

THURSDAY, DECEMBER 9, 2004

Morning Session 4

**DO YOU KNOW WHAT YOU ARE BUYING OR DOES
"CAVEAT EMPTOR" STILL HOLD?**

Moderator:

Joe Harper, President and General Manager, Del Mar Thoroughbred Club

Speakers:

Rollin Baugh, Bloodstock Agent

Murray Brown, Vice President, and General Manager, Standardbred Horse Sales Company; Public Relations Director, Hanover Shoe Farms

John Maxse, Public Relations Director, The Jockey Club (UK)

MR. STEVE BARHAM: With that I will introduce the moderator of the panel, Joe Harper. Joe is the president and general manager of Del Mar Thoroughbred Club, he's the president of Thoroughbred Racing Associations, and in addition to his responsibilities to the TRA, he is also the chairman for the advisory board for the equine health at University of California Davis, and a member of the advisory board for the University of Arizona Race Track Industry Program.

He's also the director of the Grayson-Jockey Club Research Foundation and is the moderator of this panel

MR. JOE HARPER: And I might add I only get paid for one of those positions. Anyway, I'm glad that this room consists mostly of all those people who don't feel they have to go to lunch right now, and I thank you for being here, and I hope the diet's working.

This panel has to do with horse sales, "Caveat Emptor," buyer beware, and that's certainly probably an appropriate phrase for buying a horse.

Over the years this industry has been a little bit under pressure to grow some ethics with regard to this horse selling business. We've got buyers and sellers and

sales companies and bloodstock agents; you throw in some managers and some trainers and some other folks, you've got a lot of sharks swimming around in the tank there. And it's not all just out there to nail the buyers, sometimes the buyer is worse than all the rest of the guys. So it's an interesting business, it's a very complicated one.

And I've assembled this morning three of the better sharks out there swimming around in the tank. And these guys have a lot of experience in this business, and have fortunately come into this business in a position that they've discovered that the more ethical this system becomes, the more the benefit is going to be to the industry and the better it will be for all of us.

We have on the panel this morning Rollin Baugh. Rollin and I have been friends for over 40 years. He is a bloodstock agent and handles a lot of private transactions. He represents buyers and consigners, which is an interesting mix that he'll talk about a little later.

We also have Murray Brown. Murray is in the very interesting position of running the Standardbred Horse Sales Company in the harness industry, and he also oversees the Hanover Shoe Farms and their procurements for horses and things. So he's got a kind of a double role too, and it's a major thing in the harness industry, and we're delighted to have Murray with us.

Also we're very delighted to have John Maxse with us from the United Kingdom. He works for The Jockey Club. John has been a little of everything from a steeplechase rider to an assistant trainer; he's a broadcaster journalist, he now works in the public relations department for The Jockey Club over there.

But more recently he's been heavily involved in the regulatory business and has been very active trying to figure out how to throw some ethics and some guidelines into the horse sales business. So he has a presentation I think you'll find quite interesting. So John, why don't you open this off?

MR. JOHN MAXSE: Thank you very much, Joe. I would like to say it's an honor and pleasure to be invited here to talk at this Symposium. And also quite a relief not to be asked to talk about betting exchanges for a change.

(Chuckles)

What I'm going to do this morning is just talk about where we are in Great Britain. In the U.K. we have introduced a code of practice for the bloodstock industry. I'm just going to explain how that came about.

It's been in effect since August 2004. Now, on route to introducing that code we had what was slightly over-elaborately described as a summit meeting earlier in the spring, and here's an extract from the minutes from that on the screen at the moment, where the president of the racehorse owners association in Britain spoke of his entry to the sales arena both as a vendor and a purchaser.

I mean, he said it was a culture shock to the trading world he'd worked in for over 30 years beforehand, and he was comparing the regulation and the disclosure aspects which were rigid where he'd been operating, as compared with what is now the norm in the bloodstock industry's culture.

He concurred that an industry-wide code of practice would be a tool with which to recruit and retain owners within racing.

What I'm going to briefly just talk about in this presentation to you is first of all the role of The Jockey Club itself in the U.K.; a little bit, a second or two on my credentials to be able to talk about any bloodstock industry matter, and then as on the screen there, a bit of background to where we are now, the problems we faced in introducing it and maybe the way ahead for an international program.

Just very briefly, The Jockey Club in the U.K. is really the regulatory authority. We are the body which is given the responsibility for enforcing the rules of racing in Britain; we license jockeys, we license trainers, owners are registered with us, and so is stable stock. But we do not have any jurisdiction over the bloodstock industry. Bloodstock agents, etcetera, are not licensed or connected to The Jockey Club, they are separate.

My own credentials for being able to talk about the bloodstock industry are somewhat limited compared to the illustrious credentials of my co-panelists, but I have had experience of ownership for about 15 to 20 years which gives you ups and downs, and I've bought a couple of horses in the last year, about a dozen in all; I've been involved in buying and the last two, one of which was quite an expensive purchase from my perspective, for me and my mother, and that ran once and now won't run again until 2006, and currently halved in price from what he was.

