

9. Discussion and action by the Board on the **Application for License to Conduct Advance Deposit Wagering (ADW) of XpressBet, LLC, for a California multi-jurisdictional wagering hub**, for a period of up to two years.
10. Public hearing and action by the Board regarding the **proposed addition of Article 27, Exchange Wagering and the following proposed CHRB Rules governing exchange wagering in California: CHRB Rule 2086, Definitions; 2086.1, Authorization for Exchange Wagering; 2086.5, Application for License to Operate Exchange Wagering; 2086.6, Operating Plan; 2086.7, Exchange Wagering Data; 2086.8, Monitoring Systems and Notification; 2086.9, Financial and Security Integrity Audits Required; 2087, Suspending Markets; 2087.5, Antepost Market; 2087.6, Cancellation of Matched Wagers; 2088, Declared Entries; 2088.6, Cancellation of Unmatched Wagers; 2089, Error in Payments of Exchanges Wagers; 2089.5, Requirements to Establish an Exchange Wagering Account; 2089.6, Deposits to an Exchange Wagering Account; 2090, Posting Credits for Winnings from Exchange Wagers; 2090.5, Debits to an Exchange Wagering Account; 2090.6, Withdrawals by Account Holder; 2091, Closing an Inactive Exchange Wagering Account; 2091.5, Suspending an Exchange Wagering Account; 2091.6, Powers of the Board to Review and Audit Records; 2092, Exchange Wagers Placed After the Start of a Race; 2092.5, Prohibitions on Wagers to Lay a Horse to Lose; 2092.6, Suspension of Occupational License and Rule 2093, Certain Practices Related to Exchange Wagering.** (Note: This concludes the 15-day public comment period. The Board may adopt the proposal as presented.)
11. Discussion and action by the Board on the **Application for License to Operate Exchange Wagering by Betfair U.S., LLC**, for a period of up to two years.
12. Discussion and action by the Board on the **Application for License to Operate Exchange Wagering by Churchill Downs Technology Initiatives Company**, for a period of up to two years.
13. **Closed Session:** For the purpose of receiving advice from counsel, considering pending litigation, reaching decisions on administrative licensing and disciplinary hearings, and personnel matters, as authorized by section 11126 of the Government Code.
 - A. The Board may convene a Closed Session to confer with and receive advice from its legal counsel regarding the pending litigation described in the attachment to this agenda captioned "Pending Litigation," as authorized by Government Code section 11126(e).
 - B. The Board may convene a Closed Session to confer with and receive advice from its legal counsel regarding the pending administrative licensing or disciplinary matters described in the attachment to this agenda captioned "Pending Administrative Adjudications," as authorized by Government Code section 11126(e).
 - C. The Board may convene a Closed Session for the purposes of considering personnel matters as authorized by Government Code section 11126, (a).

Additional information regarding this meeting may be obtained from the CHRB Administrative Office, 1010 Hurley Way, Suite 300, Sacramento, CA 95825; telephone (916) 263-6000; fax (916) 263-6042. This notice is located on the CHRB website at www.chrb.ca.gov. *Information for requesting disability related accommodation for persons with a disability who require aid or services in order to participate in this public meeting, should contact Jacqueline Wagner.

CALIFORNIA HORSE RACING BOARD

Keith Brackpool, Chairman
David Israel, Vice Chairman
Steve Beneto, Member
Jesse H. Choper, Member
Bo Derek, Member
Richard Rosenberg, Member
Chuck Winner, Member
Kirk E. Breed, Executive Director
Jacqueline Wagner, Assistant Executive Director

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PENDING ADMINISTRATIVE ADJUDICATIONS
NOVEMBER 2012

CASE

- A. Appeal of the Board of Stewards Official Ruling #045, Pacific Racing Association,
Dated June 16, 2012
Owner Perry L. Martin
OAH No. 2012070351

PROCEEDINGS of the Regular Meeting of the **California Horse Racing Board** held at the **Santa Anita Park Race Track Baldwin Terrace Room**, 285 West Huntington Drive, Arcadia, California, on **October 18, 2012**.

