the race was so great that it was broadcast on the radio—a first. Within two days, films of the race were distributed at movie theaters in New York City and, eventually, across the nation.



Financial Highlights

Priorities for 2002 include renewed emphasis on core marketing programs, augmented by a one-time, \$1.5 million cash infusion from 2001 net operating revenues, designed to stimulate incremental attendance and pari-mutuel handle during 2002 at NTRA member facilities.

The figures represent budgeted projections for the calendar year 2002 and do not include Subsidiaries.

Consolidated Financial Statements for National Thoroughbred Racing Association, Inc. and Subsidiaries are attached as an appendix to this report.

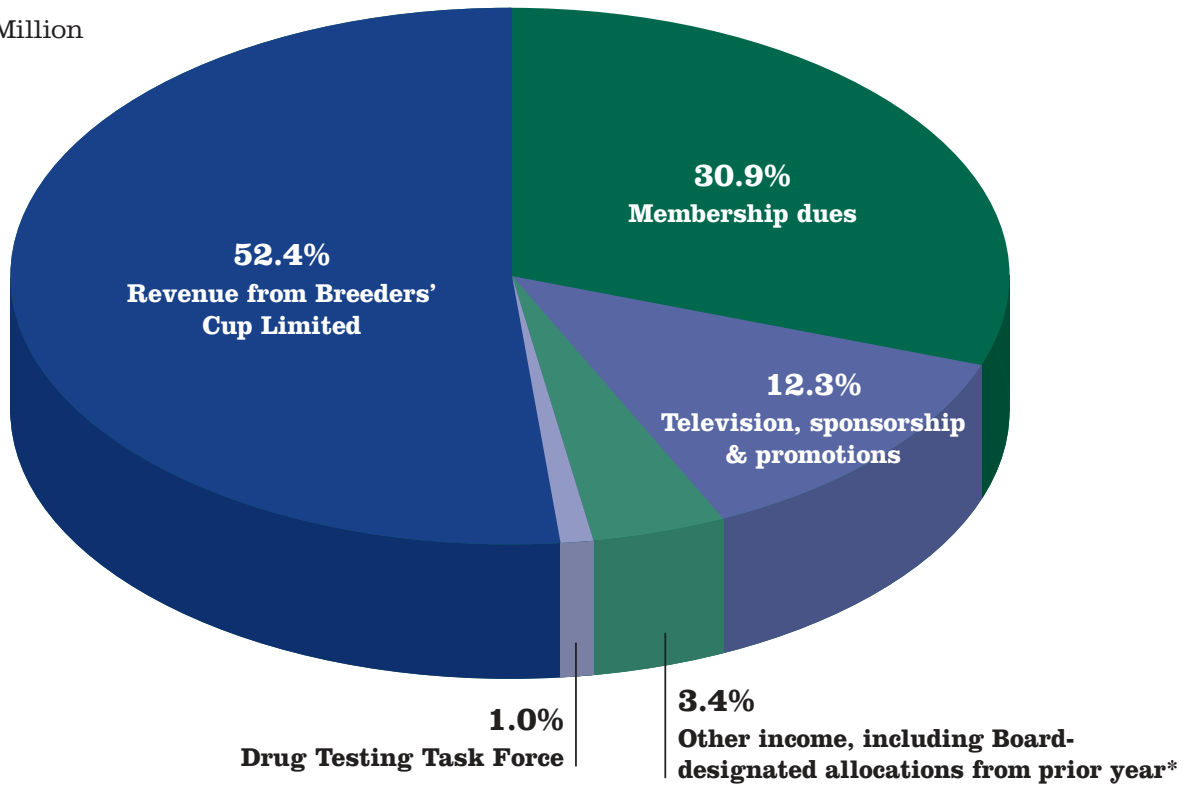
Operating Revenues	2002 Budget*	2001 Actual
Revenues from BCL	\$31,150,000	\$32,968,777
Membership dues	18,431,000	19,110,737
Television, sponsorship & promotions	7,320,000	4,853,662
Drug Testing Task Force	534,000	530,445
Other revenues	—	188,838
Total operating revenues	57,435,000	57,122,014
Operating Expenses		
Television	6,874,000	7,396,185
Sponsorship	2,963,000	1,711,751
Advertising, marketing & promotions	22,319,000	21,242,613
Purses & awards	19,650,000	19,156,570
Legislative & regulatory	1,435,000	1,252,753
Drug Testing Task Force	534,000	530,445
General & administrative	5,289,000	5,431,606
Total operating expenses	59,064,000	56,721,923
Excess (deficit) of operating revenues over operating expenses	(1,629,000)	400,091
Non-operating income		
Interest income, net	29,000	75,711
Other non-operating income	500,000	1,060,711
Total non-operating income	529,000	1,136,482
Excess of revenues over (under) expenses	(1,100,000)	1,536,573
Board-designated allocations for programs in 2002	1,500,000	(1,500,000)
Change in undesignated net assets	\$ 400,000	\$ 36,573

* Unaudited

2002 NTRA Budget

Revenues*

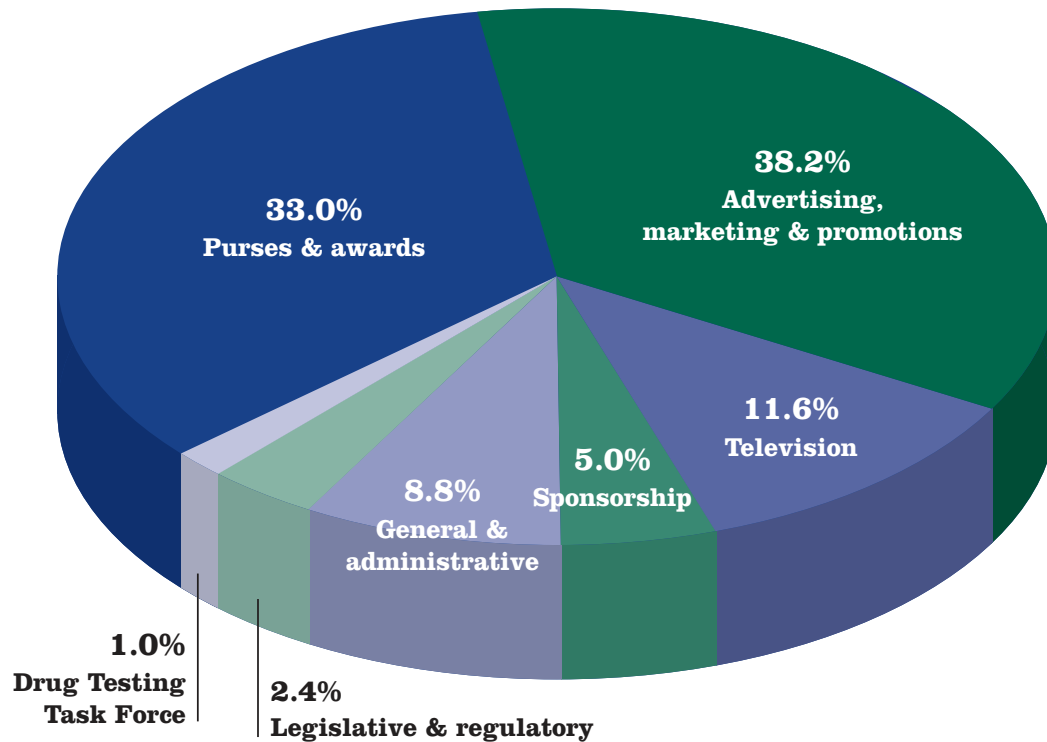
\$59.5 Million



2002 NTRA Budget

Expenses and Budgeted Surplus

\$59.5 Million



* Includes \$1.5 million Board-designated allocations from prior year.

