



FIFTY-FIRST ANNUAL
ROUND TABLE CONFERENCE

ON MATTERS PERTAINING TO RACING

GIDEON PUTNAM HOTEL & CONFERENCE CENTER
SARATOGA SPRINGS, NEW YORK

SUNDAY, AUGUST 17, 2003

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FIFTY-FIRST ANNUAL ROUND TABLE CONFERENCE
ON MATTERS PERTAINING TO RACING
HOSTED BY
THE JOCKEY CLUB

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The Round Table transcript is produced and designed by The Jockey Club's Communications Department which can be reached at (212) 521-5326 or (859) 224-2714.

The complete transcription of the 2003 Round Table Conference as published in this book is also accessible on the Internet where it may be downloaded in sections or in its entirety.

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WELCOME TO PARTICIPANTS AND GUESTS

Ogden Mills Phipps: Good morning ladies and gentlemen and welcome to our 51st annual Round Table Conference. It's a pleasure to be back at the Gideon Putnam, the site of many of our conferences over these past 51 years.

One year ago we left this conference with a feeling of optimism after hearing encouraging reports in the areas of science, medication and Thoroughbred ownership as well as an update on the NTRA's wide range of initiatives.

That conference, however, was shattered 10 Sundays later when it was discovered that the integrity of our wagering system and, indeed, the integrity of our sport, was compromised in what came to be known as the Breeders' Cup Ultra Pick Six incident.

Today we'll spend a good deal of our program reviewing the actions this industry took in the aftermath of that event; examining what preventive safeguards are now in place; and looking to future improvements in the areas of wagering technology and security. I hope it will be an enlightening session for everybody.

Among those we will hear from is Rudolph Giuliani, the chairman and CEO of Giuliani Partners, who assisted the Wagering Technology Working Group with its report. It's an honor to have you here with us Mr. Mayor and we're looking forward to hearing from you later in the program.

We start off as we always do with a Report of the Activities of The Jockey Club, being delivered today by Dan Fick who joined our staff back in March after spending many years at the American Quarter Horse Association. Dan is now executive director and executive vice president of The Jockey Club. Dan. . .



Ogden Mills Phipps

ACTIVITIES OF THE JOCKEY CLUB

Dan Fick: Thank you, Mr. Chairman. Good morning.

Last year I represented the AQHA at the 50th Round Table Conference. This year, I am honored to be presenting the Activities of The Jockey Club as we begin the next 50 years of Round Tables.

In doing so, I would like to cover three items: Thoroughbred foal crop statistics, strategic initiatives being undertaken by The Jockey Club family of companies and several industry projects that The Jockey Club is helping coordinate.

First, MRLS. The 2001 outbreak in Kentucky caused early- and late-term foal abortions. The effect on Thoroughbred registrations is now fairly definitive. To date, there have been 307 fewer registrations for 2001 and 1,862 for 2002. While the impacts of MRLS have been significant, the final numbers are fully one-third less than what was projected during the peak of the outbreak in 2001.

Additional good news is that we are estimating the 2004 foal crop to be 37,200, an increase of 200 over this year and 1,600

over 2002. Although the effects of MRLS on the 2002 foal crop will be with us for years to come, the upward trend in these foal crops the past two years is an encouraging sign.

Turning to some highlights from the past year, I'd like to share some of the key strategic initiatives and innovations in technology for each of our business units. Increasingly, for companies that conduct their business electronically, their home page is their gateway to the world.

With that in mind, we undertook a complete redesign of The Jockey Club web sites. Our initial focus was on *jockeyclub.com*. The redesign was undertaken with the intent of making the site more informative and easier to understand and navigate.

Examples can be found on the home page itself, where visitors will notice prominently placed links to each of our e-businesses: Interactive Registration™, where breeders can perform registration functions online; *equineline.com*, where industry professionals can manage their equine investments; and *equibase.com*, where racing fans can get the information they want about Thoroughbred racing, all in a real-time environment.

For the Registry itself, we improved our site with photos and instant access to the most important pages – naming, fees, rules...and, of course, Interactive Registration™. Here, both new and experienced users can easily find everything they need to know to register a Thoroughbred online.

The Jockey Club Information Systems, through *equineline.com*, the company's flagship product line, continues to provide innovative, state-of-the-art technology services to a growing subscriber base of over 14,000 industry professionals.

Always looking for ways to simplify breeding farms' record-keeping chores, this year, TJCIS has developed the *HealthBook*™ – an application that allows farm managers to easily record veterinary and health procedures in the field with the simple tap of a pen on a tablet computer. This eliminates the need for vet tickets to be written, duplicated onto teasing charts and re-entered for billing.

The system interfaces with our popular Farm Management software, so information is recorded one time, while also making complete health and veterinary records instantly available where they are needed most, in the field.

While equineline serves the horsemen, Equibase serves the racetracks and their fan base. *equibase.com* has become one of racing's most popular Internet sites, as evidenced by the 400,000 fans that visited *equibase.com* on the three Saturdays of this year's Triple Crown, a 26 percent increase over last year.

Last year at this forum, we introduced our latest enhancements to Virtual Stable™, Equibase's e-mail information and notification service that provides workouts, entries and results.

In one year, Virtual Stable's subscriber base has grown by 93 percent. That's 80,000 people who want to be notified about specific contenders in upcoming races, or television scheduling for the industry's premier races.

Equibase has also been very active in supporting the NTRA Productions' expanded television coverage of Thoroughbred racing by sponsoring Race Horse Digest and the Roads to the Triple Crown and Breeders' Cup. Equibase is the Official supplier of racing information to TVG. And, most recently, Equibase was the presenting sponsor for

“Seabiscuit, the Making of the Movie.” Here are some clips from those promotions.

[VIDEO]

Moving on, The Jockey Club Technology Services was launched in November of 2001, as a wholly owned subsidiary to provide infrastructure support services for the entire Jockey Club family of companies. The Technology Services team also has served as consultants for NTRA, AQHA, the *Daily Racing Form* and the Wagering Integrity Alliance, providing software design, programming and network operations center services to its customers.

Our final business unit, InCompass, is the subject of a presentation later this morning.

The Jockey Club also serves the industry with two very worthy and extremely essential charities.

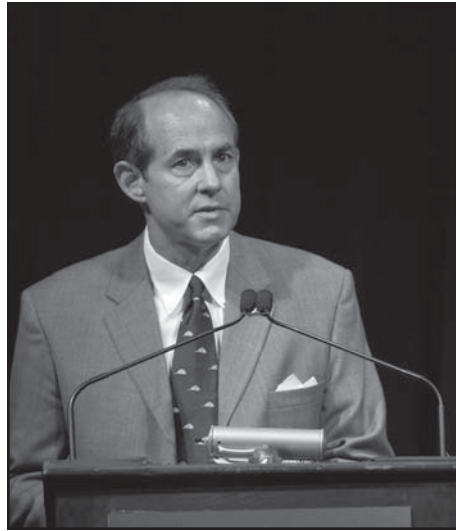
Since 1985, The Jockey Club Foundation has provided thousands of individuals and their families in the racing industry with over \$10 million in financial aid for medical assistance and living expenses.

At the same time, the Grayson-Jockey Club Research Foundation has also supplied researchers with more than \$10 million to conduct nearly 200 equine research projects at more than 30 universities, most recently \$300,000 for MRLS research. To assist the Grayson-Jockey Club Research Foundation, Laura Hillenbrand graciously hosted this PSA.

[VIDEO]

For further details on our companies and Thoroughbred breeding and racing statistics, I would draw your attention to The Jockey Club Fact Book in your folder.

You’ll also find a new publication, “Thoroughly Thoroughbred,” a joint project of The Jockey Club, TOBA and NTRA,



Dan Fick

designed to educate people expressing an interest in our sport.

In addition to executing our own internal business plans, members of The Jockey Club team work behind the scenes on numerous industry-wide projects. Expanded reports on two, the Medication Consortium and Wagering Integrity, follow in this forum. But I’d like to give you a brief overview of two others.

We have been working with The Racing Compact, RCI and NAPRA to develop a uniform license application for all jurisdictions. Today, I am pleased to announce we now have a prototype, dubbed the Universal License – one license for all states for all classifications of licensees.

You’ll also be pleased to know we are working to simplify the fingerprinting process through electronic scanning and submission of fingerprints to the FBI. Hopefully no more ink! Our goal is one license with payment of applicable state fees that is accepted nationwide. I am confident, based on cooperation among the individuals involved, that we can achieve this goal.

Finally, in close cooperation with the American Horse Council, NTRA, TOBA and the national HBPA, we have been working to organize and expand the grassroots network of Thoroughbred racing interests. The purpose is to provide information on key federal legislative and regulatory issues, and encourage individuals to contact Congress and the Administration to secure support of our industry's positions. You'll see why this is important later on in the program.

Now, as we embark on the next 50 years of Round Table Conferences, The Jockey Club will continue to provide leadership, lend support and promote a unified approach to issues that are critical to the future of our industry. And in keeping with Round Table traditions, the most important of those issues – uniform medication rules, technology and wagering integrity – will be addressed this morning.

