

The New York Racing Association, Inc.

Financial Condition and Unaudited and Unreviewed Results of Operation For the Three Months Ended September 30, 2012 Compared to the Three Months Ended September 30, 2011

Management Discussion and Analysis



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DISCLAIMERS

FORWARD LOOKING STATEMENT

The factors affecting the NYRA's financial condition are complex. This document contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time they were prepared. Since many factors may materially affect fiscal and economic conditions for NYRA, the inclusion in this document of forecasts, projections, and estimates should not be regarded as a representation that such forecasts, projections, and estimates will occur. Forecasts, projections and estimates are not intended as representations of fact or guarantees of results. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements in this document. Any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially and adversely from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of NYRA.

UNAUDITED AND UNREVIEWED STATEMENT

Results are unaudited and unreviewed and therefore contain certain management estimates and determinations which have not been externally validated. This document may also contain non-GAAP financial information. Management uses this information in its internal analysis of results and believes that this information may be informative to readers in gauging the quality of our financial performance, identifying trends in our results and providing meaningful period-to-period comparisons.

Management Discussion & Analysis
For the Three Months Ended September 30, 2012
Compared to the Three Months Ended September 30, 2011

STRATEGIC DEVELOPMENTS AND UPDATE ON KEY METRICS

- **Summary**

During the three months ended September 30, 2012, NYRA earned operating income of \$24.8 million which was \$14.5 million or 141.3% higher than the same period prior year. NYRA earned net revenue from racing operations of \$59.9 million, an increase of \$4.0 million or 7% compared to last year. The increase in net revenue from racing operations is primarily due to significant increases in on-track and export wagering, specifically from the top five export sites, and was attributable to larger field sizes resulting from higher purse payouts. Continued growth in wagering through the internet and on-track simulcast facilities also were contributing factors to the increase in net revenue from racing operations. Gross VLT Revenue of \$23.8 million and net VLT Revenue of \$12.3 million for the three months were consistent with expectations. Operating expenses of \$47.4 million were 3.9% higher than prior year to support the 7% higher net racing revenue and were higher than expected primarily due to additional legal costs associated with the take-out investigation, and subsequent statutory rate review as well as a higher than expected sales tax expense. Year to date results for net income from racing operations were slightly below expectations and better than history, fueled by a significant increase in net wagering revenue, offset by an increase in operating expenses.

- **Saratoga Meet (July 20, 2012 – September 3, 2012)**

Results from this year's Saratoga meet were highlighted by significant gains in wagering and increased attendance, in addition to increases in turf and allowance races compared to 2011. Estimated on-track attendance at Saratoga during the meet was 901,033, an increase of 29,261 or 3% compared to last year. The increase is attributable to an increase in field size and one more race day this year (racing was cancelled last year on Sunday, August 28th due to Tropical Storm Irene). There were a total of 417 races during this year's meet, a 5% increase compared to the 397 races held during the 2011 meet. Turf races totaled 197 during the meet, an increase of 39 or 25% compared to last year. This year's meet featured 90 allowance races, an increase of 11 or 14% compared to last year. During the Saratoga meet, NYRA generated \$627.0 million in total handle, an increase of \$63.7 million or 11% compared to year. NYRA on-track handle of \$187.5 million increased \$10.9 million or 6% compared to last year due to significant increases in account wagering handle as well as increases in wagering at Aqueduct and Saratoga. Export handle of \$439.5 million increased \$52.8 million or 14% primarily due to an increase in wagering from out-of-state entities.

- **Export Handle**

During the three months ended September 30, 2012, export handle totaled \$657.5 million, an increase of \$94.1 million or 17% compared to the same period last year. The increase in export handle is primarily attributable to the \$90.4 million increase in wagering from out of state entities. Wagering increases from Advanced Deposit Wagering sites accounted for \$68.9 million or 78% of the total increase.

- **VLT Revenue**

During the three months ended September 30, 2012, NYRA earned approximately \$23.8 million in VLT revenue of which \$11.4 million was earned for stakes and purses, \$7.0 million was earned for capital expenditures and \$5.3 million was earned for NYRA operations. Gross VLT revenue was in line with budget, which assumed a win per machine (WPM) of \$380 for the three month period.

- **Capital Projects**

During the three months ended September 30, 2012, NYRA spent \$3.5 million towards 2012 related capital projects. Major expenditures included surveys and master development planning for the Saratoga Frontside Renovation and Redevelopment project, patron area improvements at all three race tracks, barn area improvements, equipment for the video production trailer, work related to the CAFO and Storm Water Management project at Belmont, two new tractors and the installation of Wi-Fi at all three race tracks. NYRA continues planning for Belmont dorms.

- **Industry**

Based on information provided by Equibase, for the three months ended September 30, 2012, NYRA outpaced the industry as wagering on U.S. races increased 2% compared to a 14% increase in wagering on NYRA races. NYRA contributed 4% of total industry race days, offered 17% of purses and generated 30% of thoroughbred handle across the United States. Every dollar invested in purses at NYRA during the three months ended September 30, 2012 yielded \$15.19 in handle compared to \$8.47 industry-wide.

