

FSBOA News Update and Letter (dated 12-9-11)

Handle, Profitability and Purses:

Many questions have arisen concerning handle, where it comes from (mix), profitability of handle and how handle is connected to your overnight purse pool and the stakes pool.

The FSBOA/PPI contract provides the following: (a) payment to purse pool from takeout of not less than 8.25% of all contributions to pari-mutuel pools conducted during the race meet. An amount not less than 7.75% of total handle shall be paid from this purse pool as purses; (b) 50% of net proceeds from transmission of any live harness racing, including simulcasting, conducted at PPK to any legal off-track betting facility or other facilities outside Florida that have the right to accept wagering on live races at PPK, shall be added to the purse pool; (c) any income from transmission of live PPK harness races to any legal betting facilities within Florida shall have net proceeds divided between Isle and the purse pool in the manner set forth in Chapter 550 of Florida Statutes; (d) any income accruing to Isle from harness races conducted at another track and simulcasted to PPK or on the in-state intertrack rebroadcast shall have net proceeds divided between Isle and the purse pool as set forth in Chapter 550, Florida Statutes; (e) if any income is accrued to Isle on account of inter-track handle on the rebroadcast, 1% shall be paid to FSBOA to be used as set forth in Florida Statutes; (f) if any income accrues to Isle from transmission of legal betting information including full-card simulcasting of Jai Alai games from fontons and any horse races from tracks to PPK for purpose of conducting pari-mutuel wagering in connection therewith, 50% of net proceeds shall be added to the purse pool. Net proceeds is proceeds, other than advertising income, accrued by Isle from each category of simulcast transmissions, after deducting Isle's direct costs including pari-mutuel taxes/fees, rights fees, decoder fees, transmission costs and reasonable promotional costs directly related to each category of simulcast transmissions; (g) purses from Cardrooms shall be 50% of cardroom net proceeds from cardroom operations with 47% used to supplement the purse pool and 3% to supplement Florida Breeders' awards. Cardroom net proceeds equals gross receipts from cardroom operations less direct operating costs of cardroom operations (labor, admission taxes if charged separately, gross receipts tax, cardroom license fees on each table, reasonable promotional costs excluding officer/director compensation, interest on capital debt, legal fees, real estate taxes, bad debts, donations, or overhead and depreciation expenses not directly related to the operation of the cardroom); (h) non-statutory purse enhancements shall be, during term of contract, \$2.5 million of each year of the contract adjusted once at end of each race season to reflect change in CPI not to exceed 5% per annum. Such adjustment shall be made June 30 of 2011 and 2012; Isle grants FSBOA right to retain for FL-bred stakes racing enhancements or Florida Breeder awards on an annual basis the greater of 7.5% of the total purse account (including the \$2.5 million enhancement) or 25% of the \$2.5 million enhancement.

For the race year ended 6/30/11 the purse pool total was \$8,173,043 which was used to pay overnight purses, the FL-sired stakes program as set forth above, the FSBOA operational support payment of \$6,666/month and providing for a small purse carryover cushion at end of each race year.

Purse Report Summary			
Race years ended 6/30			
(source - purse pool reports)		2011	
Live race handle		4,728,774	
Foreign handle - FL on out of state		55,641,219	
ISW handle merged in-PPK out of state		23,721,703	
ITW handle FL sites on PPK		1,841,839	
Total Handle		85,933,535	
Live on track % total handle		5.5%	
Card room purses earned		2,626,891	
Added purse supplement per contract		2,500,030	
Overnite purses earned		3,046,122	
Total		8,173,043	
ON purses % total handle		3.5%	
ON Purses paid incl stakes support \$625k		8,071,109	
Loan repayment		-	
Operational support		80,003	
ON Pool (over) under		21,931	

Purses are only indirectly tied to handle because the purse pool is comprised of the relatively fixed non-statutory purse contribution (\$2.5 million adjusted annually by the consumer price index. 25% of this fixed amount goes toward FL-sired stakes purses) and cardroom net profits (the purse pool gets 47% and 3% goes to FSBOA for breeders and stallion awards). Mix change toward PPK export signal out of state and import simulcasting negatively affect the purse pool because those revenue sources generate lower takeout margin than does live handle on-track and in-state. More recipients of the PPK signal help overnight purse pool because those wagers increase pool size and therefore desirability of wagering on PPK. Theoretically higher pool size should increase handle on-track and export. Average takeout margin on the PPK live and export handle in state is approximately 17%; PPK live exported out of state generates average margin of 3%; import signals that are bet at PPK and at its hub recipients generate average takeout margin of approximately 14.8%.

