STATE RACE TRACK LEASING COMMISSION
AGENDA

March 26, 2018
11:00 a.m. by Teleconference at the
22nd DAA Board Room
Del Mar Fairgrounds, Del Mar, CA
And the Department of General Services, 707 Third Street, 8th floor
West Sacramento, CA 956050

Those persons wishing to attend the meeting and who may require special accommodations pursuant to the provisions of the Americans with Disabilities Act are requested to contact the office of the 22nd DAA General Manager, (858) 755-1161, at least five working days prior to the meeting to insure the proper arrangements can be made. The items on this agenda may be considered in any order at the discretion of the chair.

To view this agenda on the Internet, visit our 22nd DAA website: www.delmarfairgrounds.com.

1. Roll Call
2. Public Comment
3. Approval of Minutes – March 30, 2017 Meeting (action)
4. Correspondence
5. Administrative Actions Requested
6. Reports:
   a. Del Mar Capital Improvement Account
   b. DMTC Operating Results for 2017
   c. 2018 Summer Race Dates – July 18 thru Sept. 3
   d. 2018 Fall Race Dates - November 9 thru December 2
   e. Breeders Cup Update - DMTC (information)
7. Recess to convene and hold the Race Track Authority meeting
8. Other Business
9. Date of next meeting
10. Adjournment
ROLL CALL

MEETING LOCATION/DEL MAR
22nd DAA/Del Mar Fairgrounds
Board Meeting Room
2260 Jimmy Durante Blvd.
Del Mar, CA 92014

Del Mar
Richard Valdez, President RTA; 22nd DAA Director
Lisa Barkett, RTA/RTLC Member; 22nd DAA Director
Kathlyn Mead, RTA/RTLC Member; 22nd DAA Director
Rita Walz, Treasurer-Controller RTA; 22nd DAA CFO
Josh Caplan, DAG

MEETING LOCATION/SACRAMENTO
Department of General Services
707 Third Street
West Sacramento, CA 95605
8th Floor Board Room

Sacramento
Jeff McGuire, Chief Deputy Director for Dept. of General Services
Kevin Masuhara, Deputy Secretary for Administration and Finance for Dept. of Food & Agriculture
Jacqueline Wong-Hernandez, Chief Deputy Director Dept. of Finance
Timothy Fennell, Secretary RTA; 22nd DAA CEO
The State Race Track Leasing commission met on March 30, 2017 by teleconference at the 22nd District Agricultural Association Board Room, 2260 Jimmy Durante Blvd., Del Mar, CA, and the Department of General Services, 707 Third Street, 8th floor West Sacramento, CA

1. ROLL CALL

MEMBERS PRESENT IN DEL MAR:
Richard Valdez, President, RTA
Lisa Barkett, Director, 22nd DAA
Kathlyn Mead, Director, 22nd DAA
Rita Walz, Treasurer-Controller, RTA, and CFO, 22nd DAA

OTHERS PRESENT IN DEL MAR:
Joe Harper, President & CEO, Del Mar Thoroughbred Club
Mike Ernst, Executive Vice President/CFO, Del Mar Thoroughbred Club
Josh Caplan, Deputy Attorney General
Donna O’Leary, Executive Assistant, 22nd DAA

MEMBERS PRESENT IN SACRAMENTO:
Eraina Ortega for Michael Cohen, Director, Department of Finance
Daniel Kim, Director, Dept. of General Services
Kevin Masuhara for Karen Ross, Secretary, Dept. of Food & Ag
Tim Fennell, Secretary, RTA, and CEO, 22nd DAA

OTHERS PRESENT IN SACRAMENTO:
Russ Penniman, President 22nd DAA Board of Directors
Josh Rubinstein, Executive Vice President/Chief Operating Officer,
Del Mar Thoroughbred Club
Leslie Lopez, Chief Counsel

2. PUBLIC COMMENT - None

3. APPROVAL OF MINUTES
Director Kathlyn Mead moved to approve the March 11, 2016 minutes. Keven Masuhara, seconded. All were in favor and the motion carried.

4. CORRESPONDENCE – None

5. ADMINISTRATIVE ACTIONS REQUESTED – NONE
6. REPORTS
   a. Del Mar Capital Improvement Account
      Rita Walz reported the December 31, 2016 balance in the Del Mar Capital Improvement Account with the Local Agency Investment Fund is $149. Listed on page 3 of the Board packet.
   b. DMTC Operating Results for 2016
      Josh Rubinstein, COO, reviewed the Operating results from their report on pages four through 36 of the Board packet. This report includes both the summer and fall race meet. Opening day net revenue was a record at $3.7 million; Pacific Classic a premiere race date, generated $25 million in handle. The challenge for the summer 2016 meet was unexpected downturn in Internet wagering due to the net provider have customer funding issues for the first five weeks of the eight-week season. Food and beverage sales were very strong with a $7.9 million in net revenue. The Fall season did very well in its third year. Daily average handle was up 11 percent.
   c. 2017 Summer Race Dates – July 19 – September 4
      This year’s summer meet will run for seven weeks, one week less than last year in order to allow for better preparation of the racing surface for training and racing.
   d. 2017 Fall Race Dates – November 1 through November 26
   e. Breeders Cup Update
      The Breeders Cup will take place November 3 and 4, 2017 for the first time in Del Mar. It is anticipated that there will be record ticket revenue for this event.

7. APPROVAL OF THE FIFTH AMENDMENT TO THE DEL MAR RACE TRACK OPERATING AGREEMENT (action)
   On March 14, 2017 the 22nd DAA Board of Directors approved the Fifth Amendment to the Del Mar Race Track Operating Agreement as outlined on pages 38 through 41 of the Board packet. The proposed amendment relates to the requirement that DMTC maintain a “Net to Gross Ratio” of at or above 15% each year. DMTC has requested an amendment of the definition of the Net to Gross Ratio to mean “the ratio of combined racing final net earnings to gross combined revenues from racing,” to allow for food and beverage net revenues that are generated by DMTC’s operation of the race meets at Del Mar to be included in the calculation of the ratio. 22nd DAA Board President gave a briefing of the agreement and the reasoning behind the need for a change. After a lengthy discussion RTA President Richard Valdez moved for approval of the Fifth Amendment. Director Kathlyn Mead seconded. Leslie Lopez for DGS, Kevin Masuhara for the Department of Food and Agriculture, Eraina Ortega for the Department of Finance, RTA President Richard Valdez, Director Lisa Barkett, and Director Kathlyn Mead all were in favor and the motion passed.
OTHER BUSINESS - Recess to the RTA meeting

DATE OF NEXT MEETING - Staff to determine

ADJOURNMENT
The meeting was adjourned at 2:25 p.m.

Respectfully submitted,

Timothy J. Fennell
Secretary
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January 30, 2018

Mr. Tim Fennell  
Chief Executive Officer  
22nd District Agricultural Association  
2260 Jimmy Durante Boulevard  
Del Mar, CA 92014

Dear Tim:

Attached is Del Mar Thoroughbred Club's budget report for the twelve-month period ending December 31, 2017. Also enclosed is our Management's Discussion and Analysis of Operating Results for the twelve months ending December 31, 2017 that provides an analysis of our 2017 financial results with a comparison to the prior year results. An Additional Payment, currently projected to be $660,000, will be finalized and paid following the completion of our 2017 audited financial statements in late April 2018.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

Michael R. Ernst

MRE  
Enclosures  

cc: Ms. Rita Walz
DEL MAR THOROUGHBRED CLUB

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

FOR THE TWELVE-MONTH PERIODS ENDING DECEMBER 31, 2017 and 2016

Del Mar Thoroughbred Club ("DMTC") provides the following discussion of our financial results through the period ending December 31, 2017. We include a comparison of our prior year results to provide context within the analysis of our operating results as well as the factors that contribute not only to DMTC’s revenues, expenses and rent payment, but also to the food and beverage ("F&B") net revenues generated during our racing meets. The following discussion reflect the results of our 36-day traditional summer race meet, our 14-day, four-week fall race meet as well as the Breeders’ Cup World Championships that Del Mar hosted for the first time on November 3 and 4.

Del Mar is viewed as a world-class venue for Thoroughbred racing and DMTC enjoys a reputation for having operations that are among the very best in the industry, both in terms of our ability to attract the highest quality Thoroughbred racing as well as the success we have achieved in generating a highly diversified revenue stream through innovative programs. Our selection as the host for the 2017 Breeders’ Cup and the accolades DMTC received for the tremendous success of the event are testaments to the consistent quality and strength of our operations. Our operations for 2017 are projected to generate combined race meet net income to the 22nd District Agricultural Association ("District") and Del Mar Race Track Authority ("RTA") of $11.7 million compared to $10.1 million in 2016. The exact combined race meet net income for 2017 will be determined after the 2017 audited statements are issued in April 2018. Since DMTC entered into the current contractual arrangement with the District in 1990 the total contribution the District and RTA have received from racing exceeds $286.6 million.

Racing at Del Mar in 2017 once again benefitted from our ability to draw large field sizes featuring world-class competition and one of the safest years of racing in the history of Del Mar. Safety and welfare of our horses and riders continue to be a top priority for Del Mar and the rest of our industry and we have worked extensively with industry stakeholders (e.g., owners, trainers, jockeys and the California Horse Racing Board ("CHRB")) to enhance the safety protocols for all horses competing and training at Del Mar. We implemented a number of safety measures prior to the 2017 summer meet. Among other things, Del Mar hired a well-respected Director of Track Maintenance, who also oversees the track surface at Santa Anita, and we invested over $1 million in renovations to our dirt track so that the surface and banking of the turns match those of the Santa Anita dirt track, thereby providing uniformity and consistency in Southern California’s racing surfaces. To allow for more time to prepare our racing surfaces and to implement enhanced safety protocols we extended the transition period between the San
Diego County Fair and the start of the race meet by foregoing a weekend of racing. These measures, along with off-season track renovation efforts, significantly reduced the number of injuries in 2017 and resulted in one of Del Mar’s safest years of racing.

Field sizes are an important component of the racing business because the number of horses that run in a race directly correlates to the amount wagered on that race – i.e., the more horses that run in a race, the larger the wagering pool. A larger wagering pool means greater wagering commissions paid to track operators as well as higher purses paid to the horsemen. We previously have reported on how our industry is challenged by the ongoing decline in Thoroughbred breeding and ownership, which impacts field sizes and the number of racing days that can be run at any given race meet. While other racetracks across California and the entire nation have struggled to maintain field sizes, DMTC is considered an industry leader in developing innovative programs to address the horse population level in Southern California.

One of our innovations is the “Ship and Win” program, which provides an incentive for owners of out-of-state horses to ship them into California and race at Del Mar by paying a bonus plus enhancements to any regular purse earnings from their first start. We began the “Ship and Win” program in 2011 and since then it has brought more than 1,100 horses to Del Mar. In 2017, thanks to an enhanced bonus payment funded by DMTC and the Thoroughbred Owners of California (the “TOC”) as well as the excitement surrounding the Breeders’ Cup in the fall, several new stables shipped-in and 167 out-of-state horses qualified for the “Ship and Win” program and accounted for a total of 277 starts. Our partnership with Barretts Sales and Racing, with whom we held our sixth annual race-ready horse “Paddock Sale” in July, represents another successful recruitment program we developed. The “Paddock Sale” was designed to introduce new owners to the sport of Thoroughbred racing as well as new horses to racing at Del Mar and has proven instrumental in combating declining ownership in the sport, supporting the inventory of horses available to race here and maintaining our average field sizes at the highest level in California and among the highest in the entire nation.