Enjoy the program.

NTRA UPDATE

Ogden Mills Phipps: Thank you, Dan.

The National Thoroughbred Racing Association was announced at this venue in August of 1998. With Tim Smith at the helm, it has made immense progress in many areas and I think that over the past 12 months the NTRA has once again demonstrated the scope and importance of its activities, whether it was dealing with the Pick Six incident...or marketing and promotion efforts related to Funny Cide's quest for the Triple Crown...or capitalizing on Seabiscuit's phenomenal success.

For a brief update on NTRA activities, please welcome the Commissioner, Tim Smith. Tim...

Tim Smith: Thank you Dinny.

This is the sixth Round Table gathering I've had the privilege to speak to and, as I think everybody would acknowledge, things haven't always been quite as positive as they are today.

I used to take criticism of the NTRA pretty personally, and then I realized that the authors of those letters, e-mails, articles and cartoons simply were passionate about horseracing and cared so much about its success. In addition, of course, some were completely nuts! But I guess it's being in the presence of Rudy Giuliani that inspires that kind of candor.

But in any case, I recently felt a little better when I read one of the "Letters to

Seabiscuit," from a wonderful little book published by a relative of Charles and Marcella Howard.

You'd think this would be a pretty positive book but not necessarily. I won't read the whole letter I have in mind, but you'll get the drift: "Dear Sir: I do not approve of your retirement of Seabiscuit, and I am only one of many. He should not be sent into oblivion just because he won that race at Santa Anita. Think about it...Sun Beau raced until he was nine years old."

So I took from that that passionate fans and critics are always with us and always will be. And, whether it's the 30's or today, clearly we have plenty of challenges in this business and as you've heard from Dan, this

morning's program will shortly turn to some of those issues in absolutely the best traditions of this important gathering.

But I get a good mission for a few minutes. I think it would be appropriate to talk about some of the positive things that have happened since last year's Round Table, and how some of it came about.

A lot of this – and let's be clear – is due to plain good luck and the extraordinary contributions of others, from the courageous and brilliant Laura Hillenbrand who gave us *Seabiscuit*, the book...or Gary Ross, who gave us *Seabiscuit*, the screenplay and film...or upstate New York who gave us the story of the Sacketoga Six...or for that matter Jade Hunter and Zodiac Miss, who gave us the amazing Azeri.

It is also sometimes true, however, like our high school coaches used to tell us, that good luck is where opportunity meets preparation. And I would submit that our industry – based on considerable preparation – is now better equipped to take advantage of its opportunities than at any time in recent memory, and I'll try to back that up in the next few minutes.

Going into 2003, interest in Thoroughbred racing was moving steadily upward, as measured by the ESPN Sports Poll. For the third year in a row, more Americans identified themselves as horseracing fans, this time passing NHL hockey in popularity. Overtaking boxing is our next goal and I'm confident we'll soon be in the top ten most popular sports.

Television ratings, which grew sharply last summer after War Emblem's Triple Crown run, continued their climb this year. And look, for example, at the results of aggressively promoting the April 12th day of great racing we had this spring at Keeneland, Aqueduct and Oaklawn on ESPN, NBC, other media outlets, and with a \$1 Million Mystery



Tim Smith

Mutuel Voucher that day.

Did this – or could this – happen on its own? The simple answer is “no.”

This additional exposure was due to the investment The Jockey Club and other industry leaders made five years ago, first in the NTRA itself and then in things like NTRA Productions. That company – NTRA Productions – produced and sold both of the April 12th shows.

The expanded TV, in turn, was supported by a growing list of national sponsors recruited by our national marketing team, with a significant boost from NTRA Purchasing...another building block that's been added in the last couple of years. The industry's support, by the way, of the group purchasing initiative has been absolutely terrific with NYRA leading the way as they do in so many other areas.

And, then, of course, along came this year's Derby and the outpouring of national publicity over those magical five weeks for Funny Cide and his merry band of average-guy owners; Jose Santos and his photogenic family; and Barclay Tagg, the latter-day Tom Smith. Waiting in the wings, as if also script-

ed by Hollywood, were Empire Maker, Bobby Frankel, Jerry Bailey, John Chandler and Juddmonte Farm, itching for a rematch...convinced they had the best horse.

Now, there are normally ratings and attendance increases for the Belmont Stakes when a Triple Crown is on the line. But this year, a quantum leap in interest...something different, something else was going on. The Belmont telecast not only beat every other sports telecast that weekend, but the 6 to 7 p.m. segment of NBC's coverage beat every other television show – period – for the entire week, including prime time.

The ratings for the Triple Crown as a whole were equally remarkable versus other comparable events like the NBA Finals, NHL Stanley Cup Finals and golf's four majors... and if Tom Durkin were here he'd say horseracing has put a nose in front.

In the days that followed, two major new sponsors were announced: Dodge and Nextel. The "NTRA Summer Racing Tour" on CBS with its popular three-race format also did quite well. Racing partnership and syndication groups, along with The Greatest Game, reported noticeably increased interest among potential new Thoroughbred owners. Of course, in late July came the release of "Seabiscuit" to favorable reviews and strong box office. Heightened interest in the Travers has produced plans for the first-ever ESPN "SportsCenter" to originate from a racetrack.

What else happened? And why? Here are just a few more examples:

- By having our own television production company in place, we were able on the brainstorm of a talented young producer named Joan Ciampi, to create the hour-long documentary "The Making of Seabiscuit" that Dan mentioned was sponsored by Equibase. That documentary in the month of July alone on ESPN ran 12 times and it's still running.

- By having a co-op marketing program in place, the NTRA and its members were able to execute a national in-theater program to educate movie goers about horseracing and how to attend live racing in their area. Keith Chamblin put that together with Universal (Studios) and you can see the results.

- By having strengthened the industry's licensing and merchandising capabilities which came about as a result of the NTRA-Breeders' Cup combination, we were able to convince Universal (Studios) to let us do together "Seabiscuit" official merchandise. Ten thousand items were sold in the first few days.

- By having experience and capabilities with Internet marketing, the NTRA's online offer of a chance at a free trip to the Hollywood premier of "Seabiscuit" produced over 220,000 e-mail entries. And even better in a way, when we asked those e-mail senders, "Would you like more information about Thoroughbred racing?" over 60 percent answered "yes." That in itself is a significant boost to our marketing database.

I'd also like to preview, as Dan mentioned, one non-marketing but very important topic. It's not as glamorous as television or Hollywood, but it's another illustration of the industry's considerable investment starting to bear fruit. And I'm speaking of our legislative and political capabilities, particularly in Washington, which also has shown good progress and results this year.

Since we're going multi-media this morning, let me show you better than I can say a brief clip from a debate on the House floor, which illustrates the importance of having well-informed advocates in our Nation's Capitol.

[VIDEO of Kentucky 5th District
Congressman, Hal Rogers]

I'm happy to report that our position on that legislation prevailed after that debate. So at least according to the House version of the bill, legal wagering on horseracing continues to be exempted from the otherwise broad federal prohibitions proposed for online wagering.

The bill's future is now pending in the Senate, and this is quite important to all of us since account wagering revenue is the fastest growing part of Thoroughbred handle. TVG, for example, is now in more than 12 million homes and sends 14 cents of every dollar back to support live racing. And interestingly, most new accounts in this fast growing area of account wagering are, we're told, those using personal computers rather than telephones.

To return to marketing, an important part of the NTRA's co-op advertising recently won the prestigious Addy Award for the single best broadcast ad campaign in the country. I know this may be hard for some of you to believe so I'm going to repeat that. We won the award for the best broadcast ad campaign in the country. Remarkably, it was our radio campaign, used extensively here in New York by NYRA and around the country by other members, that was chosen over 60,000 entries, and most of those were television ads.

The campaign uses simulated race calls to contrast the excitement of a day at the track with more hum-drum alternatives in everyday life. Here's one version called "Dinner Date" comparing our form of entertainment to that sometimes less exciting experience.

[AUDIO]

To give equal time to that other little medium, here's one from the music-based TV campaign, this by a different creative shop under the best-of-breed approach we use under NTRA Creative Services.

[VIDEO]

So to sum up, all in all, it's been quite a run for horseracing, and the NTRA, since we were last together, and I would argue that this progress was based on the preparations and investment made by the industry over the last several years. With new interest, new sponsors, and new momentum for the Breeders' Cup, including the recent purse increases, no doubt there's new momentum and opportunity for horseracing.

This new opportunity, however, will almost certainly mean new scrutiny, new accountability, and new public attention to any real or perceived flaws in our game, including, quite obviously, any questions of integrity...the fairness and honesty of our unique combination of athletic and wagering competition.

You'll sense, perhaps, that we're now returning – as promised – back to the industry's challenges and tough issues. This, I realize, after I bravely agreed to tackle sensitive topics like increased ratings, marketing awards and new sponsors. Seriously, before turning the podium over to the next speaker and the important topic of medication, let me take a crack at connecting the topics of marketing and integrity.

