



2003-2004 NTRA  
Annual Report to the Membership

# Message from the Commissioner



Commissioner  
Timothy G. Smith

As you'll read in these pages, our sport and your Association experienced another year of growth and progress in 2003. Public interest in horseracing increased (fueled no doubt by the Funny Cide saga and the successful feature film, "Seabiscuit"). Television ratings for NTRA Productions' telecasts increased again and NBC's broadcast of the Belmont Stakes achieved truly remarkable viewership. Beginning in the summer, Thoroughbred auction sales rebounded strongly. National sponsorships sharply increased over the year, as did the related revenues (and member savings) for NTRA Purchasing. The NTRA's Political Action Committee had a highly successful first year with \$360,000 raised, compared to the initial goal of \$250,000.

Thanks to all of you who made these accomplishments possible. As proud as we are of them (and you), the events of 2003 and early 2004 have made clear that much more remains to be done and that we continue to face numerous, serious challenges.

For the first time in 15 years, purse levels declined in 2003, with only a modest increase in handle. These results occurred over a time period when rebating, illegal Internet wagering (vs. legal account wagering) and foreign "betting exchanges" were all growing, fueling understandable concerns about so-called "leakage" from the legal, licensed pari-mutuel wagering systems that produce track commissions, feed purses and thus sustain our industry's economy and 472,000 full-time jobs.

Regional problems persisted last year in states like California, where workers' compensation and other costs continued to grow more rapidly than revenue and negatively affected critical factors like field size. Needless to say, other ongoing challenges also remain: the need (like other sports) for improved medication and testing programs, the need (like other e-businesses) for upgrades to our technology infrastructure and online security systems – to name just two.

The result of this mixed picture of progress and problems, opportunities and threats, is that our industry, the NTRA Board believes, is at another one of those important crossroads, much like the one that led to the formation of the NTRA in 1998.

On one hand, thanks to four years of steady growth, and the Funny Cide/"Seabiscuit" boosts of 2003, we are poised for improved television and

sponsorship arrangements (and commercial rights revenues) for the years ahead. The marriage of television, technology and legal, in-home wagering is producing double-digit growth rates, despite numerous distribution, marketing and other business hurdles.

On the other hand, we remain far more fragmented and divided than nearly all of our competition, whether in sports, wagering or popular entertainment. We have demonstrated the principle of "strength in numbers" repeatedly: increased TV exposure (NTRA Productions), the benefits of pooled buying power (NTRA Purchasing), improved legislative clout in Washington (the federal PAC, the 1/4 percent sales check-off and the Legislative Action Campaign), and coordinated crisis management (response to the Breeders' Cup Pick Six attempted fraud). Conversely, we can all cite the problems inherent in fragmentation: outdated technology (since no central plan), inconsistent and under-funded medication and testing programs, the multiple accounts and channels customers must have to follow racing from home.

So, while we pledge to work hard during 2004 on the "normal" list of operating programs and goals, the Board and I also believe that now is the time for the NTRA and its members to set priorities for the years ahead, take strategic advantage of our current opportunities and to renew our commitment to working together on common goals.

As always, we would welcome your thoughts and suggestions, for 2004 and the longer-term future.

Sincere regards,



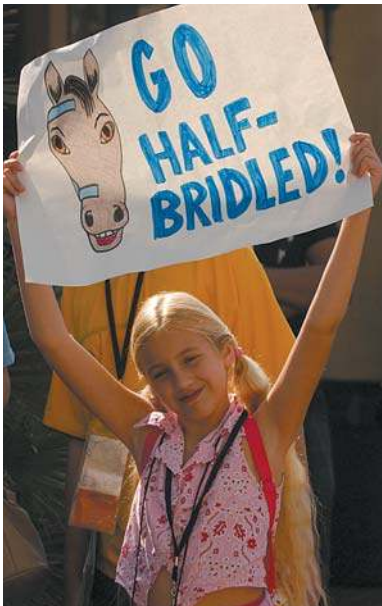
## 2003-2004 Annual Report to the Membership

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# Events

A record \$120 million in global wagering on the 2003 Breeders' Cup World Thoroughbred Championships capped 20 years of success for the event, which added Dodge and Nextel as sponsors.



More than 51,600 local and international fans, trainers, owners, jockeys and media turned out to cheer their favorites at the 2003 Breeders' Cup at Oak Tree at Santa Anita Park. "Anybody who left disappointed," wrote J.A. McGrath in the *Daily Telegraph* (London), "would be, quite simply, impossible to please."

The Breeders' Cup World Thoroughbred Championships is horseracing's Super Bowl, visiting a different host site in one of the country's major markets each year. Set during the Oak Tree race meet at Santa Anita Park, the 2003 Breeders' Cup brought \$21 million in incremental revenue to the Los Angeles area.

The five-hour Breeders' Cup is broadcast live to more than 40 countries by NBC Sports, which has televised the event since its inception. Pari-mutuel wagers on the Championships are accepted at nearly 10,000 locations around the world, including sites in Canada, France, England, South Africa and Australia.

The Breeders' Cup host site provides opportunities for sponsor product displays, signage and co-branded promotions while marketing alliances with England's Ascot Racecourse and France's Longchamp Racecourse enhance the event's status as a global property. Races from Ascot and Longchamp are televised during "Road to the World Thoroughbred Championships" programming that leads up to the Breeders' Cup and both tracks serve as hospitality venues for NTRA sponsors.

The annual Breeders' Cup Gala has raised more than \$686,000 since 1999, benefiting numerous industry charities, including The Grayson-Jockey Club Research Foundation, The Jockey Club Foundation, Kids to the Cup, NTRA Charities and Ronald McDonald House Charities.

The 2004 Breeders' Cup World Thoroughbred Championships will be held at Lone Star Park in Grand Prairie near Dallas, the first time that the event has been sited in Texas.

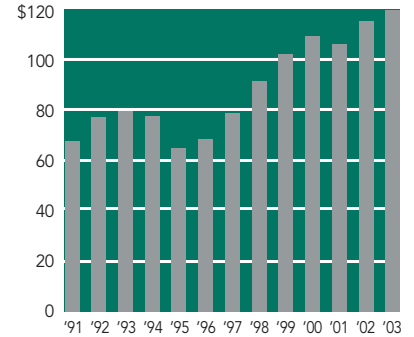
## \$14 Million World Thoroughbred Championships

Breeders' Cup Distaff Presented by Nextel	\$2 million
Breeders' Cup Juvenile Fillies	\$1 million
NetJets Breeders' Cup Mile	\$1.5 million
Breeders' Cup Sprint	\$1 million
Breeders' Cup Filly and Mare Turf	\$1 million
Bessemer Trust Breeders' Cup Juvenile	\$1.5 million
John Deere Breeders' Cup Turf	\$2 million
Breeders' Cup Classic Powered by Dodge	\$4 million



Sponsors for the 2003 World Thoroughbred Championships included Dodge, John Deere, Bessemer Trust, NetJets, Nextel, FedEx, Guinness and Alberto-Culver. A point-of-purchase promotion for Guinness, Breeders' Cup and the Ralph's store chain, culminating in a "Guinness Rocks the Rail" infield party, as well as a Dodge onsite display and consumer sweepstakes, complemented the Championships.

World Thoroughbred Championships Day Wagering (in millions)



Actor and Thoroughbred owner Joe Pesci presented the Eclipse Award for Champion 3-Year-Old Male to the connections of 2003 Kentucky Derby winner Funny Cide. Recognizing excellence in Thoroughbred racing, the Eclipse Awards are presented annually by NTRA, *Daily Racing Form* and the National Turf Writers Association. The Breeders' Cup has produced 106 Eclipse Award-winning Champions.



# Financial Highlights

Priorities for 2004 include continued emphasis on increasing revenues from sponsorship, television and group purchasing.

The figures represent budgeted projections for the calendar year 2004 and include NTRA and NTRA Purchasing. Consolidated Financial Statements for National Thoroughbred Racing Association, Inc. and Subsidiaries are attached as an appendix to this report.