And then just yesterday while I was here, a filly that I bought with some friends, 14 friends of mine, won in her debut in a field of 19 back in the U.K., and is probably quadrupled in value as a result of that. So it goes and swings in roundabouts. And we all know about how that can operate.

What I want to talk about very briefly is a matter which kicked off as the catalyst for The Jockey Club's interest in getting involved with the bloodstock industry.

There have been two court cases which have been covered quite widely in the British racing press. One of them dates back nearly 10 years in fact, but it wasn't until a couple of years later that the matter came to light when there was a civil court case brought that involved two trainers.

One of them was acting as a bloodstock agent and one of them was acting just in his own capacity as an agent or a trainer buying a horse. And basically what a judge found in a subsequent civil trial was that they had artificially raised the price of the horse not on behalf of the purchaser, but against the interests of the

purchaser. And the horse's price was — the trainer bid against his own friend who was acting as an agent for the purchaser, and the price was artificially raised.

Following court case we actually fined the two individuals 4,000 pounds each. We were able to fine them because they were both registered trainers. If they hadn't been we would have been somewhat stretched in what we could do.

And the Federation of Bloodstock Agents in the United Kingdom introduced a code of ethics at that time. Now, since then, which was back in 2000, The Jockey Club received some more private complaints from owners, and their key concern in this was secret commissions.

Jump racing, actually hunt racing in the U.K. is very popular, but a lot of horses are bought in jump races, they're bought actually on spec by the trainer at sales and then will sell them to the owner subsequently. And there was concern that there were secret commissions involved here, and that the prices were again artificially being raised and it wasn't transparency.

A horse maybe bought for \$10,000 by a trainer and then was being sold on to an owner at \$30,000, \$35,000 without any real reason for that rise in price. What really brought the matter to a head though was a case which came to light at the back end of last year, and this was known as the Foodbroker Fancy case, and it was a dispute over a sale of a filly who was being sold from the U.K. to the U.S.A.

And following the collapse of that sale, the two parties went into dispute and the matter came to a court case. At the court case it became apparent that the vendor was under the impression that the selling price was 275,000 pounds; meanwhile, the purchaser here in the States thought the price was 300,000 pounds. A little bit over 25,000 pound difference, which, as it came out in court, was due to be shared between the trainer of the horse and the agent who was facilitating the transaction.

The case in the end was settled, somewhat rushedly after the judge considered the affair to be illegal, and advised the parties to go away and sort it out between themselves.

That brings us on to where The Jockey Club was really concerned. And we called for greater transparency in the bloodstock transactions in order to promote and to protect public confidence. We established a working group to identify possible deterrents to malpractice, and we investigated the case in particular of Foodbroker Fancy.

In the end we didn't actually take any action with regards to the Foodbroker Fancy affair; on the one hand there was actually no financial transaction that took place because, as I said, the sale collapsed, because the filly in question was injured subsequent to an agreement being made, and the sale didn't go through.

And furthermore the vendor, who as we've heard was somewhat misled over the actual price the purchaser was willing to pay, actually refused to make a complaint and just said they were happy. So we didn't take it any further.

Having said that, we felt that this was a matter that, once we'd opened, we wanted to go further and try and bring in some measures which could improve public confidence.

Because there was a real case, we felt, that owners, potential owners would be put off getting involved in racing because of a lack of confidence of them knowing what they're going to be buying when they got involved in the sport, and that was vital for us.

What were the obstacles though to The Jockey Club getting involved with bloodstock transactions? Because, for example, owners and trainers are registered by the regulator and they're bound by the rules. And following the private complaints we'd received we'd actually introduced a code of conduct specifically dealing with owners' and trainers' transactions; but breeders, consigners, stud owners, bloodstock agents, none of them are registered with The Jockey Club, we don't have any jurisdiction over them.

Furthermore, the bloodstock industry's so international these days, really what can one individual regulator, how far does their jurisdiction extend?

One of the factors we were also struggling with was, in order to deter the malpractice or perceived malpractice you need to be able to demonstrate how you can detect and deal with it. As I've just outlined, there were problems on that side. Do you try and license and register all the relevant parties? And if not, what sort of penalty can you impose on those who are not bound by the rules?

This is just a quick rundown of the bodies who we assembled, and I have to say we were actually very encouraged by the willingness of all those parties in the British bloodstock industry to get together and to take some positive proactive measures which could hopefully deal with the perception that there were problems with confidence in the industry.

So there's ourselves, there's The Jockey Club, and then below that is a list of all the parties who came along; at the bottom you'll see there was an overseas observer from the Irish Turf Club, probably the key customer with regards to British industry is actually the Irish. We're neighboring countries, and a huge amount of bloodstock cross over between the two countries. So it was important to try to involve the Irish as well if we could.

Now, these were some of the issues which were tackled at the summit meeting. For those of you who are familiar with the bloodstock industry these might be some terms which you know and are familiar with. For others of you, you may not be so.

Luck money is something which is particularly relevant back in the UK; it is a practice whereby a vendor may pay a sum of money to an agent or his principal after a successful sale. It's really a reward for you buying my horse. Here is some money for you, congratulations and the best of luck with it.

