

1 CHAIRPERSON JAMES: Mr. Meeker.

2 MR. MEEKER: Thank you, Madam Chair and members of
3 the Commission.

4 My name's Tom Meeker. I'm President and the CEO of
5 Churchill Downs. And today what I'd like to do is just go
6 through and give you a little flavor of what Churchill Downs is
7 all about. Also give you a sense of where we've been and where
8 we're going to go, and then address some of the critical public
9 policy issues that you are going to have to deal with; namely the
10 question of alternative gaming forms on racetracks, as well as
11 the issue of account wagering, in-home wagering. And I guess I'm
12 supposed to answer a lot of other questions. The first panel
13 kept deferring to me. But whatever that might be, we'll see.

14 But first of all, let me just echo what everyone else
15 has said about the presentation from your staff concerning our
16 industry. I disagree on one point, and one point only, and that
17 is I don't view it as a gloom and doom. I didn't know I was in a
18 business that's really dying. We at Churchill Downs are doing
19 exceptionally well. We run four racetracks in Indiana and
20 Kentucky. We have over ten off-track or satellite wagering
21 facilities. We have a number of other businesses associated with
22 our company, and we are doing exceptionally well. We are pleased
23 to be part of those communities which we serve, and we serve both
24 large and small communities.

25 In the community of Louisville, Kentucky we represent
26 the signature for that community. The Churchill Downs and its
27 primary asset, namely the Kentucky Derby is the signature logo
28 for Kentucky and in many respects it is the signature for

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1 Kentucky. And in that respect we hold a unique position in our
2 community, and one that tests our corporate responsibilities on a
3 day-to-day basis, and those tests that we have undertaken or have
4 been given over the course of several years guide our business
5 not only there in Louisville but in the other parts of the states
6 where we do business.

7 The history where racing has come from provides not
8 only as assessment of its current competitive dilemma that it
9 faces, but I also think internally, and all too often those of us
10 who are in racing fail to pick up the mirror and look at
11 ourselves, and we have done some things that are bad. And
12 largely it's because of the environment that we've been in over
13 the last number of decades. Clearly, up until the early '70's we
14 held a monopolistic position in our communities with respect to
15 gaming. Marketing was simply giving the keys to the front gate
16 to the usher, opening the gates, and the people came. Pretty
17 soon the states determined, because of budgetary pressures, that
18 they needed to find other sources of revenues and they instituted
19 lotteries. So now you had this unique paradigm where you have
20 the regulator being your competitor, and that alone caused
21 problems but that day was the first instance where racing had to
22 start competing. And we took several years, and this was through
23 the '70's and again through the '80's where we were ill equipped
24 to figure out how to effectively market our sport.

25 And then as we moved into the '80's with the Native
26 American gaming and also other casino-type gaming proliferating
27 through the country, we felt the second wave of competitive
28 pressure that put us in a position where we had to start learning

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1 how to market and market effectively our products. And with that
2 you saw the rapid increase in our distribution system through the
3 mechanism of simulcasting, primarily interstate simulcasting, and
4 its adjunct, namely the commingling of pools. And that has been
5 the maintain of our success over these last several years, and
6 has been the primary growth component of our business over
7 several years. Not only at Churchill Downs, but throughout the
8 industry.

9 And then as we moved into the 1990's, the late
10 1990's, because of this simulcasting and the growing
11 interdependence of the industry, it became apparent that the
12 industry for the first time had to think about the concept of
13 working together, and over the last five years we have been able
14 to do that. And it manifests itself fairly clearly here recently
15 about a year ago when we formed the NTRA, which is primarily an
16 organization today vented towards learning and teaching all of us
17 in the industry how to more effectively market our products, and
18 to provide a mechanism for many things; group purchasing,
19 marketing, et cetera. And it will be something significant as we
20 move down the road, and be very helpful to the industry.

21 Now, let's talk in the remaining portion about the
22 two, what I think are the public policy issues that really you
23 are going to be grappling with as you proceed down the road of
24 addressing the issues in the pari-mutuel industry, and the first
25 is account wagering.

26 Now, account wagering is a manifestation of an
27 opportunity provided by technology, and technology is not static,
28 as we all know. It's been the catalyst for change in virtually

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1 every aspect of American business, and it has not left racing
2 untouched. We need to embrace technology and the opportunities
3 available to that to not only increase the distribution system,
4 but more important, as described by one of the panelists
5 previously, those three decades where we failed to touch the
6 younger people and create new fans in our sport. We need to
7 figure out a way to use technology to reach a much younger
8 demographic, the demographic that we're going to be calling our
9 guests or customers of the future. In doing so, it brings up a
10 myriad of issues, and in our business at Churchill Downs we view
11 virtually all of decisions in three rounds. First in the moral
12 round which is an issue we really don't spend much time with.
13 The Legislature and the public have made that decision when they
14 approve various forms of gaming. But there are the issue of the
15 social realm and the business realm. We can answer all of the
16 business questions through the myriad of different people who
17 push the numbers, et cetera, but I think the issue that you're
18 most concerned about are the social issues.

19 And in the area of account wagering, there are a
20 number of social issues. In the presentation that I've presented
21 to you, you can see some of the things that we have done in
22 conjunction with ODS, which is our partner in a project which
23 will ultimately use cable and DBS technology to get into the
24 home, and you will see how we're going to approach some of the
25 social issues with respect to the issue of problem gaming, minor
26 gaming -- not minor gaming -- underage gaming, as we move into
27 the home.

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1 Finally, in the remaining moments -- I'm going to try
2 to catch my breath. In the final moments I want to talk about
3 alternative gaming. You've heard from the panelists. I hope
4 this is not a democratic process where you just count up those
5 yeas and nays on the panel to determine the public policy issue.
6 But let me discuss this: There is much discussion in our
7 industry about the introduction of alternative gaming forms,
8 namely the VLT's, slot machines, on the racetracks. Our company
9 has taken a position, we took it five years ago, that we support
10 the introduction of alternative gaming forms at locations where
11 it is appropriate. And I questioned, and our Board of Directors
12 has questioned, whether or not at Churchill Downs, a historic
13 landmark on the national registry, we should introduce
14 alternative gaming forms. But at a place like Prairie Meadows,
15 at a place like in Delaware where racing was in distress, and
16 where racing was about to die, it made sense. And why does it
17 make sense? It makes sense from the standpoint of the state and
18 the local jurisdiction to preserve the culture that is embraced
19 in racing. The fact that it's a sport, it's a critical component
20 in the agri-business, and it's involved in the gaming operation,
21 and it provides money for the state. It's critical to keep that
22 business going. But it's just as important for those of us who
23 are outside of that particular state where alternative gaming
24 forms are introduced to have that racetrack continue to exist in
25 the long-term because that racetrack provides the gateway into
26 that state for the distribution of our products in the simulcast
27 market.

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1 And when I talked about the interdependence which
2 provided the bedrock for the introduction of our new
3 organization, the NTRA, that interdependence that's brought about
4 through simulcast, and the fact that we need the track in Iowa to
5 remain in place, the fact that we need the track in Delaware to
6 remain in place so that we can provide a component in our
7 distribution system, is very, very, very important. So to the
8 extent that that track in Iowa needs alternative gaming, we would
9 support it. Whether or not we would put it in Churchill Downs
10 tomorrow, I can't say for sure, but I certainly wouldn't want to
11 foreclose that.

12 I'll be delighted to answer any questions and enter
13 any colloquy that we want to as time goes on. Thank you.

14 CHAIRPERSON JAMES: Thank you,
15 Mr. Meeker.

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