Everything we do, positively or negatively in the eyes of the public, sends a marketing message of some kind. In fact, we know that "real events" – what we actually do and who we really are – communicate and shape attitudes and consumer behavior more powerfully than any advertising or press release ever can do.

So, in reality, the next topic – the industry's, and now also the NTRA's, mission to achieve uniform medication standards and enhanced testing – also is a marketing issue and also will affect our ability to continue to compete and grow.

Tim Smith: So I'm pleased, on that note, to introduce the President of the Breeders' Cup, the Vice Chairman of the NTRA and now, in addition, the Chairman of the Racing Medication and Testing Consortium, D. G. Van Clief.

RACING MEDICATION AND TESTING CONSORTIUM UPDATE

OVERVIEW

D. G. Van Clief, Jr.: Thank you Tim, and good morning ladies and gentlemen.

When it comes to the integrity of Thoroughbred racing, two key issues are currently at the top of everyone's list of concerns. One is the status of our wagering technology, a subject that comprises a good part of this morning's proceedings. The other is racehorse medication and the related issue of drug testing. I'm going to spend just a few minutes to brief you about the industry's efforts in this latter area.

Over the years, a number of industry organizations and individuals have attempted to move our sport toward uniform medication rules. Those efforts failed for two basic reasons: 1) they lacked broad-based support from industry stakeholders and 2) they lacked common ground in the key areas of science, policy and regulation.

As Dr. Scot Waterman outlined at this conference last year, the industry had achieved not only broad-based support for improved drug testing through the efforts of the NTRA Drug Testing Task Force and the AAEP's Racehorse Medication Summit, but thanks to the Drug Testing Task Force, dozens of industry groups agreed to participate in a national, benchmark survey of testing methodologies.

The Task Force also developed the Supertest to gauge the effectiveness of drug testing at the local level and to tell us not only where we were in drug testing, but, more importantly, where we needed to go.

Along with the AAEP Medication



D. G. Van Clief, Jr.

Summit, it also demonstrated that this industry was capable of building consensus on drug-testing issues. And based on those efforts, the Racing Medication and Testing Consortium now includes all of the industry's key stakeholders, including regulators, who have joined together to achieve a uniform medication policy.

The RMTC's mission is twofold: 1) achieve uniform medication rules for horseracing and 2) establish a research program to detect illegal drugs and therapeutic medications in the racehorse. In simple terms, the aim of the group is to develop fair, scientifically defensible rules that everyone can play by, and to create the means to stop would-be cheaters.

While not underestimating the challenges ahead, I believe that we are in a better position than ever to succeed. The Consortium has been constituted as a not-

for-profit corporation and with the recent addition of the HTA and USTA, we now have 25 organizations represented around the table. Significantly, the three major racing breeds – Thoroughbreds, Standardbreds and Quarter Horses – are also involved.

For the first time in the history of the sport, we do have consensus on a number of key areas. The group has unanimously adopted policy wording regarding environmental contaminants, prohibited practices and the use of furosemide, non-steroidal anti-inflammatories, clenbuterol and anti-ulcer medications.

Under the leadership of The Jockey Club's recent past president, Hans Stahl, the Consortium has secured annual funding of \$800,000 per year for the next three years, most of which will go toward drug research projects.

Next month, \$500,000 in grants will be disbursed to fund new tests for substances we believe are being used in racehorses but can't now detect – such as EPO – and to aid in the development of research data to bridge differences in scientific opinion that currently prevent us from achieving complete unanimity in the adoption of rules.

The Consortium is scheduled to meet in Los Angeles on the 25th of next month [September] and the goal will be to complete Model Policy in all areas except for those therapeutic medications that require further research. We anticipate the delivery of our uniform policy to regulators for their evaluation immediately thereafter.

Within a few months, it will be within our industry's grasp to move ahead with the implementation of one set of rules governing the use of race-day medication. We will then see whether this industry truly is capable of setting aside its special interests and political differences to support uniform medication policies and the development of critical funding for future research.

The decision of whether to adopt these Model Policies will rest squarely in the hands of state racing commissions across the country. They will want and they will need to see a united front on this issue if they are going to adopt our recommendations and make what has heretofore been unattainable a reality. That is, for the first time in our sport's history, a level playing field in the area of racehorse medication.

D.G. Van Clief, Jr.: Since the final step necessary to success must be taken by individual racing commissions, we thought it only appropriate to include a regulator's point of view this morning. It is my pleasure to introduce an individual who has been an active member of the Consortium since its inception. Lonny Powell is President & CEO of the Association of Racing Commissioners International, as well as the Treasurer and a Board Member of the Racing Medication and Testing Consortium.

Lonny...

UNIFORM MEDICATION: A REGULATORY PERSPECTIVE

Lonny Powell: Thank you D. G. and good morning everyone.

The topic before us today may very well be one of the most important issues that we have ever grappled with. The matters that we are addressing are really part of our sport's bedrock.

When we talk about medication, we're talking about the integrity and the fairness of the sporting competition and the outcome of the race, and the all-important wagering components and the racing fan that are so intertwined with our sport.

Secondly, we're talking about the safety of the jockey and, in the case of harness racing, the driver.

And last but not least, we're talking about the health and welfare of the equine athlete...the horse...we don't hear that word enough...the horse upon which our industry is founded.

D. G. has done his usual masterful job in framing the overall situation for you. Now over the next few minutes, permit me to crank down the microscope just a little bit more and discuss the game plan – the future objectives in this all-important quest for uniform medication policy – particularly from a regulatory slant.

The time has finally arrived to answer, "What are our future steps – where do we as an industry and where do the regulators go from here?"

Well, as you heard from D. G., the Consortium is meeting in September in Los Angeles and from that point we're going to pick up the pace even more. We look to December 10th of this year in Tucson, Arizona where we will be conducting a closed-door briefing and workshop for all regulators. It will be facilitated by Dr. Scot Waterman, our energetic and ever-committed executive

director of the Consortium.

This forum will provide all regulators with an opportunity to better understand and get their arms around our proposed consensus policy and understand the process and history behind it, as well as offer final input and comment as we fine tune the Model Policy.

After a very brief review, we look to the first quarter of 2004 – just around the corner – where we will be turning over the final Consortium consensus Model Policy document to the RCI/NAPRA Joint Model Rules Committee for conversion of that language into more regulation-friendly rules format.

At the same time and in tandem, the Consortium will officially make our Model Policy accessible to the industry at large so the stakeholders on the state level in particular can begin preparing to promote, encourage and urge its timely adoption.

You can anticipate during the end of the 2nd quarter of 2004 our likely submission of a Medication Model Rules "Turn-Key" package if you will that will be given to all state racing commissions for their adoption at their earliest possible opportunity.

And the racing commissions can count on on-going support from the Consortium team. Individuals like Dr. Waterman and myself have committed to make ourselves available to you, the industry, and specifically to the racing commissions in order to assist in expediting the timely adoption of these all-important Model Medication Rules.

Now all this being said, we the members of the Consortium are realists and we know the manner, speed, timing and mechanics of the rule-making process can differ materially, substantially and dramatically from one state to the next. That is not what's important. That alone does not derail our mission.

In our eyes, it is not necessarily the route of the journey that matters. It's the fact that we all buy in, commit, make every effort and have a willingness to the same all-important destination – that of uniform medication rules across state lines.

No doubt we in this industry know that there will be hurdles to jump, obstacles to be navigated through or around, and, of course, the usual criticism and armchair quarterbacking from the sidelines to deflect. But I submit to you that we cannot and we will not let these anticipated adversities and difficulties prevent this industry and your Consortium from getting the job done – from completing our critical mission.

Our quest will require compromise and give and take on behalf of every state racing commission...on behalf of every leading chemist...on behalf of every prominent veterinarian...on behalf of every racing stakeholder. After all, in our eyes there are no perfect rules and policies when it comes to medication on anybody's books that aren't capable of being improved upon. And even more importantly, there are no rules on the books that are beyond reproach in the name of achieving national – not local or regional – uniformity.

I do have a final thought...or better yet let's call it what it is...it's a plea. Please understand that in this quest and journey for greater uniformity in medication there can be no simple "hand-off" or "passing of the



Lonny Powell

baton.” In football parlance, just because the tailback gets the ball doesn't mean that the fullback and the offensive line stop blocking or the receivers don't continue to run their routes or even get a downfield block themselves.

To truly make significant progress toward the all-important medication rule uniformity it will take the continued and enthusiastic participation of all industry stakeholders, particularly the tracks and the horsemen groups at the local level. Your constant, consistent and ongoing efforts in pushing and encouraging and supporting your respective racing commissions and your local industry for adoption of this all-important Consortium Model Policy Rules are absolutely critical to the success of this mission. Thank you.

D. G. Van Clief, Jr.: Thank you Lonny and I think it would be appropriate to thank you, thank the ARCI, NAPRA and commissioners across the country in advance for the thoughtful and positive reception that we know this model policy is going to get when delivered.

Now, as has been the custom at the last few years of this Conference, we're going to go to the break with a video of 2003 highlights. I think you'll find that in this video there's the odds-on favorite for race of the year. I hope you enjoy it.

