

Hubbard

on

Business & Horses

R.D. Hubbard discusses his history in business and Quarter Horses.

**As told to Richard Wilcke Director, Equine Industry Program,
University of Louisville**

Over the All American weekend at Ruidoso Downs, the Equine Industry Program of the University of Louisville presented R.D. Hubbard with the John W. Galbreath Award for Outstanding Entrepreneurship in the Equine Industry. He was chosen for the Galbreath in 2007, but preferred to actually receive it at Ruidoso Downs in the presence of friends and colleagues in the Quarter Horse industry. During the 2008 Bank of America Challenge Championships in Lafayette, Louisiana, Richard Wilcke spoke with Hubbard about his perspectives on entrepreneurship, his own career and his history with American Quarter Horses.

Following are excerpts. For the complete transcript, visit americahorsedaily.com.

Entrepreneurship is pretty simple, really, and there aren't that many elements to it, at least I don't think there were in my case.

One: To me, the most important thing is people.

No matter what business you are in, you have to deal, and get along, with people – as customers, as suppliers, as competitors, as investors, as partners or as employees. I was fortunate as a very young man to get the chance to associate in business with people two or three times my age and in large companies. Working for a small firm, I was given an opportunity to interact with experienced sales people and corporate executives. That exposure helped my career later as an entrepreneur.

And I learned the value of surrounding myself with the best people, many of whom knew how to do crucial things that I didn't know very much about, whether it was how to manufacture plate glass or something else. And because people are so important, I believe strongly that those who can help you succeed should share in the profits, either as shareholders or through

a profit-sharing program. I think employees should be committed to the success of the business, so I always wanted them to feel like owners.

Two: Clearly, you need to be willing to take risks.

I don't mean gambling. To me, there is a big difference between a gambler and a risk-taker. In business, you get the facts, weigh the options, and take the risk in the belief that the odds are in your favor. A gambler tends to shoot it all in hopes of winning. A risk-taker who is able to make the correct decisions 51 percent of the time will come out ahead. There will be mistakes, of course, and there is no question that I made mistakes. But an entrepreneur can live with his mistakes as long as there are more right decisions than wrong ones.

This process of gathering facts and weighing decisions before risk-taking doesn't have to be slow. Often business decisions have to be made quickly. One of the benefits of my early career is that I worked for men who had sufficient trust in me, and enough authority of their own, that I was allowed to make decisions without having to consult with a lot of people. In big corporations, you submit a plan that goes to a vice president who then sends it higher. That process

was time-consuming and frustrating for me. Entrepreneurial firms streamline that process; plus moving quickly can be an advantage.

Three: It helps to have incentive, mentors and luck.

When I took my first job in business, I was married, had two kids, lived in a 27-foot trailer, drove a 1949 Ford, and was paying on everything, including the hospital. I had the incentive to become a hard-working employee, and that got me to managing a small business in months. The owner took

Stakes winner Diamond Charge was one of the first racehorses R.D. Hubbard bought into.



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me under his wing and spent hours with me, meeting me every morning and going to dinner at night. He was the one who gave me the chance to make decisions and interact with key people. He mentored me and taught me about business.

A decade later when his firm was sold, I was lucky to work under a president of the parent company who believed in entrepreneurs. His accountants and vice presidents wanted control, but he was always satisfied to speak directly with me on the phone. If I wanted to make some move, he'd say, "Send me the financials." I'd send them. We'd talk on the phone, and then he'd say, "Well, if you can get it done, go do it." It was a pleasure to work for the firm because of him. He was my second mentor. He kept me insulated and allowed me to manage for him as an entrepreneur.

In the Beginning

HUBBARD IS THE YOUNGEST OF EIGHT CHILDREN FROM SMITH Center, Kansas, a little town of about 2,000, where his father and mother owned the local icehouse. Hubbard delivered ice for his parents, later worked wheat harvest from Texas to Canada, and, after earning an associate's degree from a community college, taught in a junior high school in Kansas, where he also coached the basketball team. In the late 1950s, Hubbard began working in an auto glass repair shop in Wichita, Kansas.