Other factors there are up on the screen for you to have a look at. Some areas which do cause concern, if you're looking for the, I would call it recorded, transparent and clear type of industry vendors and agents apparently agreeing a price prior to and below that bid at the sales, and then splitting the difference between them.

Other measures, horses being sold privately prior to the sale and then going through the ring in the name of the catalog donor.

And then you'll see at the bottom there another factor which some of you may be familiar with, the alleged manipulation of yearling prices to affect stud fees and stallion nomination prices. Those are all areas which we looked at.

We didn't go into all of them in detail but they're all discussed and we all became aware that these were matters which were causing concern.

Our aim in introducing a code was to try to avoid going into real detail, but actually cover the areas within it. And I have got copies of the code; they'll be available for anybody who wants to pick up one on the way out, although the actual wording of the code which is in place, I know, has been since August.

Now, the outcome of that Summit Meeting we held in April was that we basically reaffirmed our willingness to police a code. And what we would do is we said that we would act where practices would have broken the law and where it was deemed that somebody's actions had brought the sport of racing into disrepute.

The focus we felt was on two issues: perception and disclosure. Those are the two key parts of the code. The industry needs to persuade the press and the public that bloodstock transactions and sales are largely done in an honest and transparent way.

And one of the ways to do this was to focus on disclosure whereby all parties to a deal or a sale know exactly who each person involved is working for, who stands to gain from the sale and to what extent. This is just a very brief summary of the code which is in place.

The code applies to all sales of bloodstock sold privately and at public auction, as well as sales of stallion shares and nominations. Alleged breaches of the code are reported to The Jockey Club, and if, once we've concluded our investigation and done a disciplinary hearing, we believe there was a breach, the individuals concerned could be banned from British racecourses and other licensed premises such as training yards.

Now, one could argue about obviously doesn't extend to auction houses, so a bloodstock agent who has maybe been found in breach of this code can continue to actually ply their living. But there's a degree of public naming and shaming that goes with that, and certainly not being able to go in a training yard and not being able to go on a racecourse is going to be quite an obstacle to them carrying on their business to the degree which they would like to.

The code promotes full disclosure for all arrangements arising from any bloodstock transaction. Just quickly then on to the factor which has brought, I guess, myself to you, at the invitation of the University of Arizona, and that is the interest that there is here in the U.S. with regards to following up some form of code of ethics, or maybe taking things a step further.

There is interest from other bloodstock trading countries, and in order for our code to really be a success I think that similar codes should be adopted in other countries, and I'm quite sure that our first stab at it can be improved upon from learning and hearing from other countries also.

So Ireland is one of the key areas which we look to bring on board as well, and that is hopefully progressing. There's been interest from the Australian Racing Board, those of you who were here yesterday when Andrew Harding from the Australian Racing Board was present, talked about more foals being born in Australia than anywhere else, with the exception of the U.S.

And then also there is the U.S. themselves getting involved. In a little line at the bottom there, the Society of International Auctioneers have seen the code and it has received their unanimous approval. So there's a good base for us taking this forward.

Thank you very much.

(Applause)

MR. HARPER: Thank you, John. That was very interesting. I think he has identified most of the points that I think we in this country are looking at. I think you should know now, I think many of you do, that there is a task force recently assembled in Kentucky, I think Cot Campbell is the chair of it, and he set up I think three different committees, as I recall.

And I think they're identifying and coming up with probably some codes and things, much similar I would imagine to what we've just seen. And I think those things will be out probably in the next few weeks from what I've been told. So I think we're looking forward to that.

But here's the leaders of that industry in Kentucky certainly recognizing the problem and all of them are sitting down to address it. And it's a pretty prestigious group of folks. So I'm looking forward to seeing what they have to say.

Murray Brown, as I said, is and has been for quite some time the guy that's run the Standardbred Horse Sales. They do what, about \$50 million a year?

MR. MURRAY BROWN: \$55 million a year.

MR. HARPER: That's big. And Murray is on both sides of that.

He was also just elected to the Canadian Horse Racing Hall of Fame, too, so congratulations on that fine honor.

Murray, why don't you tell us a bit about what's going on in your world?

MR. BROWN: The standardbred industry is probably way, way behind the thoroughbred industry in terms of disclosure; I shouldn't say ethics, because I don't think it's any less ethical; but the demand for a lot of what is taken for granted in the thoroughbred industry just isn't there in the standardbred industry. I really don't understand why but it isn't.

To give you an example, we have no repositories of x-rays or scopes. Several of the leading farms in Kentucky, New Jersey, have taken it upon themselves to x-ray all their horses, make the x-rays and the endoscopy exams available to the public; and even then the trainers, the prospective owners do not look at them, to the point where a couple of the major farms have just stopped doing it.

They'll straight-out say their practice, if you're interested in having a horse x-rayed for any reason, we'll x-ray it for you. If you want to have your horse scoped, we'll do that. We'll present you with the results.

Hanover sells close to 300 yearlings a year. I doubt that we get a half a dozen requests for x-rays. It's amazing. If in fact we had to go to a repository, I don't know how we'd physically be able to do it. For our last sale we've got approximately 200 yearlings; doing x-rays of them, the most we could possibly do is six to eight a night. And it would probably present a physical impossibility.