2002 Board of Directors & Senior Management

NTRA Commissioner & Chief Executive Officer



Tim Smith

Former Deputy Commissioner and Chief Operating Officer of the PGA TOUR, Mr. Smith was named the NTRA Commissioner in April 1998.

NTRA Vice Chairman & Breeders' Cup President



D. G. Van Clief, Jr.

A horsemen's representative on the NTRA Board, Mr. Van Clief assumed the role of NTRA Vice Chairman in January 2001 in addition to that of Breeders' Cup President.

The NTRA 15-member Board of Directors consists of the NTRA Commissioner, seven horsemen's representatives and seven racetrack representatives.

The racetrack representatives include four independent seats representing the West, Midwest, South and Mid-Atlantic regions and three multi-track seats representing Churchill Downs Incorporated, Magna Entertainment Corporation and the New York Racing Association, respectively.

Each board member for the multi-track seats represents two or more Thoroughbred racetracks at which the total annual combined handle wagered on Thoroughbred races exceeds 15 percent of the annual pari-mutuel handle wagered in North America on Thoroughbred racing.



NTRA Senior Management

Gregory C. Avioli

Deputy Commissioner
& COO

Ferguson Taylor

Chief Administrative
& Financial Officer

Pam Blatz-Murff

Senior Vice President,
Breeders' Cup Operations

Chip Campbell

Senior Vice President,
Television & Sponsorship

Keith Chamblin

Senior Vice President,
Marketing & Industry
Relations

Ken Kirchner

Senior Vice President,
Product Development

Racetrack Representatives



Joseph DeFrancis
Mid-Atlantic Region,
Independent



Craig R. Fravel
West Region,
Independent



Bryan G. Krantz
South Region,
Independent



Jim McAlpine
Magna Entertainment
Corporation



Thomas H. Meeker
Churchill Downs
Incorporated



Terence Meyocks
New York Racing
Association



Nick Nicholson
Midwest Region,
Independent

Horsemen's Representatives



Robert Clay
Thoroughbred
Owners & Breeders
Association



Alan Foreman
Thoroughbred
Horsemen's
Association



**G. Watts
Humphrey, Jr.**
Breeders' Cup
Limited



Ogden Mills Phipps
The Jockey Club



John Roark
National HBPA



D.G. Van Clief, Jr.
Breeders' Cup
Limited



John Van de Kamp
Thoroughbred
Owners of California

NTRA Board Committees

NTRA Board Committees present detailed analyses of select issues to the NTRA Board for review. Approval for policies, programs and budgets relating to those issues requires a vote of the full Board and a super majority vote, depending on the topic.

Audit & Compensation

Thomas H. Meeker, Chair
Robert Clay
Alan Foreman
G. Watts Humphrey, Jr.
Ogden Mills Phipps

Political Action

Jim McAlpine
Nick Nicholson
Bill Walmsley
John Van de Kamp

Sponsorship & Television

Joe DeFrancis
Craig R. Fravel
Bryan G. Krantz
Terence Meyocks

Marketing & Advertising

Consumer research plays a key role in the NTRA's integrated marketing strategies to encourage more frequent event participation by horseracing's nearly 20 million casual or "light" fans.

Consumer Research

With the goal of increasing attendance at its member racetracks, the NTRA's consumer research focuses on target audiences' lifestyles, demographics and attitudes to identify the drivers to attendance at Thoroughbred racing events. The research findings also serve as the foundation for the NTRA's 2002 marketing and advertising campaigns, which emphasize both the participatory nature of horseracing through wagering, as well as the social experience of a day at the races.



Marketing Summit

Experts from the sports and entertainment marketplace bring new ideas to the racing industry at the NTRA's annual Marketing Summit in Las Vegas, where the NTRA annually unveils its co-op advertising and provides industry updates on public relations and publicity, marketing, sponsorship and promotions.

ESPN Sports Poll

According to ESPN Sports Poll, horseracing was one of only four sports to show an upswing in interest between 2000 and 2001. The number of Americans 12 and older who are interested in horseracing grew from 30.4 percent in 1999 to 31.5 percent in 2000 to 33.3 percent in 2001. Sports Poll has tracked consumer interest in horseracing for the NTRA since 1998, conducting 2,000 interviews monthly and amassing more than 94,000 surveys.

NTRA Creative Services

NTRA's co-op advertising campaign underwent a substantive, six-month review in 2001, including focus-group research, a review of multiple advertising and promotional agencies, advertising copy testing and feedback from racetrack marketing executives.

In 2001, interest in horseracing grew 5.4 percent, second only to NASCAR in the rate of increase.

Fan Interest for Major Sports

TNS Intersearch - ESPN Sports Poll

Percentage Change in Fan Base 2000-2001

NASCAR	+ 10.9%
Horseracing	+ 5.4%
WNBA	+ 5.2%
Pro Boxing	+ 1.3%
College Basketball	- 1.2%
College Football	- 1.4%
Pro Wrestling	- 2.0%
MLB	- 2.1%
NFL	- 2.5%
NBA	- 4.3%

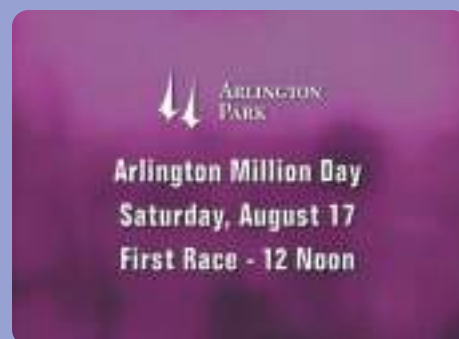


From the process emerged NTRA Creative Services, which will enable the NTRA to use the best creative ideas from an array of agencies and deliver cost efficiencies that can be passed along to members, while providing long-term revenue for the NTRA.

Expanding the NTRA's co-op advertising program to a full line of integrated marketing and advertising production services, Creative Services offers customized print, radio and television advertising; e-marketing; Web site

development and hosting; consumer research; direct mail and database marketing; media buys; alternative media programs and other services. Programs qualify for reimbursement of a percentage of NTRA dues.

New television spots, radio, print and outdoor advertising have been created for 2002, all of which can be customized for local markets.



Promotions & New Media

With a \$1.5 million one-time infusion from 2001 net operating revenues, NTRA will expand its 2002 promotional and educational programs to encourage more frequent attendance by casual fans.

NTRA Productions produces the horseracing pages on ESPN.com, the world's leading sports Web site.

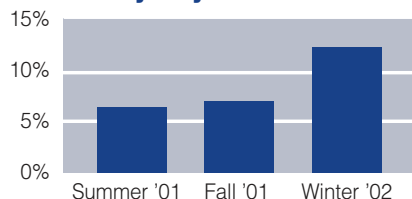
RACETRACK PROMOTIONS



Mystery Mutuel Vouchers

A direct mail promotion, the Mystery Mutuel Voucher carries a grand prize whose value increases \$250,000 until the winning ticket is redeemed. More than 1.7 million vouchers worth \$6.6 million were mailed in two promotions in 2001, resulting in double-digit increases in attendance and wagering at participating sites and giving NTRA sponsors added exposure with consumers.

Average Redemption Rates for Mystery Mutuel Vouchers



Through the special 2002 stimulus program, NTRA Creative Services will double the number of Mystery Mutuel Voucher promotions in 2002, with substantial co-op subsidies to encourage maximum track participation. Handle and purse accounts are projected to grow as a direct result.

Group Sales

NTRA Creative Services is developing a new group sales program with its member tracks, keyed to special events and major racing holidays. A "Bring a Friend/Bring a Group" direct marketing and sweepstakes promotion is planned for America's Day at the Races this Labor Day.