Throughout our history, DMTC’s goals have been to maximize combined race meet net income and to allocate appropriate resources and capital to ensure the ongoing success of Thoroughbred racing, not only here at Del Mar but also throughout California. We occupy a position of being a recognized industry leader in adopting new technologies, continuing improvements to the facilities, stable area and racing surfaces, creating dynamic marketing programs and establishing successful horse recruitment programs, all of which have served Del Mar well. Indeed, these efforts have been major investments in furthering the success of Thoroughbred racing at Del Mar and sustaining the sport’s viability in California.

Through the combined efforts of DMTC, the District and the RTA, the investment in horse racing has been fundamental to maintaining Del Mar’s world-class standing in the sports and entertainment community. Key improvements, such as converting the main track to dirt,
installing a new, wider turf course and modifying the dirt track prior to the 2017 race meets, have been instrumental to Del Mar being viewed as one of the premier venues in the horse racing industry. These initiatives also contributed in Del Mar’s selection as the host for the 2017 Breeders’ Cup World Championships. The great success of the event underscores the important role that continued facility investments play in the ongoing success of racing at Del Mar and the potential for our selection to host additional Breeders’ Cup events in the future.

In addition to being considered one of the jewels of horse racing in this country, Del Mar is a popular summertime entertainment venue. We continue to focus on enhancing attendance levels and developing a younger patron base. We do so by capitalizing on Del Mar’s festive “Cool As Ever” brand, which has become synonymous with the summer race meet. The fall meet tends to focus more on our core racing customers, local residents – including area college students – and group customers, to whom we offer deep admission discounts in order to generate profitable F&B revenues. DMTC’s retail and event-based marketing campaign, coupled with an effective public relations program, continually generates significant television and print media exposure, both locally and nationally. DMTC’s marketing efforts, extensive events calendar and our annual strong line-up of concerts are designed to drive attendance and generate substantial and highly profitable F&B revenues for the District. Nearly two-thirds of our annual marketing budget is devoted to promotions that generate significant race meet related F&B revenues for the District. In 2017, net F&B revenue from racing totaled $7.5 million.

DMTC generates a significant contribution from racing for the District each year through effective marketing of Del Mar’s race festival, the attraction of new racing fans as well as casual fans who come out for the entertainment offerings, the recruitment of racing stables from outside California and the expansion of revenue from sources other than wagering. DMTC has demonstrated the ability to successfully diversify the sources of our revenue. Wagering revenues, for example, now derive from a geographically diverse betting network and several growing and profitable Internet wagering partnerships. Our growing stream of non-wagering revenues is the envy of our industry peers and includes attendance-related income, as well as significant revenues from sponsorships and fee-based management services that we provide to others in the industry. DMTC continues to work closely with the District on cooperative sponsorship opportunities that maximize revenues for the Del Mar Fairgrounds facility on a year-round basis. These opportunities include, among others things, automobile, beer and spirit partnerships totaling over $1.2 million in sponsorship revenue to the District and DMTC in 2017.

The closure of Hollywood Park at the end of 2013 brought about several significant challenges for our industry in Southern California, as we previously have explained. The most notable of the challenges for Del Mar has been going from offering one single, seven-week summer meet to offering two distinctly different race meets spread over as many as 13 weeks in both the summer and fall of each year. Additionally, our industry has been challenged by the shortage of critical stabling and training facilities to accommodate the horse population
necessary to support the Southern California racing circuit. That challenge was exacerbated by the Lilac Fire in northern San Diego County in December, which seriously damaged the San Luis Rey Downs training facility and stables and claimed the lives of 46 Thoroughbreds as well as displacing hundreds of grooms, exercise riders and other stable area workers who lived at the facility. The District acted swiftly and opened Del Mar’s stabling facilities the first night of the fires to accommodate more than 850 horses that were evacuated from the fire area. More than 350 of the evacuated horses were Thoroughbred horses from San Luis Rey Downs. Del Mar has been serving as a temporary stabling, training and living facility for these displaced racehorses and workers while repairs are being made at San Luis Rey Downs.

Although the challenges caused by Hollywood Park’s closure are ongoing, we believe that the industry has successfully made it through an initial adjustment period and is positively moving forward. DMTC has been an integral part of the industry’s ability to overcome the challenges and racing at Del Mar has benefitted significantly as a result. For example, because the racing calendar for the Southern California racing circuit needed to be restructured following Hollywood Park’s closure, Del Mar was awarded the fall meet. Our success in operating the fall meet, together with the RTA funded improvements made to the facility, helped Del Mar to be selected to host the Breeders’ Cup, an event Del Mar could not have hosted without having a fall meet. The resounding success of this year’s Breeders’ Cup further reinforced our reputation as a world-class venue for Thoroughbred racing and is likely to result not only in the Breeders’ Cup returning to Del Mar in the future, but also in other ways as well due to the global notoriety we enjoy as a result of having hosted the very successful event. Our contributions to the industry’s effort to overcome its challenges have been important not only to ensuring the health of the Southern California Thoroughbred racing circuit, but they have also served to ensure the continued success of racing here at Del Mar. The results for this year bear this out.

Del Mar certainly benefitted from being the host site of this year’s Breeders’ Cup World Championships. The event drew both horses and fans from all over the world that raced and enjoyed their first experience at our seaside track. Notwithstanding the financial and other benefits Del Mar experienced from hosting the Breeders’ Cup this year, both of our race meets enjoyed larger field sizes, increased wagering, safe racing and, as noted below, the financial results exceeded budgeted projections. Indeed, the results for both the summer and fall race meets demonstrate that racing at Del Mar this year was a tremendous success even beyond any benefit that having the Breeders’ Cup may have provided.

The 36-day 2017 summer race meet enjoyed larger fields, world-class and, most importantly, safe racing. These factors along with the liquidity of our large wagering pools resulted in increased wagering activity for the 2017 summer race meet. The average daily handle for the summer meet increased 5.4% over the 2016 summer race meet. Average daily out-of-state handle rose 9.7% in 2017 and attracted large sophisticated bettors. California average daily ADW wagering rose 7.2% due to the field sizes, the ease and convenience of on-line wagering
and because our ADW providers were able to resolve the account funding issues that negatively impacted wagering levels during the 2016 summer race meet. Despite three fewer summer race days, admissions, sponsorship and other non-wagering revenues exceeded projections. Our 2017 summer results were impacted by fewer race days during the season. This past year, in order to provide the safest possible racing and training environment, more time was allotted to prepare the racing surfaces. The transition period between the close of the Fair and the start of the meet was extended to 15 days from the typical 10 days, which resulted in the 36-day 2017 summer meet having three fewer race days than the 39-day meet in 2016. These three fewer days consisted of one less weekend – Friday, Saturday and Sunday – of racing. Losing three weekend days impacted our results since they are our most profitable race days, with the highest attendance and wagering levels, and they generate substantial F&B sales revenues. Based on historical levels, we estimate that losing a Friday, Saturday and Sunday resulted in between $1.1 to $1.4 million less in F&B revenues and $500,000 to $625,000 less in F&B net revenues attributable to the 2017 summer meet.

The 14-day 2017 fall meet continued to enjoy success based on a number of measures and also delivered a high-quality racing product. Indeed, in just four years since we began operating it, Del Mar’s fall meet has come to be viewed by many around the industry as the premier November race meet in the entire nation. This view of our fall meet is driven primarily by the quality of our racing product – with its emphasis on turf racing – and the large field sizes we are able to offer. Total average daily wagering for the fall race meet increased 8.0% over 2016 driven by a 10.3% increase in average daily out-of-state wagering and a 4% increase in average daily on-track wagering. In fact, the 14-day fall meet total handle of $154.2 exceeded the 15-day total of $152.5 from 2016. The results of the 2017 fall race meet were impacted by the loss of one race day. Originally scheduled to run for a total of 15 days, the fall meet was shortened by one day to allow for the removal of temporary chalets and other seating areas that were constructed for use during the Breeders’ Cup and racing was cancelled on Thursday, November 9th.

As noted previously, the two-day Breeders’ Cup World Championships held on November 3 and 4 was considered a tremendous success and the event received accolades throughout the racing media and community. The two-day event produced on-track wagering which totaled $25.87 million, the highest ever for the event and the total was 24.7% over the two-day total of $20.74 million in 2016. Total wagering was $166.08 million, an increase of 5.9% over the 2016 total of $156.86 million. The total handle was the highest since the 2010 Breeders’ Cup when there were two additional Breeders’ Cup races. Del Mar’s grandstand facility with its numerous restaurants, suites, sky rooms and other high-end areas, including two temporary luxury chalets constructed for the event, help generate over $17.1 million of two-day admissions related revenues, which was $7.6 million above the admission related revenue for the 2016 Breeders’ Cup at Santa Anita. As previously noted, based on the record results and preliminary discussions
with Breeders’ Cup officials, management believes it is likely that the Breeders’ Cup will return to Del Mar in the near future.

The 2017 summer and fall meets, together with the Breeders’ Cup event, are projected to generate a combined return from racing of $11.7 million for the year. This amount is $2.0 million higher than the 2016 combined return from racing and $310,000 above the budgeted return. Racing net revenues are projected to total $4.2 million in 2017, consisting of $1.625 million of Direct Payments ($825,000 for the summer meet, $400,000 for the fall meet and the $400,000 Breeders’ Cup facility Direct Payment), as well as payments to the RTA which total $2,585,000. The RTA payments consist of the $1,925,000 Basic Payment, made on November 15th, which was based on our October 31, 2017 financial statements and reflected the results of our summer race meet. We also expect that we will make an additional payment to the RTA of approximately $660,000 which will include the results of our fall race meet and the Breeders’ Cup event. This payment will be finalized and paid following the completion of our 2017 audited financial statements in late April 2018. Race meet related F&B net revenues totaled $7.51 million in 2017 consisting of $6.54 million of summer race meet F&B net revenues, $770,000 of fall race meet F&B net revenues and $200,000 of Breeders’ Cup F&B net revenues. The 2017 F&B net revenues are $30,000 above the 2017 budgeted amount and $360,000 less than 2016 as a result of the three fewer summer race days.

Goals

DMTC’s corporate goals are designed to build on a history of success while continually reshaping and adapting operations to meet the challenges facing local entertainment venues and the Thoroughbred racing industry. The key 2017 goals stated in our annual budget, and the progress made regarding them, are as follows:

Goal #1: Maintaining strong on-track business through aggressive marketing directed at experienced high per-capita racing patrons and a younger growth-oriented demographic.

The 2017 Summer Meeting

The key point of communication for the 2017 summer meet was our concern for the welfare of our equine and human athletes. With that in mind, we worked closely with the TOC to create the www.calracingcares.com website, which highlights California’s safety standards, injury prevention, retirement and aftercare resources and is designed to educate the public and media on the myriad things that the industry is doing to ensure the health and welfare of equine athletes.