The owner of the company, Art Lankin, also owned a muffler shop. He offered me a job as general manager of the shop for 25 percent of the profits. I took it, but as soon as I started working there, I discovered that it wasn't making any profits. However, it didn't take me long to realize that if I could get it into the black, every dollar I saved meant 25 cents for me. I began working 12 or 14 hours a day, building our business during the day and installing mufflers every evening. In a few months, we were making money.

As a result, Mr. Lankin brought me back to the office and put me in charge of the glass shop and warehouse, and, of course, I still had the muffler shop under me for which I hired another manager. While only 23 years old, I was pretty much running the firm by 1960, just over a year after I'd begun. We continued to do well enough that in 1962, Mr. Lankin sold me 20 percent of his company and did it by raising my salary enough to pay him for the shares of stock that I would be purchasing in Service Auto Glass. . . .

On Horses

IN 1962, AFTER I'D BEEN WITH ART LANKIN FOR THREE YEARS, FIRST running the muffler shop and then the office and warehouse, he made it possible for me to buy into the company. It was about that time that we started in the horse business. He'd promised his daughter that when she got to be 10 years old he would buy her a horse. He knew nothing about horses and so he found the name of a Kansas trainer (Bill James) in the *Quarter Horse Journal*. After meeting, Art decided that instead of buying one horse, he would buy three babies, have them trained, and then his daughter could have the best.

None of the three turned out that great, and so he ended up buying a leading reining horse and she won a lot. He decided that Service Auto Glass should get into the horse business, and he got in big. Within a few short years, we had about 50 head on a place out north of Wichita called Red Bee Ranch. Since it was done as a venture of the company, of which I was then part owner, it meant I was also a part owner of these horses. I told Art that if we were going to be in the horse business, we ought to be in racing, not showing. He agreed, and so we had

R.D. Hubbard in his office at Ruidoso Downs.



RICHARD CHAMBERLAIN

a dispersal of our show horses, some nice ones.

Immediately, we went out and started buying the best race-horses available. Straw Flight was our first major purchase and we paid \$35,000 for her. We spent \$45,000 on Moolah Bar, which was the highest price paid for a racing Quarter Horse at that time. The third major horse we bought was Diamond Charge, who held the world record for 300 yards, and we paid \$70,000 for him. I still have a painting of him on my wall. Our plan was to profit with stallions at our farm although it wasn't too successful. We also began racing Quarter Horses, going to Ruidoso Downs every summer.

When our auto-glass company (Service Auto Glass/Safelite) was sold to Royal Industries, the horse racing-and-breeding operation was not part of the package. We kept with it for awhile, and then dispersed in the early 1970s after about a decade. We decided to sell all the horses in Oklahoma City, and it was a very successful sale, the highest grossing of any Quarter Horse auction up to that time.

All these years I have been trying to win the All American; in fact, I'm still trying to win it. I've now finished in every position except for fifth and first. I have even been last a couple times, and I've actually had to scratch a horse that didn't get to run. Anyway, my wife and I have always loved Ruidoso Downs. One of the first trips we took together was to Ruidoso for the All American. In the 1980s, we had a condo there, but the racetrack was in big trouble and it looked like Ruidoso Downs was going to be shut down.

The opportunity to buy the track was there when we sold AFG, and so, in the late summer of 1988, we bought it. We spent quite a bit of money fixing it up and actually increased the attendance and handle the first year by about 30 percent. About the same time, we got the license to build The Woodlands in Kansas City as a horse-and-dog track, and that was going fairly well. So I'd been in the racetrack business for a couple of years when some guys I knew asked if I had any interest in getting involved out in California.

Hollywood Park, which was then run by Marge Everett, was structured as a Paired-Share REIT company (an operating company coupled to a real estate investment trust). Marvin Davis, a member of her board, had tried to work a deal to buy the company, but when it fell through he wanted to sell his stock. In that kind of firm – and there were only a few still allowed to operate – no individual could own more than 9.9 percent of the stock. Since those guys who called were shareholders already, they couldn't buy his share. They asked me, and so I bought about 4 percent of Hollywood Park.

Hubbard was partners in building Zia Park at Hobbs in 2005-06, and in 2007 sold it to Penn National Gaming.