\$200,000 Daily Racing Form/NTRA National Handicapping Championship

The Daily Racing Form/NTRA Handicapping Championship brings more than 35,000 players to NTRA member racetracks each year. Players must qualify in sanctioned tournaments to participate in the Championship, which carries a \$100,000 grand



prize. The tournaments also carry cash prizes and attract local media coverage, producing increases in handle and attendance at the more than 40 participating sites.

ONLINE PROMOTIONS

NTRA.com

An unparalleled forum for fan education and development, NTRA.com's "Bet the Net" teaches users simple concepts in pari-mutuel wagering through interactive online games. Since the Web site's re-launch in February 2002, traffic on NTRA.com has increased 160 percent.

"Imus in the Morning" National Radio Promotion

NTRA and the "Imus in the Morning" nationally syndicated radio program hosted by Don Imus teamed for a six-week Triple Crown promotion that generated new national interest in horseracing and significant media exposure. A similar promotion with sports talk personality and Imus show regular Mike Francesa was held in conjunction with the World Thoroughbred Championships. The promotions benefited the Imus Ranch for children with cancer and NTRA Charities. "Imus in the Morning" is broadcast in 90 markets to an estimated 10 million listeners daily.



Tiznow's exciting win over Sakhee in the Breeders' Cup Classic was the fans' overwhelming choice for the 2001 NTRA Moment of the Year.

NTRA Moment of the Year
NTRA's online poll at NTRA.com lets fans choose their favorite moment of the year in horseracing, with a chance to win a trip to the Eclipse Awards.

Ultimate Female Fan Contest

NTRA coordinates on-site promotions at its member racetracks to educate and celebrate female fans of Thoroughbred racing, as well as an annual online essay contest to identify the sport's Ultimate Female Fan.

\$1 Million NTRA Breeders' Cup Challenge

This online game offers players a chance to win \$1 million by selecting the winners of the Breeders' Cup World Thoroughbred Championships. In its second year, the game attracted 39,000 registered players, a 30 percent increase.

NTRA e-Newsletter

NTRA's e-mail newsletter is customized for fans in the local markets of its member racetracks. More than 150,000 e-mails are sent monthly.



Television

NTRA's television programming continues to expand, with 2002 offering more than 184 hours of national network and cable racing coverage, a 60 percent increase in TV hours over 1997 and the most comprehensive coverage ever of horseracing's divisional events.



NBC's agreement to televise the Breeders' Cup World Thoroughbred Championships was renewed through 2005, extending a relationship that began with the inaugural Breeders' Cup in 1984.

Provisions of the contract include a new 90-minute NTRA Road to the Kentucky Derby preview show beginning in 2002; a 90-minute Breeders' Cup World Thoroughbred Championships Preview in September; a five-hour telecast of the 2002 World Thoroughbred Championships, to air on October 26 in more than 60 countries; and a revenue-sharing partnership with NBC for sales of World Thoroughbred Championships advertising inventory, which substantially strengthens NTRA's sponsor media packages.

In 2001, NBC also aired the VISA Triple Crown for the first time. Overall ratings soared 50 percent.



NTRA's contracts with ESPN have been extended to 2008 for Road to the World Thoroughbred Championships and Triple Crown programming.

Road to the World Thoroughbred Championships telecasts on ESPN and ESPN2 in 2001, which included more than 16 hours of programming, expand to 18 hours in 2002, covering all eight Championship divisions with 38 stakes from 14 tracks in North America, France, Ireland and England. ESPN and ESPN2's eight hours of pre-Triple Crown events on



the 2001 CITGO Racing to the Kentucky Derby series, featuring such races as the Florida Derby, Santa Anita Derby and Wood Memorial, grow to 8.5 hours in 2002.



ESPN Classic's Thoroughbred Classics, hosted by Jim McKay and Jack Whitaker, highlight performers and personalities from America's most storied races, prior to the events' contemporary runnings. The Kentucky Derby, Preakness, Belmont, Toyota Blue Grass, Haskell Invitational and Breeders' Cup races are among the 19 events featured in 2002.





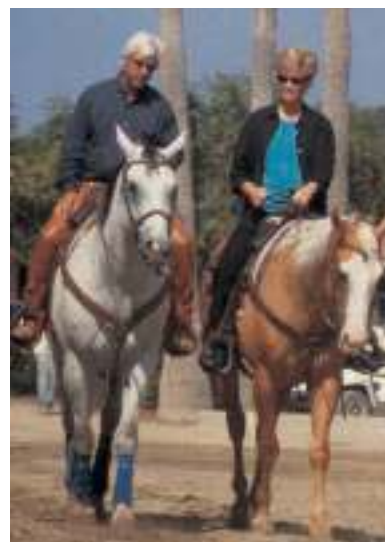
NTRA launched the Bessemer Trust Two-Year-Old Challenge on CNBC in 2001 as part of the newly branded Road to the World Thoroughbred Championships. With four hours of top races for two-year-old colts, culminating with the Bessemer Trust Breeders' Cup Juvenile on NBC, the series has expanded to include nine races for 2002.



The CBS summer series bridges the end of Triple Crown season and the start of the Road to the World Thoroughbred Championships. In 2001, the series included five hours of stakes races. For 2002, programming consists of three one-hour broadcasts showcasing the Classic, Distaff, Turf and Mile divisional races leading to the World Thoroughbred Championships.



TVG is a 24-hour interactive horseracing network that combines televised live racing from top tracks throughout the country and the convenience of in-home, account wagering. An indirect subsidiary of Gemstar-TV Guide International, TVG is available to approximately eight million homes nationwide on The DISH Network and on cable systems in regions such as Louisville, Lexington, Maryland and Southern California. TVG is an official marketing partner of the NTRA and has exclusive agreements with more than 20 partner racetracks.



In 2001, A&E's Joan Lunden (pictured with trainer Bob Baffert) took viewers "Behind Closed Doors" with an inside look at Thoroughbred racing, and Animal Planet aired "Thoroughbred," a multi-part series on a family of Maryland horse breeders.



Sponsorship

NTRA's flexible sponsorship packages deliver a wide range of media and benefits, including year-round promotional opportunities and sales to NTRA supporters through group purchasing.



World Thoroughbred Championships Sponsors

NTRA's sponsorship sales program gained considerable momentum in 2001 through linkage with the World Thoroughbred Championships and its associated divisional races, resulting in three title and divisional sponsors: Bessemer Trust (Juvenile), Penske Auto Centers (Sprint) and John Deere (Turf).

Access to yearlong programming on multiple networks is a key component of NTRA's sponsor packages. Seasonal and tactical advertising opportunities are available in conjunction with the NTRA's many racing series, ranging in duration from a few weeks to

Sponsor benefits include signage, advertising, nationally televised programming, on-site promotions and product demonstrations, among others.





several months, while the newly branded weekly show, Wire to Wire on ESPN, affords sponsors a more sustained presence.

NTRA also offers sponsors preferred access to its more than 500,000 members and affiliates through its group purchasing program. All participating sponsors enjoy support from NTRA Purchasing and its sales force, year-round opportunities for inclusion in targeted membership mailings, on-track promotions, product demonstrations and giveaways, as well as purchase-tracking programs to generate increased and repeat sales.



Legislative & Regulatory

Priorities for 2002 include the elimination of the 30 percent withholding on foreign wagers into U.S. pari-mutuel pools and other trade barriers to international wagering on American races.

Beginning with the successful passage in 2000 of an important clarification to the Interstate Horseracing Act that affirmed the legality of interstate simulcasting and account wagering, the NTRA over the last two years has focused more of its time and resources to further industry economic interests in the legislative and regulatory arenas. This trend will continue in 2002 and beyond.

To educate members of Congress about horseracing and its associated agribusiness, in 2001 the NTRA and the

American Horse Council helped form the Congressional Horse Caucus, co-chaired by Ernie Fletcher (R-KY) and Karen Thurman (D-FL), which includes representatives from California, Colorado, Florida, Georgia, Kentucky, Louisiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Virginia and Washington.