What we have done and what is our practice in the industry, if somebody asks us, "If I buy this horse and there's something wrong with it, can we come back to you?"

If there's a problem and it's one that we were unaware of — if we're aware of a problem we'll announce it.

Any horse that's had any sort of surgical intervention, OCD removal, we announce that. We make our health records available to all of our customers. The vast majority of standardbred farm people will do that. But in terms of being up to where the thoroughbred business is, we're not even close.

MR. HARPER: How do you see this going through? I mean, do you see any regulation coming your way or do you see any kind of attempt in your industry to put some —

MR. BROWN: I think generally speaking we follow the thoroughbreds.

MR. HARPER: That's pretty scary.

MR. BROWN: And once the results of the task force are out, it will be looked at by the industry, it will be discussed, and I'm sure a lot of, if not all of the recommendations will be adopted.

MR. HARPER: Rollin Baugh, as I said, has been a friend for many years. And I will tell you a little story on Rollin. I knew him back when he was with the Thoroughbred of California Magazine and decided about then that he would go out to be a bloodstock agent.

And I remember distinctly having the thought at that time, I said, "Well, how the hell can he do that? He's an honest guy."

(Chuckles)

The fact that I had that thought — and I was probably only 12 years old at the time of course, but I thought, thinking about it now, why did I have that thought? I guess it's because I knew some other bloodstock agents.

And I always thought that, I mean, if we go in to buy a shirt we know how much the price is; we go to buy a car it's a little different; we go to buy a horse it's a whole lot of difference. I mean, there's just a whole lot of folks out there that seem to be willing to take your money in various different ways.

And as John pointed out earlier, there's a lot of different ways you'll never even know about. Rollin, however, did become a bloodstock agent, I'm hoping he's still as honest as I thought he was in those days when he went in; I'm sure he is.

He has a unique position because Rollin has been very successful in many private sales; he has sold horses, been a consigner, he's bought horses for himself and for other people, he's put together some syndicates. He's done an incredible job of placing horses for the Japanese, and he's got a heck of a client list.

He became successful in my opinion because he's a guy that gives you full disclosure, is an honest fellow. And I think this type of thing has got to worry him. Rollin? You're agreeing with that, huh?

MR. ROLLIN BAUGH: Well, thank you for the nice thoughts. I —

MR. HARPER: He's also on our board and on our executive salary committee, so you know why I'm nice to him.

(Chuckles)

MR. BAUGH: It's nice of him to say that, but I will tell you he's never bought a horse from me.

(Chuckles)

I think it's probably worthwhile to take a look back in history a little bit, near history, on the process that has sort of gotten us to the year 2004 where this issue has gotten such a high profile discussion, and appropriately.

Twenty-plus years ago there was very little disclosure at the sales, there was very little technology that was applied to the purchase of horses. But as those technologies became available, more and more buyers saw them as tools that they needed to incorporate in the process of buying a horse.

X-rays were one of them, and how to then interpret the x-rays. And it's been very interesting that over the 20 years or so that that has been a high profile part of purchasing unraced horses at auction, that we've come from thinking everything we saw was a catastrophe to realizing that 90 percent of what we're seeing isn't going to impact the future of the horse anyway.

So we overreacted in the beginning, but now I think we're in a good place. The same thing is probably able to be said of the scoping of horses. We've learned a great deal in the process, and a lot of things that horses overcome we think are going to be barriers. But it was very interesting in the beginning when this portion of disclosure began.

It was in the period of when Northern Dancer was at his zenith and the prices were enormously high. And I remember one of the largest buyers going to the Windfield consignment where we had the bulk of these horses and said, "I would like to x-ray and scope the horse we're planning to bid;" and they were easily prepared to bid multiple millions of dollars.

And Windfield said to them, "Well, no, we're sorry, we won't allow that. And we don't allow the scoping either." And they said, "Well, we want you to understand the reason; that if we allow that to happen and then that person or other people then go through the sales complex, and attempt to serve their purposes by telling something that they think they've seen or interpreted, and drive the price of the horse down, then we are going to have — we are not taking care of our own interests."

And Mr. Cooper, Tom Cooper of the BBA said, "We can't bid without that." But he didn't give up at that point. He went to an attorney in Lexington who was very familiar with the horse industry and had a very simple one-page letter agreement drafted that said, "If I purchase this horse, I am entitled to have the following warranties." And they were perfectly happy to provide that.

And it was a thing they sort of worked out, you know, what areas were going to be critical, what weren't critical areas. And it was a work in process that took a couple of years. But it kept that buyer hooked up with that purchase. And it gave the consigner the protection to realize that he didn't have to expose himself to something he didn't want, he didn't feel was fair to disclose at that time.

We have over these ensuing 20 years gotten down to where there's virtually no horse that goes through an auction sale now, other than maybe the very modest price horses under \$10,000, where the expense of doing a series of x-rays and all, and the purchasers as well, they don't choose to have that added cost into the purchase of the horse.