**NYRA HANDLE AND OTHER RELEVANT STATISTICS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

STATISTICAL HANDLE HIGHLIGHTS

	For the Three Months Ending September 30th		Change	
	2012	2011	\$	%
RACING DAYS	66	66	0	0.0%
ATTENDANCE - Live Race Days, Live Track	1,009,220	999,110	10,110	1.0%
ATTENDANCE - Live Race Days, Non-Live Track	179,302	188,987	-9,685	-5.1%
TOTAL ATTENDANCE	1,188,522	1,188,097	425	0.0%
DAILY AVERAGE ATTENDANCE @ Live Track	15,291	15,138	153	1.0%
PER-CAPITA BET ON LIVE DAYS AT LIVE TRACK	\$142	\$143	(\$1)	-0.8%
<u>ON-TRACK HANDLE COMPONENTS</u>				
ADW (PHONE, INTERNET & ON-TRACK)	\$82,502,089	\$73,211,923	\$9,290,166	12.7%
SARATOGA	99,927,377	96,660,324	3,267,053	3.4%
BELMONT	35,004,647	40,403,448	-5,398,801	-13.4%
AQUEDUCT	37,729,759	28,897,976	8,831,783	30.6%
TOTAL NYRA ON-TRACK HANDLE	\$255,163,872	\$239,173,671	\$15,990,201	6.7%
DAILY AVERAGE ON-TRACK HANDLE	\$3,866,119	\$3,623,844	\$242,276	6.7%
<u>OFF-TRACK HANDLE (EXPORT)</u>				
NYOTB DOWNSTATE	\$44,088,637	\$45,292,203	-\$1,203,566	-2.7%
NYOTB UPSTATE	31,265,569	30,408,039	857,530	2.8%
NY INTER-TRACK WAGERING	16,664,741	18,152,144	-1,487,403	-8.2%
OUT-OF-STATE	558,510,669	468,150,372	90,360,297	19.3%
INTERNATIONAL SEPARATE POOL	6,946,251	1,393,398	5,552,853	398.5%
TOTAL OFF-TRACK (EXPORT)	\$657,475,866	\$563,396,156	\$94,079,710	16.7%
DAILY AVERAGE OFF-TRACK HANDLE	\$9,961,756	\$8,536,305	\$1,425,450	16.7%
TOTAL HANDLE	\$912,639,738	\$802,569,827	\$110,069,911	13.7%
DAILY AVERAGE TOTAL HANDLE	\$13,827,875	\$12,160,149	\$1,667,726	13.7%

- Estimated cumulative on-track attendance at the live track for the three months ended September 30, 2012 was 1,009,220, an increase of 10,110 or 1% compared to the same period last year driven by the Saratoga meet. Estimated attendance at NYRA non-live track locations totaled 179,302 a decrease of 5%. The estimated average on-track per-capita bet of \$142 at the live track is essentially consistent with 2011 results. The total number of race days for the third quarter for the Saratoga meet was 40 days and for the Belmont meet was 26 days.
- During the three months ended September 30, 2012, NYRA generated \$912.6 million in total handle, an increase of \$110.1 million or 14% compared to the same period last year. Daily average total handle increased \$1.7 million or 14% compared to last year.
- On-track handle of \$255.2 million increase 16.0 million or 6.7% over prior year driven primarily by wagering through ADW and at Aqueduct.

- Export handle of \$657.5 million increased \$94.1 million or 17% primarily due to an increase in wagering from out-of-state entities. Increases from XpressBet, Elite, Racing and Gaming Services, Twin Spires, and TVG represented \$59.8 million or 68% of the total increase. Additionally, international handle increased \$5.6 million or 399% primarily due to the addition of a UK based wagering site.

RACING SUMMARY

Race Type Distribution	3rd Quarter 2012					3rd Quarter 2011				
	Races	Horses	Starters		% of Total	Races	Horses	Starters		% of Total
			Per Race	Horses				Per Race	Horses	
Maiden Claiming	100	880	8.80	14.99%	15.58%	98	864	8.82	14.98%	16.34%
Claiming	147	1,338	9.10	22.04%	23.68%	160	1,304	8.15	24.46%	24.66%
Starter Handicap	3	16	5.33	0.45%	0.28%	8	53	6.63	1.22%	1.00%
Starter Allowance	21	176	8.38	3.15%	3.12%	14	107	7.64	2.14%	2.02%
Allowance Optional Claiming	76	589	7.75	11.39%	10.42%	67	491	7.33	10.24%	9.29%
Maiden	167	1,463	8.76	25.04%	25.89%	149	1,279	8.58	22.78%	24.19%
Allowance	46	422	9.17	6.90%	7.47%	54	444	8.22	8.26%	8.40%
Stakes	107	766	7.16	16.04%	13.56%	104	745	7.16	15.90%	14.09%
	667	5,650	8.47			654	5,287	8.08		

- Field size during the three months ended September 30, 2012 was 8.47, up from 8.08 compared to the same period last year. The quality of racing was also higher and is evident by the increase in Allowance Optional Claiming races as well as Maiden races. Claiming races as a percentage of total races decreased during the three months compared to last year.
- During the three months ended September 30, 2012, 5,650 horses entered 667 races at NYRA race tracks for an average field size of 8.47. During the same period last year, 5,287 horses entered 654 races, for an average field size of 8.08.