In 2001, the NTRA's legislative team, led by Deputy Commissioner Greg Avioli, worked to pass legislation to

provide relief to horse owners and breeders affected by Mare Reproductive Loss Syndrome. The legislation was passed in the fall, along with a Congressional appropriation for related research.

Since then, the NTRA has been working with members of Congress on provisions to the 2002 Farm Bill to define horses as livestock, thereby ensuring that horse breeders will be eligible for low-interest federal loans and other measures in the event of future losses.

Efforts continue to eliminate the 30 percent withholding on foreign wagers on U.S. horseracing, a major impediment to larger commingled U.S. wagering pools and an important step in the process of "exporting" U.S. racing to the international Thoroughbred racing market. Future efforts will include working through Congress and U.S. trade



Contributors to the NTRA's voluntary auction programs support legislative and regulatory initiatives.



representatives to address other trade barriers to international wagering on U.S. races, including protectionist laws in other racing countries that prohibit wagering into foreign pari-mutuel pools.

NTRA also facilitates broadly supported legislation at the state level, such as account wagering in California (which passed in 2001, after failing in 2000) and economic deregulation in Florida.

NTRA continues to retain National Economic Research Associates (NERA), providing economic analysis on issues relating to the taxation and

regulation of the pari-mutuel industry. NTRA's "tax revenue, not handle" initiative, announced in June, was a key recommendation of the McNair Task Force on Economic Deregulation, formed by the NTRA and chaired by businessman and racehorse owner Robert McNair.

Funding for legislative initiatives is derived from NTRA's auction program, with horse buyers and sellers voluntarily contributing one-quarter of one percent of the price for horses sold at public auction to the NTRA.

NTRA's legislative advocacy helps to protect and enhance the horse industry, which supports a \$34 billion agribusiness and nearly 500,000 full-time jobs.

Industry Programs

The NTRA offers a range of industry programs benefiting its members and the Thoroughbred racing and breeding industry as a whole.

NTRA Racing Integrity and Drug Testing Task Force

In 2001, the Task Force evaluated 1,600 raceday samples using rigorous “supertests” at leading university laboratories, while compiling a benchmark study of drug testing programs in the United States. The Task Force report and recommendations have been catalysts for proactive industry programs to ensure the continued integrity of horseracing through improved drug testing.



NTRA Great State Challenge

The six-race, \$1.5 million NTRA Great State Challenge, presented by John Deere, showcases top horses representing their respective states in a championship-style event to be staged annually beginning in 2002. Modeled on the World Thoroughbred Championships, the Challenge is open to jurisdictions where the official horsemen's association is a dues-paying member of the NTRA.

The top eight horsemen's associations paying NTRA member dues will be guaranteed one horse in each race. Based on current dues, California, Florida, Illinois, Kentucky, Maryland, New Jersey, New York and Texas will receive automatic berths in the races. Other NTRA-supporting states also will be eligible to receive invitations to the Great State Challenge.

The inaugural NTRA Great State Challenge will be held December 7, 2002 at Sam Houston Race Park in Houston, Texas.





Eclipse Awards

With its partners *Daily Racing Form* and the National Turf Writers Association, NTRA annually produces the Eclipse Awards, voted on by members of the media and the racing industry and presented to horseracing's divisional champions. Six of 11 Eclipse Award winners in 2001 also won their divisional races in the World Thoroughbred Championships.



The Greatest Game

Launched in 2001 as a Web-based initiative aimed at prospective horse owners, The Greatest Game has evolved to a tactical outreach program to market and promote Thoroughbred ownership. Program supporters include the NTRA, Keeneland, the Thoroughbred Owners and Breeders Association and *The Blood-Horse*. NTRA Communications provides public relations for The Greatest Game.



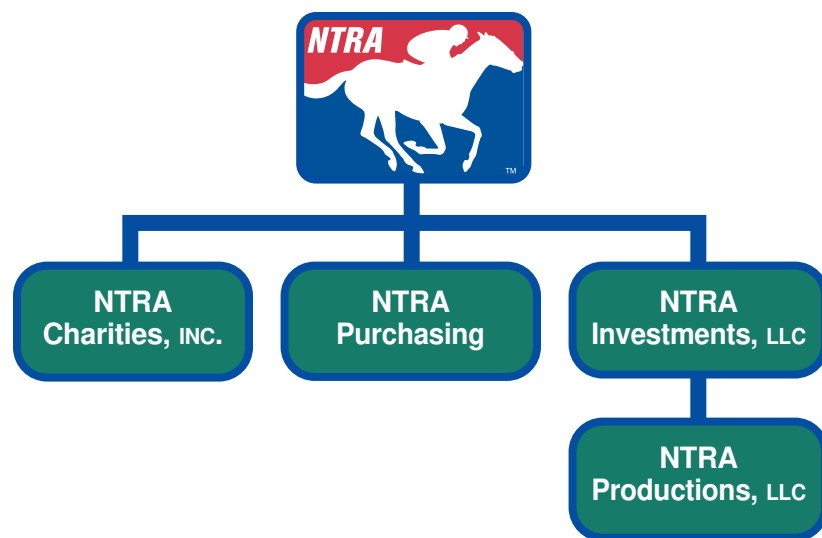
NTRA Purchasing

Created in January 2002 through the acquisition of the group purchasing business EquiSource, NTRA Purchasing offers NTRA members substantial savings on products from nationally known companies, including John Deere. First-quarter sales topped \$3 million.

With Super Bowl Champion coach Bill Belichick, Prince Ahmed bin Salman (left) celebrates the naming of his colt, Point Given, as Horse of the Year.

NTRA Organizational Structure

The NTRA is a tax-exempt membership organization representing all facets of the Thoroughbred racing and breeding industry.



NTRA Investments, LLC

Makes strategic acquisitions to benefit NTRA members.

NTRA Productions, LLC

Offers television production and Web site services and controls the world's largest archive of horseracing video as well as numerous programming contracts.

NTRA Purchasing

Delivers cost reduction and efficiencies to NTRA members through group purchasing.



The NTRA Charities - New York Heroes Fund raised nearly \$5 million for 9/11 disaster relief aid to local communities and New York police, firefighters, Port Authority and EMS social services agencies.





NTRA Charities, Inc.

Builds awareness of racing's charitable programs and NTRA Charities' national affiliate, Ronald McDonald House Charities, through NTRA-produced public service announcements that air during NTRA television time.

Special Affiliate

The American Quarter Horse Association, the world's largest breed registry with more than 330,000 members and four million registered Quarter Horses, is in its fourth year as an NTRA Special Affiliate.



Thoroughbred Industry Council

Through quarterly meetings, the Thoroughbred Industry Council offers insights and recommendations to NTRA senior management on issues affecting the Thoroughbred industry. Council members include:

- American Association of Equine Practitioners
- American Horse Council
- American Quarter Horse Association
- Association of Racing Commissioners International
- Breeders' Cup Limited
- California Thoroughbred Breeders Association
- Florida Thoroughbred Breeders' and Owners' Association
- The Jockey Club
- Jockeys' Guild
- Kentucky Thoroughbred Association/Kentucky Thoroughbred Owners and Breeders
- National Horsemen's Benevolent and Protective Association
- National Thoroughbred Association (TOBA)
- Nevada Pari-mutuel Association
- North American Pari-mutuel Regulators Association
- Oak Tree Racing Association
- Society of International Thoroughbred Auctioneers
- Southern California Horse Racing Industry Fan Committee
- Thoroughbred Horsemen's Association
- Thoroughbred Owners and Breeders Association
- Thoroughbred Owners of California
- Thoroughbred Racing Associations of North America
- Triple Crown Productions
- United Thoroughbred Trainers of America
- University of Arizona Race Track Industry Program
- University of Louisville Equine Industry Program

A Final Word

The NTRA's mission is twofold: to increase the popularity of Thoroughbred racing and improve the sport's economics for the benefit of our members.