We delayed the start of the 2017 summer season by five days as part of our commitment to the safety of our horses and riders. This delay meant opening on a Wednesday rather than a Friday as we did in 2016. Although opening on a Wednesday led to Opening Day on-track
attendance being 8,000 less than last year, the attendance numbers were slightly up for the remainder of the season. Average daily on-track attendance for the 36-day meet was 13,240 – just 1.5% lower than the average daily total in 2016. The modest decline in the average daily attendance was due to the fact that the 2016 average daily attendance included three additional high-attendance weekend days.

In addition to communicating with our regular customers via database marketing techniques, we continued to emphasize the Del Mar brand and “Cool As Ever” in order to attract both occasional attendees and newcomers to the races. This strategy has produced record F&B revenues over the years as it positions Del Mar as a high-end entertainment option – “the place to be” in San Diego. Also, we continue to place emphasis on event-based promotions designed to draw fans for specific events on specific days, and drive attendance and F&B revenues.

- For the 2017 Summer Season DMTC continued its efforts to brand Del Mar as a high-end entertainment option – “the place to be” in San Diego county. While event-based or “retail” advertising techniques were used to sell specific weekly events throughout the season, the alluring Del Mar brand was the dominant advertising message. The slogan “Del Mar, Cool As Ever,” which celebrates Del Mar’s long and colorful history, continued as the focal point for all television, radio, online, outdoor and print media.

- Social media continued to play a significant role in the media mix this summer as we had a significant presence on Facebook, Twitter, YouTube and Instagram. The goals of the social media programs for 2017 were to create awareness, increase brand loyalty and ultimately contribute to on-track attendance by using compelling content, imagery, video and word of mouth. The emphasis this year was not only on growing the size of our community, but also the quality of interactions among social media users. Statistics related to our social media efforts include over 83,000 Facebook fans, 28,000 Twitter followers, in excess of 61,000 Instagram “likes” and over 10 million page requests on our websites.

- DMTC continued to make strides in the mobile area during 2017. For the summer alone, over 10,000 fans signed up for the digital Diamond Club, our loyalty program which allows patrons to sign up for membership before arriving to the track, and nearly 600 patrons utilized Diamond Club’s account wagering features. Utilizing this digital sign-up process is more convenient for the customer, reduces administrative workloads and provides more reliable data. Additionally, Wi-Fi service was much improved for patrons this year with fewer service drops during wagering usage. As we move forward, our mobile goals will focus on improving: 1) ease of funding and use of mobile wagering, 2) on-track signage and promotion of the platform, and 3) education of our employees so they can empower our fans to utilize the full capabilities.
The Diamond Club, which was launched over a decade ago in conjunction with Surfside Race Place, again showed substantial growth during the 2017 season with the number of Diamond Club members topping the 287,000 mark. The Diamond Club provides members with half-priced admission each time they attend the races at Del Mar or at Surfside Race Place and allows DMTC to track the visitation patterns of members. Scanning of Diamond Club cards at the admission gates remained strong during the 2017 season. More than 58,000 members scanned their cards at the gate during the summer race meet. Much of the scanning was fueled by “Free & Easy Wednesdays,” which offered Diamond Club members free admission, a free program and a free seat, as well as half-priced hot dogs, sodas and draft beers. As membership in the Diamond Club continues to grow and represent a larger percentage of DMTC’s patron base, it allows DMTC to cost efficiently segment and tailor promotions directly to members based on account wagering activity, concert/promotion attendance and other offerings.

Our public relations efforts continued to support the primary objective of positioning Del Mar as a must-see Southern California entertainment and sporting destination. The 2017 Del Mar summer season coverage was a balanced blend of national, regional and local. Notable print and on-line coverage included placements in USA Today, US News Travel and Alaska Airlines Magazine. Television shows at Del Mar featuring the Bella Twins (and their 11,700,000 Instagram followers) and boxer Canelo Alvarez, as part of HBO’s 24/7 show, were the highlights of the summer. We captured a total of 390 positive print editorial placements and coordinated 146 TV segments.

The www.dmtc.com website is the home for everything from horsemen dashboards with stall applications and condition books to live racing odds and wagering calculators. The www.delmar.com website continues to be popular with on-track patrons, with over 60% of all ticket purchases having been made online in 2017. Additionally, a lottery-type drawing for highly coveted table reservations for Opening Day is conducted exclusively online in advance of the regular opening of ticket sales and consistently sells out. Del Mar is a popular destination on the electronic superhighway as our website had over 10-million page requests during the summer season.

An important element of Del Mar’s fan development and revenue generation strategy is an aggressive Group Sales effort. Post-visit surveys indicate a significant number of regular patrons first come to Del Mar as a Group Sales customer. The Del Mar grandstand includes sky rooms, private boxes, restaurants and expanded seating areas that are available to groups on a daily basis. Over 53,000 people attended Del Mar during the summer meet through Group Sales. This figure represents 11% of the total attendance at Del Mar.
Camp Del Mar completed its 21st year of operation and provided service to over 1,200 young campers. The on-site program for kids aged five to 12 provides an affordable, activity-based day camp to children of patrons, horsemen and employees of DMTC and Premier Foods. DMTC considers this quality, on-site youth camp to be a key ingredient in its service to horsemen and staff, and in developing new family-oriented patrons.

Del Mar’s promotional events are reviewed annually for cost effectiveness and efficiency, with full consideration for opportunities to maximize F&B revenues. Whenever possible, events are co-promoted or sponsored with outside entities. The 2017 events calendar was a mix of new, previously popular and redesigned promotional events. Highlights included:

- Opening Day at Del Mar – Opening Day has become one of the largest and most popular summer events in Southern California. It is our highest attended race day and one of the biggest days on the national racing calendar. This summer’s Opening Day generated $1.4 million in F&B revenues, which was the season high and over 60% higher than the F&B revenues for the next best race day;

- Four O’Clock Fridays – Our traditional concert promotion, which features top-name bands performing on the Seaside Stage after the races, is a popular weekend kick-off event. The concerts have been noteworthy in attracting the desirable 18- to 34-year-old demographic. Profitable F&B sales revenues for the concerts totaled nearly $440,000;

- Chargers Day Celebration – San Diego’s official goodbye party to the Chargers included players and coaches from the 1960’s to the 2000’s;

- Bar, Restaurant and Hotel Employee Appreciation Day – For the 17th year in a row the event offered Del Mar an excellent opportunity to generate positive word-of-mouth publicity among local bar, restaurant and hotel employees;

- Food Truck Festival – The always-popular festival featured over 40 food trucks from all over Southern California. While the Food Truck vendors sell the food, Premier sells all the beverages;

- Del Mar Handicapping Challenge – Over 100 of the top handicappers from around the country travelled in for this lucrative and prestigious two-day event that contributes significantly to on-track handle for the weekend;
- Country Day – The inaugural Country Day featured mechanical bull riding, trick ropers and a concert by Billy Currington. Incremental F&B sales for the day totaled $180,000;

- Family Fun Day – The event featured interactive games and rides, face painting and pony rides for kids. All children 12-years-old and under received a Webkinz horse toy. A special infield barbeque topped off the family-friendly day;

- Burgers ‘n Brews – Gourmet burgers and local craft brews drew a great crowd and served as a great lead-in to the concert after the races;

- Ludacris Concert – One of the top Hip Hop performers in the world drew a huge crowd for his Del Mar debut. F&B sales in the concert venue were $240,000;

- Pacific Classic Towel Giveaway – The towels featured the Breeders’ Cup at Del Mar logo and were sponsored by the Breeders’ Cup. The towels not only drew people to the races, but also promoted the upcoming Breeders’ Cup World Championships;

- The Del Mar BBQ State Championship – The second annual championships attracted over 70 of the top BBQ chefs in the nation coming from as far away as Kansas City to compete for $10,000 in prize money. Fans were able to purchase samples of the award-winning food while they enjoyed world class racing. Premier controlled all beverage sales;

- Craft Beer and Pizza Festival – Featuring over 100 craft beers and dozens of pizza choices this event is always a crowd favorite. F&B sales for the event totaled $180,000;

- Reggae Festival – Slightly Stoopid highlighted the annual Reggae Fest, which is always one of biggest days of the year at Del Mar;

- Big Boy’s Toys Show – The local sports radio station The Mighty 1090 hosted their annual event featuring police and military vehicles, sports equipment, big trucks and more;

- Tacotopia – The top taco vendors in town offered up their best fare for our happy fans. The popular food event served as the perfect lead-in to the Steve Aoki concert after the races;
- Steve Aoki Show – One of the premier electronic dance music DJs in the world, Steve Aoki made his return to Del Mar after the races and attracted one of the biggest concert crowds of the summer. F&B sales for the concert venue exceeded $180,000;

- Free & Easy Wednesdays – For the ninth consecutive year, on each Wednesday of the season all fans with Diamond Club cards received free stretch run admission, a free program and a free reserved seat in addition to half-priced draft beers, sodas and hot dogs. Over the years, the promotion has contributed to both attendance and F&B increases; and

- Donuts Days – On two occasions each summer, Del Mar hosts Donuts Days during morning workouts. Yum Yum Donuts provides free donuts for patrons while Del Mar’s track announcer Trevor Denman welcomes various racing guests to his Q&A session.

The 2017 Fall Meeting

- The marketing efforts for our Fall Meet focuses more on our core racing customers, local residents – including area college students – and group customers, to whom we offer deep admission discounts in order to generate profitable F&B revenues. Additionally, we capitalized on the timing and prestige of the Breeders’ Cup and, for the days leading up to the event, we targeted out-of-town visitors who were in San Diego for the big races as well as locals who were unable to buy tickets for the sold out Breeders’ Cup races.

- The fall season offered some of the events and concepts that have proven to be popular during the summertime in drawing attendance and driving additional F&B revenues as well as events that are unique to the Fall Meet. Those events included:

  - The Vintage Hollywood Fashion Contest – On Opening Day of the fall meet we offered contestants the opportunity to compete for more than $3,000 in prizes. This year, Opening Day fell just two days before Breeders’ Cup, so the contest took on a purple theme. It also served as an appropriate way to kick off the Fall Season;

  - Free & Fun Sundays – Every Sunday Diamond Club members were treated to free admission, program and seats as well as half-priced signature drinks. This promotion targeted at our value-minded fans always bumps the Sunday numbers;
- Bing+Bubbles+Brunch – Each Sunday fans were able to experience a uniquely prepared menu by celebrity chef Brian Malarkey in the Turf Club. The $100 ticket included admission and a table in the Turf Club for the day, choice of appetizer, entrée and dessert along with bottomless mimosas or champagne. The promotion not only attracted fans to the fall race meet, but also promoted the Turf Club to a new market;

- Seniors Free Thursdays – Race patrons age 62 and over received free Stretch Run admission, free program and a free seat each Thursday. An average of 600 seniors attended this weekday promotion;

- YELP event – On Sunday, November 5 we invited a targeted group of elite YELP users to a day on us at the racetrack. Invitees were treated to free admission and a welcome package that included various Del Mar souvenirs. Over 200 YELP users attended and spread the word via social media about what a great time they had;

- Fall Food Truck Festival – More than 25 food trucks from Southern California were on hand on Veteran’s Day to offer up their eclectic grub. Always a crowd favorite, the Food Truck Festival is popular for both new and frequent race fans;

- College Day Tailgate Party – In an effort to reach a younger demographic, the 4th annual College Day was held on Saturday, November 18. Students with college ID enjoyed free admission and enjoyed DJs, televised college football and a number of other interactive events during the races. After the races, the reggae band Iration entertained the concert goers;

- Toys for Tots Motorcycle Ride – Motorcycle clubs and dealerships from all over San Diego County congregated at Del Mar to raise funds, awareness and toys for Toys for Tots. The first-time event attracted over 500 enthusiastic newcomers to the races;

- Thanksgiving Family Fun Run – Again this year, at 8:00 a.m. on Thanksgiving Day, we offered a Fun Run. Participants began the run at the track’s actual starting gate, made a one-mile lap around the racetrack and finished in front of the winner’s circle where they got their picture taken. Participants also received a free commemorative T-shirt. Proceeds from the event supported the Helen Woodward Animal Center, which conducted a unique “Puppy Races Rescue Run” in conjunction with a pet adoption event. Special post-run activities included: prizes for kids; face painting, Rad Hatter, entertainers, holiday crafts and more.
The Thanksgiving Day festivities continued with a special 11:00 a.m. first post that allowed race goers to enjoy a late afternoon Thanksgiving dinner;

- Beer Fest, Wing Feast and a Concert – We finished strong on Closing Weekend of the fall season by hosting three events in one: 1) our always-popular Fall Beer Fest, 2) a new foodie event featuring chicken wings, and 3) a concert by the legendary group The Offspring. Total attendance on the day was 12,290 – the second biggest day of the season; and

- Food Bank Day at the Races – In an effort to assist the San Diego Food Bank in collecting donated food items for the holidays, we allowed all fans in free who brought a food item to the races on Closing Day.