But as John pointed out, I think the key word in all of this, whether you're an auction company or you're a farm or you're an agent or a vet or whatever else, is the word "disclosure." Anything's okay in a business transaction as long as all the parties who need to know, know everything that needs to be known. You can charge 20 percent commission if you want to, if both parties feel that that's appropriate compensation for your efforts, terrific. But it's the disclosure part. It's making people aware.

And I think it's wonderful that Cot Campbell has headed this committee, he's a person with enormous perspective. Next week the thing will be out. We're going to get guidelines, we're going to get codes of practices, we're going to get a lot of things. But the important part of all of this is none of it works unless the buyer takes it upon themselves to apply some good business practices and work their way through the issues that they need to address before they purchase a horse, whether it's at auction or privately.

And it always amazes me how few people do this. And then you hear the howling that, you know, many of these things were easily dealt with by the asking of very simple questions.

I have, in my experience in the horse business, I have had only a few cases where, if I approached a consigner and I said to them, "I'm interested in purchasing this horse; is there anything I need to know?" or any other pointed directional questions I would ask, that they wouldn't answer the question.

There have been a couple people that have lied to me or a couple people that I knew were fudging when they gave me the answer, so — and the answer I took and the answer many another people, professionals in the business take, "Well, I think that's a consigner or representative that I don't need to continue relationships with."

And I think that part of the process is something that the buyer can immediately put on his side of the ledger and accomplish a great deal with.

I think one of the things we're likely to see in this code is going to be a list of things possibly that need — that require disclosure. The key issues that have been brought up were, who's the breeder, who's the owner of the horse?

There's a concern about concealed ownership. And it doesn't have to be a problem. I mean, some people might look at a major racing stable selling a horse as, well, why are they selling it? They raise horses, I shouldn't buy their horse.

Well, we've learned over the years that that's not a very bright conclusion; they need to raise money just like everybody else, and so that it's perfectly appropriate to buy from those people.

But you don't like to buy when you think there's the possibility, as cited in your presentation, that a horse has been sold privately two days before the sale, and then that is going to be the person that is going to benefit financially from this transaction. Because it might be. And if somebody's bought the horse with some ill goal in mind, you might be sitting at dinner with him the night before and he says, "Well, I think I'm going to buy this horse." Or, "Why don't we buy it together and we'll split it," you know? And often tragically at times the person has purchased this horse for 250, he encourages this new buyer to buy it for 500, and they — the early purchaser gets his half for free.

But those are the kinds of things we're trying to get around. Dual agency is a thing that gets brought up from time to time. The laws of agency as they apply to other industries, where an agent represents a principal, don't really always match up in the thoroughbred world. It's commonplace for one agent to be in between the buyer and the seller.

And of course this in my view requires enormous candor and an enormous amount of making sure people understand what both sides are thinking and where the compensation's coming from and all that. It can be dealt with, it's just a matter of the willingness to make these disclosures.

The other things are going to be brought up, I think are going to be, where horses were raised, various issues about their health histories. I know a lot of farms do this already, this is part of their credibility, and I think is something that is very fair.

I think that the net of it is going to be extremely positive because it's going to encourage disclosure. But the thing that I'll fall back on, having just said it a moment ago, is I really want to find a way for the people who come into this business to be able to find the dozens upon dozens of people who know the questions to ask, who know the people to go to, who know how to make the system work.

Because if you just walk into an auction house or walk up to a trainer or an owner and want to buy a horse, and you just succeeded dramatically in your business and your ego is probably four feet in front of you, you are in for a whippin'. And it takes

those people to counsel you. And it's not just a bloodstock agent. The word agent is rather loosely used. Anybody who represents somebody in a horse transaction that isn't their own horse is an agent. Farm managers, veterinarians, sales companies, agents themselves, racetrack people; all of us have been agents one time or another.

So the disclosure part is the key. And I think once you maybe have these lists pit of things that need to be asked, it will make it easier for people to approach a new person in the business and ask him to take a deep breath and do some preparatory work.

MR. HARPER: Well, I think you're right. I mean, I've seen it over and over in this business, people that are successful in other businesses have a tendency to come in with "victim" written right across their forehead, I think. It's pretty easy to take advantage of them.

They come in with a few hundred million dollars and want to buy some horses. Boy, are there a lot of people out there to sell you a horse. They'll sell you a farm and everything else that goes with it.

And I think in following up on Rollin's thing, I mean, I really think that I don't know whether it's a jurisdictional deal, whether it's a state thing, but somewhere along the line there should be in my opinion a kind of an honest box you go into and find out about a few of these things.

And I don't know whether it's — you know, who's to say who's honest and who isn't? And who's got a reputation as a good guy? Of course, the minute you put it into any kind of jurisdictional oversight that opens it up to all kinds of legal interpretations and everything else; so you're probably worse off than you were when you started.

MR. BAUGH: Just to jump in, there are remedies there, and I think that in a number of instances, a lot of people don't like the idea of proving that they were a bit of a fool and go through the court system; and I'm certainly not recruiting people to go call lawyers. But there are remedies.

Because the number of these actions that are taken by people are clearly fraudulent actions, and there are commercial codes and other things that can be brought up. And I have at times been disappointed that there have been some real awful people who have done some awful things that the industry just sort of winks and goes beyond.