Present: Keith Brackpool, Chairman
David Israel, Vice-Chairman
Steve Beneto, Member
Jesse H. Choper, Member
Bo Derek, Member
Chuck Winner, Member
Robert Miller, General Counsel

MINUTES

Chairman Brackpool asked for approval of the minutes of the Regular Meeting of September 20, 2012. Jacqueline Wagner, CHRB staff, said there was a correction to page 19 of the minutes. Under the report from the Pari-Mutuel Operations Committee (committee), the minutes noted the committee discussed a dispute between Golden Bear Racing Association and the Los Alamitos Racing Association. She stated that was incorrect, as the dispute was between Cal-Expo and the Los Alamitos Racing Association. Chairman Brackpool said he would like to add that Vice-Chairman Israel was missing from the list of Commissioners present. Commissioner Winner stated he would like to make a correction to page seven of the minutes. The minutes reported that he said there were trainers who "would risk entering a compromised horse." The correct wording would be: "would not risk entering a compromised horse." Vice-Chairman Israel **motioned** to approve the minutes as amended. Commissioner Choper **seconded** the motion, which was **unanimously carried**.

PUBLIC COMMENT

Kevin Bolling of the California Thoroughbred Horsemen's Foundation (CTHF) thanked Santa Anita Park Race Track, Golden Gate Fields and Betfair Hollywood Park Race Track for their continued sponsorship of the backstretch worker flu vaccine program. He stated the race tracks had taken responsibility for the program over the last two years, and the CTHF wanted to thank them. John Bucalo of the Barona Casino off-track wagering facility stated his facility did well during the Del Mar Thoroughbred Club meeting, the Fairplex Park Pomona meeting and the Los Alamitos Race Course meeting; however, the Barona Casino was not doing well during the Santa Anita Park Race Track meeting. Mr. Bucalo said the Barona Casino's numbers were down dramatically. He stated he believed one reason for the decline in numbers was the lack of newspaper coverage. The industry needed to do a better job regarding exposure to the media, whether it had to be paid for the coverage or not.

DISCUSSION AND ACTION BY THE BOARD REGARDING THE DISTRIBUTION OF RACE DAY CHARITY PROCEEDS OF THE DEL MAR THOROUGHBRED CLUB IN THE AMOUNT OF \$149,232 TO 16 BENEFICIARIES.

Commissioner Derek stated she wanted to thank the Del Mar Thoroughbred Club (DMTC) for distributing more to horse racing related charities than was required under the statute. Commissioner Derek **motioned** to approve the request by DMTC to distribute its race day charity proceeds. Vice-Chairman Israel **seconded** the motion, which was **unanimously carried**.

PUBLIC HEARING AND ACTION BY THE BOARD REGARDING THE PROPOSED ADDITION OF CHRB RULE 1927.1, TAMPERING WITH SMOKE DETECTORS PROHIBITED, TO INCLUDE PENALTIES RELATIVE TO TAMPERING WITH FIRE SAFETY EQUIPMENT I.E. SMOKE DETECTORS.