INTERMISSION

WAGERING TECHNOLOGY WORKING GROUP REPORT

Ogden Mills Phipps: The value of having a “league office” was probably never more evident than last fall when the NTRA took the initiative to create the Wagering Integrity Alliance and then convened the Wagering Technology Working Group in the immediate aftermath of the Breeders’ Cup incident.

Shortly thereafter, task forces and committees focusing on technology, communications and legal issues were also formed.

We all owe a debt of gratitude to the individuals and organizations that have diligently participated in those activities over the past 10 months.

In this part of today’s program, we’re going to hear about the findings and recommendations of the Working Group and we’re going to hear from some of the people who were involved.

To start us off again, here’s Tim Smith.

Tim...

OVERVIEW

Tim Smith: Thank you, Dinny.

After the events of Breeders’ Cup Championship Day last year, when a theft of over \$3 million was attempted by tampering with tote and account wagering systems, the industry worked together to make several immediate changes and then, based on expert analysis and advice, to plan additional security improvements. You will hear more about those findings and recommendations during the time remaining this morning.

First a quick story. These events have been repeatedly described as a “major wake-up call” for the industry. Wake-up calls are often necessary but not welcome or pleasant. So, here’s the story:

A father looks in on his sleeping son. It’s a peaceful scene, but there’s a problem.

“My son, you must arise,” said the father. “You’ll be late for school.”

“Oh, father,” the son replied. “The bed is warm and comfortable and I don’t want to go to school.”

“Why not?” asked the father.

“Three reasons,” said the son. “First, school is boring. Second, the kids tease me. Third, I hate school.”

“Well, then,” said the father. “I’ll give you three reasons why you should go. First, it is your duty. Second, you are 45 years old. Third, you’re the Principal!” [Laughs]

That was borrowed from a Jesuit priest who gave a series of terrific lectures on the importance of waking up and confronting the real world.

Today’s real world of electronic wagering – now so important to the future of our industry and its 500,000 jobs – candidly involves a mixed picture. The Report you will hear summarized shortly will conclude – accurately – that real improvements have been made to system security and that there is no evidence that we could find of attempted or actual fraud in connection with other multi-leg wagers within the last year beyond those incidents we already know about.

It’s highly unlikely, in fact, that the particular events of October 26th could happen today. Nor do we think there is any reason for our customers to stop playing with confi-

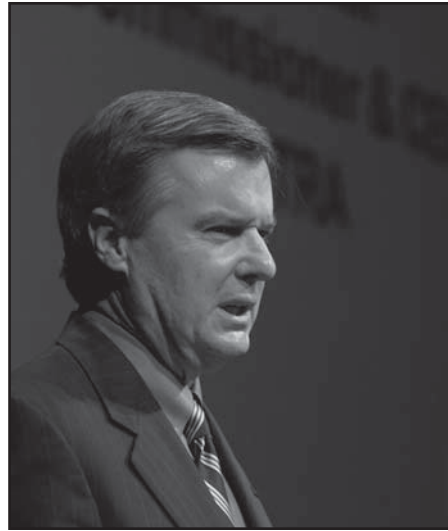
dence, any more than we should stop using our VISA® cards because bad people sometimes commit identity theft or criminal hackers can get into their IT systems.

However, those expecting a conclusion that everything is now okay again – in effect, that we can sleep – will be some combination of surprised and disappointed by the Working Group report.

Speaking for my colleagues on that panel, we think that there is a lot more to do; that there is a long way to go to bring wagering security up to the standard of true “best practices;” and that, in this process, we should realize that we are no different than lots of other industries – really all other industries – engaging in electronic commerce.

As you’ll hear, a variety of cultural and structural changes are needed to bring our industry up to the same level of security standards being adopted by many others. We’re now all in the information management and data transmission business. All of our transactions – whether we’re talking about banking or retail or health care or legal wagering on horseracing – are vulnerable to foul play, yet each must be as secure as possible.

An example of “cultural” change might be as simple as racetrack and tote company executives making clear to everyone in their organizations how important security really is. Can there be any doubt of that after October 26th, which – even though it wasn’t computer hacking per se and there was quick detection and prosecution – the words “scandal” and “horseracing” and “Breeders’ Cup” were combined in countless headlines, and for weeks?



Tim Smith

An example of “structural” change is simply making wagering security someone’s full-time responsibility or “day job.” You’ll hear more about this aspect in the next few minutes as well. We can’t realistically expect each track, each state or each racing commission to separately invest in the necessary cyber-security expertise and resources. Even if one state were available to fund all that, you’ll see in the report the issue is multi-state, and indeed multi-hub and multi-tote. So a national approach, just as with medication standards, is the only real solution.

It’s sort of like Lonny said about medication. I think we can all predict what the skeptics will say. All the standard issues and hurdles on this one will apply – funding, governance, building consensus on the specific details – they normally do. This is the real world. This is being awake. In this case, we are – very literally – interdependent.

Tim Smith: With that theme in mind, I’d like to introduce the next speaker. Greg Avioli, who serves as our deputy commissioner and chief operating officer, has really done double duty over the last eight months and, in effect, has also served as staff director for the Wagering Technology Working Group, coordinating the efforts of dozens of experts and industry members.

THE REPORT: SUMMARY OF FINDINGS AND RECOMMENDATIONS

Greg Avioli: Within days after the attempted betting fraud in connection with last year's Breeders' Cup, the NTRA convened the Wagering Technology Working Group – representing regulators, racetracks, industry organizations and consumers – and began a detailed review of the industry's wagering system security.

The review included a representative sample of other Pick Four and Pick Six wagers in 2002 to determine whether similar types of wagering fraud had occurred.

At the same time, NTRA and Breeders' Cup engaged in an extensive communications effort to address public perception that the wagering system could be manipulated.

With the formation of the Wagering Integrity Alliance, the NTRA secured financial support for the wagering system review and related communications, legal, legislative and technical consulting projects. The Alliance raised over \$3 million.

Major Alliance supporters included NTRA and Breeders' Cup, the New York Racing Association, Magna Entertainment Corporation, Churchill Downs Incorporated, The Jockey Club, TVG, Keeneland, Fasig-Tipton and the AQHA.

Additional supporters included racetracks, horsemen's associations, the AAEP, *Daily Racing Form* and Winnercomm.

For the wagering system assessment, the NTRA engaged Ernst & Young Technology and Security Risk Services. E & Y's role included a detailed review of the tote system – the current security and potential security risks associated with the processing of pari-mutuel wagers. At the conclusion of their multi-month review, Ernst & Young provided detailed recommendations to the Working Group on ways to improve security within the

industry.

The Working Group also engaged Giuliani Partners to provide crisis management advice, counsel on crime and security issues, ensure the confidentiality of the wager review process as well as help frame the Working Group's final report and recommendations.

The review covered each of the four tote companies that currently handle all of the wagering in the United States. Those are: AmTote, Autotote, United Tote and Las Vegas Dissemination Company. The review included on-site interviews, inspections of facilities and tote hubs, a review of relevant internal documents and security policies. The industry's security procedures were then compared against a set of international standards for information security management that are now generally accepted by security auditors around the world.

As I noted before, the Working Group's work also included a review of the Pick Four and Pick Six wagers in 2002. We focused on wagers with payoffs of over \$10,000 on California and New York races. The total set of these races that met those standards were 1,600 individual tickets. It's been a very difficult and time-consuming process to review all these tickets because they are located throughout the world at various hubs. But to date, more than 1,100 of these tickets have been reviewed and, while several presented questions, none have involved additional, unexplained irregularities.

So upon completion of this nine-month review of the wagering system, the Working Group developed three unanimous recommendations.

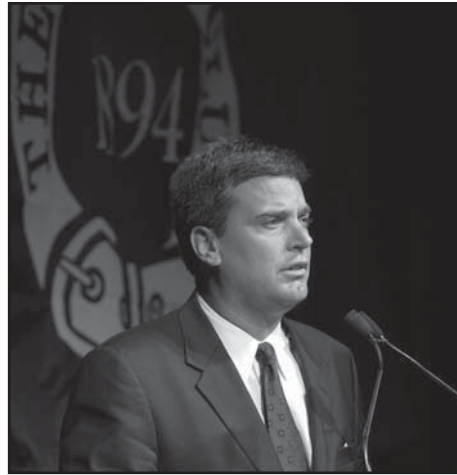
The first, as referenced by Tim Smith just now, is to establish a National Office of

Wagering Security. A national office is our best means for detecting and responding to potential security threats across multiple jurisdictions or tote systems. The office for wagering security would also be responsible for conducting security audits; monitoring of a central database of wagers to detect security threats in real time; and, perhaps most importantly, sharing information on a real-time basis throughout the industry on potential or real security issues.

The second recommendation is to establish minimum, uniform security standards. In any networked system – be it banks, retail outlets, or a simulcast network – all members are more vulnerable to attack through the “weakest link,” the partner with the weakest security. Adoption of minimum uniform standards for both domestic and offshore wagering entities will allow only “trusted users” to have access to the pari-mutuel system. Uniform guidelines also ensure a standardized response to security breaches, regardless of what company or jurisdiction they occur in.