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They then asked Marge Everett to put me on the board, and while she agreed to consider it, she soon refused. This upset some of her directors who were already angry because they had lost money for five straight years and had gone from having \$30 million in cash to having a deficit of \$15 million. Much of it was due to money spent to prepare for the first Breeders' Cup in 1984, including "Grant's Pavilion." This was a clubhouse facing in the wrong direction to see the races. I knew about it because in 1984, I thought I'd bought the best seats in the house but we had to leave it to see the races.

Several of these Hollywood Park directors kept telling me about their dissatisfaction with the management so finally I said, "Well, there will have to be a proxy fight." I went ahead and bought enough additional stock to get me up to 9.9 percent, and we filed a slate of directors to run against her. She had people such as Cary Grant, John Forsythe, Aaron Spelling, Merv Griffin and others. Anyone big in entertainment, she tried to have him on her board.

After we began the proxy fight in September 1990, three of her guys switched over to our slate. It got pretty nasty; full-page ads, and she even accused me of being in the Mafia. But one obvious thing was that the directors on her board did not step up and buy the stock. This showed that even though they were on her board, they were not inclined to back her management with their own money.

We had roughly 35 percent, and because we couldn't buy any more stock, we had to get those who owned stock to vote for us or vote for her. Things were to be settled by mid-January, but in late December we had enough commitments to put us over 50 percent. We announced it, but before the deal can be closed, she got one of the shareholders to withdraw which put us below 50 percent. Since we'd already made an announcement, the SEC got involved and told us we had to do a retraction. In the meantime, she announced that Steve Wynn was the new president of Hollywood Park.

I figured nothing would happen with the proxy fight then, so I went to Barbados to play golf. While there, I got a phone call from Wynn who asked me to come to Las Vegas as soon as possible. I agreed to stop on my way home. When I walked into his office at the Mirage, he said, "I've looked at the Hollywood Park deal. I went over there, analyzed it, and you're the guy who ought to be running it. I'll get Merv (Griffin) on the phone and tell him." I was floored. But a

meeting was arranged at which they admitted we'd won the proxy fight, and they just wanted a smooth deal for Marge, who didn't know of the meeting. I agreed to give her a lifetime contract for \$150,000 a year, and they issued a release that day announcing that R.D. Hubbard was the new chairman of Hollywood Park. When they informed Marge, she refused the new contract; she was that unhappy.

Griffin stayed on the board until the end of that year, and Forsythe stayed for awhile, but I brought in my board members and soon they were basically all gone. We got the company in the black in one year. We got rid of that Paired-Share REIT structure, which allowed us to do some financing. We sold some convertible stocks, and our share price rose over 200 percent. Our game plan was to buy other tracks where we thought there was a chance of getting other forms of gaming. We bought Turf Paradise in Arizona, a dog track in Oregon, and at one point we thought that we had bought the tracks in Maryland, but that deal fell through. We got a license for a card club at Hollywood Park. That was good because card players play against each other, like parimutuels, and the house takes a cut. There is no real risk if you can generate sufficient volume.

But the more time we spent trying to pass gaming laws, we more we began to realize that it would be a lot easier just to buy a casino than to get a new law passed. We started in Reno, then New Orleans, and then Biloxi. Soon we had seven casinos and it was clear to me that, while I liked racing, knew something about racetracks and had been successful, I didn't know casinos. I hired a president and vice president and, at the same time, we started selling off the tracks. We sold Turf Paradise and then Hollywood Park, gradually shifting the whole company into the casino business.

In 2003, I sold all my stock and I retired again, although I owned Ruidoso Downs, which had always been a separate company.

Being involved in racing in New Mexico, we went for the license to build the new race track and casino in Hobbs. We got that in 2004, opened a casino in November of 2005, and then opened the track in September 2006. We spent \$50 million building the facility, but since we had the casino open a full year before the racetrack needed to open, we were able to generate some \$20 million in cash. In the end, we only had to borrow around \$30 million. We sold Zia Park in 2007 for \$200 million to Penn National Gaming.

I will always love business and Quarter Horse racing. ■