As a nonprofit association, the NTRA reinvests its member contributions, as well as funds from sponsorships and other marketing alliances, in programs to grow the Thoroughbred racing and breeding industry.



That reinvestment takes many forms, including marketing, advertising, promotions, television, national consumer research, publicity, group purchasing, sponsorship sales and legislative advocacy.

The NTRA and its Board of Directors properly consider our members as our most important constituency. We thank you for your continued support and value your input as we work, together, to improve awareness of our sport and economic conditions in our industry.



Financial Statements

National Thoroughbred Racing Association, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

For the Years Ended December 31, 2001 and 2000

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Report of Independent Auditors

The Board of Directors

National Thoroughbred Racing Association, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial position of National Thoroughbred Racing Association, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Thoroughbred Racing Association, Inc. as of December 31, 2001 and 2000, and the consolidated results of its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating details appearing in the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

March 29, 2002

Ernst & Young LLP

National Thoroughbred Racing Association, Inc. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2001 and 2000 (with Consolidating Details in 2001)

	NTRA, Inc.	NTRA Investments LLC	Intercompany Eliminations	2001 Consolidated	2000 Consolidated
Assets					
Cash and cash equivalents	\$ 679,441	\$ 1,773,095	\$ —	\$ 2,452,536	\$ 5,176,833
Assets limited to use by Board	1,500,000	—	—	1,500,000	—
Accounts receivable, net	4,432,866	876,947	(153,858)	5,155,955	7,205,363
Receivable from (to) BCL	1,017,212	(16,528)	—	1,000,684	(113,023)
Prepaid expenses	298,130	133,047	—	431,177	1,450,748
Other assets	1,215,223	—	—	1,215,223	1,046,620
Property and equipment, net	837,249	—	—	837,249	762,151
Due (to) from subsidiaries	(201,999)	201,999	—	—	—
Intangibles, net	—	13,686,505	—	13,686,505	13,823,713
Total assets	\$9,778,122	\$16,655,065	\$(153,858)	\$26,279,329	\$29,352,405
Liabilities and net assets					
Accounts payable	\$1,664,105	\$ 310,330	\$(141,358)	\$ 1,833,077	\$ 5,742,675
Accrued liabilities	3,039,067	190,688	(12,500)	3,217,255	2,521,754
Deferred revenue	238,273	16,168	—	254,441	604,181
Deferred purchase consideration	—	2,250,000	—	2,250,000	4,500,000
Long term debt	—	16,000,000	—	16,000,000	14,000,000
Total liabilities	4,941,445	18,767,186	(153,858)	23,554,773	27,368,610
Minority interest	—	25,000	(25,000)	—	—
Net assets					
Board designated net assets	1,500,000	—	—	1,500,000	—
Undesignated net assets	3,336,677	(2,137,121)	25,000	1,224,556	1,983,795
Total net assets	4,836,677	(2,137,121)	25,000	2,724,556	1,983,795
Total liabilities and net assets	\$9,778,122	\$16,655,065	\$(153,858)	\$26,279,329	\$29,352,405

See accompanying notes.

National Thoroughbred Racing Association, Inc. and Subsidiaries
Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2001 and 2000 (with Consolidating Details in 2001)

	NTRA, Inc.	NTRA Investments LLC	Intercompany Eliminations	2001 Consolidated	2000 Consolidated
Operating revenues					
Revenues from BCL	\$32,968,777	\$ —	\$ —	\$32,968,777	\$ —
Membership dues	19,110,737	24,000	—	19,134,737	24,658,959
Television, sponsorship and promotions	4,373,217	14,654,069	(6,469,782)	12,557,504	14,273,255
Contributions – New York Heroes Fund	3,752,920	—	—	3,752,920	—
Drug Testing Task Force	530,445	—	—	530,445	319,142
Other revenues	328,431	41,251	—	369,682	289,895
Total operating revenues	61,064,527	14,719,320	(6,469,782)	69,314,065	39,541,251
Operating expenses					
Television	7,396,185	9,327,291	(5,888,441)	10,835,035	9,719,104
Sponsorship	1,714,274	—	(46,777)	1,667,497	1,143,890
Advertising, marketing and promotions	21,597,331	2,025	(434,564)	21,164,792	13,201,328
Purses and awards	19,156,570	—	(100,000)	19,056,570	472,626
Legislative and regulatory	1,252,753	—	—	1,252,753	811,863
Drug Testing Task Force	530,445	—	—	530,445	319,142
Contributions – New York Heroes Fund	3,752,920	—	—	3,752,920	—
Management fee	—	2,609,763	—	2,609,763	2,573,675
General and administrative	5,091,593	107,089	—	5,198,682	5,770,213
Depreciation and amortization	378,548	2,387,208	—	2,765,756	3,032,929
Total operating expenses	60,870,619	14,433,376	(6,469,782)	68,834,213	37,044,770
Excess of operating revenues over operating expenses	193,908	285,944	—	479,852	2,496,481
Non-operating income (expense)					
Interest income	94,365	50,031	—	144,396	168,770
Interest expense	(9,119)	(935,139)	—	(944,258)	(1,362,137)
Other income	1,060,771	—	—	1,060,771	2,179,317
Total non-operating income (expense)	1,146,017	(885,108)	—	260,909	985,950
Excess of revenues over (under) expenses	1,339,925	(599,164)	—	740,761	3,482,431
Other changes					
Contribution from BCL	—	—	—	—	3,500,000
Board designated allocations for programs in 2002	(1,500,000)	—	—	(1,500,000)	—
Change in undesignated net assets (deficit)	(160,075)	(599,164)	—	(759,239)	6,982,431
Undesignated net assets (deficit) at beginning of year	3,496,752	(1,537,957)	25,000	1,983,795	(4,998,636)
Undesignated net assets (deficit) at end of year	3,336,677	(2,137,121)	25,000	1,224,556	1,983,795
Board designated net assets at beginning of year	—	—	—	—	—
Board designated allocations for programs in 2002	1,500,000	—	—	1,500,000	—
Board designated net assets at end of year	1,500,000	—	—	1,500,000	—
Total net assets (deficit) at end of year	\$ 4,836,677	\$(2,137,121)	\$ 25,000	\$ 2,724,556	\$ 1,983,795

See accompanying notes.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities		
Excess of revenues over expenses	\$ 740,761	\$3,482,431
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	2,765,756	3,032,929
Discount amortization on long term receivable	(29,742)	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable, net	2,049,408	(3,238,406)
Decrease (increase) in prepaid expenses	1,019,571	(910,178)
Increase in other assets	(252,212)	(479,508)
(Increase) decrease in receivable from BCL	(1,113,707)	59,271
(Decrease) increase in accounts payable	(3,909,598)	3,877,185
Increase (decrease) in accrued liabilities	695,501	(1,098,274)
Decrease in deferred revenue	(349,740)	(199,504)
Net cash provided by operating activities	1,615,998	4,525,946
Cash flows from investing activities		
Purchase of Winner Communications, Inc. assets	(4,500,000)	(5,500,000)
Capital expenditures	(453,646)	(657,973)
Other	(9,000)	(10,000)
Net cash used in investing activities	(4,962,646)	(6,167,973)
Cash flows from financing activities		
Issuance of long term debt	2,000,000	5,500,000
Repayment of long term receivable	122,351	—
Board designated allocations for programs in 2002	(1,500,000)	—
Capital contribution from BCL	—	3,500,000
Payments under credit facility, net	—	(3,216,345)
Net cash provided by financing activities	622,351	5,783,655
Net (decrease) increase in cash and cash equivalents	(2,724,297)	4,141,628
Cash and cash equivalents at beginning of year	5,176,833	1,035,205
Cash and cash equivalents at end of year	\$2,452,536	\$5,176,833
Supplemental disclosure		
Cash paid for interest	\$ 993,842	\$1,353,405