On-Track Handle by Content

	For the Three Months Ending September 30th		Change	
	2012	2011	\$	%
NYRA ON-TRACK HANDLE				
NYRA LIVE	\$188,253,279	\$174,505,574	\$13,747,705	7.9%
IMPORTS	66,910,593	64,668,097	2,242,496	3.5%
TOTAL NYRA ON-TRACK HANDLE	\$255,163,872	\$239,173,671	\$15,990,201	6.7%

- On-track handle for the three months ended September 30, 2012 totaled \$255.2 million, an increase of \$16.0 million or 7% compared to the same period last year. The increase is attributable to a \$13.7 million or 8% increase in wagering on NYRA races and a \$2.2 million or 4% increase in wagering on imports. During the third quarter, wagering on NYRA live races represented 74% of on-track handle, an increase of 1% compared to the same period last year.

Account Wagering Handle

	For the Three Months Ending September 30th		Change	
	2012	2011	\$	%
ACCOUNT WAGERING HANDLE				
PHONE	\$19,019,086	\$18,049,994	\$969,092	5.4%
INTERNET	33,252,077	27,280,913	5,971,164	21.9%
BELMONT	10,724,646	11,842,504	-1,117,858	-9.4%
AQUEDUCT	5,183,482	2,492,959	2,690,523	107.9%
SARATOGA	14,322,799	13,545,553	777,246	5.7%
TOTAL ACCOUNT WAGERING HANDLE	\$82,502,089	\$73,211,923	\$9,290,166	12.7%

- Account Wagering:** Total account wagering handle through the NYRA Rewards program (whether wagered by phone, internet or on-track), for the three months ended September 30, 2012, was \$82.5 million, an increase of \$9.3 million or 13% compared to history. The increase is primarily attributable to continued growth in internet wagering as well as a \$2.4 million or 8% increase in on-track rewards handle. During the third quarter, 1,953 new NYRA Rewards accounts were opened generating \$2.8 million in ADW handle. Account wagering handle represented 32% of total on-track handle for the three months compared to 31% for the same period last year.
- Internet Handle:** During the three months ended September 30, 2012, internet handle increased \$6.0 million or 22% to \$33.3 million and represented 40% of total account wagering handle. The launch of the “NYRA2” user interface extended hours accessibility and enhanced customer service as well as WI-FI access at all tracks were the leading factors for the increase in internet handle. Internet handle represented 13% of total on-track handle during the third quarter compared to 11% during the same period last year.
- Phone Handle:** During the three months ended September 30, 2012, phone handle increased \$1 million or 5% to \$19.0 million and represents 23% of account wagering handle. Phone handle represented 7% of total on-track handle during the third quarter compared to 8% during the same period last year. Call volume totaled approximately 776,309 for the quarter, an increase of 49,242 or 7% compared to the same period last year.

REVENUE
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2011

RACING RELATED REVENUE

(in thousands)

	For Three Months		Change	
	Ending September 30th		\$	%
	2012	2011		
On-track	\$47,636	\$45,767	\$1,869	4.1%
Export revenue	36,290	30,104	6,186	20.5%
New York OTB	8,378	8,703	(325)	(3.7%)
Sub-total gross pari-mutuel revenue	\$92,304	\$84,574	\$7,730	9.1%
less: Statutory and Other				
Rewards Rebate	\$1,534	\$1,361	\$173	12.7%
Stakes & Purses	37,041	33,563	3,478	10.4%
Other statutory payments	7,238	6,312	926	14.7%
Sub-total Statutory and Other	\$45,814	\$41,237	\$4,577	11.1%
Net wagering revenue	\$46,490	\$43,338	\$3,153	7.3%
Other revenue, net	\$4,270	\$3,215	\$1,054	32.8%
On-track racing related revenue, net	9,094	9,333	(239)	(2.6%)
Net Revenue From Racing Operations	\$59,854	\$55,886	\$3,968	7.1%

- **On-track Wagering Revenue:** During the three months ended September 30, 2012, on-track wagering revenue increased \$1.9 million or 4% to \$47.6 million compared to prior year, as a result of increased field size, improved race quality and higher purses.
- **Export Revenue:** During the three months ended September 30, 2012, NYRA generated \$36.3 million of export revenue, an increase of \$6.2 million or 21% compared to prior year. The increase in export revenue is primarily attributable to a significant increase in wagering from out-of-state entities, specifically increases from XpressBet, Elite, Racing and Gaming Services, Twin Spires, and TVG which represented \$5 million or 81% of the total increase.
- **New York OTB Revenue:** Please see discussion on page 11.
- **Stakes & Purses:** Wagering related accrued stakes and purses expense during the three months ended September 30, 2012 was \$37.0 million compared to \$33.6 million for the same period last year. The \$3.5 million or 10% increase in stakes and purses is attributable to higher on-track and export wagering.
- **Other Statutory Payments:** Other statutory payments which include pari-mutuel taxes, NYS Racing and Wagering Board Regulatory fees, NYC/Nassau County simulcast tax, and breeder's fund commission were \$7.2 million during the three months ended September 30, 2012 compared to \$6.3 million for the same period last year.