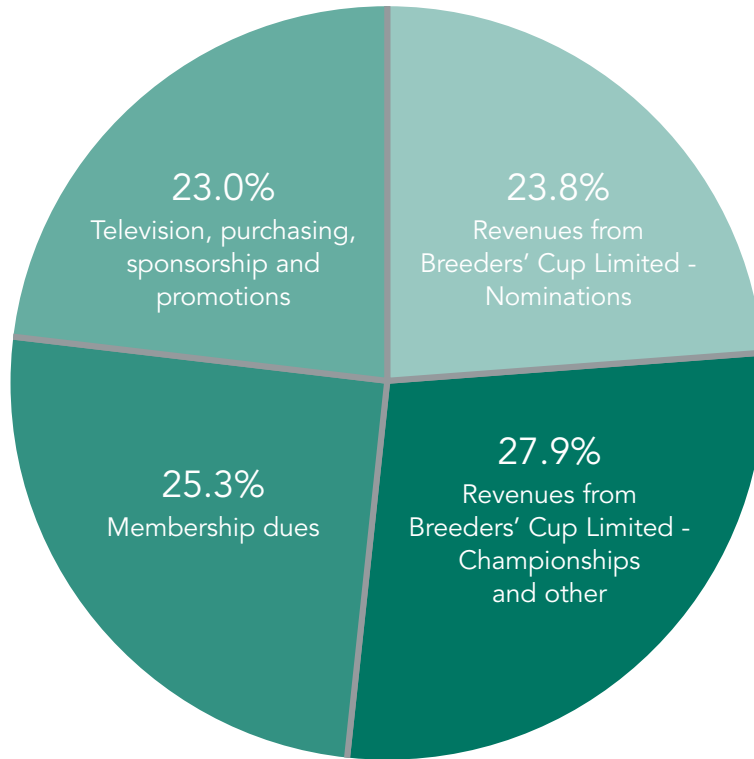
	2004 Budget*	2003 Actual
<b>Operating Revenues</b>		
Revenues from Breeders' Cup Limited	\$34,750,000	\$32,040,293
Membership dues	16,975,000	17,367,870
Television, sponsorship, purchasing & promotions	15,214,000	10,766,049
Other revenues	50,000	49,852
<b>Total operating revenues</b>	<u>66,989,000</u>	<u>60,224,064</u>
<b>Operating Expenses</b>		
Television	10,475,000	8,864,650
Sponsorship & purchasing	8,095,000	6,178,046
Advertising, marketing & promotions	19,810,500	18,806,193
Purses & awards	21,187,500	19,857,621
Legislative & regulatory**	1,250,000	1,042,010
General & administrative	5,697,500	5,388,399
Bad debt expense	-	436,076
<b>Total operating expenses</b>	<u>66,515,500</u>	<u>60,572,995</u>
Excess of operating revenues over (under) operating expenses	473,500	(348,931)
Non-operating income		
Interest income, net	50,000	70,319
Other income	130,000	239,410
Total non-operating income	180,000	309,729
Excess of revenues over (under) expenses before special contributions and expenses	653,500	(39,202)
Special contributions (expenses)		
Wagering Integrity Alliance - contributions	-	1,929,449
Wagering Integrity Alliance - expenses	(253,000)	(1,582,352)
Total special contributions (expenses)	<u>(253,000)</u>	<u>347,097</u>
<b>Excess of revenues over expenses</b>	<u>\$ 400,000</u>	<u>\$ 307,895</u>

\*Unaudited.

\*\*Legislative and regulatory expenses in 2003 and budgeted for 2004 do not include \$141,000 and \$300,000, respectively, in estimated contributions from the NTRA Political Action Committee (PAC) to federal candidates.

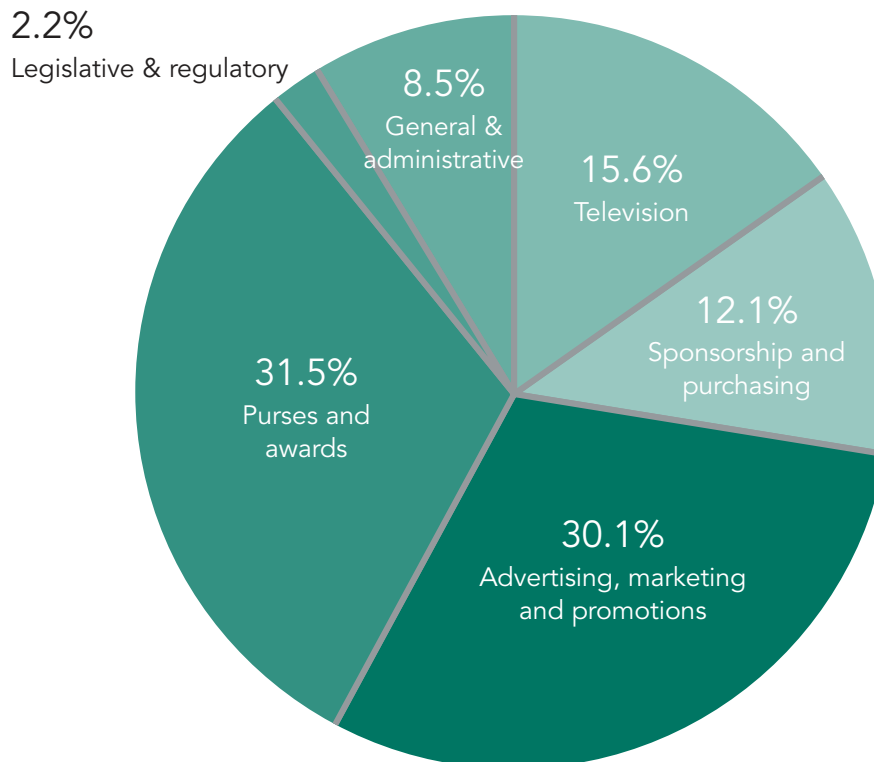
2004 NTRA Budget

## Revenues \$67.2 million



2004 NTRA Budget

## Expenses \$67.2 million



# Board of Directors and Senior Management

The 15-member NTRA Board of Directors consists of the NTRA Commissioner and seven representatives each for racetracks and for horsemen, owners and breeders.

Reflecting the national trend toward fewer independently owned racetracks and more consolidated racetrack holdings, the NTRA Board was restructured in 2004 to include three independent seats (corresponding to the Eastern, Midwestern and Western regions) and four racetrack company seats. The Board previously included four independent and three racetrack company seats.

NTRA Founding Member and major supporter Keeneland assumes the newly created racetrack company Board seat, joining multi-track operators Churchill Downs Incorporated, Magna Entertainment Corporation and the New York Racing Association.

The horsemen director seats consist of representatives from Breeders' Cup Limited (two), The Jockey Club, National Horsemen's Benevolent and Protective Association, Thoroughbred Horsemen's Association, Thoroughbred Owners and Breeders Association and Thoroughbred Owners of California.



**Timothy G. Smith**  
NTRA Commissioner &  
Chief Executive Officer



**D.G. Van Clief, Jr.**  
NTRA Vice Chairman &  
Breeders' Cup President



**Gregory C. Avioli**  
Deputy Commissioner  
& COO, Corporate  
Secretary



**Ferguson Taylor**  
Chief Financial Officer,  
Corporate Treasurer

## NTRA Senior Vice Presidents

**Pam Blatz-Murff**  
Breeders' Cup Operations

**Chip Campbell**  
Television & Sponsorship

**Keith Chamblin**  
Marketing & Industry  
Relations

**Ken Kirchner**  
Product Development



## 2004 BOARD OF DIRECTORS

### Independent Seats



Robert Elliston  
Turfway Park  
Midwestern Region



Craig R. Fravel  
Del Mar  
Thoroughbred Club  
Western Region



Bruce Garland  
New Jersey Sports &  
Exposition Authority  
Eastern Region

### Racetrack Company Seats



Jim McAlpine  
Magna Entertainment  
Corporation



Thomas H. Meeker  
Churchill Downs  
Incorporated



Nick Nicholson  
Keeneland



Barry K. Schwartz  
New York Racing  
Association

### Owner/Breeder Representatives



John Amerman  
Thoroughbred  
Owners & Breeders  
Association



Robert Clay  
Breeders' Cup  
Limited



G. Watts Humphrey, Jr.  
Breeders' Cup  
Limited



Ogden Mills Phipps  
The Jockey Club

### Horsemen's Representatives



Ron Charles  
Thoroughbred  
Owners of California



Alan Foreman  
Thoroughbred  
Horsemen's  
Association



John Roark  
Horsemen's  
Benevolent &  
Protective Association

### NTRA Board Committees

NTRA Board Committees present details 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.

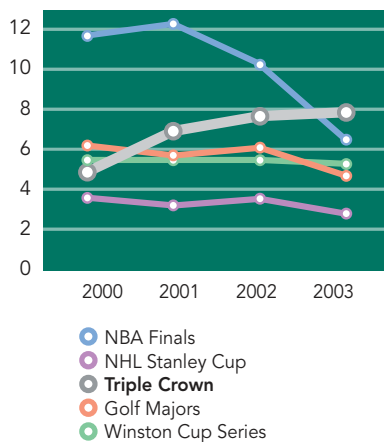
### Audit and Compensation

Thomas H. Meeker, Chair  
Alan Foreman  
G. Watts Humphrey, Jr.  
Jim McAlpine  
Ogden Mills Phipps

# Television

The 2004 lineup features more television hours and live races than ever, five additional shows on ABC/ESPN and a new presentation framework for summertime racing, "NTRA Super Saturdays."

**TV Ratings Comparison For Major Sports**



Source: AC Nielsen

Through its subsidiary NTRA Productions, NTRA develops and produces more than 155 of the 168 total hours of horseracing programming on national television.

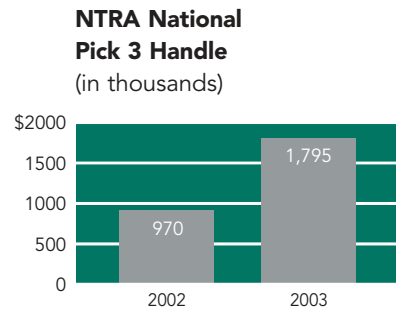
The company's 2004 productions include a series of five new two-hour shows, "NTRA Super Saturdays" on ESPN and ABC, in addition to its "CITGO Racing to the Kentucky Derby," "Road to the World Thoroughbred Championships" and "Long John Silver's Wire to Wire" telecasts on the ESPN family of networks.

With an emphasis on live-action events, NTRA programming in 2004 showcases a record 108 live races. The "Super Saturdays" telecasts, featuring races from each of the eight Breeders' Cup World Thoroughbred Championships divisions, include 25 live events and promotion of special National Pick 4 wagers.