Our third and final recommendation is to develop an industry action plan to facilitate an upgrade of the current wagering infrastructure. You heard Congressman Rogers mention that simulcasting now accounts for over 85 percent of the annual \$15 billion in handle...our industry is more reliant on electronic commerce than ever before. An improved technology infrastructure will allow the industry to continue to maximize this e-commerce growth and support state-of-the-art cyber-security applications that other businesses that rely on e-commerce now have in place.

The Working Group has established a specific timeline to implement each of these three recommendations. By the second quar-



Greg Avioli

ter of next year we expect to have standard Model Rules in place for wagering security, which you’ll hear more about in just a moment.

We are currently developing detailed plans for the creation of the national office of wagering security and will be presenting these plans to the NTRA Board and the rest of the industry in the next few months. A preliminary search for the Director of this office is now underway.

Planning for longer-term upgrades to the wagering infrastructure is expected to begin in early 2004.

In conclusion, the Wagering Group found that the current wagering system functions dependably with important security safeguards now in place. But we must remain vigilant and, like all other businesses reliant on electronic-commerce, must continue to make security a priority.

I would like to thank the members of the Working Group as well as the many organizations and individuals who assisted with the tote and ticket reviews, who gave their time and expertise to this process.

Greg Avioli: And now to give you the players' perspective on the Working Group's report and recommendations is handicapper Jim Quinn, a Working Group member. Jim also has recently been named to the newly created position of NTRA Players' Representative.

THE PLAYERS' PERSPECTIVE



Jim Quinn

Jim Quinn: Thank you.

Although the players' immediate response to the Ultra Pick Six fraud of October 2002, can be characterized fairly as a combination of outrage and cynicism, the outrage obvious, the cynicism rooted in an indifferent past, most players' responses and attitudes began to change almost as swiftly as the industry's consolidated response to the scandal.

The shift occurred in part because the fraud had been detected and prevented...in greater part because the industry's efforts at reform would be consolidated and led at the national level...and in greater part still because the working group responsible for investigating the security gaps would include a players' representative. This was unprecedented, and so in itself rather startling to the tens of thousands of pari-mutuel customers who expected only that their concerns, criti-

cisms, and views would go unsolicited and disregarded.

So rather quickly expectations that would have been pessimistic in the extreme instead became, not exactly positive, but hopeful.

A decent indication that consumer confidence had been shaken, but far from shattered, became clear in the November focus groups of players that were held at Hollywood Park, Lone Star Park, and Aqueduct. Of the roughly 40 selected player representatives that participated, only one testified that he and his Pick Six betting syndicate had ceased wagering as a result of the scandal.

From the players' perspective, the industry's immediate response was a good response, much better than they had expected.

In regard to reform, what did the players want? Three things, primarily:

- One, the transmission of *all* wagering data from the simulcast outlets and hubs to the commingled pools should be state of the art, that is, as good as it gets.

- Two, as soon as possible, technology upgrades must be implemented, so that the late mergers of simulcast pools that cause the suspicious drops in the odds for unacceptably lengthy intervals after the horses have left the starting gates, would be eliminated, or effectively mitigated.

- Three, the players demanded to know, what is the scope of the problem, or how long has this been going on?

I might add that in this context of expectations and anticipated reforms, the players are unsympathetic to arguments as to costs and complexities. They want the problems solved regardless.

Speaking from my seat at the table, and on behalf of the players I have been entrusted to represent, I am pleased to report that the crisis-management phase of the scandal has been managed and conducted in an exemplary way. In accord with a kind of first principle, all the relevant information was collected and distributed to the public. There was never a hint of a cover up.

Crisis management included the hiring of outside experts to conduct the technical assessments, and additional outside experts to provide an independent review, not only of the technical analyses, but also of the Wagering Technology Working Group's work in general. This too has been appropriate and exceptionally well done.

From the players' perspective, a crucial aspect of the crisis was the launching of the systematic ticket review of five-figure payoffs that should indicate whether the Ultra Pick Six fraud was an isolated event, or part of a wider pattern of pari-mutuel corruption and fraud.

I have participated on the task force that reviews the structure of the Pick Six, Pick Four tickets. None of the tickets I have examined have been identical to the bogus tickets; a few have been facsimiles...these were flagged, tracked and investigated and ultimately cleared as were other tickets that

aroused suspicions. The fraud so far appears to be isolated to Chris Harn and his collaborators. The ticket review continues.

In regard to the investigative phase of the industry's response, primarily the assessment of the tote companies' security systems, the players' perspective can best be described as wait-and-see.

The current structure of the industry's wagering systems has given credence to the "weakest link" scenario; that is, the security of our wagering systems can be regarded only as strong as their weakest link, which may be a hub, or any remote wagering outlet, such as Joe's Friendly Betting Tavern in Wisconsin, or an off-shore bet shop on some Central America island.

Recommendations numbers one and two of the final report, i.e., the creation of a National Office of Wagering Security and the development of uniform security standards by the industry for *all* wagering service providers, are intended to control for the universe these problems and gaps.

Recommendation number three urges an action plan be developed to upgrade the technology infrastructure of the industry. The upgrades would enhance the processing efficiency of the players' wagers, such that the significant odds drops after the off-times will stop. Until that happens, players' complaints will grow louder, and the perception of chicanery will persist.

In sum, from the players' perspective, a job well done until now, has to be done even better going forward.

Jim Quinn: And now to give you a regulator's perspective on this is Roger Licht, distinguished chairman of the California Horse Racing Board.

A REGULATOR'S PERSPECTIVE

Roger Licht: Thank you for the opportunity to participate in the 2003 Jockey Club Round Table. I am honored to be a part of this legendary event and to speak on wagering integrity from a regulator's vantage.

Horseracing loves to use the pronoun "they." It starts with "they" gave me the three horse, "they" say the track is fast today, "they" saw the horse work at 4 a.m., "they" would never sell this horse, but...

And it continues with the cry from every faction that "they" need help to survive in an industry that truly is the Sport of Kings.

It is time that the word "we" replaced the word "they". Not that "we" should give out the three horse, but that the industry must work together to resolve the many adversarial issues that are pending and strive to benefit from the evolution of the game – even when that evolution includes an attempted wagering fraud of \$3 million. Entities like NTRA have enabled regulators to work with industry participants to achieve this goal.

The first thing that we must do – notice I said "we" and not "they" – is to ensure that there is integrity in the business of racing and in the game of racing. The 2002 Pick Six fraud was the catalyst for the industry to take a look at itself. What we realized is that the bad guys tend to be more advanced than the good guys when it comes to technology. We have seen this with security invasions at such icons as Yahoo! and the Pentagon. NTRA has just concluded its study of wagering integrity and, as a result, we have a guide to not only protecting the business as it exists today, but also to insuring that our eye is on the ball in the future so that we are ahead of the bad guys.

Greg has already outlined the Working Group's recommendations for you. Each one

addresses both a regulatory need and opportunity. Certainly, there are some issues that are best dealt with at the national level, especially in the area of technology. A National Office of Wagering Security will be a valuable ally to regulators, especially when it comes to sharing information on security innovations or possible widespread security threats to the pari-mutuel system.

We have also heard the term "weakest link" and "trusted user" today. The national standards that the Working Group proposes for all participants in the wagering system will help regulators determine which is which. With clear standards in place, we can, for example, work to end the intrusion of illegal, offshore bookmakers into our sport.

That process already has begun, with a number of horsemen and tracks now requiring specific identities for all wagering outlets – domestic or international – that are wagering into our pools. In my own jurisdiction, *Daily Racing Form* was exemplary in following the request from the California Horse Racing Board to end the advertising of these offshore books in its publication. This was at a substantial loss of revenue to them. It is an example of the industry (regulators and journalists) working toward a common goal to protect the system as a whole.

As a regulator and a passionate fan, I can also endorse the recommendation to upgrade our wagering technology. In addition to the obvious security benefits, it will help us overcome the perceptual issue that we face with respect to late odds changes.

Perception is often more important than reality. The perception is that people are betting after the commencement of a race. From what we have learned to date, that is not reality, but unless we upgrade our tote

systems, we'll continue to have disgruntled horseplayers who feel that the odds on the winner – especially when we bet on him – are dropping after the commencement of a race. Let's change that perception – as fast as we can.

Regulators can and must work together state by state to provide a uniform set of security rules for the tote companies and pari-mutuel operators and ensure that there is a level playing field on the front side as well as the backside. As Lonny alluded to in his remarks, there are Model Rules that govern racing. These are the ideal vehicle for ensuring the integrity and security of the wagering system, both at our pari-mutuel facilities and at the tote companies that service our \$15 billion wagering industry.

The good news is that we've been at this a long time already. There's a process in place and a knowledgeable group of industry stakeholders who can make this happen. In its report, the Wagering Technology Working



Roger Licht

Group published a timeline that calls for revised Model Rules by the end of the year. We as regulators are ready to do what's feasible and necessary for the overall process of improving wagering security. The Working Group has given us the roadmap. It's up to us to follow it.

