

Presidents Speech - September 2008

SLIDE 1

As you have just heard, the declining registration numbers are severely impacting our core revenue and in turn alternative revenue.



President's Remarks
September 2008

At our last meeting, I shared with you the details of competitors' financial incentive tactics which undermines our core business, causing significant losses in revenue. Today, I want you to take a closer look at how this impacts AKC the most.

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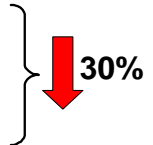
In the last decade litters have declined 30 percent from 564,000 to 392,000.

A Decade of Decline

- Annual Litter Registrations

- 1997 – 564,165

- 2007 – 392,333



SLIDE 3

We conducted a great deal of research about the causes of this decline and have some conclusions to share with you.

Where are all the puppies?

– Are fewer AKC dogs being bred?

NO

– Fanciers Breeding Less?

NO

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Are fewer AKC Dogs being bred?

NO: The percentage of dogs & bitches from our registry that become part of the stud book remains constant over the years. 28% of registered bitches produce at least one litter and 18% of sires participate in at least one AKC registered litter.

Are Fanciers Breeding Less?

NO: The number of litters registered by fanciers has remained constant at approximately 55,000 litters per year since 1992.

In addition, as Jim illustrated, the percentage of individual dog registrations from the fancy also remains constant; it is the purebred pet owning population that is leaving us, and leaving in larger numbers year after year.

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Where are all the puppies?

The breeding of purebred dogs is not declining. It is the number of litters registered with AKC that is declining.

What segment has the biggest impact?

All leading indicators, including statistics from

American Veterinary Medical Assoc, American Pet

Product Assoc., and others as well as our own research has shown that there are more purebred and mixed breed dogs in America than ever before.

What segment of our breeder population has the biggest impact on our overall numbers?

It is the breeders that produce 7+ litters annually many of whom are no longer with AKC.

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Just to remind you and to share with new delegates,
here is a list of our competition today.

30 All-Breed Competing Registries

- All Breed Kennel Club
- American Canine Association
- American Canine Registry
- American Dog Breeders Association
- American Dog Registry Association
- American Field
- American Pet Records
- America's Pet Registry
- American Purebred Registry
- Animal Registry Unlimited

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30 All-Breed Competing Registries

- Canine Kennel Club
- Certified Pure Puppy Database
- Continental Kennel Club
- Dog Registry of America
- Federation of International Canines
- International All Breed Canine Association
- International Progressive Dog Breeder's Alliance
- National Canine Association
- National Kennel Club
- National Pedigree Certification Registry
- North American Purebred Dog Registry

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30 All-Breed Competing Registries

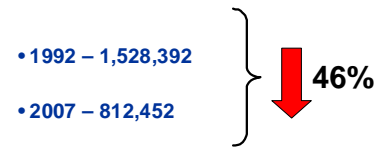
- Pure Puppy
- The Registry
- United All-Breed Registry
- United American Kennel Club
- United Kennel Club
- Universal Kennel Club International
- Waiting Dog Registry
- World Kennel Club
- World Wide Kennel Club

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Since our peak in 1992 with 1.5 million registered dogs -
- thru 2007, we have declined 46%. This 16-year trend
must be addressed by all of us, collectively and
proactively.

**Annual
Declining Dog Registration**



Another very important factor contributing to this decline has been the loss of the one litter a year breeders, many of which breed only one litter in a lifetime. A % of those who historically purchase pets no longer are buying AKC registrable dogs or bitches. Breeders registering 1 litter per year registered 13,762 fewer litters in 2007 than they did in 2002, which is a 10% decline in litter registration activity for that single group.

Let's not forget a telling fact that applies to everyone in this room -- during all of your decades in the sport, the pet buyer has financially supplemented your passion and participation in AKC events, my 40 years, your 30, 40, 50 years or longer. The core revenue from pet registrations assisted our organization's and the sport's growth to a very large extent.

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Here are some other questions we have researched.

Do fewer people own purebreds?

What is happening with dogs?

RESEARCH

- Fewer people owning purebred dogs?

NO

- Smaller litter sizes?

NO

- Less interest in AKC dog registration?

NO

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NO: According to studies, the # of households owning a dog has increased by almost 5 million since 2000, and the % owning a purebred has grown by 7%.

Are litter sizes smaller?

NO: Our own data confirms the average AKC litter size has been 4.8 since 1998.

Is there less interest in AKC dog registration?

NO: If a buyer receives AKC papers, the buyer is just as likely to register today as ten years ago; a 44% blue return rate has been constant in the last decade.

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We know that:

Individual registrations are declining as a direct result of fewer litters registered with AKC.

Where are all the dogs?

RESEARCH

Why are dog registrations declining?