NBC's telecast of the VISA Triple Crown continues to establish records, with the 2003 Belmont Stakes – featuring Funny Cide's attempt at the Triple Crown – the week's top-rated television show of any kind, including prime-time programming. The network also airs the Toyota Blue Grass Stakes, Arkansas Derby and Wood Memorial as part of its "NTRA Road to the Kentucky Derby," as well as a 90-minute September preview for the World Thoroughbred Championships and the five-hour Championships telecast in October.



Ratings for "Long John Silver's Wire to Wire," NTRA's popular weekly news and racing information show, increased 52 percent in 2003.



Pari-mutuel wagering on National Pick 3s associated with NTRA-televised live events grew 82 percent in 2003.



Overall ratings for NTRA's "Road to the World Thoroughbred Championships" series on the ESPN family of networks increased 29 percent in 2003.



NTRA Marketing Partner TVG, in conjunction with FOX SportsNet, produces regional shows highlighting 15 Road to the World Thoroughbred Championships races in 2004, which air on FOX SportsNet2 in California, New York, Florida, Ohio, Kentucky and Maryland. TVG provides televised live racing from top race-tracks throughout the country and the convenience of in-home account wagering, producing record handle of \$213 million in 2003 – an increase of 34 percent over the previous year.

# Sponsorship and Group Purchasing

NTRA's combined sponsorship and group purchasing program delivers a target audience of horse industry members and consumers with multiple business interests and substantial buying power.



Marketing partners enjoy a yearlong presence at major races, including the World Thoroughbred Championships.

The NTRA augments its traditional sponsor benefits such as media, hospitality and promotions with preferred access to horseracing's consumer audience and more than 500,000 members of the horse community through its group purchasing program.

Sponsor benefits include hospitality at Road to the World Thoroughbred Championships host sites Belmont Park, Saratoga Racecourse, Arlington Park, Santa Anita Park, Churchill Downs, Keeneland, Del Mar Thoroughbred Club, Lone Star Park, Ascot Racecourse and Longchamp Racecourse, among others; promotions, displays, signage and product demonstrations; and broad-based communications encompassing television advertising and in-show features, print media in leading consumer and trade publications, publicity, direct mail and Web site development.

An NTRA subsidiary, NTRA Purchasing, facilitates sales of sponsor products and services and negotiates preferred pricing on behalf of NTRA supporters through its group purchasing program.



NTRA Purchasing forms marketing alliances with nationally known vendors to deliver NTRA members special savings on everyday products and services for their businesses, including trucks, tractors, mowers, paint, cellular phones and overnight shipping.

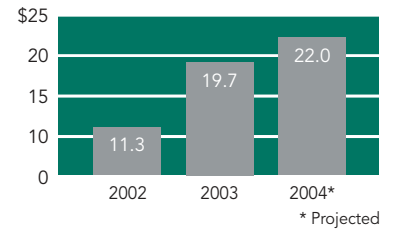
## NTRA Purchasing Partners

Dodge	Boise Office Solutions
John Deere	Sherwin-Williams
FedEx	PreSort Services
Nextel	Daktronics
Hallway Feeds	KBC International
AGS Custom Graphics	



Benefits for NTRA sponsors and group purchasing partners include race-day hospitality at the \$14 million Breeders' Cup World Thoroughbred Championships.

## John Deere Sales (in millions)



Since the inception of NTRA Purchasing in 2002, sales of John Deere products to NTRA members have nearly doubled.

## NTRA National Sponsors

- Dodge
- John Deere
- FedEx
- Nextel
- Bessemer Trust
- NetJets
- Guinness
- Alberto-Culver

# Legislative and Regulatory

The NTRA's legislative agenda includes proactive efforts on Capitol Hill to safeguard horseracing's interests as well as substantial activity by the NTRA Political Action Committee, coinciding with the 2004 presidential election.



NTRA Commissioner Tim Smith (right) greets Senate Majority Whip Mitch McConnell, a featured speaker at the NTRA PAC's annual spring dinner in Washington, D.C.

The NTRA's legislative activities include both lobbying and educational programs on Capitol Hill to increase awareness of the horse industry and the \$34 billion agribusiness that it supports. Current lobbying efforts focus on elimination of a 30 percent withholding tax on wagers made by foreign bettors that effectively blocks the export of U.S. racing to the international market, and protection of the domestic wagering market from encroachment by illegal, unregulated off-shore gaming entities.

NTRA also continues to expand its Congressional Horse Caucus, formed to educate Members of Congress about the tax and economic issues that affect the horse industry. Co-chaired by Congressmen John Sweeney (R-NY) and Ken Lucas (D-KY), the Caucus includes more than 60 members from 24 states.

Funding for NTRA legislative programs flows through the Legislative Action Campaign, also known as the "1/4 percent program." Buyers, sellers, consignors and sales companies voluntarily contribute one-quarter of one percent of the price of Thoroughbreds sold at public auction to the Campaign. Owners of homebred and privately purchased horses contribute through a voluntary check-off at the time the horse is registered with The Jockey Club, the national registry for Thoroughbreds.

## 2004 NTRA PAC Board

William S. Farish, Jr., Chairman

Case Clay

Terry Finley

Ben Haggin

Lucy Young Hamilton

John C. Harris

F. Jack Liebau, Jr.

Nadia Sanan

John Stuart

Fundraisers and other grassroots efforts help fuel the NTRA PAC. Former New York City Mayor Rudolph W. Giuliani (pictured with 2004 NTRA PAC Board Chairman William S. Farish, Jr.,) was among the guests of honor at a 2003 PAC fundraiser at "21."



NTRA also administers the NTRA Political Action Committee (PAC), which makes targeted, bipartisan contributions to candidates and political parties at the federal level. With \$360,000 raised in 2003 and disbursements of \$287,000 by first-quarter 2004, the PAC is a valuable adjunct to the NTRA's lobbying efforts and a conduit into the political process for horsemen. NTRA communicates with its membership regarding legislative programs through a committee of recognized industry leaders who share information on NTRA programs and services with their peers.



The world's leading Thoroughbred auction company, Keeneland, has contributed more than \$13 million to NTRA as an NTRA Founding Member, racetrack member and participant in the Legislative Action Campaign. Other Thoroughbred auction houses contributing to the 1/4 percent program include Fasig-Tipton, Ocala Breeders' Sales Company and California Thoroughbred Breeders Association.

### Congressional Horse Caucus

Mike Bilirakis	FL	R
Marsha Blackburn	TN	R
Rick Boucher	VA	D
Shelley Moore Capito	WV	R
Dennis Cardoza	CA	D
Brad Carson	OK	D
John Carter	TX	R
Ben Chandler	KY	D
Jerry Costello	IL	D
Joseph Crowley	NY	D
Jo Ann Davis	VA	R
Lincoln Davis	TN	D
John Duncan	TN	R
Tom Feeney	FL	R
Paul Gillmor	OH	R
Bart Gordon	TN	D
Joel Hefley	CO	R
Wally Herger	CA	R
Baron Hill	IN	D
Darrell Issa	CA	R
William Jenkins	TN	R
Chris John	LA	D
Walter Jones	NC	R
Ric Keller	FL	R
Mark Kirk	IL	R
John Kline	MN	R
Ray LaHood	IL	R
Ron Lewis	KY	R
William Lipinski	IL	D
Ken Lucas	KY	D
Carolyn McCarthy	NY	D
Thaddeus McCotter	MI	R
Jim McCrery	LA	R
Buck McKeon	CA	R
Kendrick Meek	FL	D
Juanita Millender-McDonald	CA	D
Alan Mollohan	WV	D
Anne Northup	KY	R
Tom Osborne	NE	R
Frank Pallone	NJ	D
Bill Pascrell	NJ	D
Donald Payne	NJ	D
Collin Peterson	MN	D
Adam Putnam	FL	R
George Radanovich	CA	R
Nick Rahall	WV	D
Hal Rogers	KY	R
Ileana Ros-Lehtinen	FL	R
Mike Ross	AR	D
Dutch Ruppersburger	MD	D
Don Sherwood	PA	R
Adam Smith	WA	D
Cliff Stearns	FL	R
John Sweeney	NY	R
Billy Tauzin	LA	R
Mac Thornberry	TX	R
Pat Tiberi	OH	R
Zach Wamp	TN	R
Jerry Weller	IL	R
Ed Whitfield	KY	R
Joe Wilson	SC	R

# Membership and Industry Programs

NTRA's trade association activities include membership development, programs for the economic betterment of the Thoroughbred industry and management of key national issues that affect the business climate for Thoroughbred racing.



NTRA-affiliated equine organizations include American Quarter Horse Association, the world's largest breed registry with 348,000 members, as well as the 85,000-member U.S. Equestrian Federation.



The NTRA continues to grow its membership base through partnerships with leading equine breed, performance and trade associations such as American Quarter Horse Association, National Steeplechase Association and U.S. Equestrian Federation, as well as the "Go Baby Go" individual membership program.

Through its group purchasing subsidiary, NTRA Purchasing, NTRA leverages the buying power of the equine industry to provide supporters with substantial savings on products and services from John Deere, Dodge, FedEx, Nextel and other nationally known companies.

Through Breeders' Cup Limited, NTRA awards more than \$21 million in purse money for horsemen. The current award level reflects a \$1 million boost to World Thoroughbred Championships Day purses in 2003 and an additional \$1 million in stakes-race purses available to Breeders' Cup-nominated horses in 2004.