- **Other Revenue:** During the three months ended September 30, 2012, NYRA generated Other Revenue totaling \$4.3 million. The primary sources of Other Revenue are sponsorships (\$1.4 million), group sales events (\$849,000), property and parking space rentals (\$415,000), decoder rentals (\$282,000), content fees (\$269,000), NY Stallion Series (\$221,000), store commission (\$214,000), stall rentals (\$193,000), Lasix (\$149,000) and revenue from various other sources including ATM and vending commissions (\$262,000). Other Revenue increased \$1.1 million or 33% compared to last year primarily due to a \$518,000 increase in sponsorship revenue and increases in group sales event and NY Stallion series revenue totaling \$1.1 million and partially offset by a decrease in content fees (\$344,000) and dividend revenue (\$131,000).
- **On-Track Racing Related Revenue:** During the three months ended September 30, 2012, NYRA generated \$9.1 million of On-Track Racing Related Revenue, which included sales from admissions, box/reserved seats, food concessions, parking, newspapers and programs. On-Track Racing Related revenue decreased \$239,000 or 3% compared to last year due to timing of revenue recognized in box/reserved seats and program sales, partially offset by an increase in food concessions.
- **Net Revenue From Racing Operations:** During the three months ended September 30, 2012, NYRA generated \$59.9 million of net revenue from racing operations, an increase of \$4.0 million or 7% compared to history primarily due to an increase in wagering and other revenue, partially offset by a decrease in on-track racing related revenue.

- **New York OTB Revenue:** NYRA receives revenue from the five New York OTB entities as follows: (1) statutory commissions on NYRA races; (2) statutory commissions on out-of-state thoroughbred wagering (3) contractual content fees for the in-home broadcast of NYRA races on local cable channels.

For the three months ended September 30, 2012, total revenue from the New York OTB network was \$8.4 million, a decrease of \$325,000 or 4% when compared to 2011 results. Declines in revenue earned on NYRA and out-of-state races offset increases in contract revenue on NYRA races as illustrated in the schedule below:

		New York OTB Gross Revenue			
(in thousands)					
<i>Three Months Ended September 30</i>		Actual	History	Change	
NYRA RACES		2012	2011	\$	%
Nassau Regional OTB		\$1,557	\$1,633	(\$76)	-4.7%
Suffolk District OTB		867	911	(44)	-4.8%
Capital OTB		1,086	1,015	71	7.0%
Catskills OTB		523	500	23	4.6%
Western Regional OTB		262	258	4	1.6%
TOTAL REVENUE ON NYRA RACES		\$4,295	\$4,316	(\$21)	-0.5%
OUT-OF-STATE RACES					
Nassau Regional OTB		\$1,254	\$1,355	(\$100)	-7.4%
Suffolk District OTB		538	648	(110)	-17.0%
Capital OTB		717	683	34	4.9%
Catskills OTB		441	536	(94)	-17.6%
Western Regional OTB		376	419	(43)	-10.3%
TOTAL REVENUE ON OUT-OF-STATE RACES		\$3,327	\$3,641	(\$314)	-8.6%
CONTRACTS					
Nassau Regional OTB		\$261	\$274	(\$13)	-4.6%
Suffolk District OTB		133	140	(7)	-4.8%
Capital OTB		175	175	0	0.0%
Catskills OTB		112	89	23	25.9%
Western Regional OTB		75	69	7	9.5%
TOTAL REVENUE ON CONTRACTS		\$756	\$746	\$10	1.4%
GRAND TOTAL					
Nassau Regional OTB		\$3,072	\$3,262	(\$189)	-5.8%
Suffolk District OTB		1,538	1,699	(160)	-9.4%
Capital OTB		1,978	1,873	105	5.6%
Catskills OTB		1,076	1,124	(48)	-4.3%
Western Regional OTB		713	746	(33)	-4.4%
GRAND TOTAL REVENUE		\$8,378	\$8,703	(\$325)	-3.7%

VLT REVENUE

VLT REVENUE

(in thousands)

	For Three Months		Change	
	Ending September 30, 2012		\$	%
	2012	Budget		
Gross Based on WPM	\$175,937	\$174,800	\$1,137	0.7%
Stakes and Purses at 6.5%	11,436	11,362	74	0.7%
Capital at 4.0%	7,037	6,992	45	0.7%
Operations at 3.0%	5,278	5,244	34	0.7%
Gross VLT Revenue	\$23,752	\$23,598	\$154	0.7%
less: Stakes and Purses	\$11,436	\$11,362	\$74	0.7%
Net VLT Revenue	\$12,316	\$12,236	\$80	0.7%

- VLT Revenue:** Gross VLT revenue for the three months ended September 30, 2012 totaled \$23.8 million of which \$11.4 million was earned for stakes and purses, \$7.0 million was earned for capital expenditures and \$5.3 million was earned for NYRA operations. Gross VLT revenue was \$154,000 higher than budget which assumed Win Per Machine of \$380; the actual WPM for the three month period was \$388.

OPERATING EXPENSES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2011

The following table is a summary of operating expenses for the three months ended September 30, 2012 compared to history.

OPERATING EXPENSES

(in thousands)

	For Three Months		Change	
	Ending September 30th		\$	%
	2012	2011		
Salaries and Wages	\$17,124	\$17,091	\$32	0.2%
Payroll Taxes	1,306	1,280	26	2.1%
Benefits	4,333	4,175	157	3.8%
Travel & Entertainment	93	65	28	42.7%
Saratoga Per Diem	2,297	2,194	103	4.7%
Operating Supplies	760	760	(0)	(0.0%)
Utilities	1,499	1,736	(237)	(13.6%)
Dues & Subscriptions	245	211	34	16.3%
Temporary Help	2,456	2,671	(215)	(8.0%)
Outside Services	3,218	3,298	(80)	(2.4%)
Cable Contract/Video Streaming	711	462	249	53.9%
Telephone & Communications	1,899	1,543	356	23.1%
Professional Fees:				
Legal Fees	1,088	540	548	101.4%
Consulting	714	984	(271)	(27.5%)
TOTE Expense	944	850	94	11.1%
Rentals & Leases	1,096	923	173	18.8%
Repairs & Maintenance	1,937	2,013	(76)	(3.8%)
Insurance	1,778	1,652	125	7.6%
Marketing & Advertising	2,038	1,864	174	9.3%
Customer Relations	161	114	47	40.8%
Charitable Contributions	376	431	(55)	(12.7%)
Bad Debt Expense	90	90	0	0.0%
Other Expenses	1,201	656	545	83.0%
Total Operating Expenses	\$47,364	\$45,604	\$1,760	3.9%