– Direct result of decline in litters

– Effects on all of us

- **From litters registered in 1992, there were more than 2.7 million AKC-
registrable dogs.**
- **From litters registered in 2007, there were fewer than 1.9 million
registrable dogs.**
- **Fewer registrable dogs equates to fewer registrations, fewer
pedigrees, fewer transfers, and less of a pool of newcomers for our
sport -- to carry that heavy equipment; to set up match shows; to
put up arrows on the way to your event; and to work in the parking
lot.**
- **What else does this mean to your club - there will be less and less
core revenue from pet registration which will shift that financial
burden where you do not want it to wind up – directly to your club,
your members, you and I.**

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Lost Revenue from AKC-Registrable Dogs

Let's look at the research in terms of lost revenue from the types of breeders:

Losing 1 breeder (7+ litters)

Losing 1 breeder (1-6 litters)

- Losing 1 Breeder that produces 7+ litters annually results in \$24,500 in lost registration revenues (including 10 years of breeding activity and activity across 10 generations)
- Losing 1 Breeder that produced 1-6 litters annually results in an average loss of \$1,925 in revenues (including 5 years breeding activity and activity across 10 generations)

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Revenue Declines Competitors Tactics

Couple these facts with the tactics of competitive registries which I presented to you at the June meeting, including free litter registration, financial incentives to distributors for placing competitors

- Free Litter Registration
- Financial Incentives
- Sharing Registration Fees

papers in puppy packets, and sharing registration fees with retailers results in our being faced with a continuous loss of revenue, customers, and influence.

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We can't just stand by as our competitors build new large facilities to process more "paper" and we can't allow them to continue their tactics of making litter registration meaningless. Just look at this ad:

- American Canine Association
- Flat Rate Litter Registration \$10
- Free Breeding Stock Registration



\$10 Flat litter registration and Free Breeding Stock Registration

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Other Registries are even starting to sponsor events.

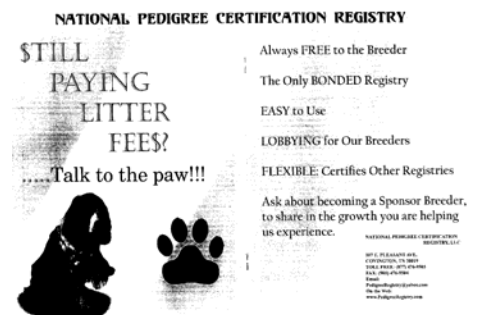
- America's Pet Registry
- Other Registries are starting to sponsor Events



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This one is touting Free Litter Registration. We don't know precisely what the competitors' registration numbers are because as for-profit companies, their records are proprietary, unlike the

AKC. But our research demonstrates the pool of purebred registered puppies is growing, and our relationships in the dog world as well as from our own internal inspection department reveals that our competitors' market share is increasing dramatically.



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Three weeks ago we met with our Compliance field staff and one item discussed was a visit to a pet store to conduct an inspection. Everything was very good – all puppies healthy, care and conditions fine, however, the owner told the Inspector not to bother to come back because they no longer choose to offer AKC-registrable puppies in the shop. We want to have access to these retail shops for the welfare of dogs, and that desire is enhanced by the fact that this is a growing market, the percentage of retailers carrying “registered” puppies increased from 17% in 2005 to 23% in 2006. In fact, just two weeks ago while meeting with us in our offices, the new President of the AVMA and his senior staff stated that the Pet Shop industry is flourishing and their assessment is that it would be naïve to believe it will not continue to grow.

2008 Inspections and Investigations Division Meeting - Raleigh, NC



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Many of us purchased our first dog from a pet store or other similar retail outlet. For example, Ron Menaker bought his first Bedlington Terrier from Gimbel's Department Store. Much like our Chairman, others



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went on to seek out fanciers to get their next AKC dog and eventually joined our sport.

Today's culture is not even allowing this to happen anymore. Without that first AKC puppy, an entire generation of exhibitors and multiple generations of future dogs are lost forever.

We are faced with making a business decision. Our core breeders can't supply the demand to the public. We don't want you, your members or other fanciers to carry the financial burden of the organization or even of the sport. You don't want that either! So action to protect our future is necessary.

My friends, for the generations that will follow us, it can no longer be business as usual.

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Our creative juices began to flow as we made well-researched decisions which succeeded and resulted in significant alternative revenue streams. However, as every business person knows, alternative revenue is just that -- a temporary alternative source at best. As constituent numbers decline, so do these opportunities. AKC's core business represents both our major revenue component and the platform from which to seek sponsorship, licensing and other marketing initiatives.

As an example, even when we approach dog food companies, traditionally the stalwart sponsor of our programs and events, they respond that the numbers of AKC's constituent base are no longer large enough to justify sponsorships.



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In closing --

This last ad shows that our competition is serious about burying us and making us extinct. In order to protect AKC's future, we will take whatever steps are necessary.



From the pages of Kennel Spotlight Magazine - June/July 2008 Issue 19