Taking the lead in addressing issues of national importance for the horseracing industry, NTRA works closely with industry stakeholders to improve programs and develop policies in critical areas such as equine medication, electronic wagering security, purse money for horse owners and customer relationship management.

As members of the Racing Medication and Testing Consortium, chaired by NTRA Vice Chairman and Breeders' Cup President D.G. Van Clief, Jr., NTRA and Breeders' Cup are instrumental in the formulation of policies and procedures for horseracing's \$25 million equine drug-testing program.



NTRA operates the National Office of Wagering Security, ensuring the continued integrity and security of the electronic wagering system that annually handles more than \$15 billion on horseracing.

Through a Wagering Systems Task Force formed in 2004, NTRA is conducting a systematic review of the causes of reduced purse levels in U.S. horseracing that have developed despite overall increases in pari-mutuel wagering handle and growth in public interest in horseracing, television ratings and sponsorship.

With the 2004 publication of recommendations by its 12-member Players' Panel – a committee of horseplayers formed to examine an array of pari-mutuel wagering issues and recommend standards and practices – NTRA continues work with its member associations to increase customer satisfaction.

Sales to NTRA members through NTRA Purchasing totaled \$31 million in 2003. Member savings to date exceed \$10 million.



Purses for the 2004 Breeders' Cup Stakes Program will be distributed among 120 races at 40 racetracks in 19 states and three Canadian provinces.

# Consumer Products and Promotions

Through a growing line of licensed products geared toward horse-players, new player services and a broad array of promotional events, NTRA continues to expand audience participation in Thoroughbred racing.



New in 2004, Nextel offers instant sales results from the leading Thoroughbred auction house, Keeneland.

The NTRA licenses a line of horseracing player products, including wireless games for cell phones and PDAs developed by Magmic, whose subscriber base in Europe, Asia, China and Hong Kong tops one billion.

An NTRA/Breeders' Cup-branded game for PlayStation and Xbox consoles, produced by Bethesda Softworks, launches in 2005.

NTRA continues to co-promote SEGA Games' Derby Owners' Club, simulating a horse breeding and racing operation.

Other NTRA-licensed products include Head2Head, a simplified pari-mutuel wager that has generated \$1.4 million in wagers on the World Thoroughbred Championships since its introduction in 2002. Branded lottery games are expected in 2004, resulting from a new licensing agreement with Scientific Games International for Breeders' Cup World Thoroughbred Championships Games.

NTRA and Marketing Partner Nextel co-produce a wireless site for Thoroughbred racing statistics, news and other information. Nextel subscribers with Internet service can locate the mobile version of the NTRA's horseracing site on their phone's Web page. The site is also accessible via other wireless service providers.



NTRA's Web site, an interactive resource for horseplayer development, produced more than 38 million page views in 2003 – a 29 percent increase over the previous year.

NTRA and its member associations host a yearlong series of 60 qualifying tournaments for the *Daily Racing Form*/NTRA National Handicapping Championship, whose nationally televised final round carries prizes of nearly \$500,000. To date, prizes exceed \$10 million.

Now in its fifth year, the NTRA Million Dollar Mystery Mutuel Voucher direct-mail promotion continues to attract record crowds and handle at participating sites. More than five million vouchers worth nearly \$28 million have been mailed to customers, increasing attendance by an average of 13.75 percent and producing four percent average gains in pari-mutuel handle on event days.



*Racing's Newest Millionaire,  
it could be YOU!*

**NTRA**  
**Mystery  
Mutuel  
Voucher**

**\$1 Million Jackpot**  
SATURDAY, APRIL 10, 2004

The advertisement features a large, stylized \$1,000,000 bill with a circular inset showing a group of people celebrating. The NTRA logo is visible in the top right corner of the ad.

The NTRA Mystery Mutuel Voucher direct-mail promotion carries more than \$4 million in cash prizes annually and provides participating race-tracks and sponsors added exposure to millions of horseracing fans.



Seasoned horseplayers vie for the title of "Handicapper of the Year" in the *Daily Racing Form*/NTRA National Handicapping Championship. The fifth annual event brought a record 261 finalists to Las Vegas in 2004.

# Marketing and Media

Interest in horseracing, as measured by ESPN Sports Poll, has grown annually since 1999 for an increase of 14.1 percent over four years. Horseracing is the only sport to have four consecutive years of growth in fan interest.



The 2004 Breeders' Cup campaign highlights the "Lone Star State," Texas, and the event's first-time host, Lone Star Park, located in Grand Prairie in suburban Dallas.

The NTRA markets the sport of Thoroughbred racing through a national, integrated marketing program developed by its in-house advertising division, NTRA Creative Services, in conjunction with its associated agencies. Producing customized print, television and multiple award-winning radio ads, Creative Services also develops custom e-newsletters, mailing 350,000 each month.

In addition to its yearlong campaign, Creative Services produces themed advertising for horseracing's annual signature events, the VISA Triple Crown and the Breeders' Cup World Thoroughbred Championships.

Augmenting Creative Services' long-running popular music-based campaign is a new series of public service announcements carrying the theme "Rediscover Horseracing." Invoking images from horseracing's colorful, 300-year history, the "Rediscover" campaign launches in mid-2004.

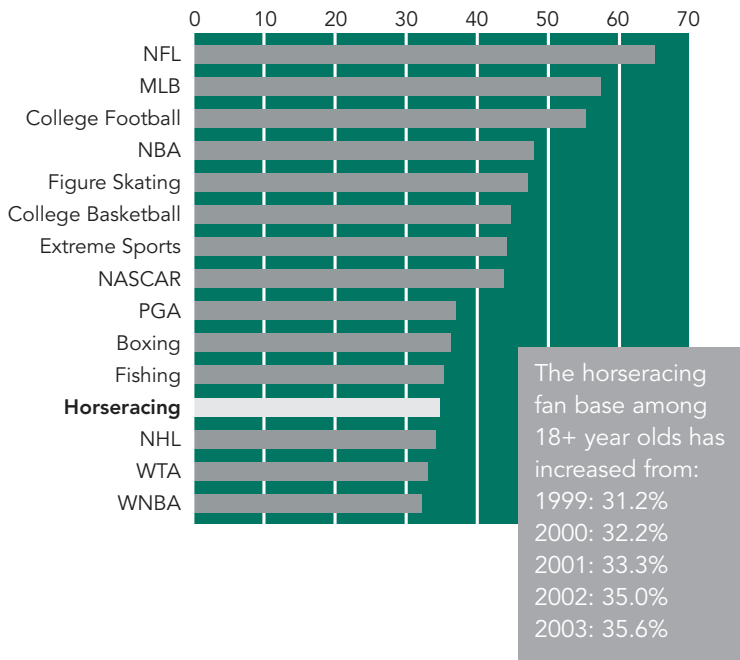
Creative Services' campaigns are grounded in consumer research conducted by TNS Intersearch – ESPN Sports Poll, which has amassed more than 175,000 consumer interviews since 1999. ESPN Sports Poll conducts 2,000 monthly interviews, producing customized research for NTRA member tracks and sponsors.



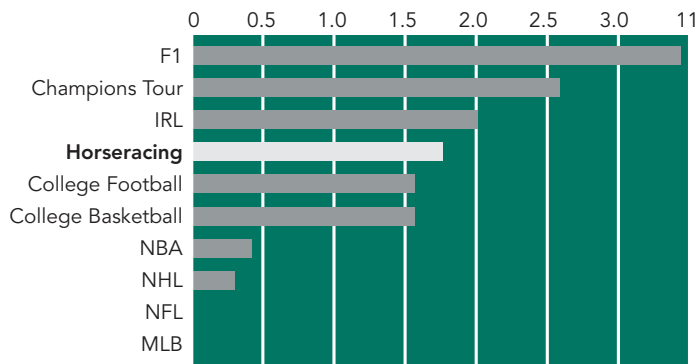
NTRA's "Rediscover Horseracing" PSA campaign attests to the tradition, lifestyle and longevity of Thoroughbred racing in American culture.