See accompanying notes.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

1. Nature of Business and Organization

The National Thoroughbred Racing Association, Inc. (the “NTRA” or “NTRA, Inc.”) is a not-for-profit membership organization incorporated in December 1997. The purpose of the NTRA is to strengthen the Thoroughbred racing industry by increasing public awareness, creating a centralized national structure, implementing comprehensive marketing strategies and enhancing the industry’s economic condition by achieving significant revenue increases and cost reductions for its membership. NTRA, Inc., as reported on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets, includes its wholly owned subsidiary, NTRA Charities, Inc. (“NTRA Charities”). NTRA Charities is a not-for-profit tax-exempt charitable organization whose purpose is to broaden the Thoroughbred industry’s scope of community outreach through a national affiliation with Ronald McDonald House Charities and to promote and support existing charities in, and related to, the Thoroughbred industry.

NTRA Investments, LLC (“NTRA Investments”), as reported on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets, is a for-profit limited liability company of which NTRA has a 75% ownership interest. The remaining 25% interest is owned collectively by The Jockey Club, Inc., Breeders’ Cup Properties, LLC (an affiliate of the NTRA), Keeneland Association and Oak Tree Charitable Foundation (collectively the “Minority Partners”). NTRA Investments includes subsidiaries NTRA Productions, LLC (“NTRA Productions”) and NTRA Services, LLC (“NTRA Services”). NTRA Productions offers television production services and controls the world’s largest archive of horseracing video as well as numerous programming contracts. NTRA Services was created to facilitate account wagering; effective July 1, 2001, the functions of NTRA Services were assumed by another entity. Collectively, these consolidated entities are referred to as the “Association” within these consolidated financial statements.

Membership and Management Services Agreement with Breeders’ Cup Limited

In October 2000, the NTRA entered into an agreement (the “Agreement”) with Breeders’ Cup Limited (“BCL”) under which, effective January 1, 2001 and for the ten-year period ending December 31, 2010, the NTRA performs certain Membership and Management Services, defined as the performance of normal day-to-day business operations of BCL. In exchange for such services, BCL provides NTRA with a Membership and Management Services Fee. This fee is equal to all BCL operating revenues, less investment income and other expenses necessary to operate BCL. The Agreement also provided for a one-time capital contribution from BCL to NTRA in the amount of \$3,500,000, which was paid in October 2000 and has been included as an “Other Change” in the consolidated statements of activities and changes in net assets for the year ended December 31, 2000.

In connection with this Agreement and the required services, BCL provided a non-transferable, non-exclusive, royalty-free license for NTRA to utilize various intellectual property, including copyrights, patents, trademarks, logos, customer information and other information. BCL retains full ownership of its property and the rights associated with it. NTRA will pay a one-time license fee of \$1,500,000 on or before December 31, 2003 in the event that NTRA’s net assets exceed \$6,500,000 on or before December 31, 2003. If NTRA achieves net assets of \$6,500,000 in years 2004 to 2010, the one-time license fee increases to a range from \$1,600,000 to \$2,250,000. Such fee will be recorded when it is due and payable.

In addition, BCL leases to NTRA all furniture, fixtures, equipment, supplies, databases and other tangible personal property. Consideration for the rental of these items is provided within the performance of the Membership and Management Services. Effective January 31, 2001, the lease for the corporate office of BCL was assigned to the NTRA. On January 1, 2001, employees of BCL became employees of NTRA and their accumulated

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

benefits were carried forward.

At its discretion, BCL may provide NTRA with an annual allocation in support of NTRA programs and operations for a specific year. This amount will be payable on or before December 31 of each year. For the year ended December 31, 2001, the annual allocation is \$2,500,000, which is included in revenues from BCL in the consolidated statements of activities and changes in net assets. For 2002, BCL has committed an allocation of \$2,000,000. The Membership and Management Services Agreement is terminable by the mutual consent of the NTRA and BCL or by either party under certain circumstances as defined in the Agreement.

Purchase of Winner Communications, Inc. Assets

The Minority Partners have loaned NTRA Investments \$16,000,000 in order to finance NTRA Productions' purchase of certain assets of Winner Communications, Inc., now called, and henceforth referred to as Winnercomm, Inc. ("Winnercomm"), as described below (see "Long Term Debt" and "Related Parties"). The total contracted purchase price for the assets of Winnercomm is \$27,500,000, subject to adjustments, as described below, originally payable over a five-year period without interest, with \$8,500,000 payable at the date of acquisition, \$5,500,000 payable in April 2000 and \$4,500,000 payable each April in 2001 through 2003. During 2001, it was agreed in principle by NTRA Investments, the Minority Partners and Winnercomm that the remaining two payments of \$4,500,000 in each of 2002 and 2003 would be revised to four payments of \$2,250,000 in each of 2002 through 2005. Interest will be payable on the amounts due in 2003 through 2005 at a rate of 6% per year from the date the amount would have been paid under the original agreement. The Association paid approximately \$6,800,000 at the date of acquisition, representing the initial install-

ment of \$8,500,000, reduced by certain adjustments, as defined in the Purchase Agreement. Remaining payments were originally based upon Winnercomm's achievement of guaranteed minimum net income of \$5,800,000 in the aggregate for the years 2002 through 2003. Under the revised agreement, Winnercomm must achieve \$10,400,000 in the aggregate for the years 2002 through 2005. If the guaranteed minimum income is not met in a given year, the payment for that year is reduced on a dollar-for-dollar basis by the net income shortfall.

The guaranteed net income was satisfied for the years ended December 31, 2001 and 2000; accordingly, \$2,250,000 and \$4,500,000 are included in deferred purchase consideration on the consolidated statements of financial position as of December 31, 2001 and 2000, respectively.

In conjunction with the purchase, NTRA Productions and Winnercomm originally entered into a Services Agreement (the "Services Agreement") through December 31, 2003, under which Winnercomm provides the production and programming services for NTRA Productions' horseracing programming and is responsible for generating advertising and sponsorship revenue in connection with the programming. Under the Services Agreement, NTRA Productions paid a management fee of approximately \$2,610,000 and \$2,574,000 for the years ended December 31, 2001 and 2000, respectively. The original agreement also required \$2,600,000 to be paid in each of 2002 and 2003. In connection with the revised Purchase Agreement, it was agreed in principle by all parties that the Services Agreement would be extended through 2005, requiring a management fee of approximately \$2,800,000 in 2002, \$2,900,000 in 2003, \$3,700,000 in 2004 and \$3,800,000 in 2005.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

Founding Member Dues

During 2000, the Thoroughbred Owners and Breeders Association ("TOBA") became the sixth Founding Member of NTRA. TOBA will pay Founding Member dues of \$1,000,000 in installments through 2005, of which \$150,000 was payable in 2001 and \$100,000 in 2000. The receivable is included in other assets on the consolidated statements of financial position, net of discount to present value at 8.5%. At December 31, 2001, the receivable is due to be collected as follows:

Less than one year	\$ 175,000
One to three years	<u>575,000</u>
Subtotal	750,000
Less: discount to present value	<u>(142,785)</u>
Total	<u>\$ 607,215</u>

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the National Thoroughbred Racing Association, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made to the 2000 consolidated financial statements to conform to the 2001 presentation.

Risks and Uncertainties

A significant portion of the Association's revenue is dependent on the overall economy of the Thoroughbred industry. The consolidated financial statements and accompanying notes have been prepared in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the amounts reported. Actual results could vary from these estimates.