Total operating expenses of \$47.4 million for the three months ended September 30, 2012 increased \$1.7 million or 4% compared to the same period last year primarily due to increases in legal fees, sales tax audit expenses, telephone and communications, and cable contract/video streaming expenses and partially offset by decreases in consulting, utilities and temporary help expense.

- The \$548,000 or 101% increase in legal fees is primarily due to the costs associated with the take out investigation and subsequent statutory rate review as well as franchise defense.
- The \$545,000 or 83% increase in other expenses is primarily attributable to a sales tax accrual of \$633,000, resulting from a New York State sales tax audit for the period September 2008 through May 2011.

- The \$356,000 or 23% increase in telephone and communications expense is due to an increase in wagering data service expense related to increased call volume through outsourced Telebet operation and timing of expenditures.
- The \$249,000 or 54% increase in cable contract/video streaming expense is due to additional contractual requirements within the NYC cable contract agreement based on achieving handle milestones relating to internet and phone wagering.
- The \$271,000 or 28% decrease in consulting expense is primarily attributable to a decrease in Turnberry (strategic development advice) consulting fees, partially offset by increases in project management for Saratoga Frontside Redevelopment Study and technology related consulting fees.
- The \$237,000 decrease in utilities expense is primarily attributable to reduced electricity costs at all three tracks resulting from installation of energy efficient fixtures.
- The \$215,000 decrease in temporary help expense is primarily attributable to the timing of Mutuels department temporary help and a reduction in Food and Beverage department temporary help.

**NON-OPERATING EXPENSES
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

NYRA's non-operating expenses primarily consist of employee legacy costs (pension and other post-retirement employee benefits "OPEB") and depreciation. The following schedule illustrates 2012 expenses compared to history:

(in thousands)

	For Three Months		Change	
	Ending September 30th		\$	%
	2012	2011		
Retiree Benefits	\$2,672	\$4,163	(\$1,491)	(35.8%)
Pension	1,823	1,377	446	32.4%
Interest Expense	111	138	(27)	(19.5%)
Depreciation	499	924	(425)	(46.0%)
Income Tax Expense	27	0	27	100.0%
Total Non-Operating Expenses	\$5,133	\$6,601	(\$1,468)	(22.2%)

The \$1.5 million or 22% decrease in non-operating expenses compared to prior year is driven by a decrease in retiree benefits. The annual Retiree Benefits expense is actuarially determined and is expected to increase to \$10.7 million for the full year of 2012 compared to \$9.3 million in 2011. The decrease in Retiree benefits for the quarter vs the prior year is due to the timing of the actuarial calculations received resulting in a large adjustment in August of the prior year related to the first half of the year. The increase in the Retiree Benefits expense in 2012 is primarily attributable to medical inflation assumptions. Retiree Benefits expense reflects the cash cost to NYRA of providing benefits to our retired employees, net of participant contributions and Medicare subsidies.

The 2012 pension expense is determined by actuaries based on the assets and liabilities as of the December 31, 2011 measurement date. Asset performance as well as a drop in the discount rate from 5.3% to 4.4% contributes significantly to the increase in the pension liability and the related pension expense. Actual expense will be adjusted at the end of the year for actual asset performance which has been positive compared to prior years as well as recent union negotiations.

SELECT BALANCE SHEET ITEMS

Accounts Receivable

- As of September 30, 2012, accounts receivable was \$33.6 million, up \$14.7 million or 78% compared to December 31, 2011. The increase is attributable to a \$13.1 million increase in export fee receivables due to increased export revenue resulting from the concluded Saratoga meet.
- As of September 30, 2012, the New York OTB network had a combined balance due NYRA totaling \$8 million. Suffolk OTB had the highest balance due at \$3.6 million, of which approximately \$2.0 million was considered pre-petition covered in their original bankruptcy filing, and another \$900,000 from their second bankruptcy filing on May 11, 2012. Suffolk has been paying current obligations on a 30 day basis.

\$25 Million ESDC/Genting LLC Loan Facility

Repayment of principal and interest (which accrues at 2% per annum) towards the \$25 million loan with Genting LLC commenced on April 28, 2012, six months from the date VLT operations at Aqueduct began. The amount payable is deducted from the distributions Genting is required to make to NYRA on a daily basis and is equal to 25% of the portion of video lottery revenues NYRA receives for both operating funds and capital funds. During the three months ended September 30, 2012, NYRA paid \$3.0 million towards the loan, of which \$2.9 million was applied towards principal and \$109,000 was applied towards interest. As of September 30, 2012, NYRA has a total outstanding loan balance of \$19.8 million due Genting LLC. The loan is expected to be repaid in full by September 2014.