### Fan Bases Among U.S. Population 18+ in 2003

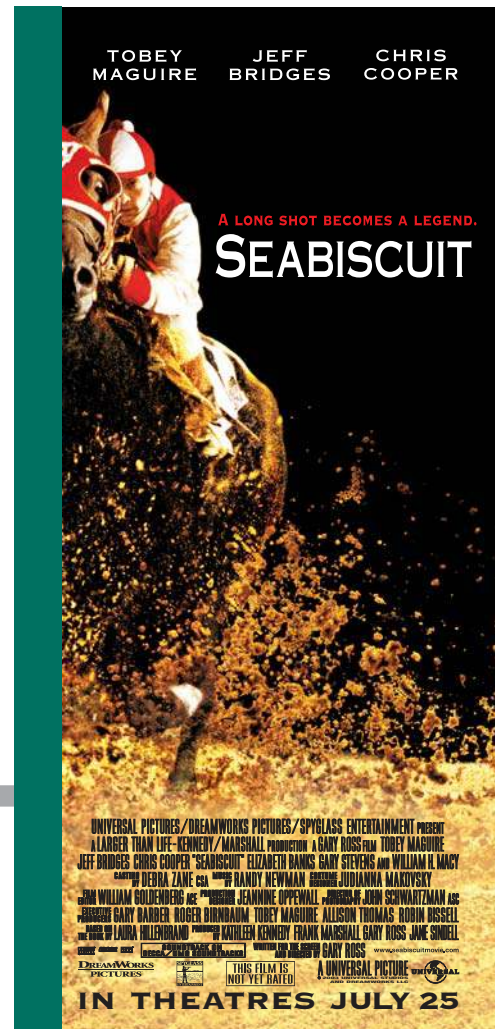
(Fan base percentages)



### Percent Increase In Fan Bases Among U.S. Population in 2003



Source: TNS Intersearch - ESPN Sports Poll



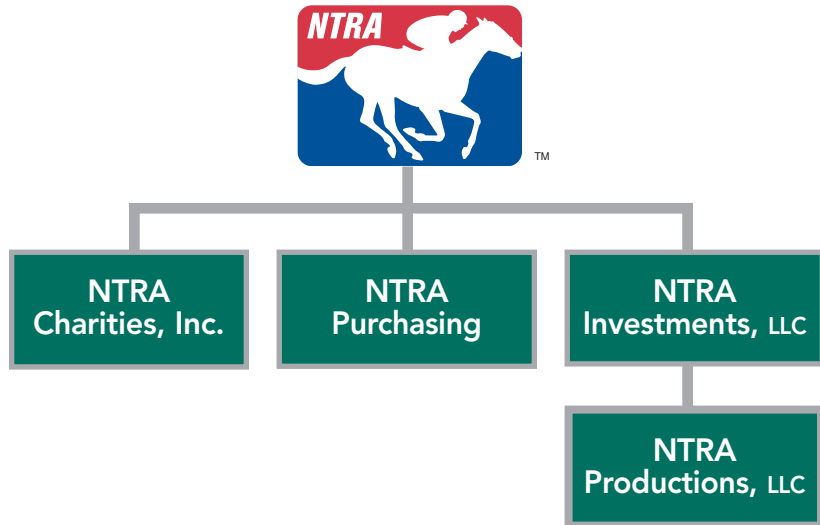
Universal Pictures' feature film "Seabiscuit" helped to place horseracing in the forefront of American popular culture in 2003. In the month following the film's release, attendance at America's racetracks jumped, producing an unparalleled 5.51 percent increase in pari-mutuel handle. Fifteen-million viewers saw the feature film, which became the all-time best-selling drama on DVD in post-theater distribution. Laura Hillenbrand's *Seabiscuit: An American Legend* – the basis for the film – remained on the national bestseller list for more than 100 weeks.

# Organizational Structure

Along with its four subsidiaries, NTRA fulfills numerous industry and membership roles.



The NTRA Charities – New York Heroes Fund has disbursed \$4.2 million to families of those killed during the Sept. 11, 2001, terrorist attacks. In 2003, with proceeds from the sale of stallion seasons donated by Ernie Paragallo, the Fund contributed \$100,000 to America’s Camp, a free summer camp for children who lost a parent or sibling on Sept. 11 and for the children of police and firefighters lost in the line of duty.



**NTRA CHARITIES, Inc.** Builds awareness of Thoroughbred racing’s civic and community activities through industry and consumer communications as well as local programs. Proceeds from the NTRA Charities/Kentucky Derby Museum Golf Classic and the Breeders’ Cup World Thoroughbred Championships Gala support a wide range of industry charities and initiatives, including the Joe Hirsch Scholarship, created in 2003 to honor the legendary *Daily Racing Form* columnist.

**NTRA INVESTMENTS, LLC** Makes strategic acquisitions to benefit NTRA members.

**NTRA PRODUCTIONS, LLC** Offers television production services and controls the world’s largest archive of horseracing footage as well as numerous programming contracts.

**NTRA PURCHASING** Delivers cost reductions and efficiencies to NTRA members through group purchasing.



NTRA Charities' national affiliate Ronald McDonald House Charities provides the comforts of home to families whose children are being treated at nearby medical facilities. With the addition of 12 new Houses in 2003, the program now has 234 Ronald McDonald Houses in 24 countries. Each House is supported by the selfless commitment and hard work of staff, volunteers, donors and local communities.



**National Affiliate**

Ronald McDonald House Charities

**Industry Affiliates**

Grayson-Jockey Club Research Foundation

The Jockey Club Foundation

Kids to the Cup

The Race for Education

Race Track Chaplaincy of America

ReRun

Thoroughbred Charities of America

Thoroughbred Retirement Foundation

Tranquility Farm



Uniting their business and charitable interests, members of the horseracing community support numerous industry charities, including NTRA Charities' affiliate The Race for Education. Thoroughbred owner Tracy Farmer (left) donated proceeds from breeding rights to his stallion Albert the Great to The Race For Education's scholarship fund. Pictured with Farmer are groom Jose Ramos, Albert the Great, and Race For Education scholarship recipients Andrea Wallace and Matthew Churchman.

# A Final Word

NTRA's focus is on issues that will shape the future popularity, economics and infrastructure of our sport and the horseracing industry: marketing, sponsorship, legislation, television rights aggregation and preservation of racing's integrity.



The NTRA continues to identify and address systematically the core economic issues that impact horseracing. This is an ongoing process, characterized by a constant – if occasionally contentious – dialogue between the NTRA and its members. NTRA is fully committed to this process and to the development of the national league office for Thoroughbred racing envisioned by its founders.

The NTRA and its Board of Directors appreciate your support as we carry out the mission with which you have entrusted us: to increase the popularity of Thoroughbred racing and improve the sport's economics for NTRA members.





National Thoroughbred Racing Association, Inc. and Subsidiaries

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## Consolidated Financial Statements and Other Financial Information

For the Years Ended December 31, 2003 and 2002

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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, 2003 and 2002, 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, 2003 and 2002, and the consolidated results of its activities, 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.

*Ernst & Young LLP*

March 24, 2004

## Consolidated Statements of Financial Position

As of December 31, 2003 and 2002 (with Consolidating Details in 2003)

	NTRA, Inc.	NTRA Investments, LLC	Intercompany Eliminations	2003 Consolidated	2002 Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 3,332,587	\$ 899,085	\$ –	\$ 4,231,672	\$ 4,458,009
Assets limited to use by Board	500,000	–	–	500,000	–
Accounts receivable, net	4,712,934	1,013,699	(74,500)	5,652,133	4,750,847
Receivable from Breeders' Cup Limited	502,761	–	–	502,761	1,180,179
Prepaid expenses	1,031,930	37,529	–	1,069,459	1,369,395
Other assets	631,168	–	(52,500)	578,668	980,703
Property and equipment, net	472,683	–	–	472,683	569,660
Investment in subsidiaries	1,000,000	–	(1,000,000)	–	–
Intangible assets, net	320,655	13,873,999	–	14,194,654	14,445,383
Total assets	\$12,504,718	\$15,824,312	\$(1,127,000)	\$27,202,030	\$27,754,176
<b>Liabilities and net assets</b>					
Accounts payable	\$ 1,471,973	\$ 86,241	\$ –	\$ 1,558,214	\$ 1,900,357
Accrued liabilities	4,170,823	111,700	(127,000)	4,155,523	3,670,492
Deferred revenue	291,339	39,491	–	330,830	460,333
Deferred purchase consideration	–	750,000	–	750,000	2,250,000
Current portion of long-term debt	162,500	–	–	162,500	87,917
Long-term debt	153,813	16,000,000	–	16,153,813	16,298,688
Other long-term liabilities	1,397,391	–	–	1,397,391	440,848
Total liabilities	7,647,839	16,987,432	(127,000)	24,508,271	25,108,635
Minority interest	–	25,000	(25,000)	–	–
<b>Net assets</b>					
Preferred membership interest	–	1,000,000	(1,000,000)	–	–
Board designated net assets	500,000	–	–	500,000	–
Undesignated net assets	4,356,879	(2,188,120)	25,000	2,193,759	2,645,541
Total net assets	4,856,879	(1,188,120)	(975,000)	2,693,759	2,645,541
Total liabilities and net assets	\$12,504,718	\$15,824,312	\$(1,127,000)	\$27,202,030	\$27,754,176

See accompanying notes.

## Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2003 and 2002 (with Consolidating Details in 2003)

	NTRA, Inc.	NTRA Investments, LLC	Intercompany Eliminations	2003 Consolidated	2002 Consolidated
<b>Operating revenues</b>					
Revenues from Breeders' Cup Limited	\$32,040,293	\$ –	\$ –	\$32,040,293	\$32,691,909
Membership dues	17,367,870	–	–	17,367,870	18,971,982
Television, sponsorship, purchasing and promotions	10,766,049	14,470,832	(6,882,335)	18,354,546	13,758,200
Contributions – New York Heroes Fund	345,000	–	–	345,000	455,145
Drug Testing Task Force	–	–	–	–	138,552
Other revenues	182,488	–	–	182,488	150,821
<b>Total operating revenues</b>	<b>60,701,700</b>	<b>14,470,832</b>	<b>(6,882,335)</b>	<b>68,290,197</b>	<b>66,166,609</b>
<b>Operating expenses</b>					
Television	8,864,650	10,980,564	(5,430,330)	14,414,884	13,475,628
Sponsorship and purchasing	6,178,046	–	(195,492)	5,982,554	3,927,527
Advertising, marketing and promotions	18,924,733	–	(1,256,513)	17,668,220	17,320,810
Purses and awards	19,857,621	–	–	19,857,621	20,797,914
Legislative and regulatory	1,042,010	–	–	1,042,010	1,235,635
Drug Testing Task Force	–	–	–	–	165,780
Contributions – New York Heroes Fund	345,000	–	–	345,000	455,145
General and administrative	4,888,465	98,188	–	4,986,653	4,549,891
Bad debt expense	436,076	–	–	436,076	–
Depreciation and amortization	506,277	2,343,753	–	2,850,030	2,644,595
<b>Total operating expenses</b>	<b>61,042,878</b>	<b>13,422,505</b>	<b>(6,882,335)</b>	<b>67,583,048</b>	<b>64,572,925</b>
Excess of operating revenues over (under) operating expenses	(341,178)	1,048,327	–	707,149	1,593,684
<b>Non-operating income (expense)</b>					
Investment income	92,523	7,307	(52,500)	47,330	114,405
Interest expense	(19,850)	(1,192,250)	–	(1,212,100)	(917,474)
Other income	239,410	(80,668)	–	158,742	181,831
<b>Total non-operating income (expense)</b>	<b>312,083</b>	<b>(1,265,611)</b>	<b>(52,500)</b>	<b>(1,006,028)</b>	<b>(621,238)</b>
Excess of revenues over (under) expenses before special contributions and expenses	(29,095)	(217,284)	(52,500)	(298,879)	972,446

Continued next page.