The example of purse pool creation from handle is shown below using two recent days, one live and one dark day:

Example Days					
Date	12/5/2011			12/1/2011	
Day	Monday		Takeout	Thursday	Takeout
Status	Takeout%	Live	Margin	Dark	Margin
Live on track	17.2%	28,312.90	4,869.82	-	-
Export PPK ISW/ITW	7.5%	210,836.36	15,812.73	-	-
Import simulcast	14.8%	141,767.80	20,981.63	135,453.10	20,047.06
Total Handle		380,917.06	41,664.18	135,453.10	20,047.06
ON Purse Pool earned		9,898.38		4,370.02	
Purses paid		(54,400.00)		-	
Operational support paid		-		-	
Stake Pool earned		1,178.58		560.81	
Stakes paid		-		-	
Insurance fund earned live		141.56		-	
Insurance fund earned other		708.84		677.27	
Insurance paid		-		-	

***Handle Seasonality:**

The main handle season at PPK is November through April (peak December-April) where we benefit from snowbird harness racing fans and from simulcasting because there is less competition compared to May-October. The chart below illustrates PPK handle by month and average day. The PPK purse pool has been helped by a switch last race year from Friday to Tuesday. Live handle is best on Saturday but total Saturday handle is below Monday-Wednesday due to more simulcast competition on Saturday.

RYE 6/30//2011			# Races	Live OT	Live Simul	Other Sim	Total	Live	OT/race	Off/race	PPK Mix
# Pgms	Cumul Pgms	Total RYE	1477	4,724,739.10	25,568,595.96	23,048,792.43	53,342,127.48	30,293,335.06	3,198.88	17,311.17	56.8%
9	9	Oct	86	226,493.80	625,990.07	1,454,878.19	2,307,362.06	852,483.87	2,633.65	7,278.95	36.9%
17	26	Nov	165	448,921.70	1,924,414.93	2,858,699.99	5,232,036.62	2,373,336.63	2,720.74	11,663.12	45.4%
18	44	Dec	195	551,742.30	4,072,601.04	2,742,162.30	7,366,505.64	4,624,343.34	2,829.45	20,885.13	62.8%
18	62	Jan	207	746,587.40	4,448,817.64	2,900,135.50	8,095,540.54	5,195,405.04	3,606.70	21,491.87	64.2%
16	78	Feb	187	806,805.30	4,480,011.03	3,003,445.80	8,290,262.13	5,286,816.33	4,314.47	23,957.28	63.8%
18	96	Mar	198	811,208.30	4,020,119.80	3,029,905.20	7,861,233.30	4,831,328.10	4,097.01	20,303.64	61.5%
13	109	Apr	140	464,219.60	2,286,621.60	2,049,420.54	4,800,261.74	2,750,841.20	3,315.85	16,333.01	57.3%
17	126	May	168	362,706.30	2,325,679.83	2,970,070.40	5,658,456.53	2,688,386.13	2,158.97	13,843.33	47.5%
14	140	Jun	131	306,054.40	1,384,340.02	2,040,074.50	3,730,468.92	1,690,394.42	2,336.29	10,567.48	45.3%
140											

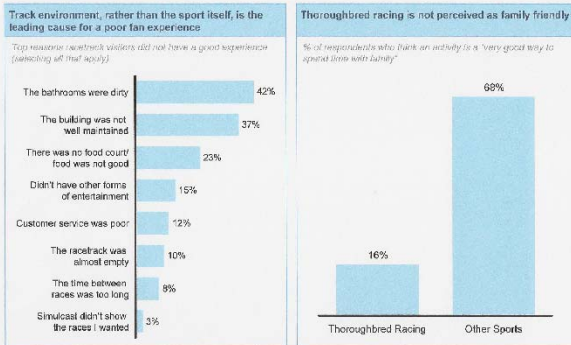
Race year ended 6/30/12 is off to a decent beginning despite three cancelled programs due to weather and electrical failures (at least one of these days will be made up according to PPK management). Measurement is difficult because the prior race year covered October-June while the current race year is July – June. On a first 40 program basis live on-track handle is up 2.6% to last year and total handle down 8.8%. This year has benefitted from increased thoroughbred signals including Churchill Downs nights and recently Calder and Tampa Bay full card simulcasting. The live Pompano Park signal is also now being taken by Nevada Gaming (approximately 20 of its 180 outlets) and increased recipients in Canada and California. We expect total handle will increase when Dover and Chester end their current race meets.