Accrued Pension and Post Retirement Obligations

NYRA's largest liabilities are pension and post retirement (OPEB) obligations, associated with union and post-retirement medical plans, at \$71.9 million and \$120.9 million, respectively. Consistent with Generally Accepted Accounting Principles (GAAP), the plans underfunded status is presented as a liability on the balance sheet. Funded status is the difference between the fair value of plan assets and the plan's projected benefit obligation (PBO). The key assumption that impacts the PBO is the discount rate. The drop in discount rate from 5.3% in 2010 to 4.4% in 2011 contributes significantly to the increased PBO and resultant under-funded (liability) status. For purposes of determining the discount rate, an actuarial analysis was done that matched the expected benefit payments with bonds using the Citigroup above median AA yield curve as of 12/31/11. The liability will be adjusted at the end of the year for asset performance and for recent union negotiations.

PURSE LIABILITY

As of September 30, 2012, the accrued but unpaid purse liability was \$4.5 million compared to \$3.8 million at December 31, 2011. Purses paid during the nine months ended September 30, 2012 totaled approximately \$118.2 million of which \$33.1 million was derived from VLT revenue accrued during the nine month period. Projections indicate total payments to purses for 2012 will be approximately \$148.0 million, which includes \$43.9 million derived from VLT revenue.

The projected year end purse liability is expected to be in compliance with Section 208.9(b) of the New York Racing, Pari-Mutuel Wagering and Breeding Law, which requires the purse liability to be no greater than \$14.0 million on December 31, 2012.

(in thousands)

Accrued but unpaid purses at 12/31/2011	\$ 3,786
Accrued purses from Racing January - September 2012	85,170
Purse cash payments Racing January - September 2012	(84,454)
Accrued purses from VLTs January - September 2012	33,050
Purse cash payments from VLTs January - September 2012	(33,050)
Accrued but unpaid purses at 9/30/2012	\$ 4,503
Projected accrual October - December 2012	20,769
Projected cash payments October - December 2012	(19,656)
Projected accrual from VLTs October - December 2012	10,834
Projected cash payments from VLTs October - December 2012	(10,834)
Projected accrued but unpaid purses at 12/31/2012	\$ 5,615

2012 CAPITAL SPENDING

(in thousands)	3 Months Ended September 30, 2012 Actual	YTD Actual	Full Year 2012 Budget
NYRA TV	\$761	\$2,393	2,601
AQUEDUCT			
AC for 1st and 2nd floor Clubhouse	0	0	1,000
Warning Light System	2	15	100
Patron Area Improvements	67	368	495
Other	18	77	450
AQUEDUCT	Sub-total	460	2,045
BELMONT			
CAFO & Storm Water Management	367	541	2,250
Dorms	17	17	4,500
Patron Area Improvements	74	443	420
Warning Light System	7	33	50
Barn	404	779	850
Other	145	433	725
BELMONT	Sub-total	2,246	8,795
SARATOGA			
Yaddo	0	1	700
Surveys	74	439	800
Master Development	599	968	1,250
Patron Area Improvements	224	638	455
Warning Light System	15	30	120
Barn	13	100	235
Other	239	923	875
SARATOGA	Sub-total	3,099	4,435
FLEET EQUIPMENT	167	1,033	1,271
INFORMATION TECHNOLOGY			
Telephone System Upgrade	0	0	300
Wi-Fi	161	338	375
Other	139	310	470
INFORMATION TECHNOLOGY	Sub-total	648	1,145
GRAND TOTAL	\$3,493	\$9,879	\$20,292

- During the three months ended September 30, 2012, NYRA spent \$3.5 million consistent with the 2012 budget related capital improvements. Major capital expenditures during the three months included the following:
 - **NYRA TV** – NYRA spent \$761,000 towards television production equipment, including the purchase of equipment to be installed in the video production trailer.

- **Patron Area Improvements** – NYRA spent \$365,000 towards patron area improvements at all three racetracks. The improvements included the installation of a new bathroom for the Shake Shack in Saratoga and upgrades to the simulcasting areas of Aqueduct
- **Fleet and Equipment** – NYRA spent \$167,000 towards fleet and equipment, the majority of which was towards the purchase of two new security vehicles and maintenance equipment.
- **Master Development Planning and Surveys** – NYRA spent \$673,000 towards the Saratoga Frontside Renovation and Redevelopment project which included \$599,000 for master development planning and \$74,000 for existing condition surveys.
- **Information Technology** – NYRA spent \$300,000 on information technology, \$161,000 of which was towards the installation of Wi-Fi at all three tracks.
- **CAFO and Storm Water Management** – NYRA spent \$367,000 towards the CAFO and Storm Water Management project at Belmont, of which \$200,000 was spent on the construction of twenty new wash pads and related ground work in the barn area.
- **Barn Area** – NYRA spent \$404,000 on Barn Area Improvements at Belmont, including \$185,000 on new stall flooring and \$166,000 on new barn roofs.
- **Other Projects at Saratoga** – NYRA spent \$239,000 in other miscellaneous projects at Saratoga which included upgrades to the wiring infrastructure to allow for the relocation of the TV production truck.

LIQUIDITY

As of September 30, 2012, NYRA had roughly \$16.9 million in unrestricted cash (\$11.6 million of operating cash and \$5.3 million in the pari-mutuel vaults to support wagering activities), as well as \$4.8 million in VLT capital funds (restricted cash). During the three month period, \$7.0 million in VLT capital funds were earned while \$5.2 million was released and used for \$2.9 million in capital expenditures (\$2.8 million related to 2012 projects and \$100,000 related to 2011 projects) and \$2.3 million in repairs and maintenance costs. Additionally, \$1.8 million of earned VLT Capital Funds was applied towards the pay down of the \$25 million Genting loan. NYRA continues to monitor and forecast its cash flow projections on a weekly basis in order to address possible liquidity concerns.