CONCLUSION

Tim Smith: Thanks, Roger.

As we transition to Alan Marzelli, technology and our special guest, I would just like to close this portion by adding some "thank you's" and a closing observation or two.

I'd like to thank everybody who participated on the Working Group and its several Task Forces...those that contributed to the Wagering Integrity Alliance, which contributed the necessary funds to this process. Characteristically, it was The Jockey Club who led the way in setting up the Wagering Integrity Alliance. Not only was it the first financial contributor, but it added tremendous amounts of expertise and work on the project as well.

I'd especially like to thank Roger Licht for traveling from California to give the regulator's perspective and also Jim Quinn. As you heard, Jim has been the voice over the last several months of maybe the most important actor in this whole drama of all: the customer, without whom we wouldn't have a sport or an industry or the related agribusiness or the horse farms or any of it.

Let me close my part by talking about the customer just a little bit. Two observations about our fans: First, as we grapple with what surely will be an ongoing set of policy questions, budget questions...operational flowing from the Working Group's Report. We could do a lot worse as a touchstone or litmus test for those decisions to ask ourselves,

“How is this going to affect the customer? What will he or she expect us to do with these decisions?”

Second, as you heard confirmed by Jim, many of our fans were very upset and concerned in the wake of October 26th. They were also remarkably patient and tolerant.

Whether in focus groups, or surveys, or just personal encounters, the message was consistent: we don’t expect perfection; in fact, we’re pretty sophisticated about the challenges that you and other similar indus-

tries face.

What we do expect, however, is for the industry to face its security problems squarely, to do something about them, to have a plan, to maximize deterrence and all along the way to tell us what is going on. In short, to treat us with candor and respect.

In other words, we want you to take security seriously, to keep trying, to stay awake to the threats that obviously exist and face the world as it really is.

Tim Smith: So for more of the real world as it really is, Alan Marzelli.

INCOMPASS: THE WORKING MODEL FOR A CENTRALIZED DATABASE

OVERVIEW

Alan Marzelli: Thank you Tim, and good morning ladies and gentlemen.

While some of the recommendations you have just heard may seem ambitious, in fact, they are achievable. Some aspects of the current report involve suggested improvements that the industry has been moving toward for several years.

For example, three years ago, at the 48th annual Round Table, we heard the results of IBM’s in-depth analysis of the industry’s information technology infrastructure.

At the time, IBM cited the lack of integration between various data gathering, storage and dissemination activities that resulted in overlap, duplication of effort and inability to leverage essential information for business analysis and database marketing activities.

Their blueprint for the future included the creation of a technology infrastructure that would integrate all information that originates at racetracks. You will remember the term “virtual enterprise behavior” – that is what they called it – to create economies of scale and operational efficiencies that would deliver benefits to the entire industry. Now in



Alan Marzelli

fairness, IBM’s main focus at the time was on improving operational efficiency, not security. However, as we have learned, technology has a role to play in each of these areas.

Although the IBM initiative did not move forward as originally envisioned, The Jockey Club immediately set out to address one of the key recommendations from their study.

Working with its racetrack customers, InCompass, a subsidiary of The Jockey Club,

re-engineered its legacy stand-alone racing office systems into a suite of software applications that reside in a secure central server environment.

Drawing directly from The Jockey Club and Equibase databases, these new applications for the first time enable racing offices across the country to access official pedigree

and racing information in real time.

I am pleased to introduce the story of InCompass and its Race Track Operations System, truly the industry's first working model for the application of a centralized database methodology and the virtual enterprise behavior that it promotes.

VIDEO SCRIPT

David Haydon (President, InCompass): *Just like in any other business, access to timely and accurate information is premium in the Thoroughbred business as well.*

Rick Baedeker (President, Hollywood Park): *The InCompass system is really making a difference.*

Ben Huffman (Racing Secretary, Keeneland): *InCompass is, obviously, making life a lot easier in the racing office.*

David Ruffra (Executive Vice President, Sales & Marketing, InCompass): *The data you're operating with is always current, always fresh, always accurate.*

Sam Shelton (Vice President, Product Development, InCompass): *They know the data's correct because it's been inside The Jockey Club. It's been quality-controlled. It's been certified.*

Mike Weiss (General Manager, Beulah Park): *This is the best thing for the industry. This is going to be great.*

David Ruffra: *What we've done is create a new generation of product.*

Announcer: *InCompass...one of the newest members of The Jockey Club family of companies. InCompass traces its roots to McKinnie Systems, which The Jockey Club acquired in 1994. Using the concepts developed in McKinnie's legacy racing office and horsemen's bookkeeper software applications, InCompass developed a new generation of racetrack software applications, featuring, for the first time, real-time access to a centralized database of pedigree and racing information. The applications were designed and developed throughout 2002, and rolled out in 2003. Access to the*

industry's official databases enables the company to provide an unprecedented array of information-based services to racetracks throughout North America.

InCompass is headquartered at The Jockey Club offices, in Lexington, Kentucky. That's also home to Equibase, Thoroughbred racing's official database of racing information...as well as The Jockey Club Registry, which has maintained accurate pedigree information for every Thoroughbred foaled in North America for more than 100 years.

Easy and immediate access to the Equibase and Registry databases provides substantial synergies for InCompass customers.

Ben Huffman: *The new system, it can do so many things that the old system could not do.*

Sam Shelton: *It just gives the racing secretary and his crew the ability to access so much more data than was available in previous years...all the Registry information, all the past performance information from Equibase.*

David Haydon: *Certainly, the racing office and the horsemen's bookkeeper modules – again, the premier products that we offer – have established a central database foundation for the entire industry.*

David Ruffra: *Having a centralized database is not only centralized, but it's dynamic. Every time something is updated, every time something changes, every one of our customers now get that change, receive that information, on an instant type of basis. Every time they go to their files, it's current. Every time they look for something, it's the latest.*

Announcer: *InCompass is bringing new functionality and operating efficiencies to racing*

offices across North America...and it's all supported by state-of-the-art technology at The Jockey Club, featuring a secure central server environment that incorporates comprehensive disaster recovery services within racetrack mission critical systems.

David Haydon: *That's another beauty of being in the family of companies in The Jockey Club, utilizing the infrastructure that The Jockey Club has built.*

Sam Shelton: *All backups, full redundancy, disaster recovery plans, and that's a lot of the things that the racetrack wasn't able to offer...but we're able to provide that to the industry here at The Jockey Club.*

David Ruffra: *We are using the latest and best technology, taking advantage of the best tools that are on the market to build those technology programs and to apply those consistently throughout the marketplace.*

David Haydon: *And we're using what we think are the best practices in the industry, as far as security, with management of user ID's and passwords and management reports that allow them to see exactly what activity is going on at their system.*

Announcer: *When a racetrack upgrades to a racing office or horsemen's bookkeeper system, InCompass personnel are on site, ensuring a smooth transition.*

Sam Shelton: *We'll come in at least a week ahead of time...make sure all their equipment is set up, make sure all their connectivity back to The Jockey Club is ready to go, all the infrastructure is ready, it's been certified...we want to go in there and not have the computer run your life, but let the computer be a tool for you to run the racing office.*

Mike Weiss: *Their customer service has been fabulous. They have been right on it, and gotten everything done for us.*

Ben Huffman: *If there's a problem, the staff at*

InCompass is outstanding. They'll work with you, no matter what. They'll call you back immediately.

David Ruffra: *Having somebody tell you the right answer, all the time, is pretty helpful. And I think that's what we're trying to do for our customers.*

Announcer: *There was a time when racing office technology...if you could call it technology...was rather primitive. What once took hours, days, sometimes even weeks, is now done with a few simple mouse clicks...thanks to InCompass. Like its fellow members of The Jockey Club family of companies, InCompass strives to serve the needs of the Thoroughbred racing industry...with a centralized database as a foundation, it stands poised and ready to help the industry meet its wide-ranging technology-based information needs, now and in the future.*

David Ruffra: *We have an enormous amount of expertise in our office, and we took their input, and we shared that with the racetracks, and I think we've blended it together today to have a product that is a collection of what our tracks want...the customers built the product. I think we have just been their agents.*

Sam Shelton: *There's so much more that we can do. We've got a good base to start with with the sharing, with the infrastructure, and with the data available to us. I think the sky's the limit.*

David Ruffra: *Putting together the underpinnings of what's going to happen tomorrow is the first step. And we have taken that first step very slowly, with a very measured step forward...I think the framework, the architecture, the state-of-the-art approach towards technology will guide us along the way.*

Announcer: *Now, ladies and gentlemen, to demonstrate just a few benefits of the system, please welcome the president of InCompass, Mr. David Haydon...*

BENEFITS OF THE INCOMPASS RACE TRACK OPERATIONS SYSTEM

David Haydon: Good morning ladies and gentlemen.

In the racing industry, every decision made is influenced by pedigree and racing information. And nowhere is that information more critical than the racing office. As a Racing Secretary, imagine trying to keep track of thousands of horses – maidens, non-winners of two, \$20,000 claimers that have not won \$10,000 twice in the last six months, allowance horses, colts, fillies, stakes horses... the list goes on and on and on.