• DMTC continued our ongoing cooperative marketing efforts with the District designed to provide for exposure of the summer race meet during the annual Fair. This year, these efforts included: promotion and ticket giveaways for DMTC’s concert series at musical events taking place during the Fair; a Del Mar-themed horse racing exhibit; promotional staff, who are dressed as jockeys, distributing tickets to the races; and summer race meet promotions listed in Fair programs and displayed on video boards located throughout the fairgrounds.

Goal #2: The continued improvement of DMTC’s top-flight racing product, designed to make Del Mar a desirable stop on the racing circuit as well as an enjoyable and profitable experience for horse owners and trainers.

• Del Mar’s purse distributions, while impacted in recent years by the closure of Hollywood Park, totaled $22.1 million and our summer race meet average daily purse and breeder’s distributions of $613,000 were again the highest in California and among the very highest in the nation in 2017. The fall race meet awarded average daily purses and breeders’ distributions of $516,000 per day, among the nation’s highest fall purses, and these distributions were consistent with the average daily purses paid at Santa Anita in 2017;

• DMTC continued to aggressively recruit owners and horses from outside California to race at Del Mar. As noted above, DMTC’s highly successful “Ship and Win” program, which we developed and introduced in 2011, rewards owners of out-of-state horses that ship into California and race at Del Mar. DMTC and the TOC again partnered and funded the 2017 program and increased the shipping fee this year by $500 to $1,500 for horses from outside of California that start in a race during either the summer or fall meet. Additionally, those out-of-state horses earned a purse bonus of 30% on top of their regular purse earnings on their first Del Mar start. DMTC continued its partnership with
Barretts Sales and Racing, which moved its operations to Del Mar in 2015. The expansion of our partnership with Barretts has resulted in Del Mar becoming the largest venue for Thoroughbred horse sales west of the state of Kentucky. In addition to conducting our sixth annual race-ready horse “Paddock Sale” in July, Barretts conducted three Thoroughbred sales at Del Mar with DMTC providing marketing assistance in an effort to introduce new owners to the sport of racing and the thrill of racing at Del Mar. The incentives provided by the “Ship and Win” program (enhanced by our attractive purses and the opportunity to race in front of the largest crowds in California) drew 167 out-of-state horses that entered 277 races at Del Mar during the summer and fall race meetings. Twenty-two of the 167 horses that qualified for the program won their first starts at Del Mar and “Ship and Win” eligible horses captured the following graded stakes races this past year: Giant Expectations (Grade II, Pat O’Brien), and Dream Dancer (Grade I, Del Mar Oaks) during our summer race meet; and Manitoulin (Grade II, Hollywood Turf Cup), Mo Town (Grade I, Hollywood Derby), Daddy Is a Legend (Grade III, Jimmy Durante), Off Limits (Grade I, Matriarch) and Analyze It (Grade III, Cecil B DeMille) during the fall race meet. The “Ship and Win” program and Barretts Sales and Racing partnership helped Del Mar’s average field size grow to 8.6 horses per race from 8.3 horses in 2016 and our healthy field sizes enabled us again this year to operate the only five-day race meet in the state. Our summer race meet average-field-size figure is among the best in the nation as evidenced by a comparison to this summer’s popular Saratoga race meet in upstate New York having an average field size of 8.2. The average field size for our fall race meet was 8.5 horses, matching the 2016 fall race meet average and these were the highest average field sizes since we started fall racing in 2014. The “Ship and Win” program along with our other horse recruitment efforts not only helped Del Mar’s average field size levels at our summer and fall meets, but also contributed to increased field sizes at the other tracks in California. For example, following our two race meets this year and through the end of January 2018, 157 horses from our 2017 “Ship and Win” program made starts at the racing meets at Los Alamitos and Santa Anita.

- DMTC’s horsemen’s relations program continues to be recognized by horse owners, trainers and their employees as one of the finest in the sport. The program features weekly owner, trainer, jockey and equine achievement awards and gifts, which are sponsored by local restaurants and merchants. A fully equipped Horsemen’s Lounge, complete with computers, faxes, copiers and Internet access, is staffed to provide assistance with lodging, restaurant and golf reservations, as well as race-day seating, all of which contribute to Del Mar being considered the most enjoyable and entertaining destination on the nation’s racing circuit for horsemen. Del Mar’s unique post-race festivities are a much-appreciated celebration for horse owners that win races at the track. Winning horse owners are presented a bouquet of roses and a signature bottle of Maker’s
Mark Kentucky Straight Bourbon Whisky in the winner’s circle in front of Del Mar’s large crowds. Winning connections then are escorted to the enclosed Winners’ Bar overlooking the picturesque paddock where they are further feted with a complimentary bottle of high-end champagne, the sight of their horse’s winning race playing repeatedly on video monitors and the opportunity to keep alive the delightful buzz of winning a race at Del Mar.

- Del Mar’s festive race meets, robust purse schedules and commitment to servicing the needs of horsemen draws many of America’s top jockeys, trainers and horses to the seaside track. These factors all contributed to Del Mar hosting its first and highly successful Breeders’ Cup World Championships on November 3 and 4. Our summer and fall race meets feature 56 race stakes with $9.0 million in purses and the stakes program is highlighted by the Grade I, $1 million TVG Pacific Classic, considered among the best race in the country for older horses. The Del Mar Futurity is among the best races in the country for two-year-olds and has produced three of the last five winners of the Kentucky Derby, including American Pharoah, who in 2015 became the first Triple Crown winner in 38 years. This past summer’s Futurity winner, Bolt d’ Oro, will be one of the favorites for this spring’s Kentucky Derby. The strength of our racing program was further evidenced by the horses, trainers and jockeys with Del Mar connections that competed in the 34th edition of the Breeders’ Cup World Championship held the first weekend of November at Del Mar. There were 45 horses that raced this past summer at Del Mar that ran in the 13 Championship races with Del Mar horses accounting for three wins and 12 top three finishes. Additionally, there were 25 local trainers with at least one horse in a Championship race and 14 local jockeys that rode including Mike Smith, who won his record-setting 26th Breeder’ Cup race. The highest honors Thoroughbred racing bestows are the Eclipse Awards. Del Mar connections, including those that participated at the recent Breeders’ Cup, nearly swept the 47th Annual Eclipse Awards held January 25, 2018 winning 16 of the 17 awards including Horse of the Year (and Breeders’ Cup Classic winner) Gunner Runner. Additionally, other recent equine champions such as California Chrome, Nyquist, Arrogate, Beholder and Zenyatta have raced at Del Mar the past several years and have lured thousands of racing fans to the track to see the best of horse racing in action.

- While Del Mar’s quality racing program attracts world-class jockeys, trainers and horses, the continued investment in racing, including addressing the condition of the stable area and crowded training facilities, is critical to the future success of racing at Del Mar and in California. Del Mar’s ability to offer a healthy live-racing program, including both a competitive purse structure and strong stakes schedule, as well as hosting future world-class racing events like the Breeders’ Cup is contingent upon its ability to offer first-rate facilities. It is important that we work with the District to preserve and protect both of our
racing surfaces while interim events are held at the facility. Also, a key component of DMTC’s current operating plan and future goals is the allocation of sufficient capital resources to address the stable area and racing and training surfaces. These have included:

- The RTA provided funding for the installation of a new dirt main racetrack prior to the 2015 summer race meet which replaced the Polytrack synthetic racing surface. The dirt main track has been readily accepted by core wagering customers as evidenced by the growth in California off-track handle and the acceptance by large, computerized Internet players;

- The RTA also provided funding for the complete rebuilding of the subsurface of the turf course and the building and installation of a new widened turf course prior to the 2014 summer race meet. The wider turf course creates additional running lanes, thereby allowing for longer periods of turf recovery and a safer racing surface. The wider turf course attracted the best in turf horses and our average field size for turf races for our summer and fall race meets were an impressive 9.3 and 9.7 horses per race, respectively. Additionally, since its installation the turf course drainage system has performed well during heavy rains with racing returning the next day. Similar rain events on the previous turf course would have resulted in a surface unfit for competition and grass racing would have been suspended for several days. The installation of both the new dirt and turf racing surfaces were instrumental in Del Mar being selected as the host site for the 2017 Breeders’ Cup World Championships. Both racing surfaces performed well at the recent Breeders’ Cup and received high-marks from the racing community;

- The RTA provided $1 million of funding for the renovation of the dirt main track prior to the 2017 summer meet. With the goal of providing the safest possible environment for racing and training, Del Mar’s main track was reengineered in early 2017 to match the banking and grading at Santa Anita, and thereby providing a consistent racing surface on a year-round basis; and

- Together with the District, DMTC has been addressing various site issues with a comprehensive ongoing maintenance and renovation program on its racing surfaces, permanent living quarters, restrooms and barns. DMTC’s combined race meet rent and net F&B payments have supported significant RTA capital projects essential for the District and DMTC’s racing operations. The 2015 RTA bond financing provided additional funding through 2017 for several facility upgrades and renovation to the grandstand, which was originally constructed in 1993. These projects include Box Seat renovations, new heating and air conditioning units, restroom upgrades, deck-coating and painting projects as well
as upgrades to water treatment facilities and enhancements to the stable area, including a renovated cafeteria kitchen. The RTA also provided funding to remodel the facility’s 16 luxury suites prior to the 2017 fall race meet. These high-end private suites generate significant admissions and catering revenue and are home to some of our largest wagering customers. Additionally, the refurbished luxury suites were used to accommodate many of the Breeders’ Cup’s most high-end clientele. The ability to offer a facility with a number of premium areas such as luxury suites, sky rooms and celebrity suites provides Del Mar with a significant advantage when competing against other venues for future Breeders’ Cups. While the recent efforts yielded positive results, the continued investment of capital and resources in the stable area as well as racetrack improvements is critical and needs to be continued to protect the largest source of pledged revenues, wagering revenues generated from Del Mar’s live-race program.