## Consolidated Statements of Activities and Changes in Net Assets

For the Years Ended December 31, 2003 and 2002 (with Consolidating Details in 2003)

<i>continued</i>	NTRA, Inc.	NTRA Investments, LLC	Intercompany Eliminations	2003 Consolidated	2002 Consolidated
<b>Special contributions (expenses)</b>					
Wagering Integrity Alliance – contributions	1,929,449	–	–	1,929,449	301,000
Wagering Integrity Alliance – expenses	(1,582,352)	–	–	(1,582,352)	(1,352,461)
	<u>347,097</u>	<u>–</u>	<u>–</u>	<u>347,097</u>	<u>(1,051,461)</u>
Excess of revenues over (under) expenses	318,002	(217,284)	(52,500)	48,218	(79,015)
<b>Other changes</b>					
Preferred membership interest	–	500,000	(500,000)	–	–
Dividends declared	–	(52,500)	52,500	–	–
Board designated allocations for special programs	(500,000)	–	–	(500,000)	1,500,000
Change in undesignated net assets (deficit)	(181,998)	230,216	(500,000)	(451,782)	1,420,985
Undesignated net assets (deficit) at beginning of year, including preferred membership interest	4,538,877	(1,418,336)	(475,000)	2,645,541	1,224,556
Undesignated net assets (deficit) at end of year, including preferred membership interest	4,356,879	(1,188,120)	(975,000)	2,193,759	2,645,541
Board designated net assets at beginning of year	–	–	–	–	1,500,000
Board designated allocations for Wagering Systems Task Force	500,000	–	–	500,000	–
Board designated net assets released from restriction	–	–	–	–	(1,500,000)
Board designated net assets at end of year	<u>500,000</u>	<u>–</u>	<u>–</u>	<u>500,000</u>	<u>–</u>
Total net assets (deficit) at end of year	<u>\$4,856,879</u>	<u>\$(1,188,120)</u>	<u>\$(975,000)</u>	<u>\$2,693,759</u>	<u>\$2,645,541</u>

See accompanying notes.

## Consolidated Statements of Cash Flows

For the Years Ended December 31, 2003 and 2002

	2003	2002
<b>Cash flows from operating activities</b>		
Excess of revenues over (under) expenses	\$ 48,218	\$ (79,015)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by operating activities:		
Bad debt expense	436,076	–
Loss on disposal of assets	–	107,811
Depreciation and amortization	2,850,030	2,644,595
Amortization of discount on long-term receivable	–	(51,610)
Amortization of discount on long-term debt	17,625	22,601
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(901,286)	355,108
Decrease (increase) in prepaid expenses	299,936	(938,218)
(Increase) decrease in other assets	(34,041)	286,130
Decrease (increase) in receivable from Breeders' Cup Limited	677,418	(179,495)
(Decrease) increase in accounts payable	(342,143)	67,280
Increase in accrued liabilities	485,031	453,237
(Decrease) increase in deferred revenue	(129,503)	205,892
Increase in other long-term liabilities	956,543	440,848
Net cash provided by operating activities	<u>4,363,904</u>	<u>3,335,164</u>
<b>Cash flows from investing activities</b>		
Purchase of Winner Communications, Inc. assets	(3,750,000)	(2,250,000)
Purchase of intangible assets	–	(634,607)
Purchase of property and equipment	(252,324)	(359,088)
Net cash used in investing activities	<u>(4,002,324)</u>	<u>(3,243,695)</u>
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	–	601,088
Payment against long-term receivable	–	50,000
Payment of long-term debt	(87,917)	(237,084)
Board designated allocations for special programs	(500,000)	1,500,000
Net cash (used in) provided by financing activities	<u>(587,917)</u>	<u>1,914,004</u>
Net increase in cash and cash equivalents	(226,337)	2,005,473
Cash and cash equivalents at beginning of year	<u>4,458,009</u>	<u>2,452,536</u>
Cash and cash equivalents at end of year	<u>\$ 4,231,672</u>	<u>\$ 4,458,009</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	<u>\$ 1,281,822</u>	<u>\$ 669,894</u>

See accompanying notes.

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

### 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 NTRA, Inc. and its wholly owned subsidiaries, NTRA Charities, Inc. ("NTRA Charities") and NTRA Purchasing (previously EquiSource, LLC). 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 Purchasing, created in January 2002, is a for-profit, limited liability company whose purpose is to deliver cost savings and value-added services to NTRA members through contracts with major national suppliers.

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 a wholly owned subsidiary, NTRA Productions, LLC ("NTRA Productions"). NTRA Productions offers television production services and controls the world's largest archive of horseracing video as well as numerous programming contracts. 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.

In connection with this Agreement and the required services, BCL provides 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. In the event that NTRA's accumulated net assets exceed \$6,500,000 in any year through 2010, the Agreement specifies the payment of a one-time license fee from NTRA to BCL. The license fee escalates each year from \$1,500,000 in 2003 up to \$2,250,000 in 2010. The benchmark was not met in 2003, and the fee will be recorded only when it is due and receivable.

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 years ended December 31, 2003, and 2002, the annual allocation is \$1,500,000 and \$2,000,000, respectively. These amounts are included in revenues from BCL in the consolidated statements of activities and changes in net assets. For 2004, 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.

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

### 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 and 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. Effective January 1, 2002, the Purchase Agreement was amended whereby 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 installment of \$8,500,000, reduced by certain adjustments, as defined in the Purchase Agreement. Remaining payments are based on Winnercomm's achievement of guaranteed minimum net income as defined in the agreement through 2005. If the guaranteed minimum net 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, 2003 and 2002; accordingly, \$750,000 and \$2,250,000 are included in deferred purchase consideration on the consolidated statements of financial position as of December 31, 2003 and 2002, respectively. The Association paid \$1,500,000 in 2003 in advance of the due date of April 1, 2004; therefore, only \$750,000 is recorded as deferred purchase consideration at December 31, 2003.

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 \$2,865,000 and \$2,780,000 for the years ended December 31, 2003 and 2002, respectively. Effective January 1, 2002, the Services Agreement was extended through 2008, requiring a management fee of \$3,703,000 in 2004, \$3,811,000 in 2005, \$3,923,000 in 2006, \$4,040,000 in 2007 and \$4,162,000 in 2008.

## 2. Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the NTRA and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### Reclassifications

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the 2003 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 require 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. Other primary sources of revenue in both 2003 and 2002 are membership dues along with fees associated with television, sponsorship, purchasing and promotions.

Racetrack members and horsemen's association dues are recognized in the year to which the membership



## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

relates. 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, purchasing and promotion revenues are earned based upon the satisfaction of contractual terms. All cash received in 2003 related to events occurring in 2004 is appropriately recorded in deferred revenue on the consolidated statements of financial position.

All unrestricted, 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 for their restricted purpose 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 in both 2003 and 2002 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.

### Assets Limited to Use by Board

During 2003, NTRA's Board of Directors designated \$500,000 of net assets for funding of the Wagering Systems Task Force in 2004. This task force will conduct a systematic review of the causes of reduced purse levels in U.S. horseracing. The amount is reflected as Board Designated Allocations for Special Programs 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.

Similarly, 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. The designated net assets were released from restriction and used in 2002 as intended.

### Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts of approximately \$300,000 and \$331,000 as of December 31, 2003 and 2002, respectively. For 2003, 14% of accounts receivable is outstanding from a single customer. No other concentrations of credit risk existed at December 31, 2003 or 2002.

### Advertising and Prepaid Expenses

The Association expenses print advertising costs as incurred and media advertising costs the first time the advertising takes place. As of December 31, 2003, the Association had included approximately \$749,000 in prepaid expenses on the consolidated statements of financial position relating to amounts paid for production costs in advance of media advertising being aired.

### Intangible Assets

The Association accounts for finite-lived 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 pertaining to such intangible assets. 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.

### 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 two to seven years. Leasehold improvements are stated at cost and amortized using the straight-line method over the lease term. Depreciation expense is approximately \$349,000 and \$519,000 in 2003 and 2002, respectively.