Revenue Recognition

The Association derives a significant portion of its revenue from the Membership and Management Services Fee provided by BCL in 2001. Other primary sources of revenue in both 2001 and 2000 are membership dues along with fees associated with television, sponsorship and promotions.

Racetrack members and horsemen's association dues are recognized in the year to which the membership relates. Breeders' dues are recognized in the year that corresponds to the related breeding season of the stallion. Dues from public auction sales companies, sellers and buyers are recognized in the year during which the sale is conducted. Other membership dues are recognized as revenue when earned according to contract terms.

Television, sponsorship and promotion revenues are earned based upon the satisfaction of contractual terms and are reported net of agency commissions, if applicable. All cash received in 2001 related to events occurring in 2002 is appropriately recorded in deferred revenue on the consolidated statements of financial position.

All unconditional charitable contributions are recorded as revenue when received. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Restricted contributions received and expended within the same fiscal year are reported as unrestricted contributions. In 2001, the New York Heroes Fund was established by NTRA Charities to assist those affected by the tragic events of September 11. Contributions to this fund were remitted to several organizations offering assistance to those affected.

Cash and Cash Equivalents

The Association considers all investments purchased with an original maturity date of three months or less to be cash equivalents.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

Assets Limited to Use by Board

During 2001, NTRA's Board of Directors designated \$1,500,000 of net assets for the funding of additional consumer promotions and educational programs in 2002. This amount is reflected as Board Designated Allocations for Programs in 2002 on the consolidated statements of activities and changes in net assets. Additionally, the amount is identified as Assets Limited to Use by Board on the consolidated statements of financial position, and consists of cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts of approximately \$440,000 and \$566,000 as of December 31, 2001 and 2000, respectively.

Advertising and Other Assets

The Association expenses print advertising costs as incurred and media advertising costs the first time the advertising takes place. As of December 31, 2000, the Association had included approximately \$849,000 in other assets on the consolidated statements of financial position relating to amounts paid for production costs in advance of media advertising being aired. Inventories are stated at the lower of acquisition cost or estimated realizable value.

Intangible Assets

It is the Association's policy to account for intangible assets at the lower of the amortized cost or estimated realizable value. Amortization is provided using the straight-line method over the useful life of the assets. As part of an ongoing review of the valuation and amortization of the intangible assets of the Association, management assesses the carrying value of its intangible assets if facts and circumstances suggest that there may be impairment. If this review indicates that the intangible assets may not be recoverable, the Association would perform a non-discounted cash flow analysis of the operating results. If the estimated

undiscounted cash flows were less than the asset carrying value, the value of the intangible assets would be reduced to their estimated realizable value, which would be estimated by discounting the previously estimated cash flows.

In August 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting Results of Operations – Reporting the Effects of the Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144, effective January 1, 2002, requires that a single accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. This statement is not expected to impact the Association.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are stated at cost and amortized using the straight-line method over the lease term. Depreciation expense is approximately \$379,000 and \$198,000 in 2001 and 2000, respectively.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

Cooperative Advertising Program

Racetracks and off-track betting organizations are eligible to participate in the Association's cooperative advertising program. Under this program, each member is entitled to be reimbursed a portion of membership dues paid to the NTRA for costs incurred by the member to run NTRA-produced television and print advertising in its local market. Included in accounts payable and accrued liabilities at December 31, 2001 and 2000 are amounts totaling approximately \$2,076,000 and \$3,594,000, respectively, relating to this program.

3. Property and Equipment

Property and equipment consist of the following as of December 31:

	2001	2000
Trailer and equipment	\$ 641,799	\$ 620,787
Computer equipment	363,363	91,524
Furniture and fixtures	271,034	205,042
Other equipment	134,622	102,516
Leasehold improvements	62,696	—
	<u>1,473,514</u>	<u>1,019,869</u>
Less: accumulated depreciation and amortization	(636,265)	(257,718)
	<u>\$ 837,249</u>	<u>\$ 762,151</u>

4. Intangible Assets

Intangible assets consist of the purchased assets of Winnercomm, including broadcast rights, racing video library and intellectual property rights. Prior to 2001, these assets were amortized using the straight-line method over five years, with five years representing the useful life of the assets under the original term of the Purchase Agreement (see "Nature of Business and Organization – Purchase of Winner Communications, Inc. Assets").

During 2001, it was agreed in principle by NTRA Investments, the Minority Partners and Winnercomm that the term of the agreements with Winnercomm would be extended by two years; consequently, the useful life of the assets is extended.

Therefore, beginning in 2001, the unamortized intangible assets are amortized over the remaining estimated life.

During 2001, intangible assets increased by \$2,250,000 as a result of Winnercomm's satisfaction of guaranteed net income (see "Nature and Business of Organization – Purchase of Winner Communications, Inc. Assets").

The Association's intangible assets consist of the following as of December 31:

	2001	2000
Broadcast rights	\$19,284,755	\$17,075,705
Film archives	354,415	313,465
	<u>19,639,170</u>	<u>17,389,170</u>
Less: accumulated amortization	(5,952,665)	(3,565,457)
	<u>\$13,686,505</u>	<u>\$13,823,713</u>

Amortization expense is approximately \$2,387,000 and \$2,835,000 for the years ended December 31, 2001 and 2000, respectively.

5. Long Term Debt

NTRA has a revolving line of credit with a bank for an amount up to \$6,090,000, with interest of 1% below the prime rate (3.75% at December 31, 2001) payable monthly and a maturity date of June 30, 2002. As of December 31, 2001 and 2000, the NTRA had no outstanding borrowings under the line of credit. Interest expense on the line of credit approximated \$1,800 and \$183,000 in 2001 and 2000, respectively. The line of credit is secured by all uncollected dues pursuant to written membership agreements by and between the NTRA and its membership and is guaranteed by three parties: BCL, another founding member and a significant shareholder of an NTRA member organization.

A portion of the line of credit is used as a letter of credit to secure the lease of office space in Lexington, KY. The NTRA holds additional letters of credit from a financial institution to secure other leases. These letters of credit are collateralized by marketable securities consisting of United

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

States Treasury obligations that are included in other assets on the consolidated statements of financial position. These marketable securities mature in February 2002, at which time the funds will be reinvested for the remaining term of the related agreements.

To fund the purchase of the assets of Winnercomm and the establishment of NTRA Productions, NTRA Investments entered into a term loan agreement (the "Loan") on July 7, 1999 with the Minority Partners (see "Nature of Business and Organization – Purchase of Winner Communications, Inc. Assets"). The maximum Loan amount to be extended is \$16,000,000 payable in full, with all accrued and unpaid interest on July 7, 2004. This includes amounts loaned by an NTRA affiliate (see "Related Parties"). Interest on the Loan is payable monthly at a rate of 1% above the prime rate, except for the period from July 1, 2001 to June 30, 2002 when the rate is 1% below the prime rate. Interest expense on the Loan (including amounts due to an NTRA affiliate) approximated \$935,000 and \$1,179,000 in 2001 and 2000, respectively.

As of December 31, 2001, NTRA Investments had outstanding borrowings under the Loan of \$16,000,000 (including \$5,000,000 due to an NTRA affiliate). The assets of NTRA Investments, including NTRA Productions and NTRA Services, secure the Loan.

6. Income Taxes

The NTRA is exempt from federal income tax under section 501 (c)(6) of the Internal Revenue Code.

Certain activities of NTRA Investments are subject to tax as unrelated business income. For the years ended December 31, 2001 and 2000, these activities resulted in a net operating loss for tax purposes.