**Goal #3:** The expansion of simulcast markets and the development of non-wagering revenues to provide growth in revenues and purses and to broaden Del Mar’s geographic revenue base to mitigate the impact of any local and regional economic downturns and events.

- **DMTC’s expertise and reputation in racetrack management resulted in agreements for a wide range of management services that include simulcast administration, race-meet accounting and collections, horserace paymaster services, risk management and cash management services. In addition to delivering valuable services for its customers, these agreements also provide DMTC with an important source of year-round revenue and enhance Del Mar’s position and influence within the California racing industry. Revenue generated from these agreements exceeded $470,000 in 2017 and have contributed over $7.0 million in revenue since the initial agreement in 1997. Such revenues have increased the annual rent payments to the RTA;

- **The simulcasting of Del Mar’s live product generates significant non-California wagering revenues and purses as Del Mar races were sent to over 1,100 locations throughout North, Central and South America, the Caribbean, Europe, Australia and South Africa. Del Mar’s daily simulcast broadcast is a previous winner of the National Broadcast Simulcast Award presented by the Thoroughbred Racing Associations. Out-of-state simulcast handle totaled $307.7 million in 2017 and accounted for 50.7% of total wagers, while non-California wagering generated $18.5 million of track revenues and purses. The Del Mar simulcast signal is in direct competition with other major signals in most simulcast facilities. Competing signals often offer races with large competitive fields which rival the Del Mar race product at simulcast facilities on the Del Mar signal. It is therefore critical that Del Mar maintain the quality and quantity of its racing product to retain market share in this competitive marketplace;**
Wagering via the Internet, known as Advance Deposit Wagering (ADW), is Del Mar’s largest growth segment and now accounts for over 27% of all wagers. ADW platforms have generated significant growth in California off-track and out-of-state commissions and purses since their introduction in 2002. ADW wagering totaled $164.7 million in 2017, and now accounts for over 27% of all wagers. Del Mar’s ADW providers offer patrons unique web-based and mobile wagering platforms that include extensive streaming video coverage, valuable handicapping tools and real-time wagering information. DMTC has premium distribution arrangements with all ADW Internet providers, including the three largest platforms – TVG, Xpress-Bet and TwinSpires.

TVG, a wholly-owned subsidiary of the leading international Internet gaming entity, Betfair, is DMTC’s largest ADW partner and TVG wagers accounted for 53.0% of Del Mar’s ADW handle in 2017. In addition to providing a state-of-the-art Internet wagering platform, TVG also operates horse racing’s only television network and Del Mar’s signal – displayed primarily in high definition – constitutes premium content for TVG. TVG is currently available in over 45 million homes and recently launched a mobile product which allows customers to view and wager on horse racing via the convenience of a smart phone or tablet “app”. While Del Mar is among a small group of tracks in which TVG is contractually obligated to show each race live, no other venue gets the “full day” broadcast that Del Mar receives, which provides a four-hour infomercial of DMTC each racing day. Additionally, TVG, under DMTC’s direction, provides a separate feed production of Del Mar’s broadcast signal on-track as well as to California and out-of-state simulcast locations, thus providing on-track and simulcast customers with a more expansive high-definition television production of Del Mar’s races at a cost savings to DMTC.

TVG is also an integral part of Del Mar’s sponsorship roster, assisting in the funding of our marquee race, the $1 Million TVG Pacific Classic. Also, in 2017 TVG funded a 50%, or $100,000, purse increase for the San Diego Handicap, thus securing the participation of the summer’s top ranked horse in the world, Arrogate;

As we have stated in past filings, DMTC has a long history of maintaining and growing our corporate partnerships due to our ability to provide and implement successful sponsorship marketing and co-branding programs. Sponsorship revenues totaled a record $2.59 million in 2017, $170,000, or 7.0%, higher than the record set in 2016. Sponsorship revenues were $40,000 over budget largely due to the leveraging of marketing dollars from San Diego’s robust craft beer community, monetizing Opening Day as stand-alone sponsorship inventory and continuing to work in partnership with the District to generate year-round corporate sponsors. DMTC has been successful in building longstanding relationships with blue-chip brand names such as Toyota, Pepsi, Jack In The Box and Marker’s Mark to name a few. In addition to revenue which directly increases DMTC’s rent payment, DMTC’s corporate partners provide valuable media and promotion highlighting their involvement with DMTC. Examples include Toyota prominently
featuring DMTC in its television and digital media advertising campaigns and Coors Light creating end-aisle displays at supermarkets promoting Del Mar’s season. Corporate partnerships also continue to drive F&B sales. Examples include DMTC’s partnerships with spirit companies Diageo (maker of Ketel One, Don Julio and Captain Morgan’s) and Jim Beam (producer of Maker’s Mark and Sauza Tequila), which led to F&B sales of “signature drinks” totaling a record $2.36 million. Additionally, via DMTC’s relationships with long-standing corporate partners, we were able to assist with negotiations that resulted in multiple Del Mar partners – Harrah’s, Coors Light, Ballast Point, etc. – participating in the recently concluded Breeders’ Cup. DMTC’s sponsorship goals continue to include renewing existing partnership agreements, developing new sponsorship sales and monetizing technological/social media platforms such as DMTC’s websites, Twitter, Facebook and Instagram; and

- DMTC recognizes the significant contribution that F&B revenues associated with the race meets provide to the District. Accordingly, DMTC selects and schedules promotional events that are designed to maximize F&B revenues. As noted above, we spend approximately two-thirds of our annual marketing budget on promotions and events that drive F&B revenues. DMTC works closely with the District’s F&B concessionaire, Premier / SMG, to ensure that the operational footprint of promotions is designed to maximize F&B revenues. In an effort to increase F&B sales at our concert venue, new amenities, such as our Premium View VIP viewing area, artistic tenting and an expanded video presentation, were added in 2017. These improvements helped to increase concert F&B sales by over 10% this year. Additionally, DMTC and Premier work together to develop value-based F&B offerings designed to reward the frequency of attendance and also recognize horse owners that race at Del Mar. Examples of such programs are the $30-for-$20 Discount Program available to our licensed horse owners, trainers and our Diamond Club members after their third visit to the racetrack. Other F&B value offers include the Happy Hour Friday, good on all Fridays from 2:00 p.m. to 6:00 p.m., discounted Buckets of Beer and the discounted food offering included in our Free & Easy Wednesdays.

**Goal #4:** The ongoing evaluation of our operating systems focuses on developing and implementing technologies and processes that will result in operational efficiencies, cost savings, improved product delivery capabilities and enhanced customer service. They include:

- DMTC’s presence and outreach through social channels continued to encourage and entice audiences to experience racing at Del Mar and our social audience expanded leading up to and during the Breeders’ Cup World Championships. Our social audience grew 12% during 2017 and currently reaches over 138,000 while maintain a 6.2% engagement rate, well above comparable industry engagement rates. Facebook, still the largest audience, grew 6% to over 84,000 fans and post impressions totaled just under
five million. Twitter remains our second largest channel with more than 30,500 followers having grown 18% and garnered 9.6 million post impressions, up 67% over 2016. Instagram continues its impressive growth, up 29% to 23,700 total followers. Motivating our online audience into on-track attendees is the objective of our social community. Each post, video, image and conversation is focused on building awareness of all that Del Mar offers both as a horse racing and entertainment venue;

- DMTC became the first racetrack in the nation to offer a mobile wagering app to on-track patrons when we launched Del Mar Mobile in 2011 – the first wagering app approved for distribution through the iTunes store. DMTC extended the digital offerings of the app by adding the digital Diamond Club card in 2014. With enhanced Wi-Fi service throughout the fairgrounds and grandstand facility provided by the RTA, as well as new monitoring services that were implemented in 2016, the digital wagering platform has benefitted from increased reliability and fewer service disruptions. Our mobile app continued to grow in popularity with our digital customers as we added over 12,300 new digital diamond memberships and nearly 800 new account wagering patrons during this year. Total on-track mobile wagering, excluding Breeders’ Cup days, grew 54% during the summer and fall race meets;

- DMTC’s self-service wagering education program has resulted in significant self-service wagering activity and also has produced meaningful reductions in staff costs. On-track self-service wagering activity increased slightly and accounted for 40% of all on-track wagers during the 2017 summer race meet. Our self-service wagering efforts have enabled average daily mutuel department staffing reductions of over 40% and resulted in over $1 million in annual staff cost savings since their inception;

- DMTC’s online ticketing system offers patrons a convenient and efficient ticket buying option by allowing them to quickly view all available seating options and choose their specific seats. The print-at-home feature and the mobile app e-ticket add to the patron’s convenience and have reduced walk-up ticket office and Will Call wait time. Tickets purchased through the web-based online system and the mobile app accounted for over 61% of ticket purchases in 2017; and

- Del Mar is among the marquee racetracks in North America and around the world that utilize Trakus, a real-time horse tracking system most widely known for its moving “chicklets” graphics that are shown during live race broadcasts. Trakus automates the collection of valuable handicapping metrics and instantaneously shows horse positioning, making it easier for viewers to follow the race and know exactly where horses are in a crowded field of runners. As an early adopter of the Trakus, Del Mar has consistently innovated and delivered enhanced production value to viewers across multiple media platforms, such as on-track television monitors, our paddock and infield HD video
boards, outside television broadcasts, broadband Internet and mobile devices. Information such as trip distance for each runner, individual fractional race times, average and peak speeds, and other statistics are displayed and available for handicappers for each horse in every race. Additionally, in 2014 Trakus was licensed by the CHRB and currently serves as Del Mar’s official timing and recording system. Many of the most highly viewed races and world renowned racetracks have followed suit, including this year’s Breeders’ Cup World Championships held at Del Mar and the Kentucky Derby, Belmont Stakes, Saratoga and Keeneland race meets domestically, as well as the Dubai World Cup, Hong Kong International Races and Melbourne Cup internationally.

REVENUES

Total revenues for the year ending December 31, 2017 rose to $59.19 million and were $5.39 million, or 10%, over budget. Breeders’ Cup revenues exceeded budget by $5.24 million, or 29.6%, due to strong high-end admissions revenues and because on-track event wagering exceeded projections and prior-year wagering levels by over 20%. Summer race meet revenues were $230,000, or 0.8%, over budget as wagering, admissions and sponsorship revenues each exceeded projections. The 2017 seven-week 36-day summer race meet had one less Friday, Saturday and Sunday of racing than the eight-week 39-day 2016 summer race meet. These weekend days are the highest attended, most heavily wagered and our most profitable race days. As reflected in our projections, total revenues for the summer race meet were $1.60 million, or 5.1%, lower than 2016 due to the three fewer, or 7.7%, less, 2017 summer race days. Fall race meet total revenues were $80,000, or 1.1%, under budget. As noted earlier, the fall race meet was originally scheduled to run for a total of 15 days but was shortened by one day to allow the removal of temporary chalets and other seating areas that were constructed for use during the Breeders’ Cup.