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

### 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 print, radio, television and outdoor advertising in its local market. Included in accounts payable and accrued liabilities at December 31, 2003 and 2002 are amounts totaling approximately \$2,440,000 and \$2,771,000, respectively, relating to this program.

### 3. Founding Membership of the Thoroughbred Owners and Breeders Association

During 2000, the Thoroughbred Owners and Breeders Association ("TOBA") became the sixth Founding Member of NTRA and agreed to pay a \$1,000,000 founding membership fee in installments through 2005. As of December 31, 2003 TOBA has paid \$250,000. In February 2004, the parties mutually agreed to restructure the financial terms. TOBA will pay an additional \$250,000 in accordance with the following schedule. The receivable is included in other assets on the consolidated statements of financial position, net of discount to present value at 6%.

At December 31, 2003, the receivable is as follows:

March 30, 2004	\$ 83,333
March 30, 2005	83,333
March 30, 2006	<u>83,334</u>
Subtotal	250,000
Less: discount to present value	<u>(27,249)</u>
Total	<u>\$ 222,751</u>

This settlement resulted in a loss to the Association of \$436,076. This loss is recorded as bad debt expense in the consolidated statements of activities and changes in net assets.

### 4. Property and Equipment

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

	2003	2002
Computer equipment	\$ 766,270	\$ 702,309
Furniture and fixtures	290,227	282,383
Leasehold improvements	160,115	66,546
Other equipment	<u>70,331</u>	<u>139,566</u>
	1,286,943	1,190,804
Less: accumulated depreciation and amortization	<u>(814,260)</u>	<u>(621,144)</u>
	<u>\$ 472,683</u>	<u>\$ 569,660</u>

### 5. Intangible Assets

Finite-lived intangible assets consist primarily of the purchased assets of Winnercomm, including broadcast rights, a 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. Effective January 1, 2002, the Purchase Agreement was extended from 2003 to 2005 and the Services Agreement was extended from 2003 to 2008 (see "Nature of Business and Organization – Purchase of Winner Communications, Inc. Assets"). These extensions cause the useful life of the assets to be extended; therefore, the unamortized intangible assets are amortized over the remaining estimated life.

During 2003 and 2002, intangible assets increased by approximately \$3,750,000 and \$2,250,000 respectively, as a result of payments made by the Association against the purchase price and Winnercomm's satisfaction of guaranteed net income (see "Nature and Business of Organization – Purchase of Winner Communications, Inc. Assets").

Effective January 1, 2002, NTRA obtained 100% of the equity interest in EquiSource, LLC, currently referred to as NTRA Purchasing. The purchase price of \$650,000 is payable over four years, with \$237,083 paid in 2002,

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

\$87,917 paid in 2003, and \$162,500 payable in 2004 and 2005. The present value of remaining payments at an interest rate of 6% is recorded on the consolidated statement of financial position as long-term debt in a total amount, including current portion, of \$162,500. Total purchase consideration was allocated to non-compete agreements, included in intangible assets, net, on the consolidated statement of financial position. The asset is amortized using the straight-line method over the four-year term of the non-compete agreements.

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

	2003	2002
Broadcast rights	\$23,743,805	\$21,493,805
Non-compete agreements	634,607	634,607
Film archives	395,365	395,365
	<u>24,773,777</u>	<u>22,523,777</u>
Less: accumulated amortization	<u>(10,579,123)</u>	<u>(8,078,394)</u>
	<u>\$14,194,654</u>	<u>\$14,445,383</u>

Amortization expense is approximately \$2,501,000 and \$2,216,000 for the years ended December 31, 2003 and 2002, respectively.

### 6. Long-Term Debt

NTRA has a revolving line of credit with a bank for an amount up to \$3,000,000, with interest of 2% below the prime rate (2.25% at December 31, 2003) payable monthly and a maturity date of June 30, 2004. As of December 31, 2003 and 2002, the NTRA had no outstanding borrowings under the line of credit, with the exception of a letter of credit for approximately \$80,000 used to secure the lease of office space in New York. Interest expense on the line of credit was not significant in 2003 or 2002. The line of credit is guaranteed by BCL, which requires approval of borrowing in excess of \$2 million.

The NTRA holds letters of credit from financial institutions to secure its leases of office space in Lexington,

Ky. and New York, N.Y. The letter of credit used to secure office space in New York is deducted from the available balance on the line of credit as discussed above. It is for an amount of approximately \$80,000. The letter of credit used to secure office space in Lexington is for an amount of approximately \$700,000.

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 September 30, 2006. This includes \$5,000,000 loaned by an NTRA affiliate (see "Related Parties"). Effective January 1, 2004, interest is payable monthly at 4%. For the period from July 1, 2002 to December 31, 2003, interest was payable monthly at 6%. For the period from July 1, 2001 to June 30, 2002, interest was payable monthly at a rate of 1% below the prime rate. Interest expense on the Loan (including amounts due to an NTRA affiliate) approximated \$892,250 and \$894,000 in 2003 and 2002, respectively. The assets of NTRA Investments, including NTRA Productions, secure the Loan.

### 7. Income Taxes

The NTRA is exempt from federal income tax under section 501 (c)(6) of the Internal Revenue Code. However, certain activities of NTRA are subject to tax as unrelated business income. Additionally, for-profit subsidiaries of NTRA are subject to tax on taxable income, if any. The tax effect of these activities does not materially impact the consolidated financial statements.

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

### 8. Commitments and Contingencies

Rent expense, which includes rent for office space, storage and various equipment in Lexington, Ky., and New York, N.Y., amounted to approximately \$814,000 and \$725,000 for the years ended December 31, 2003 and 2002, respectively.

Future minimum lease payments under existing lease agreements as of December 31, 2003 are as follows:

2004	\$ 717,188
2005	727,471
2006	733,073
2007	750,555
2008	384,815
Thereafter	<u>306,582</u>
Total	<u>\$3,619,684</u>

In March 2004, NTRA entered into a lease to rent additional office space in Lexington. Future minimum lease payments under this lease are approximately \$42,000 in 2004, \$63,000 in 2005, \$64,000 in 2006, \$65,000 in 2007 and 2008 and \$22,000 in 2009.

### 9. 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 transactions are conducted from time to time

between the Association and BCL. The Membership and Management Services Fee provided by BCL to NTRA totaled approximately \$32,000,000 and \$33,000,000 in 2003 and 2002, respectively.

As of December 31, 2003 and 2002, long-term debt includes \$5,000,000 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 2003 and 2002 includes approximately \$300,000 and \$248,000, respectively, related to this indebtedness. There was no related interest payable in 2003, and related interest payable approximated \$26,000 at December 31, 2002.

### 10. Barter Transactions

The Association has agreements with certain national and industry sponsors that provide mutual non-cash benefits to both parties under barter transactions. The benefits received by the Association from sponsors are recorded as revenue at the fair market value when received. The use of these benefits is recorded as expense at the time of use. For the years ended December 31, 2003 and 2002, the Association recognized sponsorship revenue and related advertising expense from these sponsors of approximately \$390,000 and \$263,000, respectively.

### 11. Retirement Plans and Officers' Compensation

The National Thoroughbred Racing Association 401(k) Retirement Plan ("Retirement Plan") covers all full-time employees over the age of 21 upon three 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 amount to 100% of the first 3% of employee contributions. The Retirement Plan's contribution expense approximated \$336,000 and \$354,000 for the years

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2003 and 2002

ended December 31, 2003 and 2002, respectively.

Additionally, the Association implemented during 2002 The National Thoroughbred Racing Association Deferred Compensation Plan in accordance with section 457 of Internal Revenue Service Code. This plan follows in form the 401(k) Retirement Plan and covers full-time eligible employees whose annual compensation exceeds the 401(k) ERISA salary limits. Under this plan, employee benefits vest at the earlier date of retirement age or the completion of ten years of service (as defined in the plan document). The Deferred Compensation Plan's contribution expense approximated \$52,000 and \$67,000 for the years ended December 31, 2003 and 2002, respectively.

The NTRA Corporate Officers (Commissioner, Vice-Chairman, Secretary and Treasurer) were paid \$2,201,914 and \$1,802,500 in Total Cash Compensation during 2003 and 2002, respectively.

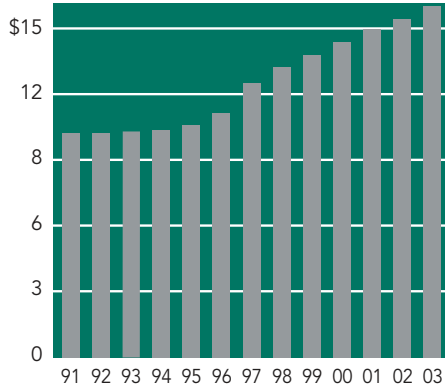
### 12. Special Contributions and Expenses

As a result of the controversy surrounding a Breeders' Cup Ultra Pick 6 wager placed on October 26, 2002, NTRA formed the Wagering Integrity Alliance ("WIA"). The WIA's purpose is to assess and improve the current status of security within the pari-mutuel wagering system and to provide public communications aimed at strengthening customer confidence in pari-mutuel wagering. WIA has solicited funding through contributions from other Thoroughbred industry organizations and will expense these funds in achieving its purpose.