2012 Cash Flow

(in thousands)

	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Forecast	Forecast	TOTAL
	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	OCT	NOV	DEC	
Operating Income	\$2,540	\$2,397	\$2,477	\$1,936	\$35	\$8,812	\$6,337	\$18,384	\$85	\$2,687	\$1,934	(\$2,464)	\$45,160
Plus: accrued purses	9,786	10,688	11,946	10,824	12,197	14,301	15,029	20,434	13,015	11,556	11,005	9,041	149,823
Less: cash purses	(8,067)	(8,349)	(10,013)	(9,528)	(13,379)	(13,150)	(14,156)	(24,272)	(16,590)	(11,703)	(11,016)	(7,771)	(147,993)
Capital Expenditure (3)	(599)	(946)	(644)	(1,328)	(1,359)	(1,513)	(1,072)	(1,173)	(1,320)	(4,082)	(1,124)	(1,064)	(16,224)
Pension (cash)	(1,544)	(13)	(8)	(1,999)	(7)	(11)	(2,001)	(9)	(2,166)	(448)	0	0	(8,206)
OPEB (cash)	(447)	(470)	(455)	(456)	(457)	(452)	(453)	(453)	(445)	(450)	(450)	(450)	(5,438)
Loan Repayment (Cap Fund)	0	0	0	0	(966)	(805)	(598)	(586)	(576)	(565)	(533)	(484)	(5,113)
Loan Repayment (Operating Fund)	0	0	0	0	(514)	(604)	(448)	(440)	(432)	(424)	(400)	(363)	(3,625)
Working Capital(1)	1,540	860	(2,594)	1,915	4,136	(5,405)	(508)	(10,036)	(573)	5,500	(2,500)	1,500	(6,165)
Free Cash Flow ("FCF")	\$3,210	\$4,167	\$710	\$1,364	(\$314)	\$1,173	\$2,130	\$1,848	(\$9,001)	\$2,071	(\$3,084)	(\$2,055)	\$2,220
Beginning Cash(2)	\$16,467	\$19,677	\$23,844	\$24,554	\$25,918	\$25,604	\$26,777	\$28,907	\$30,756	\$21,755	\$23,826	\$20,742	\$16,467
Ending Cash(2)	\$19,677	\$23,844	\$24,554	\$25,918	\$25,604	\$26,777	\$28,907	\$30,756	\$21,755	\$23,826	\$20,742	\$18,687	\$18,687

NOTES:

- (1) Captures changes due to receivable and payable seasonality and anticipated cash payments of large accrued expenses such as legal fees
- (2) Includes cash in operating accounts, vault and capital account
- (3) Capital Expenditure includes expenditures based on approved 2011 related capital projects

INDUSTRY UPDATE

3 MONTH COMPARISON	3 Months Ended 9/30/12	3 Months Ended 9/30/11	% Variance
<u>Industry as Provided by Equibase</u>			
Wagering on U.S. Races	\$2,816,223,821	\$2,755,842,165	2.2%
U.S. Purses	\$332,438,272	\$301,622,138	10.2%
U.S. Race Days	1,633	1,608	1.6%
Handle Yield Per Purse Dollar Invested	\$8.47	\$9.14	-7.3%
<u>NYRA</u>			
Wagering on NYRA Races	\$838,782,895	\$736,508,332	13.9%
NYRA Purses	\$55,237,040	\$37,321,934	48.0%
NYRA. Race Days	66	66	0.0%
Handle Yield Per Purse Dollar Invested	\$15.19	\$19.73	-23.1%
<u>NYRA as Percentage of Industry</u>			
Wagering on U.S. Races	29.8%	26.7%	
U.S. Purses	16.6%	12.4%	
U.S. Race Days	4.0%	4.1%	

- Based on information provided by Equibase, for the three months ended September 30, 2012, NYRA outpaced the industry as wagering on U.S. races increased 2% compared to a 14% increase in wagering on NYRA races. NYRA contributed 4% of total industry race days, offered 17% of purses and generated 30% of thoroughbred handle across the United States. Every dollar invested in purses at NYRA during the three months ended September 30, 2012 yielded \$15.19 in handle compared to \$8.47 industry-wide.

EXHIBIT 1

Proforma Unaudited Non-GAAP Statement of Operating Income For the Nine Months Ended September 30, 2012 Compared to The Nine Months Ended September 30, 2011 (Exclusive of VLT Funds)