And I think that the time has come that some of these people, if they feel that they've been truly misrepresented in a transaction or things have been withheld from them, I think they should step up. Because a couple of those is going to get some people's real attention. And I think that's a big help.

The British situation is wonderful in that their industry is contained within one master or one master authority much more than we are, because we have all these state jurisdictions and everything else, and it makes it very hard.

I think that there is a ostricization process that can occur within the horse community itself where people can turn their back on the real awful people, and I think that has happened from time to time. But there's too many still wandering around that I think we should be addressing.

MR. HARPER: We'd be happy to take some questions from the panel if they have any questions of each other? And also from the audience. If there are any out there.

MR. BROWN: Not necessarily a question but a comment on a couple of the things that Rollin said. My pet peeve is that so few people ask questions. It's just unbelievable. People are prepared to spend hundreds of thousands, perhaps millions of dollars, and they don't ask about the horses. One of the very first things Mr. Lawrence Sheppard, who founded and was the owner of Hanover Shoe Farms, told me when I went to work for him in 1967, he said, "Boy," he says, "if anybody asks you anything, you tell them the truth. If they don't ask, keep your mouth shut."

(Chuckles)

And I've had difficulty in keeping my mouth shut through the years, but I've always tried to abide by the first dictum. And ask not only questions, pointed questions, but over-all questions.

I remember a few years ago we had probably the nicest colt we'd had in years but he was a sulking son of a gun, he was disagreeable. We happened to get him videoed on the exercise strip real well one day, and of course that's what we used. Anybody asked me if I liked the colt I told them no; and they would ask why, and I'd tell them why.

And he ended up bringing a lot more than he was worth, probably not as much as he would have brought if he had had the proper attitude. But nevertheless, if the person who had bought him, who is a friend of mine, had asked me what I thought of him I'd have told him — and he might have bought him any ways.

A second thing that Rollin mentioned when he was talking about the infancy of x-raying is interpretation. And this is a concern of mine. And people in the thoroughbred business certainly have a lot more experience in the area and a lot more information on which to rely.

But two years ago we had a colt by a horse known as The Panderosa, who was a great world champion pacer. His horse — this was the first crop. The dam was a mare by the name of Cathedra, whose first two foals — her first foal had earned two million, a filly who'd earned a little over \$2 million; her second foal was

probably the fastest 2-year-old pacer that ever lived, and he earned 900-plus as a 2-year-old, and unfortunately died before he raced at three.

This was her third foal. He was just a gorgeous colt. Two of the big players in the industry asked to have this colt x-rayed, and of course we complied. One of them was Bob Glazer, Peter Pan Stables, and he sent the x-rays to Rood and Riddle, Dr. Larry Bramlage to read them, and apparently he felt the colt was fine because Bob Glazer eventually ended up buying the colt at \$170,000. Probably half what we anticipated for him.

The other fellow, whose name I won't mention, sent the x-rays to a veterinarian in New Jersey. And he never looked at the colt at the sale, and didn't bid on him.

And I asked him why, afterwards? Didn't he like the colt? And he said, "No," he said, "Dr. Whoever-It-Was said the colt had a very, very miniscule chance of ever racing."

Well, I'm playing results of course, but now two years later he's a significant stakes winner, he's earned over \$400,000 and is still racing. But you've got two very divergent opinions here. Certainly the man who accepted the colt is probably considered one of the top veterinarians in the world, diagnostic veterinarians in the world, so how do you tackle this problem?

MR. BAUGH: How do I tackle? It's just something we've come to live with. As I think I mentioned, the pendulum has swung back pretty substantially into the more practical veterinarians, and I think there's been a school of veterinarians that have emerged from the repository process.

This is going to be a generalization, but the wonderful new graduating veterinarians that are just out of school that are on the leading edge of every possible technology have some time to put in before they get to the point of reading x-rays in the same fashion that a veterinarian has read them for 30 years.

If you get a room full of veterinarians, the young people are trying to do the right thing, they are doing the right thing, they're bringing enormous knowledge to the issue. But they haven't had the practical component added in. And I think that — I know some people who ask veterinarians to come in and even attempt to limit it to not their friends, but a group of people that they know bring a larger historical perspective.

I'd like to ask the audience one question, and we were talking about it last night. We were talking about this issue of people being taken advantage of in the business. And we've all been to an auction where someone walked through a door and it didn't take a real active imagination to realize what was about to happen.

I always remember the story one year at Saratoga where there was the yearly sales going on, there's a big crowd in the back of the auction pavilion; and the horses are led down a path. And oftentimes people will follow them.

And all of a sudden a group of us were standing there and two rather infamous figures went dashing by to get in the pavilion. And the man behind me yelled, "911, 911, robbery in progress."

(Chuckles)

But how do we, when you know — some of you are students, some of you are sales executives, some of you bought and sold horses.

How do you, when you know, almost without any doubt a misadventure is about to occur, how can you go to someone else? How can you prevent — maybe not prevent it. You can't walk up and say, "You're about ready to be done" because you'll probably get sued.

But how can you bring to their attention steps that they can take, that in some cases are quite simple, and give them a much better chance in the business and so they can be with us for a lot longer time?