By Month	Race Year ended 6/30/2012							PPK			1st 40 pgms		1st 40 pgms		
# Pgms	Cumul Pgms	Total RYE	# Races	Live OT	Live Simul	Other Sim	Total	Live	OT/race	Off/race	Total	Cumul LY	% Change	LY OT Live	% Change
9	9	July	115	276,278.00	756,902.04	1,609,899.00	2,643,079.04	1,033,180.04	2,402.42	6,581.76	39.1%	2,643,079.04	2,307,362.06	14.5%	226,493.80
3	12	Sep	33	72,681.50	234,270.54	356,832.40	663,784.44	306,952.04	2,202.47	7,099.11	46.2%	3,306,863.48	3,189,541.83	3.7%	291,880.80
13	25	Oct	123	309,419.00	1,297,464.59	1,825,570.59	3,432,454.18	1,606,883.59	2,515.60	10,548.49	46.8%	6,739,317.66	7,221,007.52	-6.7%	647,337.60
15	40	Nov	166	451,641.60	2,484,899.25	2,254,643.50	5,191,184.35	2,936,540.85	2,720.73	14,969.27	56.6%	11,930,502.01	13,077,980.34	-8.8%	1,081,755.10
40	40	RYTD	437	1,110,020.10	4,773,536.42	6,046,945.49	11,930,502.01	5,883,556.52	2,540.09	10,923.42	49.3%	11,930,502.01	13,077,980.34		1,081,755.10
		% Change		2.6%											-8.8%

Facilities:

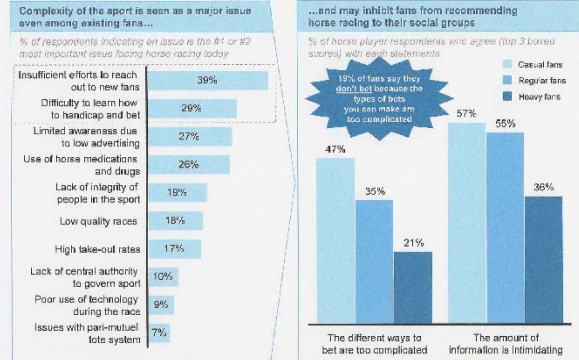
PPK has invested heavily in the last nine months in track lighting, dorm repair and painting, backstretch area cleanup, track maintenance and installation of flat screen televisions in the grandstand. In addition the grandstand entrance has been painted and outlined in neon lights. The grandstand parking lot has been resurfaced and realigned. These expenditures exceeded \$200,000. Additional grandstand facilities enhancements are needed, in our opinion, to encourage our horsemen and owners to invite guests and lengthen their stay at the races. The winners circle bar needs repair and expansion and covered comfortable seating is needed for those people that want to enjoy "railbird" seating and a meal. FSBOA has submitted a proposal to PPK management for the installation of retractable awnings on the face of the grandstand between the winners circle bar and the west side concession area, and park-type picnic tables under the awnings. The proposal recommends doubling the seating capacity of the winners circle bar and repairing various equipment that affects beer taps and termite damage to the bar itself. FSBOA also recommended creation of a kids playland and valet grandstand but PPI management rejected those items due to insurance issues and valet capacity. Below is a Jockey Club Deloitte chart that illustrates the importance of facilities, and also the affects of factors creating new fan inaccessibility:

4 The on-track experience can undermine new fan development and be unappealing to families



SOURCE: 2011 Jockey Club Consumer Research (N=1800) | 26

4 Existing fans feel racing is inaccessible to new fans due to its complexity



SOURCE: 2011 Jockey Club Consumer Research (N=1800) | 25

Isle Casino Racing Pompano Park has taken some steps to expose fans to racing such as enhancing its simulcast broadcast and pre-game show, bi-weekly food trucks in front of the casino building, Mega9 wager, participating in USTA Strategic Wagering, periodic Saturday night fireworks and outdoor bi-weekly Friday night concerts starting in early January. The new logo also gives reference to racing and the Isle logo is beamed on the west end of the grandstand on live racing nights. Isle also introduced its simulcast product to Nevada Gaming (as stated earlier). Additional Canadian outlets are now taking PPK's signal and Isle has attracted inbound simulcast of Calder and Tampa Bay Downs plus later afternoon races from Gulfstream. We believe these are positive steps toward developing total handle.