Wagering Revenues: Wagering revenues, which include pari-mutuel commissions, separate pool simulcast fees, breakage and ITW expense fund distributions, are DMTC’s primary source of revenue and accounted for 57.0% of summer race meet revenues, 74.8% of fall race meet revenues, 22.6% of Breeders’ Cup revenues and 45.8% of total projected revenues. The Breeders’ Cup World Championships had a much lower concentration of wagering revenues than our summer and fall race meets because the premier pricing structure and large crowds of the Breeders’ Cup generated significant attendance-related revenues for the event. Further, under the Breeders’ Cup business model, the usual purse and wagering commissions generated from on-track and ITW Breeder’s Cup wagering are both recognized as event revenues while all ADW and out-of-state simulcast wagering revenues are directed toward the $28 million in purses that are paid over the two-day event and consequently are not reflected in revenues. The fall race meet has a larger concentration of wagering to total revenues because all existing sponsorship
agreements, management services and other operating revenues are allocated to the summer race meet. Total wagering revenues in 2017 were $27.2 million and were $940,000, or 3.6%, over budget. Breeders’ Cup wagering revenues were $990,000, or 23.4%, over budget because of strong on-track and breakage revenues generated on the Breeders’ Cup event. Wagering revenues for the summer meet totaled $16.6 million and were $40,000, or 0.2%, above budget as higher field sizes on live racing helped drive a 5.4% increase in average daily wagering. Fall race meet wagering revenues were $90,000, or 1.6%, under budget due to the loss of one race day to allow for the removal of the temporary chalets and boxes used during the Breeders’ Cup event. Wagering revenues in 2017 were impacted by an increase in the statutory deduction from wagering required to support CHRB operations (“CHRB support”). This higher deduction had not been budgeted and it impacted 2017 wagering commissions by $270,000. Additionally, as noted in our 2017 budget submission, the statutory deduction for Southern California ITW wagers that funds stabling and vanning operations increased following the 2016 summer race meet and this higher deduction reduced wagering revenues by $300,000 compared to the 2016 summer race meet.

The key factor that drives total handle, as well as DMTC’s ability to expand its simulcast network and attract and retain large players, is the quality of Del Mar’s live racing program. This factor is determined by the number of horses competing in each race (i.e., field size) and the quality of the horse and jockey colonies. There is a direct correlation between the field size of a race and the amount wagered on the race. Patrons not only want to wager on good horses and top jockeys, but, in particular, simulcast, ADW and experienced on-track patrons also look for favorable wagering opportunities that exist in races with larger fields because of the increased number of betting interests. Large fields not only provide experienced handicappers with improved wagering opportunities, but also allow for an expanded exotic wagering format. Exotic wagers, in turn, result in higher purse distributions and track commissions. The wagering results of this summer’s race meet demonstrate the importance of field size to wagering activity as our larger field sizes and the liquidity of our large wagering pools drove the increase in wagering levels.

DMTC supplements live wagering opportunities by importing full race cards from Saratoga in upstate New York and Arlington Park outside of Chicago, in addition to adding races from Kentucky, New Jersey, Florida, Pennsylvania, Louisiana, Washington, Canada, Australia and Central and South America. Importing of races, however, is intended solely to supplement, rather than replace, a strong live racing program, which generates by far the most profitable form of wagering.

On-track wagering revenues totaled $9.67 million in 2017 and were $660,000, or 7.3%, over budget due to strong on-track wagering on the Breeders’ Cup. Del Mar’s hosting of the Breeders’ Cup attracted a significant number of experienced domestic and international out-of-town horse racing fans as 76% of Breeders’ Cup patrons were from outside San Diego County.
On-track Breeder’s Cup revenues totaled $4.3 million and were $800,000, or 22.8%, over budget. The large concentration of experience and serious horse racing fans resulted in exceptionally strong Breeder’s Cup on-track per capita wagering. The on-track per capita wagering at the recent Breeder’s Cup was a record-shattering $369, which represented a 111% increase over the on-track per capita wagering level of $175 at the 2016 Breeder’s Cup. Also, just prior to the 2017 Breeder’s Cup, ADW providers were required to only accept wagers from California customers utilizing geolocation services and this new geo-located on-track ADW wagering resulting in an additional $690,000, or 3.3%, of on-track Breeder’s Cup event wagering when compared to the 2016 Breeder’s Cup. During our summer and fall race meets, on-track patrons are able to wager on races run at Del Mar (“live races”) as well as races run in Northern California and races imported from racetracks outside California (“imported races”). On-track wagering revenues totaled $4.58 million during the summer race meet and were $60,000, or 1.2%, under budget due to lower wagering on imported and Northern California races together with the impact of the higher deduction for CHRB support. On-track per capita wagering for the 2017 summer race meet increased 1.4% over 2016 summer per capita wagering and this higher per capita wagering offset a 1.5% decline in average daily on-track attendance. On-track wagering commissions on live races were 1.0% above projections during the summer due to the growth in field sizes in 2017. However, on-track wagering on both imported and Northern California races were under budget as both these race programs had lower field sizes when compared to the field sizes at Del Mar. The higher CHRB support deduction reduced on-track commissions by $50,000 in 2017. The yield from on-track live wagers declined 6 basis points as a result of the higher CHRB support deduction. The yield on imported and Northern California races declined 55 and 42 basis points, respectively, due to the higher statutory deductions for both stabling and vanning operation and CHRB support for the 2017 summer race meet. Fall race meet on-track wagering revenues were $80,000, or 9.3%, under budget due to the loss of one race day and the impact of the higher CHRB support deduction.

The ease and convenience of Internet wagering, together with extensive cable television coverage by TVG, our largest ADW partner, has made ADW wagering the strongest area of wagering growth since its introduction in 2002. Average daily wagering by California ADW patrons increased 7.2% during the 2017 summer race meet due to the ease of Internet wagering and our larger live field sizes. Also, last summer saw a decline in ADW wagering levels due to account funding issues experience by of our largest ADW partner. The account funding challenge was addressed by our ADW partner and ADW wagering levels recovered the last few weeks of the 2016 summer race meet. ADW wagering commissions for the 2017 summer race meet totaled $2.42 million and were $140,000, or 5.7%, below budget. The current year growth in average daily ADW wagering of 7.2% for the summer race meet was below the projected growth rate of 8.0%. ADW commissions on live races for the summer were at projected levels, while ADW wagering on both imported and Northern California races were under budget due to these races having lower field sizes compared to the field sizes of the live Del Mar races.
Average daily ADW wagering levels were at projected levels for the fall race meet, however, fall ADW wagering revenues were $40,000, or 4.1%, under budget primarily due to the one less live race day. Since no CHRB support deduction is taken from ADW wagering, ADW commissions were not impacted by the higher CHRB support in 2017. As noted earlier, starting in the second quarter of 2017, pursuant to agreements reached by ADW companies and the TOC, ADW providers that accept wagers from California residents are required to utilize geolocation services to identify when an ADW customer places a wager through their ADW account while they are at a racetrack. The rates paid to the ADW providers for such on-track ADW wagers generate a higher yield for purses and commissions compared to ADW wagers that are made away from the track. As a result of implementing geolocation tracking, the yield on ADW wagers increased 4 basis points in 2017. As noted earlier, other than on-track geo-located ADW wagers, all ADW wagering revenues on the Breeders’ Cup are directed to fund Breeders’ Cup purses and are therefore not reflected in event revenues.

Satellite wagering (“ITW”) commissions totaled $3.1 million for the summer race meet and were $100,000, or 3.0%, under budget. Average daily ITW wagering declined 1.2% in 2017. Average daily ITW handle was projected to decline 1.0% due primarily to the one fewer weekend of racing during the 2017 summer race meet. The impact on ITW commissions from the higher CHRB support deduction was $50,000. One new mini-satellite location opened at Pechanga Casino in Temecula prior to the start of the 2017 summer race meet and wagering grew steadily during the summer as ITW customers became familiar with this new location. The ITW network has been expanded by the addition of 13 mini-satellites over the last five years and these new locations have helped reverse several years of decline in ITW wagering as certain California off-track patrons moved to more convenient ADW wagering platforms. Moreover, two San Diego mini-satellites that opened within a 20-mile radius of Del Mar provide additional incremental revenue to the District when there is no live racing at Del Mar. The yield on ITW wagers declined 54 basis points due to the higher statutory deductions for both stabling and vanning operations and CHRB support in 2017. Fall race meet average daily ITW wagering levels were close to projections, however, the loss of the one fall race day and the higher CHRB support deduction resulted in ITW wagering revenues being $120,000, or 7.6%, under budget. ITW wagering on Breeders’ Cup races totaled $6.81 million, or 4.8%, over budgeted wagering and event’s ITW revenues were $50,000, or 7.3%, over budget.

DMTC is a partner in SCOTWINC, the entity that administers the satellite network in Southern California. SCOTWINC receives simulcast revenues through a 2.5% fee on all wagers placed at satellite locations, as well as a 2.9% negotiated deduction from California ADW wagers. These simulcast revenues fund mutuel staff costs and other SCOTWINC simulcast-related expenses. As a partner in SCOTWINC, DMTC and the horsemen annually participate in 50% of the excess, or shortfall, of SCOTWINC simulcast revenues and expenses. The SCOTWINC operating surplus for 2017, which will be finalized once SCOTWINC issues their
2017 audited statements in March 2018, is projected to total $70,000. This amount is $40,000 below budget, primarily due to an increase in fees paid to the Santa Anita satellite facility as a result of capital investment made at this location in early 2017.

Del Mar’s races are distributed through numerous Internet wagering platforms and broadcast to over 1,100 wagering locations throughout North, Central and South America, Europe and South Africa and the export of Del Mar’s live race product produces significant non-California wagering revenues as a result. Average daily out-of-state wagering during the recent summer race meet increased 9.7% as out-of-state patrons were attracted to wager on Del Mar’s larger field sizes compared to the other race programs that had smaller field sizes at out-of-state wagering facilities. Additionally, wagering by out-of-state players who employ sophisticated computer programs to handicap races increased this year. These large, computerized out-of-state players were attracted to the liquidity of Del Mar’s large pari-mutuel pools which allow these players to place large bets without significantly impacting the pari-mutuel odds on their wagers. Out-of-state commissions totaled $6.30 million for the summer race meet and these revenues were $420,000, or 7.0%, over budget. Average daily out-of-state wagering during the fall race meet increased 9.9% primarily due to growth in wagering by the out-of-state players who use computer assisted programs. Fall race meet out-of-state commissions totaled $2.1 million and were $60,000, or 2.8%, over budget. Out-of-state commissions were impacted by the loss of the fall race day. Additionally, out-of-state commissions were impacted of the CHRB support deduction, which reduced summer race meet out-of-state commissions by $40,000 and fall commissions by $10,000. As noted earlier, all out-of-state wagering revenues on the Breeders’ Cup are directed to fund Breeders’ Cup purses and are therefore not reflected in event revenues.

Breakage revenue is generated because California law mandates that posted mutuel payoffs must be rounded down from calculated payoffs, and the rounding difference (referred to as “breakage”) is divided between horsemen, the State of California and the track operator. For example, a calculated payoff of $2.19 is paid at a rate of $2.10 and the remaining $.09 per winning ticket creates breakage revenue. Minus pools occur when the track operator must contribute funds to a mutuel pool if a prohibitive betting favorite wins and the required minimum mutuel payments exceed the gross mutuel pool less the statutory takeout. Minus pool contributions are netted against breakage revenue. DMTC carefully reviews live-race programs and those races imported from Northern California to identify when a prohibitive favorite is scheduled to run in a race having a small field and a minus pool is likely to occur. For any such race conducted in California, DMTC petitions the CHRB for its approval to eliminate show wagering. Net breakage revenue totaled $380,000 in 2017, which was $190,000 over both budget and 2016 levels due primarily to $140,000 of Breeders’ Cup event breakage.