MR. HARPER: Don't all jump on at once.

That's why I think this task force is going to be interesting to see when they come out with it in a week or so. Hopefully there will be, if not in their results or their suggestions or code of standards and ethics, I think there has to be some teeth in this whole thing. And it's hard to have teeth when you're talking about a code of ethics.

MR. MAXSE: As I referred to, the Federation of Bloodstock Agents in the U.K. introduced a code of ethics in the year 2000 following the first of the civil court cases that I referred to. I'd have to say it had no teeth. And it did not have an effect.

There were bloodstock agents, there was nothing to say that any bloodstock agent had to be a member of the Federation in the first place, so it was completely hollow. And I think it required teeth.

The other factor which just comes to light, having heard what's been said so far, when you buy a house the key word in the U.K. is three key things are location, location, location.

What is clear here is that for newcomers coming into the business it's education, education, education. And I think in the past, maybe still in the present to a degree, the bloodstock industry has not treated newcomers to it with the respect they deserve. And there is a feeling quite a lot of the time, and I would have probably felt that myself when I first went into an auction ring, that if you didn't know, you were stupid to ask.

And I think we've got to try to get over that situation whereby it's okay to ask silly questions. And that is why extraordinary businessmen, and we've referred to it earlier, businessmen who were the hardest, toughest customers to deal with in their own area, come in and come over all sloppy and puppy-like and don't ask a question, lose hundreds of thousands of pounds and then are very bitter about it later, but they haven't actually.

And the reason they're bitter is they're cross with themselves because they haven't followed through their own instinct, which has got them to where they were in the first place to have that money to spend.

MR. HARPER: Yes, ma'am?

MS. JANE GARTHSON: Hello. I'm Jane Garthson with the Ontario Racing Commission. Comment to Rollin. My grandfather used to buy and sell horses, I used to watch him go through auction sales, notice someone that was about to be fleeced and say something like, "Gee, I guess they don't realize that horse had to stand in a bucket of ice water all night so it wouldn't limp in the ring?" So it may be harder to do that nowadays.

My question I think is more for John. It's an impressive list of organizations that you got together to work on this, but perhaps not a full list. Many bloodstock horses are not used in racing or don't stay in racing. So the same issues are being dealt with even if sometimes for less money in the equestrian sport world and in pleasure horses.

Most people involved in equestrian sport have to be members in good standing of organizations. Some people that might not belong to your organization might need good standing in other organizations.

Have you thought about involving them so that you could cooperate?

I part-bought a quarter horse, the owner of that quarter horse belongs to 38 different equine associations. So have you thought about reaching out to the rest of the horse world and involving them so that sanctions might be more meaningful; if they aren't in one they might be in another?

MR. MAXSE: I think it's an interesting question. We have thought about it. I mean, at the moment I have to say we were a little bit concerned about extending our jurisdiction beyond where we regulate anyway, because it is a difficult area and you need to have teeth to do that.

Any horse sold through a public or private sale, a thoroughbred, could come back and be reported to us under the code. I think if it was entirely non-racing-related and they'd actually left the sport and was doing something else, I think it would be quite unlikely that we would actually want to get involved through that.

But any of these things sold through the public auction, the catalog where the catalogs include the code, then I think it's entitled to come back to us. But no, we haven't extended it further than racing at the moment.

I mean, in the U.K. the only racing we really have is thoroughbred racing. We have different types of it, flat racing, jump racing and an amateur version of it, but we don't have the different breeds which exists over here.

MS. GARTHSON: But then even then you have thoroughbreds who go into jumping or other activities. So what I'm saying is the agent that might not belong to one organization might belong to another if you all cooperated and said, "You need to be in good standing with your an equestrian or racing association" you might have more teeth.

MR. MAXSE: Yeah, I mean, we took a view that if the agent — didn't matter if the agent didn't belong to any organization, we could still ban him, and name and shame him. They didn't have to be a part of a Federation or an organization on to be liable. So we extended that.

MR. HARPER: Are there any other questions? Yes, sir?

MR. RICHARD ABBOTT: Hi, my name is Rick Abbott, I'm from the Pennsylvania Racing Commission, but I'm also a consigner at the sales. And I have a couple of questions. The first is for Mr. Maxse.

I wonder if you have addressed in any of your board meetings veterinary responsibilities in these sales issues.

MR. MAXSE: I have to say, and it was noticeable from the absence from my reference to any reference to it in the presentation, we didn't deal with the veterinary side. And I know it's a much bigger issue over here. The sales companies, we have left it with them to operate their own systems and to increase confidence themselves.

But we didn't actually tackle that part. There is, I guess, a reference to it with regards to the disclosure factor that we were primarily dealing with the financial side, and I apologize for not actually pointing out my reference, the lack of reference to it in that; just on the point which Rollin mentioned, there has been some fascinating progress on the research side to that, which I think obviously I hope is helping buyers everywhere.

MR. ABBOTT: Thank you. Before I ask Rollin my question I'd like to make a comment. You were talking about ostracizing the bad guys; and this summer one of our leading trade publications carried on its cover the picture of one of the baddest of the bad guys we've had in the last 20 years; and a glowing article about him. And I thought that was discouraging to say the least.