Insurance:

The current FSBOA sponsored insurance program covers approximately 100 of the 670 members. A current requirements document that describes the waiting period and eligibility applicable to those wishing to have coverage can be obtained at the FSBOA office. Blue Cross Blue Shield provides health coverage. Members opting for healthcare have term life insurance and can elect to purchase preventive dental coverage. Annual cost of the health care program based on 100 covered "lives" is \$786,000 with supplement totaling \$406,000. Net annual cost to covered "lives" is \$380,000. The supplement is broken down as follows:

- 29 single grooms, 84% supplement, \$144,000
- 50 single trainer/drivers, 43% supplement, \$77,000
- 11 trainer/drivers 2-persons covered, 66% supplement, \$95,000
- 4 single parent trainer/drivers, 70% supplement, \$30,000
- 4 family trainer/drivers, 70% supplement, \$51,000
- 1 single parent groom, 79% supplement, \$9,000

Most businesses face escalating health care costs. These situations are being dealt with through initiatives to reduce claims by wellness programs and reducing risk of previous conditions by extended waiting periods, reduction of coverage limits and coverage structures to lower gross premiums and claims costs, higher deductibles, restructured supplements and steps to create fair catastrophic protection for the covered lives.

The FSBOA insurance committee is dealing with these issues, seeking to balance cost with reasonable coverage and application criteria. We are also discussing health care with HHI which is seeking to create an industry wide program in the U.S. for its harness association members.

Breeders Program, Awards and Mares Bred in Florida:

Mares bred to Florida registered stallions totaled 45 in 2011, down from 80 in 2010 and 168 in 2009. Lack of FL-sired horses threaten the future competitiveness of our FL-sired stakes, use of our stake races on the pari-mutuel cards and our ability to attract new and larger owners of FL-breds. The FL-sired program is valued at approximately \$1.3 million comprised of purses (about \$1.1 million, funded in part by pari-mutuel breaks plus 25%, or \$625,000, of the fixed slots contribution to total purses which is \$2.5 million plus an annual adjustment based on the consumer price index), breeders and stallion awards (combined about \$170,000 which are funded by 3% of poker room operating profits). Nominating and sustaining payments, starting fees, stallion registration fees and FSBOA sale proceeds also directly contribute to stakes purses. On a per foal basis the FL-sired program currently ranks among the best in North America.

Below is a summary of the stakes program for race year ended 6/30/12 including funding and top-5 purse earners in each FL-sired category. Purses paid on FL-sired stakes in the current race year were \$1.16 million.

2011 FL Stakes									
Total Program	Entries	Start Fees	Registrat	Nom Sustain	FSBOA	PPI Pymts	Purses	Pd to PPI	
Sunshine	76.5	22,950.00	-	22,932.84	94,935.16	294,766.00	435,584.00	140,818.00	
Stallion	31	15,500.00	15,100.00	22,700.00	28,000.00	40,000.00	121,300.00	81,300.00	
Sale	28	8,400.00	-	29,200.00	23,000.00	17,000.00	77,600.00	60,600.00	
FBS final & elin	63	31,500.00	-	57,062.50	100,062.50	335,375.00	524,000.00	188,625.00	
Total		78,350.00	15,100.00	131,895.34	245,997.66	687,141.00	1,158,484.00	471,343.00	
Bonus					51,669.00	51,669.00			
Grand Total					297,666.66	738,810.00			
Breeders Awards paid 9/2011 \$153k budget									
Stallion Awards \$14k budget									
Program Value									
Holdover Promo TY					8,458.34				
Holdover PPI TY					65.00				
CPI Holdover current race year					-				
LY Holdover PPI					93,000.00				
Due from PPI					93,065.00				