Non-Wagering Revenues: Non-wagering revenues totaled $32.16 million in 2017 and were $4.49 million over budget. Breeders’ Cup non-wagering revenues were $4.30 million over budget as admission and sponsorship revenues exceeded projections. Non-wagering revenues for
our summer and fall race meet totaled $14.30 million in 2017 and accounted for 39.5% of total revenues, the highest level of non-wagering to total revenues of all tracks in California and among the highest of any racetrack in America. Our non-wagering revenues consist of daily admissions, seating and parking, season suites and boxes, Turf Club memberships and suites, group sales, programs, novelty concessions, interest income and sponsorship revenues and these revenues help diversify our reliance on wagering revenues. Non-wagering revenues for the summer and fall race meets were $200,000, or 1.3%, over budget as admissions, parking, sponsorship and interest income exceeded projections.

Breeders’ Cup admissions-related revenues totaled $17.02 million, exceeding the Breeders’ Cup projections by $4.43 million and these revenues were $7.62 million higher than the 2016 Breeders’ Cup. Del Mar’s grandstand facility with its numerous restaurants, suites, sky rooms and other high-end areas, including two temporary luxury chalets constructed for the event, help generate the record event admissions revenues. Admissions revenues for the summer race meet were $160,000, or 2.0%, over budget. Group Sales revenues were 5.5% over budget due to strong growth in high-end Group Sales areas which include luxury suites, skyboxes, celebrity suites and trackside restaurant seating revenues and these groups also generated significant F&B revenues. A new Premium View VIP viewing platform adjacent to the concert stage was constructed for the summer concert series and generated $90,000 in admissions revenues. This new VIP viewing area and the popular summer concert series helped generate a 10.8% increase in concert F&B revenues, which totaled $1.33 million during the 2017 summer race meet. The growth in catering revenues for high-end groups, the strong concert F&B sales and our event driven marketing calendar, which included craft beer tastings and food truck festivals, helped generate a 2.0% growth in F&B per capita sales during the summer race meet. Turf Club revenues, season boxes and daily seat and admissions revenues were close to, or at, prior year and budgeted levels. Parking and program revenues totaled $1.58 million and were $30,000, or 1.9%, over budget. We continued to see growth in the number of patrons using ride sharing services. Uber, the largest such service, logged over 23,300 trips to and from the racetrack this summer, a 12% increase over the 2016 summer race meet. Fall race meet attendance related revenues were $80,000, or 7.5%, under budget due to the loss of the one day of fall racing.

As we have stated in past filings, we have a long history of maintaining and growing our corporate partnerships due to our ability to provide and implement successful sponsorship marketing and co-branding programs. Sponsorship revenues totaled a record $2.59 million in 2017, $170,000, or 7.0%, higher than the record set in 2016. Summer and fall race meet sponsorship revenues were $40,000 over budget largely due to the leveraging of marketing dollars from San Diego’s robust craft beer community, monetizing Opening Day as stand-alone sponsorship inventory and continuing to work in partnership with the District to generate year-round corporate sponsors. Breeders’ Cup event sponsorship revenues totaled $350,000 and exceeded budget by $200,000. Merchandise concessions revenue for the 2017 was $10,000 over
budget primarily due to strong sales of Del Mar merchandise during the fall race meet by out-of-town patrons attending the Breeders' Cup. Under the terms of our agreement with the Breeders; Cup, sales of Breeders’ Cup merchandise flows directly to the Breeders’ Cup and therefore are not reflected in event revenues. Interest income for 2017 was $90,000 over budget due to the recent increase in short term interest rates along with an increase in investable funds related to the strong 2107 financial results. Breeders’ Cup event interest income exceeded budget by $50,000 due to the investment of the significant advanced Breeders’ Cup sales revenues and the increase in short-term interest rates.

**EXPENSES**

Total expenses before the rent (Direct Payments and payments to the RTA) for the year ending December 31, 2017 totaled $54.9 million and included Breeders’ Cup event expenses of $21.91 million. Total expenses for the summer and fall race meets (total expenses less Breeders’ Cup event expenses) were $33.0 million and were $50,000, or 0.2%, under budget.

The Breeders’ Cup agreement provides that certain direct costs related to the two-day event are charged as Breeders’ Cup event expenses. The agreement also defines Breeders’ Cup event revenues to include on-track and ITW wagering commissions, admissions-related revenues, event concessions, local sponsorship revenues and certain other revenue items. Further, the agreement provides for the manner in which the excess of Breeders’ Cup event revenues over event expenses are paid, first as a $400,000 Direct Payment to the District, then an amount to Breeders’ Cup Limited (“BCL”) and then the remaining amount distributed pro rata to BCL and DMTC. The BCL share of excess event revenues over expenses is estimated to be $7.7 million and this amount is included in Breeders’ Cup event outside services expense. This payment to BCL will be finalized in the first quarter of 2018.

**Staff Costs:** Staff costs consist of salaries and wages, benefits, workers’ compensation insurance and payroll taxes and comprise the largest single expense category, accounting for 35.7% of 2017 pre-rent expenses. Staff costs were 56.7% of summer race meet total pre-rent expenses, 46.7% of fall race meet pre-rent expenses and 7.4% of Breeders’ Cup pre-rent expenses. The fall race meet and Breeders’ Cup have a lower percentage of staff to total costs because the existing year-round staff costs are allocated to the traditional summer race meet. Employment peaks at nearly 1,300 employees during the summer race meet with over 80% of the work force covered under eight separate collective bargaining agreements. Total staff costs were $19.68 million for 2017 and were $60,000, or 0.3%, under budget. Salaries, wages and payroll taxes combined were $60,000, or 0.4%, under budget and year-round administrative, maintenance and seasonal salaries were each at or near budgeted levels. As provided for in our 2017 budget submission, year-round cost-of-living and incentive wage increases were granted in the fourth quarter after we determined that the 2017 budgeted rent was exceeded. Benefit costs were $160,000, or 5.1%, under budget due to lower than expected benefit costs on certain
Breeders’ Cup seasonal staff and a favorable pension funded issue reached under a collective bargaining agreement. Workers’ compensation insurance costs were $50,000, or 5.5%, over budget because workers’ compensation insurance premiums were renewed at higher-than-expected rates. The 2017 workers’ compensation insurance policy was renewed after we submitted our 2017 budget.

Advertising and Public Relations: Our 2017 marketing efforts focused on an event-driven calendar with events such as concerts, craft beer and food festivals as well as other events that generate profitable F&B revenues. We again allocated approximately two-thirds of the 2017 marketing expenditures for these programs and events that drive attendance and F&B revenues. Advertising and public relations expense for the summer race meet was $90,000, or 2.3%, over budget primarily as the result of two concert venue expenses that were not included in the 2017 budget. The new VIP viewing area was added to the concert venue at a cost of $60,000 and, as noted above, the area generated over $90,000 of admissions revenue and contributed to the growth of concert venue F&B revenues. Additionally, as a requirement of new residential sound mitigation ordinances, an upgraded directional audio system was used during the 2017 summer concert series at a cost of $50,000. Fall race meet marketing expenses were $20,000 over budget due to higher than expected radio advertising cost. Breeders’ Cup event marketing costs were $480,000 under budget because of the strong demand for tickets. Advanced sales exceeded expectations and most areas of the venture were essentially sold-out well in advance of the event which eliminated the need to incur marketing costs related to ticket sales.

Seasonal Service Contracts and Equipment Rentals: Seasonal services and contract costs for the summer race meet were $70,000, or 2.5%, under budget due to a $200,000 recovery of the 2016 write-off of the purse overpayment as discussed further below. Track maintenance costs exceeded projections because of the expanded pre-race meet dirt racetrack maintenance along with the costs of the additional track maintenance associated with the new morning training protocols designed to enhance safety. Temporary trailer rental costs increased significantly in 2017 due to supply issues resulting from strong demand for temporary trailers by the construction industry. “Ship and Win” program and horse recruitment costs rose due to the enhanced shipping bonus and horse recruitment travel costs. The analysis of the 2017 summer “Ship and Win” program shows an incremental cost per start of $1,823, while each additional start generated an estimated $5,370 of commissions and purses. Fall race meet season services were $30,000 under budget. Breeders’ Cup event season services were $5.3 million over budget primarily due to the projected $7.7 million payment to the BCL as the event net revenues exceeded projections.

As noted in our 2016 filing, several factors led to the overpayment of purses during the period 2014 through 2016 as the industry adjusted to the closure of the Hollywood Park racetrack at the end of 2013 and as conditions changed at Del Mar accordingly. These factors included increased deductions from ADW and ITW wagering to fund SCOTWINC and stabilizing
operations, lower large-player wagering, a reduction in average daily on-track wagering as Del Mar added the additional four weeks of fall racing and the lower field sizes and a decline in ADW wagering which lead to lower 2016 racing revenues. Purse levels were lowered modestly in 2015 and 2016 and by the end of 2016 purses were at a level that did not increase the purse overpayment. However, we determined that further reduction of purses could jeopardize an advantage Del Mar has over other tracks in attracting horses and, consequently, we decided the best course of action was to write-off the $2.29 million purse overpayment that existed at the end of 2016. Our 2017 summer race meet, with its larger field sizes and higher wagering levels, generated greater purse funds than were paid to horse owners and, accordingly, a $200,000 recovery of the prior year purse write-off was realized following the 2017 summer race meet.

Various other expense categories: Printing and satellite programs expenses for the summer race meet were $130,000 and $30,000, respectively, over budget due to a significant increase in the production costs of our on-track and satellite programs by our supplier that was not anticipated in our budget. We negotiated a reduction in production costs for our fall race meet program which resulted in a $50,000 savings in the summer race meet printing budget overage. Additionally, we are examining other options for printing moving forward. Professional and banking service fees were $30,000 under budget as the recent rise in short-term interest rates generated higher earnings credits on compensating balances which offset bank service charges and fees. Racing industry support for the fall race meet was $300,000 under budget due to an amended industry dates agreement. DMTC, Santa Anita, Los Alamitos and the TOC amended the 2014 agreement that provides for race dates and off-site stabling in Southern California through 2019. As a condition of this agreement, DMTC, the only racing association that does not provide year-round stabling is required to make an annual payment from the fall race meet to an industry stabling fund. As a result of the amendment, DMTC’s required payment to the industry stabling fund was reduced from $1.0 million to $700,000 for 2017 and 2018. This reduction was based on DMTC receiving three less days of racing for our 2017 summer race meet. Depreciation expense was $20,000 under budget because 2017 equipment acquisitions were lower than projected. Tax expense includes an estimated one-time, non-cash charge of $220,000 resulting from the re-measurement of deferred tax assets arising from a lower U. S. corporate tax rate related to the enactment of the Tax Cuts and Jobs Act in December 2017. This non-cash charge will not impact or reduce the 2017 rent payment and it will result in a net loss, after taxes, for 2017. This amount will be finalized during the audit of the 2017 financial statements.