But while I agree with most of the things that you and John have said, to play the Devil's advocate I would ask why you think we've had two of the most unbelievable — given the spotlight that's been put on ethics in the industry, the last two Keeneland sales have been two of the most extraordinary sales we've ever seen in the industry.

And I wonder why buyers continue to buy with such confidence, given the spotlight that's been put on these issues?

MR. BAUGH: Well, as I think it's a wonderful question, Rick. First time I ever went to a horse auction outside the State of California was to the 1963 Keeneland sale. And Tex Sutton, who was a great personality and at that time noted for shipping horses at that time by rail car, not by air, he hadn't even gotten to that point.

And I commented to him after watching this incredible event at Keeneland and seeing some things that I suspected were not good, he looked at me and he said, "Laddie Buck, there's fresh meat coming through the door every day."

(Chuckles)

And I thought about it and I thought, Gee, that can't happen, that can't last forever. You know, you can't do these kinds of things. But a lot of people have these things happen that we don't want to have happen, and some of them are quite prominent.

And I've had several of them look at me and say, "It's a very expensive club and it's just the cost I have to go through to get involved."

Now, I think that's a horrible answer for them to be giving me, but there apparently are people who feel that that is part of the process. And they're flying under this old banner of horse trading, horse trading. That's romantic. And all these things that occur, well, we can't afford to do that. That's not good for us, it's not going to make our business any better.

Because while we are having dramatically wonderful sales in most all jurisdictions, a lot of this is trading between ourselves. We are not adding the new members to the ownership ranks that we have to have for this business to stay viable. And I think that this code of ethics and the other things we can work through and adopt are very critical, because I don't think it can be business as usual for a whole lot longer. Because I think we are starting to run out of buyers.

MR. HARPER: Anyone else out there in the audience wishes to say anything?

MR. BROWN: Rollin, you make a great point in that we are trading amongst ourselves. We just concluded the greatest sale in our history, we grossed \$56 million. Prior to this year's sale our all time highest gross was 50. So we increased our all time record by over 10 percent.

Yet of the \$56 million, when it came to collecting the money, \$11 million were deducts. People had sold horses, people had bought horses. And roughly 20 percent of them were just dealing amongst themselves, which is a pretty significant percentage.

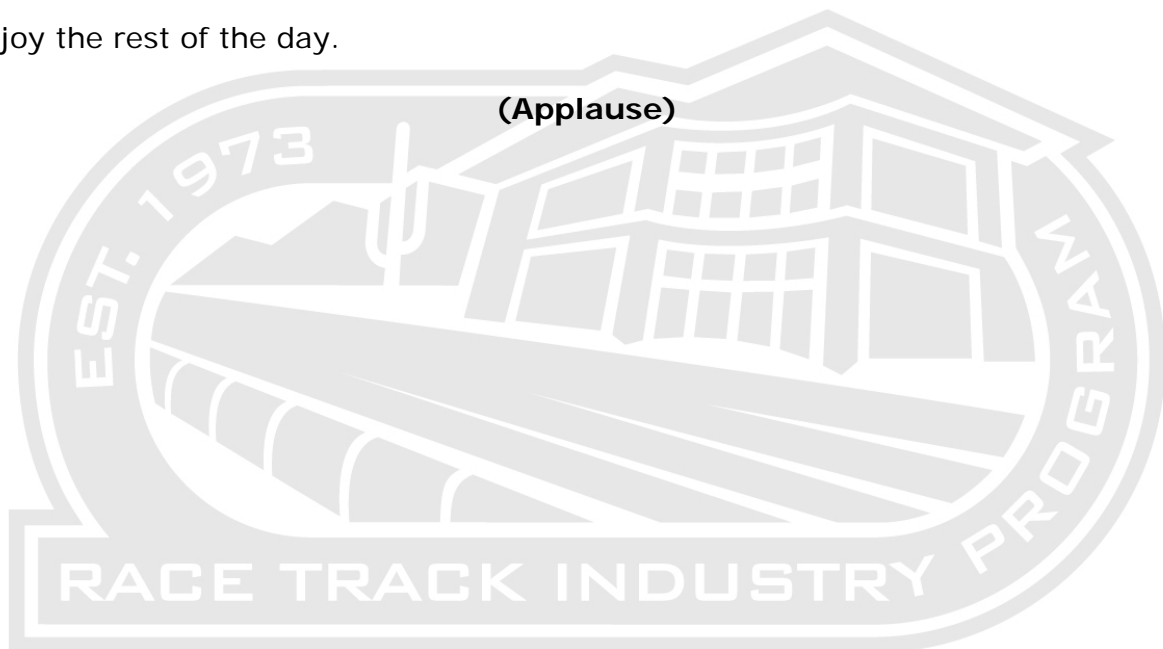
MR. HARPER: Anyone else?

It's getting to be about that time. And I thank everybody for coming to this part of the Symposium. It's always nice to talk about horses and not slot machines. And I appreciate nobody on the panel or the audience mentioning slot machines.

(Chuckles)

Enjoy the rest of the day.

(Applause)



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