7. Commitments and Contingencies

Rent expense, which includes rent for office space, storage and various equipment in Lexington, KY, and New York, NY, amounted to approximately \$998,000 and \$499,000 for the years ended December 31, 2001 and 2000, respectively. During 2001, NTRA terminated a lease of certain office space; consequently, 2001 rent expense includes a one-time charge of \$175,000.

Future minimum lease payments under existing lease agreements as of December 31, 2001 are as follows:

2002	\$ 695,000
2003	637,000
2004	459,000
2005	469,000
2006	480,000
Thereafter	<u>610,000</u>
Total	<u>\$ 3,350,000</u>

8. Related Parties

The Association continues to conduct numerous transactions with a variety of industry organizations beyond the scope of the membership. The Association has formed alliances with leading industry news and information organizations, including The Blood-Horse, Inc. and Daily Racing Form, LLC (Official Sponsors of the Association), Equibase Company (Official Supplier of Racing Information and Statistics to the Association) and The Jockey Club Information Systems, Inc. (Official Supplier of Breeding and Sales Information for the Thoroughbred Industry to the Association). These partnerships provide the Association with promotional and advertising vehicles and enable the Association to provide timely information and statistics (via the Internet and other media) to both new and existing fans, as well as non-industry publications wishing to cover Thoroughbred racing.

Certain other transactions are conducted from time to time among the Association and its affiliates. The Membership and Management Services Fee provided by BCL to NTRA totaled approximately

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2001 and 2000

\$33,000,000 in 2001. During 2000, the Association billed BCL for various production, programming and marketing services totaling \$1,791,000.

As of December 31, 2001 and 2000, respectively, long term debt includes \$5,000,000 and \$4,375,000 of amounts loaned by Breeders' Cup Properties, Inc., a wholly owned subsidiary of BCL, to NTRA Investments. These proceeds were used to purchase the assets of Winnercomm (see "Nature of Business and Organization – Purchase of Winner Communications, Inc. Assets" and "Long Term Debt"). Interest expense for 2001 and 2000 includes approximately \$292,000 and \$368,000, respectively, related to this indebtedness. Related interest payable approximated \$17,000 and \$32,000 at December 31, 2001 and 2000, respectively.

9. Barter Transactions

The Association has agreements with two (three in 2000) Thoroughbred racing industry publications that provide the NTRA various advertising and marketing benefits. The values of these benefits are recorded at fair market value when the benefits are received. The revenue for barter transactions is recorded at the fair market value of the advertising to be received when the related agreement becomes effective. Advertising expense is recorded each time an advertisement is run. For the years ended December 31, 2001 and 2000, the Association recognized sponsorship revenue and related advertising expense from these members of approximately \$617,000 and \$955,000, respectively.

10. Benefit Plan

Effective with the Membership and Management Services Agreement between the NTRA and BCL, NTRA's 401(k) defined contribution plan was converted wherein all eligible NTRA employees transferred their existing accounts to the Breeders' Cup Limited 401(k) Pension Plan. The name of the plan was changed to the National Thoroughbred Racing Association 401(k) Retirement Plan ("Retirement Plan").

The Retirement Plan covers all full-time employees over the age of 21 upon six months of service. Benefits vest over a period of two to five years. The NTRA contributes an amount equal to 4% of a covered employee's salary. In addition, NTRA matches amounts contributed by covered employees. Matching contributions amounted to 100% of the first 3% of employee contributions in 2001 and 50% of the first 6% of employee contributions in 2000. The Retirement Plan's contribution expense approximated \$209,000 and \$17,000 for the years ended December 31, 2001 and 2000, respectively.

11. Subsequent Event

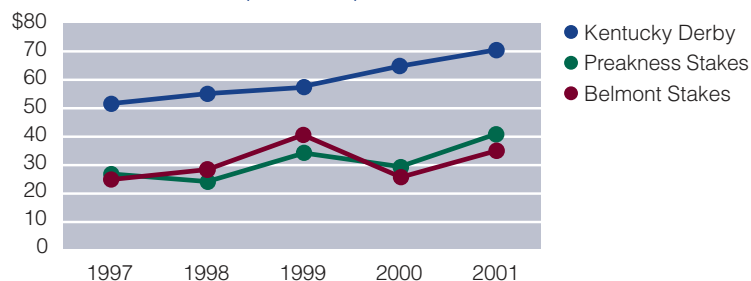
Effective January 1, 2002, NTRA obtained 100% of the equity interest in EquiSource, LLC. Previously, NTRA was a minority shareholder with a 10% ownership interest. EquiSource, LLC, currently referred to as NTRA Purchasing, will be used to provide NTRA membership with substantial savings on products and services from nationally recognized vendors, including NTRA sponsors. The purchase price of the 90% equity interest in EquiSource, LLC is equal to the amount of capital each party invested as of December 31, 2001, or \$650,000. This amount will be paid in equal installments over four years (2002 through 2005).

— Notes —

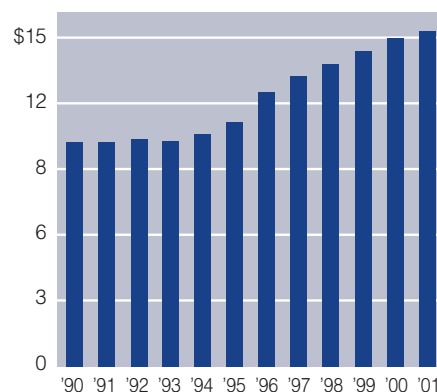
— Notes —

Thoroughbred Racing's Leading Economic Indicators

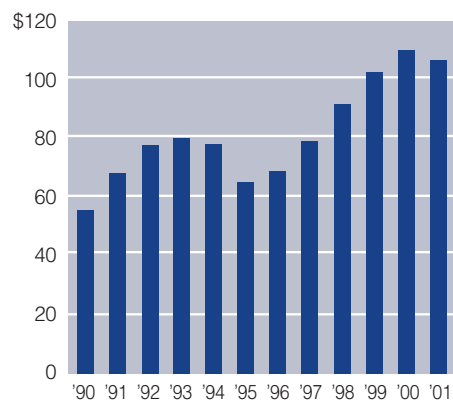
Triple Crown Wagering
(in millions)



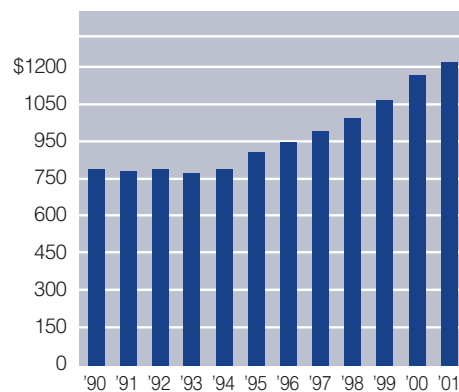
North American Wagering
(in billions)



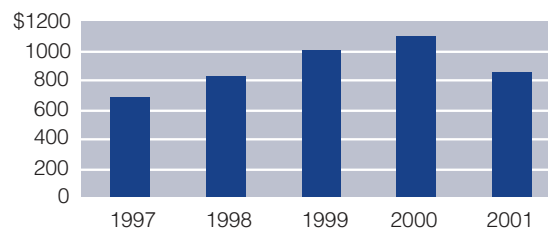
World Thoroughbred Championships Day Wagering
(in millions)



North American Purses
(in millions)



North American Total Gross Auction Sales
(in millions)



Statistics on North American wagering, purses and total gross auction sales courtesy of the The Jockey Club.

Images courtesy Breeders' Cup Limited, Adam Coglianese, Skip Dickstein, Eleanor Hancock, Horsephotos.com (James Crisp, Joseph DiOrio, Eleanor Gustafson, Michael J. Marten, Harold Roth, A.J. Sisco and Vaughn Youtz) and National Museum of Racing and Hall of Fame.

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