FL-Sired Top Stakes Winners 2011 Race Year					
2yoct	Matcan	\$ 76,670	3yoct	Its Bush Time	\$ 35,045
	Sapelo	\$ 18,573		Lugar	\$ 20,492
	Lovable Guy	\$ 16,388		HP Maximus	\$ 20,488
	Star Of Fame	\$ 13,987		Famous Hall	\$ 15,127
	Coconspirator	\$ 12,774		Sea Drill	\$ 10,456
2yoft	Pinch Of Thyme	\$ 64,144	3yoft	Sleigh Bells Ring	\$ 38,370
	Feel The Haze	\$ 27,077		Seeking Jeanie	\$ 33,931
	Teal	\$ 17,078		Little Peanut	\$ 19,574
	Such A Dreamer	\$ 15,847		Goldy Can	\$ 8,987
	Peace Please	\$ 13,687		Brielle T	\$ 4,481
2yoct	Goldstar Raider	\$ 45,580	3yoct	Melvyn	\$ 32,250
	Last Chance T	\$ 39,900		Stevie Ray's Dream	\$ 27,646
	Diamond Cowboy	\$ 34,221		Palm Beach Boy	\$ 12,843
	Gold Star Spike	\$ 25,906		Gold Star Chelada	\$ 9,387
	Tough Chief	\$ 6,729		Creating A Dream	\$ 4,229
2yoct	Cracker Coffee	\$ 76,292	3yoct	Angela	\$ 40,816
	Quail	\$ 35,595		Gold Star Glitter	\$ 25,260
	Diamond Amber	\$ 28,474		Youtorturemefern	\$ 19,248
	Gold Star Gidget	\$ 16,421		Ruby Howard	\$ 16,452
	Racin For Gold	\$ 4,701		Pretty Woman	\$ 6,793

Stakes Program

The FSBOA board has approved several changes to the FL-sired stakes program including expansion of Stallion Stake to include 3-year old events and elimination of the FL \$100k Bonus. Those funds to be reallocated to existing stakes and to creation of additional racing opportunities for FL-sired 3-year olds Stake dates and programs for the next race year that commences July 1, 2012 will be released soon in the 2012 Stallion Directory.

Legislative Issues:

The following legislative issues are currently in-play or are expected to arise in future sessions: (a) destination gaming (cannibalize wagering; could result in lower tax rates to existing pari-mutuel and native American facilities; PPK horsemen currently would not benefit as we receive a fixed dollar slots contribution to purses/stakes vs. a percentage of slots net-win); (b) decoupling of live racing from alternative gaming (starting with greyhound tracks); (c) barrel racing substitution for quarter horse racing which lower purse payouts (all FL horse tracks except Calder have quarter horse licenses); (d) night thoroughbred racing and reduced thoroughbred track live racing days; (e) advance deposit wagering (not currently legal in FL but certain ADW's take wagering from FL residents from ADW's domiciled out of state such as Twin Spires and Keeneland); (f) cases to watch closely are Gretna Racing LLC barrel racing, poker and slots as it constitutes a precedent unfavorable to racing in Florida and North America. A legal and public relations battle has begun. Gretna opened for pari-mutuel barrel racing December 1st and its poker room opens December 9 (originally scheduled to open December 17). A referendum has been placed on the Gadsden County ballot in January that could lead to Gretna Racing obtaining slots.

It is our hope that these issues might open the door for fixes to the existing statutes; create opportunity for parity across all equine racing breeds and offer better protection of the standardbred industry in Florida

United Florida Horsemen:

Management of the associations representing thoroughbred, standardbred and quarter horse racing and breeding in Florida have begun working together to present a common agenda and approach on legislative and other matters that could affect the economic health of the equine industry. Florida is 3rd in the US in terms of horse population and the last American Horse Council report on economic impact done by Deloitte put a value of over \$2 billion annually on the horse industry. A recent Deloitte study commissioned by The Jockey Club outlined current pari-mutuel trends, possible actions that track operators and the industry should consider to stabilize or reverse declining pari-mutuel handle and more dramatic reductions in the profitability of handle due to cannibalization of gaming and increased use of advance deposit wagering accounts by horseplayers. The website <http://www.unitedfloridahorsemen.com/> contains news reports on developments in Florida that may affect equine industry participants and investors.

Fact vs. Rumors:

FSBOA maintains daily contact with industry news sources throughout North America, with your Board of Directors and Isle Casino Racing Pompano Park management. FSBOA seeks to serve its members and the industry. Please direct your questions and requests to us. To our best ability we will provide answers. If we don't know the answer we will find out, contact you and alert members on relevant issues using the website www.flstandardbreds.com.