The new InCompass Race Track Operations system, or RTO, provides direct and immediate access to the official pedigree and racing databases from The Jockey Club and Equibase and helps the racing office staff manage the data associated with their horse population. The central database helps racing office personnel complete the most basic and the most complex tasks on a daily basis.

Let's look at a couple of examples.

In the past, horses were often gelded at the racetrack without Gelding Reports being submitted to The Jockey Club. Unfortunately, the result of this is that race day programs, particularly simulcast programs, frequently have geldings listed incorrectly as colts.

Now, when these situations occur at a racetrack using the RTO system, a number of electronic processes occur. First, an approved user can access a link to The Jockey Club's Interactive Registration™ system and automatically submit a Gelding Report to the Registry. Or, once the entries are closed and the race card is drawn, an electronic report that contains the most complete gelding information can be submitted to the Registry for processing. As the entry and overnight process continues, the RTO system can send email alerts to racetrack staff, Equibase and the Registry alerting them that



David Haydon

the horse has, in fact, been gelded.

This process results in the horse being officially recorded as a gelding in the official pedigree database and ensures that the live and simulcast programs will be published with the correct gender code for the horse.

Another useful feature provided by the RTO system is its ability to determine whether a horse is eligible for a race that has age restrictions and allowance conditions. As entries are made into races that have restrictions and/or conditions, the RTO system automatically checks the horses' past performances to determine if the horse qualifies for entry.

As an example, if Wild and Wicked was entered in a race for three year-olds and up which have not won two races in 2003, once the system determines that Wild and Wicked meets the age conditions, it then checks his past performances and immediately displays a message that informs the clerk that Wild and Wicked is not eligible for this race.

The system also provides Wild and Wicked's race record and past performances if the entry clerk wants to find out why he is not eligible for this race. They can quickly see that he has won three races in 2003, a maiden race at Keeneland, an allowance race at Churchill and the Ohio Derby at

Thistledown and therefore is not eligible for this race.

Although the conditions for this race were fairly simple, the system also accurately checks eligibility for races that have more complex conditions, including this one:

Four-year-olds and up which have not won either \$28,000 other than maiden, claiming, starter, or restricted at one mile or over on the turf in 2003 or which have never won four races other than maiden, claiming, starter or restricted.

Our software engineers at The Jockey Club Technology Services loved figuring out how to automate that one. Luckily a number of our engineers also enjoy the handicapping aspect of

our sport.

Features similar to the ones we just reviewed are available throughout InCompass' new Race Track Operations system...and more will be available in the future. Whether making it easier for the racing office to correct the gender of a horse, confirming the eligibility of horses against race conditions or assigning accurate weight allowances, the InCompass centralized database system automates what used to be very time consuming and manual tasks.

Our commercial launch across our installed base of 70 racetracks in North America is well underway and the RTO system is receiving favorable reviews. Here's how a few racing industry executives see it.

Mike Weiss: Again, you're taking data and consolidating it. So now, I don't have to look to Equibase, I don't have to look at The Jockey Club, you look at one place.

Rick Baedeker: The InCompass system is really about providing the industry what it needs for specific, unique tasks. For instance, in the racing office, up until the InCompass system, if the Secretary wanted PPs on a horse, it would take hours to get that information. Now, it's accessible on demand.

Mike Weiss: For a Racing Secretary to be able to hustle horses, and to be able to click on a horse and get his past performances, and click on his past performances and get his charts, and see the other horses that were in the race. I mean, everybody knows how field size is important to this industry right now. You know, to the wagering part of it. And it's already been beneficial.

Rick Baedeker: And this is an effective solution, provided by the industry, and it's only going to get better.

CONCLUSION

Alan Marzelli: InCompass and The Jockey Club wish to thank the many racetrack executives, racing secretaries and their staffs who have worked with us to develop and implement this new generation of products. We could not have done it without them.

And although its story is still being written, we are confident that InCompass will soon join the Breeders' Cup, Equibase and the NTRA as vibrant examples of what we can achieve when the industry moves forward together, with a shared vision and carefully thought out, properly designed and well executed plans.

That is something to keep in mind as we move forward to implement the recommendations of the Wagering Technology Working

Group.

The events of October 26th were referred to earlier as a wake up call, and indeed they were. But they were also a call to action. The time has come for the industry to apply true virtual enterprise behavior using a centralized database methodology to racing's entire technology infrastructure, including our wagering system.

It is an ambitious task, but as an industry we should look to our success with the Breeders' Cup, Equibase, NTRA and I'm sure, shortly, InCompass, as validation of what can be achieved when we work together to improve the overall condition of the sport.

In the end, racing's fans deserve nothing less.

RESPONSE TO WAGERING TECHNOLOGY WORKING GROUP REPORT

Ogden Mills Phipps: Thank you, Alan and David.

If ever there was a speaker who needed no introduction, it is Rudolph Giuliani.

He has enjoyed immensely successful careers as the U.S. Attorney for the Southern District of New York, as the Mayor of New York City and, most recently, as a much-sought-after consultant specializing in crisis management, security, financial management and public safety.

His background in all these areas made him, quite simply, the right man for the job when the Wagering Integrity Alliance reached out to him and his firm last fall.

There was no need to “get his feet wet” when he accepted the assignment. . . he is an avid and longtime fan and he maintains that enthusiasm for our sport today.

We will long remember his bravery, his courage, his grace and his leadership when he helped New York City, our nation and indeed the world through the nightmare of September 11th and its aftermath. . . he is indeed “America’s Mayor.”

We are honored to have him here with us at the Round Table Conference today.

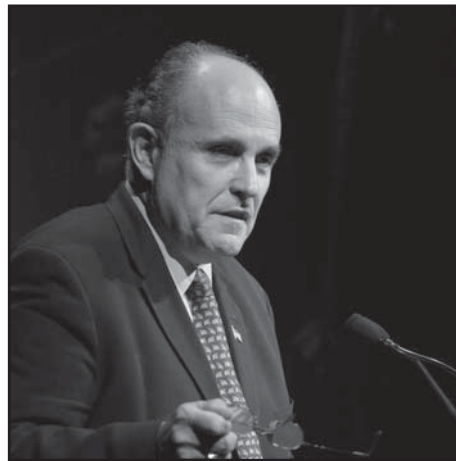
Please welcome....Rudy Giuliani.

Rudolph W. Giuliani: Thank you very, very much, Dinny.

I’m pleased to be here to discuss the recommendations that have been made, although I must say all of this was studied and developed before Thursday of last week [August 14, the day of the power outage in the Eastern part of the country] and I would add one more recommendation: have a backup generator. And Saratoga does [have one] and it gives you a sense of how important that is, to try to anticipate every problem.

As Dinny mentioned, I am a long term fan of racing. I think it’s a great, great sport and it’s a great industry and I think the way you preserve it and expand it as a sport is to improve it as a business by incorporating the very best business practices and also recognize the modern world that we all live in, which is a world of very much increased accountability.

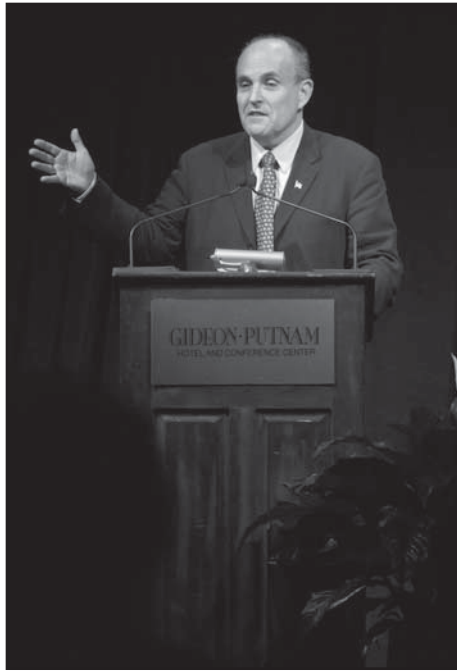
That’s the approach and philosophy that I brought to New York City. When I became mayor of New York City, it seemed to me that the City of New York needed to be run like an accountable business so that standards were



Rudolph W. Giuliani

understood by everyone, they were transparent and they could be described to people.

By the time I left office, I had taken things like crime statistics, job statistics, cleanliness records and performance of hospitals and put them on the Internet so people could observe them and look at them. It was not only very valuable in getting people to assess government, but it was very, very valuable in disciplining the way in which we acted. Once there’s public scrutiny, there’s much better performance.



And isn't that really the key to what happened to American business over the last two years? There was either a lost sense – or a never-developed sense – in certain businesses, certainly not all, but in a few, of the responsibility to the public in running a public company or to the investors.

The way in which the racing industry, the NTRA, all of you, all of its constituent operations, reacted to this incident on October 26th of last year is actually a model of crisis management. And I think it can be added to the ones that I often study, lecture on, counsel about, give advice about [where we] try to create structures so that it is handled correctly.