# Thoroughbred Racing's Leading Economic Indicators

## North American Wagering

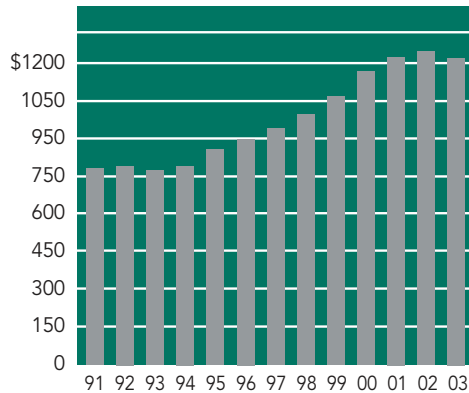
(in billions)



In 2003, combined North American wagering on Thoroughbred racing increased for the 10th straight year and reached a record \$15.9 billion. Off-track wagering now accounts for 87.5 percent of United States handle.

## North American Purses

(in millions)

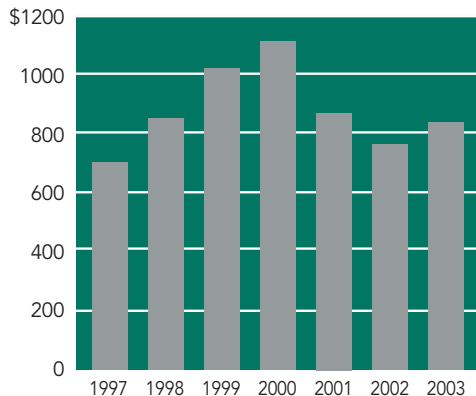


Despite continued growth in wagering, which fuels purses, purse levels declined 1.7 percent in 2003, the first drop in a decade. Factors such as simulcast signal piracy, illegal off-shore wagering, betting exchanges and the growth of rebating operations may be contributing to the purse level declines. Individual states that experienced substantial growth in available purse money included New Mexico (+29.3%) and Louisiana (+18.4%), which achieved those gains through the development of alternative forms of gaming.

## North American Total Gross

### Auction Sales

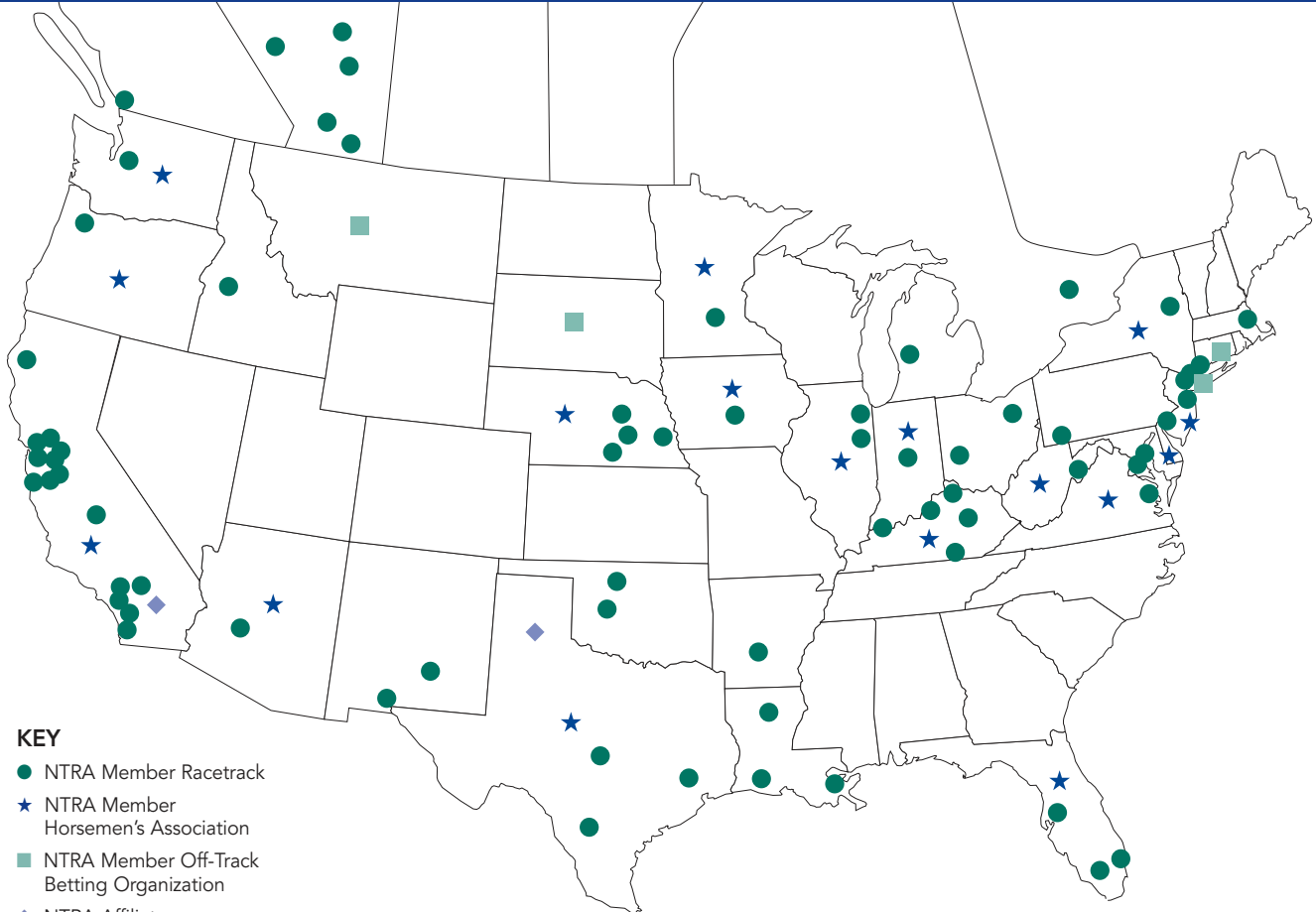
(in millions)



Total gross sales in 2003 advanced 11.2 percent, spurred in large part by an improving economy, stock market gains and favorable tax law changes for horse purchasers. Against 2002 returns, last year's gross sales for weanlings jumped 38.7 percent; the broodmare gross gained 14 percent; yearling sales increased 8.8 percent; and sales of two-year-olds rose 7.5 percent.

Statistics on North American wagering, purses and total gross auction sales courtesy of the The Jockey Club. Images courtesy America's Camp, AQHA, Breeders' Cup Limited, Eleanor Hancock/Photography & Memory Movies, Horsephotos.com, Panoramic Visions Photography, The Race for Education, Ronald McDonald House Charities, Universal Pictures and U.S. Equestrian Federation.

# NTRA Member Associations



## KEY

- NTRA Member Racetrack
- ★ NTRA Member Horsemen's Association
- NTRA Member Off-Track Betting Organization
- ◆ NTRA Affiliate

## Horsemen's Associations

Arizona HBPA  
 Charles Town HBPA  
 Delaware THA  
 Florida HBPA  
 Illinois THA  
 Indiana HBPA  
 Iowa HBPA  
 Kentucky HBPA  
 Minnesota HBPA  
 Nebraska HBPA  
 New Jersey THA  
 New York THA  
 Oregon HBPA  
 Texas Horsemen's Partnership LLP  
 Thoroughbred Owners of California  
 Virginia HBPA  
 Washington HBPA

## Off-Track Betting Organizations

Bettor Racing OTB  
 Connecticut OTB  
 Montana Simulcast Partners  
 New York City OTB

## Affiliates

American Quarter Horse Association  
 TVG

## Racetracks

**Arizona**  
 Turf Paradise

**Arkansas**  
 Oaklawn Park

**California**  
 Bay Meadows  
 California Authority of Racing Fairs:  
 - Alameda County Fair  
 - California State Fair  
 - Fresno Fair  
 - Humboldt County Fair  
 - San Joaquin County Fair  
 - San Mateo County Fair  
 - Solano County Fair  
 - Sonoma County Fair

Del Mar  
 Fairplex Park  
 Golden Gate Fields  
 Hollywood Park  
 Los Alamitos  
 Oak Tree  
 Santa Anita Park  
 Santa Rosa

## Canada

Evergreen Park  
 Hastings Park  
 Millarville  
 Northlands Park  
 Rocky Mountain Turf Club  
 Stampede Park  
 Woodbine Entertainment Group

## Delaware

Delaware Park

## Florida

Calder Race Course  
 Gulfstream Park  
 Tampa Bay Downs

## Idaho

Les Bois Park

## Illinois

Arlington Park  
 Hawthorne-National

## Indiana

Hoosier Park

## Iowa

Prairie Meadows

## Kentucky

Churchill Downs  
 Ellis Park

Keeneland  
 Kentucky Downs  
 Turfway Park

## Louisiana

Delta Downs  
 Evangeline Downs  
 Fair Grounds

## Maryland

Laurel  
 Pimlico

## Massachusetts

Suffolk Downs

## Michigan

Great Lakes Downs

## Minnesota

Canterbury Park

## Nebraska

Columbus Races  
 Fonner Park  
 Horsemen's Park  
 Nebraska State Fair Park

## New Jersey

Meadowlands  
 Monmouth Park

## New Mexico

Ruidoso Downs  
 Sunland Park

## New York

Aqueduct  
 Belmont Park  
 Saratoga

## Ohio

River Downs  
 Thistledown

## Oklahoma

Fair Meadows  
 Remington Park

## Oregon

Portland Meadows

## Pennsylvania

The Meadows

## Texas

Lone Star Park  
 Retama Park  
 Sam Houston

## Virginia

Colonial Downs

## Washington

Emerald Downs

## West Virginia

Mountaineer Park

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