RACING RELATED REVENUE				
(in thousands)				
	For Nine Months		Change	
	Ending September 30th	Ending September 30th	\$	%
	2012	2011		
On-track	\$100,096	\$91,591	\$8,505	9.3%
Export revenue	81,542	67,405	14,137	21.0%
New York OTB	22,830	23,588	(757)	(3.2%)
Sub-total gross pari-mutuel revenue	\$204,468	\$182,584	\$21,884	12.0%
less: Statutory and Other				
Rewards Rebate	\$3,137	\$2,716	\$421	15.5%
Stakes & Purses	85,170	75,943	9,227	12.2%
Other statutory payments	14,993	12,631	2,361	18.7%
Sub-total Statutory and Other	\$103,300	\$91,290	\$12,010	13.2%
Net wagering revenue	\$101,168	\$91,294	\$9,875	10.8%
Other revenue, net	\$9,783	\$9,660	\$122	1.3%
On-track racing related revenue, net	13,028	11,956	1,073	9.0%
Net Revenue From Racing Operations	\$123,979	\$112,910	\$11,069	9.8%
OPERATING EXPENSES				
Salaries and Wages	\$43,672	\$45,117	(\$1,445)	(3.2%)
Payroll Taxes	3,428	3,560	(132)	(3.7%)
Benefits	12,442	12,728	(286)	(2.2%)
Travel & Entertainment	179	142	37	26.3%
Saratoga Per Diem	2,297	2,194	103	4.7%
Operating Supplies	1,898	1,925	(27)	(1.4%)
Utilities	4,936	5,586	(650)	(11.6%)
Dues & Subscriptions	712	649	63	9.7%
Temporary Help	3,075	3,288	(213)	(6.5%)
Outside Services	6,170	6,052	119	2.0%
Cable Contract/Video Streaming	2,069	1,822	247	13.5%
Telephone & Communications	5,253	3,434	1,819	53.0%
Professional Fees:				
Legal Fees	3,849	1,344	2,505	186.4%
Consulting	2,984	3,032	(48)	(1.6%)
TOTE Expense	2,081	1,779	303	17.0%
Rentals & Leases	2,191	1,780	412	23.1%
Repairs & Maintenance	4,706	5,119	(413)	(8.1%)
Insurance	5,038	4,974	65	1.3%
Marketing & Advertising	4,169	3,186	983	30.9%
Customer Relations	339	303	36	11.8%
Charitable Contributions	1,063	1,128	(65)	(5.8%)
Bad Debt Expense	1,405	84	1,321	1571.1%
Other Expenses	2,609	1,783	826	46.3%
Total Operating Expenses	\$116,568	\$111,010	\$5,559	5.0%

EXHIBIT 2

VLT Revenue For the Nine Months Ended September 30, 2012 Compared to Budget

VLT REVENUE

(in thousands)

	For Nine Months			
	Ending September 30, 2012			
	2012	Budget	\$	%
Gross Based on WPM	\$508,455	\$514,900	(\$6,445)	-1.3%
Stakes and Purses at 6.5%	33,050	33,469	(418)	-1.3%
Capital at 4.0%	20,338	20,596	(258)	-1.3%
Operations at 3.0%	15,254	15,447	(193)	-1.3%
Gross VLT Revenue	\$68,642	\$69,512	(\$870)	-1.3%
less: Stakes and Purses	\$33,050	\$33,469	(\$418)	-1.3%
Net VLT Revenue	\$35,592	\$36,043	(\$451)	-1.3%

EXHIBIT 3

The New York Racing Association
2012 Saratoga Meet
STATISTICAL HANDLE HIGHLIGHTS

	2012	2011	Change	
			\$	%
RACING DAYS	40	39	1	2.6%
AVERAGE FIELD SIZE PER RACE	8	8	0	2.4%
ATTENDANCE AT SARATOGA	901,033	871,772	29,261	3.4%
DAILY AVERAGE ATTENDANCE	22,526	22,353	173	0.8%
PER-CAPITA BET ON LIVE DAYS AT LIVE TRACK	\$127	\$126	\$0	0.3%
<u>ON-TRACK HANDLE COMPONENTS</u>				
ACCOUNT WAGERING: PHONE	\$11,751,691	\$11,556,838	\$194,853	1.7%
INTERNET	20,377,732	17,450,370	2,927,362	16.8%
SARATOGA	14,322,799	13,545,067	777,733	5.7%
BELMONT	3,936,158	4,390,269	(454,111)	-10.3%
AQUEDUCT	3,094,074	1,519,672	1,574,401	103.6%
ADW (PHONE, INTERNET & ON-TRACK)	\$53,482,454	\$48,462,216	\$5,020,238	10.4%
SARATOGA	99,927,377	96,660,800	3,266,577	3.4%
BELMONT	11,635,929	14,062,852	(2,426,923)	-17.3%
AQUEDUCT	22,409,088	17,373,513	5,035,575	29.0%
TOTAL NYRA ON-TRACK HANDLE	\$187,454,848	\$176,559,381	\$10,895,468	6.2%
<u>OFF-TRACK HANDLE (EXPORT)</u>				
NYOTB DOWNSTATE	\$28,618,418	\$29,770,201	(\$1,151,783)	-3.9%
NYOTB UPSTATE	23,212,205	23,067,091	145,113	0.6%
NY INTER-TRACK WAGERING	10,959,395	12,176,715	(1,217,320)	-10.0%
OUT-OF-STATE	374,923,949	320,960,196	53,963,753	16.8%
INTERNATIONAL SEPARATE POOL	1,785,233	731,189	1,054,044	144.2%
TOTAL OFF-TRACK (EXPORT)	\$439,499,199	\$386,705,392	\$52,793,807	13.7%
DAILY AVERAGE OFF-TRACK HANDLE	\$10,987,480	\$9,915,523	\$1,071,957	10.8%
TOTAL HANDLE	\$626,954,047	\$563,264,773	\$63,689,275	11.3%
DAILY AVERAGE TOTAL HANDLE	\$15,673,851	\$14,442,686	\$1,231,165	8.5%