You did all of the right things in much the same way as some of the most legendary crisis management best-practices experiences like Johnson & Johnson's handling of Tylenol or the way in which the state of Pennsylvania and Gov. Thornburgh handled Three Mile Island. Or the way in which the city, the state and the federal government handled

September 11th and the aftermath of that.

The key to it is confronting the problem and confronting it realistically. And you did that from the very beginning. Instead of three different reports and five denials and creating an atmosphere of cover-up – which is probably the most common mistake made in dealing with a crisis – you can think of whether it's government crisis or business crisis, most often the cover-up is worse than the incident itself.

The incident can always be dealt with. People, whether they're racing fans or investors in business, are realistic. They know you can't have perfection. What they expect when something goes wrong, like this manipulation of the wagering system, is that you're going to confront it realistically and honestly and deal with it and do exactly what you've achieved, which is to take something bad and to use it to accomplish something good and actually to use it as a focus of reform in the industry.

And you did that immediately, setting up the working group so that you were able to focus on the things that had to be done immediately and had to be done long term, putting in stop-gap measures immediately so that people had confidence that they could continue wagering while the whole long term was being addressed by recording wagers, putting in systems so we could check on wagers right away so people could continue to be active in the sport while you studied the whole thing.

Creating a working group that broadly spanned all of the interest groups that are involved in dealing with the racing industry and also conducting a review of the last year's wagering to honestly answer the question: were these isolated incidents of people that were able to fool the system or was this a systemic problem that affected many, many

transactions? And, if it had been the case that it had been systemic, then that would have been addressed.

And you brought in Ernst & Young and my company, Giuliani Partners, to help assist in that [and] oversee it. And what we've determined now, having gone through 70 percent of the activities, is that this is isolated conduct but not unusual conduct.

It might be unusual to the [racing] industry because this hasn't happened before, but this is really not anything peculiar to the racing business or the racing industry: this is what's going on in America today with electronic commerce and, in many cases, on a much, much larger scale than you've encountered.

This is the price that we pay for having the quick transactions, the incredible speed with which the transactions take place and, in your industry, a multitude of transactions that have to be resolved in less than seconds and then people who are trying very, very hard to fool that system.

It's become such a major issue, IT security, that we're establishing – with Ernst & Young – and if you want to come and visit this in September or October, I'd be more than happy to take you on a tour of it...we actually are setting up a special unit that hacks, legally [and] officially that will take a system that your company or the government has developed and it will find a way into it. And if it can find a way into it, then you can figure out how to plug that up.

Without mentioning any names, they've already closed down the turnstiles of one of the great amusement parks in the United States from 3,000 miles away, which then focused on the problem and the gap that existed in that system which you then can close.

It's astonishing that you have to do this

now but that's just the reality of what you have to do when business is transacted, when information is disseminated. In many cases, the stakes are even a lot higher than what we're dealing with here because it involves national security, protecting intelligence information.

I really commend the industry, the NTRA, The Jockey Club, all of the constituent agencies that you saw here for really giving a model on how you face up to this: deal with the problem realistically and then come up with recommendations that attempt, as best you can, to solve it. And do not pretend you can ever solve it 100 percent.

You're never going to be able to create a system that's so foolproof that somebody isn't going to figure out a way to get through it. But what the public expects of you, what your customers expect, what the public expects, even what the government regulators expect, is state-of-the-art security that does the very, very best that it can to make sure that there is integrity.

And, of course, the added importance to this industry is that integrity is at the core of why people bet. No one bets on wrestling; people bet on boxing so you don't have to have too high a standard [laughs]...so you're doing a lot better than that. And the reality is that you've actually in a very, very strange way – and please don't misunderstand this, certainly not in terms of the transaction that took place – you actually were benefited by what happened here because not only could it have been a wake-up call; it was.

And you made a lot of changes, both immediate – which I've described – and now long-term ones.

The idea of a wagering security office is very, very important. The only way in which you can assure yourselves and assure the

public that there's a standard of integrity necessary for people to continue to invest in this sport in all different ways is to centralize the data and to have an office that focuses on accomplishing that mission and then making certain with tests along the way that integrity is maintained.

I've analogized throughout this that what you've got to accomplish essentially what the New York Stock Exchange, what the Stock Watch program in which they monitor transactions looking for the possibilities of illegal transactions, multiple transactions that take place very quickly, unusual ones, unusual volume. Ninety to 99 percent of those that get flagged turn out to be perfectly legitimate.

But every once in a while, that's the way they discover a manipulation scheme or an insider trading scheme from the standards that are set up and the computer technology that studies it.

Another analogy is [when] the City of New York established five, six years ago a syndromic surveillance system in which we measure the number of cases reported to hospital emergency rooms, doctors and through pharmacy data so that we can pick up the early warning signs of a terrorist attack, of a biological or chemical attack.

That proved to be the method by which we found West Nile Virus three years ago and it's the method that was used September 11th and the days after that to determine that we didn't have a major anthrax attack. And I'm sure it's the one that was utilized last week to determine whether or not the blackout was some part of a coordinated attack that would then result in chemical or biological weapons then being used.

But these things are necessary on all different levels so you shouldn't feel unusual that you have to do it.

The most important thing is to do it. A wagering office that looks to security can set

up those standards and then exist to monitor them over a period of time. It just doesn't help to set up a system. This is a system that has to be consistently monitored with standards, which is the second recommendation, that there have to be minimum standards that are accepted throughout the industry.

And then, finally, the technology has to be modernized and kept state-of-the-art so that things are done faster, done more efficiently, things are done more effectively and things are done more accurately because that is not only going to create really the ability to discover a transaction like this as it is going on but it's going to expand the business and expand the sport and make it more enjoyable for people and bring in a lot more people who will participate in it.

Ultimately, that's the thing that I would like to see happen. I think this is a really, really great sport. It has so many different aspects to it that it is enormously attractive to people and it needs to be promoted and it needs to be focused on in the right way.

And I think that all of you have really accomplished that over the last couple of years.

And in a way, as I said before, this incident has turned out to be something that is benefiting you in the way it is bringing you all together to maximize the benefit of the movie *Seabiscuit* or the exploits of *Funny Cide* or the Travers, so you should continue in that direction.

This is an industry that like all others has its frictions and its difficulties – New York City never had that [laughs] – but the reality is the thing about this industry and New York City that I see in common is when you face something really big, it brings you all together.

And then remember that that's the way in which you're really going to grow as an industry in the future.



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So I'd like to spend a little time taking your questions about this or anything else you would like to ask me and then maybe make a concluding remark.

Thank you very much.

[No questions.]

Thank you very, very much and, again, congratulations to the NTRA, The Jockey Club and to every one of the groups that participated in this because I really will use this in my next book as a model of how to deal with a crisis and turn something that could have been catastrophic for your industry into something that has actually allowed the industry to grow and create a path for future growth.

Thank you very much.

CLOSING REMARKS

Ogden Mills Phipps: Thank you very much for your keen insights into our security issues...and we also appreciate the hours you spent assisting us in the development of the Working Group's final report.

We have closed many of our conferences with a plea for industry cooperation, but I can think of no time when it was more crucial than it is today.

If these past two hours and the topics we have covered prove anything, it's that we have the people, the programs, and the organizations in place to meet the challenges we face and to steer our industry toward a long and prosperous future...if we continue to work together.

Thank you all for coming and we'll look forward to seeing you here next year.

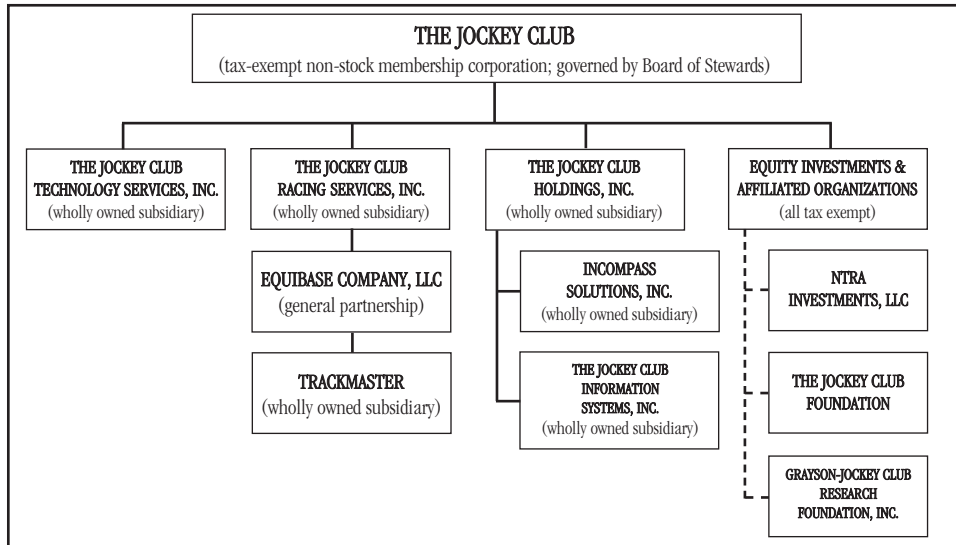
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