The foregoing represents our Management’s Discussion and Analysis of DMTC’s operations, revenues and expenses for the year ending December 31, 2017. This analysis was prepared based on our unaudited financial statements and it accompanies our fourth quarter budget report filed at the end of January 2018. The Additional Payment, currently projected to be $660,000, will be finalized and paid following the completion of our 2017 audited financial statements in late April 2018.
### DEL MAR THOROUGHBRED CLUB

**CALENDAR YEAR 2017 OPERATING BUDGET REPORT**

**December 31, 2017**

#### Revenues

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#### Net Income from Operations

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Payment to Race Track Leasing Commission</td>
<td>$ 1,925,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined District and Race Track Leasing Commission Payment</td>
<td>$ 2,370,000</td>
<td></td>
<td></td>
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</tbody>
</table>

(1) Includes an estimated one-time, non-cash charge of $225,000 resulting from the remeasurement of DMTC’s deferred tax assets arising from a lower U.S. corporate tax rate related to the enactment of the Tax Cuts and Jobs Act in December 2017.
### DEL MAR THOROUGHBRED CLUB

**CALENDAR YEAR 2017 OPERATING BUDGET DETAIL REPORT**

**December 31, 2017**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue</th>
<th>Variance</th>
<th>Balanced</th>
<th>Variance</th>
<th>Balanced</th>
<th>Variance</th>
<th>Balanced</th>
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<th>Variance</th>
<th>Balanced</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Summer</td>
<td>4,516,460</td>
<td>5,099,664</td>
<td>6,927,134</td>
<td>7,611,322</td>
<td>8,081,611</td>
<td>6,150,404</td>
<td>6,523,746</td>
<td>7,102,783</td>
<td>7,610,952</td>
<td>8,101,385</td>
<td>8,601,978</td>
<td>9,102,678</td>
<td>9,603,478</td>
<td>10,104,282</td>
<td>10,604,992</td>
<td>11,105,695</td>
<td>11,606,895</td>
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<tr>
<td>Combined</td>
<td>6,931,523</td>
<td>8,062,516</td>
<td>10,824,548</td>
<td>10,499,335</td>
<td>11,378,921</td>
<td>10,479,040</td>
<td>9,362,694</td>
<td>8,941,234</td>
<td>8,053,135</td>
<td>7,155,246</td>
<td>5,555,851</td>
<td>4,558,722</td>
<td>3,558,722</td>
<td>2,558,722</td>
<td>1,558,722</td>
<td>758,722</td>
<td></td>
</tr>
</tbody>
</table>

#### Revenues

- **Pari-mutuel commissions**
  - Track: $4,516,460
  - Summer: $2,415,063
  - Combined: $6,931,523

#### Expenses

- **Salaries**
  - Annual administration: $5,099,664
  - Annual reinvestment: $2,962,852

#### Salaries - annual administration

- Non-pooled: $5,099,664
- Pooled: $2,962,852

#### Salaries - annual reinvestment

- Non-pooled: $5,099,664
- Pooled: $2,962,852

#### Balances

- **Remove**
  - Summer: $6,931,523
  - Fall: $4,516,460
  - Combined: $11,448,003

#### Net Income

- $2,505,502

#### Combined Total Revenue

- $11,448,003

#### Combined Total Expenses

- $8,941,234

#### Combined Net Income

- $2,505,502

#### Combined Total Revenue - Combined Total Expenses

- $2,505,502

#### Combined Net Income - Combined Total Revenue

- $2,505,502

#### Combined Net Income - Combined Total Expenses

- $2,505,502

#### Combined Total Revenue - Combined Total Expenses - Combined Net Income

- $2,505,502

#### Combined Total Expenses - Combined Total Revenue - Combined Net Income

- $2,505,502

#### Combined Net Income - Combined Total Revenue - Combined Total Expenses

- $2,505,502
2017 Breeders' Cup World Championships brings $96.8 Million to San Diego Economy

The Breeders' Cup World Championships, which debuted at Del Mar racetrack in 2017, generated $96.8 million in direct and indirect economic benefits for San Diego County, determined by a recent economic impact study by Sports Management Research Institute (SMRI). The results are the highest recorded for any prior Breeders' Cup event and further emphasize Breeders' Cup as a major economic force with the power to stimulate the Del Mar and San Diego economies through tourism, local investments and activities.

The economic benefits of the Breeders' Cup quantified in this study include:

- $57.8 million in visitor spending, including accommodations, restaurants, transportation, and more
- $27.2 million in track improvement investments for Del Mar Racetrack, including both labor and material costs
- $1.3 million in staff and sponsor spending, exposing international corporations to local businesses
- $5.3 million secured in state and local tax revenues and $8.9 million secured in federal tax revenues

This positive economic impact is equivalent to the creation of an additional 736 full-time jobs in San Diego County. In addition, the 2017 Breeders' Cup World Championships saw a 21.4% increase in on-track wagering from 2016, with the two-day on-track handle total amounting to $25.2 million.

The Breeders' Cup is the world's most prestigious Thoroughbred horse racing event, regularly attracting a highly affluent and international audience. The study revealed that the 2017 event contributed to a more favorable impression of San Diego for 71% of attendees while 73% expressed interest in returning to the city the following year.

“We are extremely proud of the strong and positive impact of the Breeders’ Cup on the San Diego region particularly given that 2017 was Del Mar's first year hosting the Breeders’ Cup World Championships,” said Craig Fravel, President & CEO of the Breeders’ Cup. “This study further validates the power of our brand as a national and international event and the attractiveness of the San Diego and Del Mar communities for our guests. We look forward to future opportunities to collaborate with the many fantastic partners we worked with in 2017 in any effort to bring the Breeders’ Cup back to Del Mar.”
We have wonderful partnerships with local restaurants, hotels and the surrounding communities,” said Del Mar Thoroughbred CEO, Joe Harper. “It is very gratifying to see the economic impact from hosting the Breeders’ Cup benefit those who have supported horse racing at Del Mar for so many years.”

“San Diego once again proved itself to be one of the most desirable destinations for world class events when our region hosted the Breeders’ Cup for the first time,” Mayor Kevin L. Faulconer said. “This new study shows the tremendous boost the Breeders’ Cup gave our local economy and how hosting events like this create jobs and generate revenue that helps keep our neighborhoods clean and safe.”

“Hosting the 2017 Breeders’ Cup was a tremendous benefit to San Diego’s tourism industry,” said Joe Terzi, President and CEO of the San Diego Tourism Authority. “Not only was there a strong economic impact from visitor spending, but hosting an event of such prestige also showed that San Diego is a world-class destination. We look forward to welcoming the Breeders’ Cup back to San Diego again soon.”

“A Breeders’ Cup attendee average household income (HHI) reported at $225K (top 5% nationally in HHI) continues to add support to the notion that a Breeders’ Cup out-of-town visitor has a larger percentage of discretionary income to spend when compared to a typical regional tourism out-of-town visitors,” said Kathleen Davis, CEO of SMRI. “It’s also important to realize the enhanced prestige and notoriety of the Breeders’ Cup brand ranks among other large-scale national events such as the Super Bowl and All-Star Games.”

The 2018 Breeders’ Cup World Championships will return to Churchill Downs in Louisville, Kentucky for a record-tying ninth time on November 2 and 3. Fans interested in attending the event are encouraged to sign up at www.BreedersCup.com/2018 to receive the latest news on pre-sale ticket access and detailed ticketing information.

Media Contact: Jim Gluckson, Breeders’ Cup, 212-230-9512, jim@breederscup.com
Hayley Karlan, Nike Communications, 646-654-3445, hkarlan@nikecomm.com
Spectacular Setting, Strong Business Results At Del Mar’s First Breeders’ Cup

Del Mar, Calif. (Nov. 4, 2017) – Gun Runner’s thrilling victory in the $6 million Breeders’ Cup Classic capped a picture-perfect day at the Del Mar racetrack, the first-time host of the Breeders’ Cup World Championships. Racing fans responded to the full fields of the world’s fastest horses with their support at the betting windows, as the two-day wagering totals for the event were the strongest in several years.

The two-day on-track wagering total of $25,181,317 is the highest for the event, which expanded from one day to two in 2007, and a 21.4% increase over the two-day total of $20,742,847 in 2016.

Common-pool handle on Saturday’s 12-race Breeders’ Cup card was $113,803,603, a 6% increase over the $107,210,210 wagered in 2016.

Saturday’s full-card on-track handle of $15,900,813 was the highest since 2006, the last year the Breeders’ Cup Championships were conducted over one day.

Common-pool wagering for the two days was $166,077,486 an increase of 5.9% over the 2016 total of $156,861,811. The total handle was the highest since the 2010 Breeders’ Cup at Churchill Downs when there were two additional Breeders’ Cup races.

Saturday’s on-track handle was $15,900,813, an increase of 18% over the $13,563,884 wagered on track at Santa Anita last year. The on-track handle at Del Mar for the two days was $25,181,317.
“We were treated to world championship performances over two days of the very best in international racing, combined with spectacular weather, smooth operations and excellent customer service from our hosts at Del Mar” Breeders’ Cup President and CEO Craig Fravel said. “Del Mar proved to be an extraordinary venue for our Championships and we want to thank its staff, our volunteers and the greater San Diego community for the warm welcome and gracious hospitality extended to our guests from around the world. We also want to thank racing fans for their enthusiastic support of our event.”

“Del Mar, its staff and the community of San Diego absolutely shone for this Breeders’ Cup,” said Joe Harper, president and general manager of the Del Mar Thoroughbred Club. “I could not be more proud of the effort that was put forth by everyone at our racetrack and all the folks in San Diego who jumped on board for this marvelous event and made it into something spectacular. This was racing at its best; it was Del Mar at its best; and it was San Diego being all it could be. It was a complete winner.”

Saturday’s attendance was 37,692. The two-day attendance was 70,420. For the comfort of its guests and because of Del Mar’s smaller capacity, Breeders’ Cup limited ticket sales to 37,500 for each day.

Breeders’ Cup Two-Day Attendance and Handle (common-pool) history:

<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Attendance</th>
<th>Handle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Santa Anita Park</td>
<td>118,484</td>
<td>$156,861,811</td>
</tr>
<tr>
<td>2015</td>
<td>Keeneland Race Course</td>
<td>94,652</td>
<td>$149,869,035</td>
</tr>
<tr>
<td>2014</td>
<td>Santa Anita Park</td>
<td>98,319</td>
<td>$151,158,813</td>
</tr>
<tr>
<td>2013</td>
<td>Santa Anita Park</td>
<td>94,828</td>
<td>$160,704,877</td>
</tr>
<tr>
<td>2012</td>
<td>Santa Anita Park</td>
<td>89,742</td>
<td>$144,272,332</td>
</tr>
<tr>
<td>2011</td>
<td>Churchill Downs</td>
<td>105,820</td>
<td>$161,512,867</td>
</tr>
<tr>
<td>2010</td>
<td>Churchill Downs</td>
<td>114,353</td>
<td>$173,857,697</td>
</tr>
<tr>
<td>2009</td>
<td>Santa Anita Park</td>
<td>96,496</td>
<td>$153,271,176</td>
</tr>
<tr>
<td>2008</td>
<td>Santa Anita Park</td>
<td>86,588</td>
<td>$155,740,328</td>
</tr>
<tr>
<td>2007</td>
<td>Monmouth Park</td>
<td>69,584</td>
<td>$129,197,262</td>
</tr>
</tbody>
</table>