Jacqueline Wagner, CHRB staff, said the proposed addition of Rule 1927.1, Tampering with Smoke Detectors Prohibited, would provide that no licensee shall tamper with, dismantle, or disable any automatic fire alarm system or smoke detector that was located on the grounds of a facility under the jurisdiction of the Board. The proposed regulation would impose fines of not less than \$25.00 for any licensee guilty of the offense, and trainers may be found culpable and fined not less than \$100. Commissioner Derek stated she hoped the Board would endorse the addition of the regulation. It was designed to get the industry's attention and to proclaim that the Board took the issue seriously. The fines were moderate and they should act as a deterrent. Commissioner Winner stated the Medication and Track Safety Committee spent a lot of time developing the proposed regulation, and he strongly supported the addition of Rule 1927.1. Commissioner Beneto asked how the regulation would be enforced. Once an alarm was dismantled and then put back in place, no one could tell if it had a battery, or not. Commissioner Derek stated that there was a fire inspection for every meeting. That was when such actions were discovered. Commissioner Beneto said when the battery was taken out and no one was told, it could go the entire meeting without a battery. If a fire started there would be a problem. Commissioner Derek stated that was why the regulation was being put in place, and the trainers were being included. They would become responsible, as well, for what was happening in the tack rooms. Commissioner Winner said the trainers would have to ensure the alarms were in good shape and that they had batteries. That was why the trainers were being included in the regulation; they were responsible for their barns. Commissioner Beneto stated he agreed with the concept, but he felt it was not possible to ensure the alarms were always functioning and safe.

Vice-Chairman Israel commented that in addition to the fire marshal, CHRB enforcement personnel and track security patrolled the backstretch. They have cited backstretch personnel for violations. One could tell if an alarm was disabled by observing people smoking in areas where they should not. Commissioner Choper stated it would not hurt to have random checks of the fire alarms to make sure the batteries were in place and working. Chairman Brackpool said he believed that was done. Commissioner Derek **motioned** to adopt Rule 1927.1. Commissioner Winner **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD REGARDING THE PROPOSED AMENDMENT TO CHRB RULE 1843.2, CLASSIFICATION OF DRUG SUBSTANCES, TO UPDATE THE CALIFORNIA HORSE RACING BOARD'S PENALTY CATEGORIES LISTING BY CLASSIFICATION, TO ADD AND/OR RECLASSIFY SPECIFIED DRUG SUBSTANCES.

Dr. Rick Arthur, CHRB Equine Medical Director, said the proposed amendment of Rule 1843.2, Classification of Drug Substances, was based on the Racing Commissioners International (RCI) model rule. The proposed amendment to Rule 1843.2 would bring the regulation in line with the RCI recommendations. Dr. Arthur reviewed the proposed changes to the regulation and explained the recommendations for the various medications and drug substances, and how the horsemen may be affected by such changes. Commissioner Derek stated the Medication and Track Safety Committee agreed with Dr. Arthur's recommendations. Commissioner Derek **motioned** to direct staff to initiate a 45-day public comment period regarding the proposed amendment of Rule 1843.2. Chairman Brackpool **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD REGARDING THE PROPOSED AMENDMENT TO CHRB RULE 1845, AUTHORIZED BLEEDER MEDICATION, TO IMPLEMENT THE RACING COMMISSIONERS INTERNATIONAL (RCI) RECOMMENDED MODEL RULE RECOMMENDATIONS.

Dr. Rick Arthur, CHRB Equine Medical Director, said the Racing Medication Testing Consortium (RMTC) issued recommendations regarding the administration of Lasix at race tracks. The recommendations were adopted by the Racing Commissioners International (RCI) as a model rule. Currently New York, Kentucky and Ontario, Canada, have adopted the RCI model rule. The proposed amendment to Rule 1845, Authorized Bleeder Medication, would implement the RCI recommendations in California. The proposed amendment would require that Lasix be administered by non-practicing veterinarians. The basic issue is that the opportunity for something other than Lasix to be in the Lasix syringe would be removed. The other issue was to limit the bleeder medication to Lasix only. California and other states allowed adjuncts. In California about 50 percent of horses got estrogens, but there was no evidence of efficacy for estrogens, and that was why the RMTC and RCI were trying to limit the administration of authorized bleeder medication on race day to Lasix given by non-practicing veterinarians. Dr. Arthur added he believed the proposed regulation would improve the integrity of the system and give the public more confidence. Chairman Brackpool asked if the Board would have to develop internal policies and procedures to administer the program. Jacqueline Wagner, CHRB staff said procedures would be implemented after the regulation was adopted. Chairman Brackpool stated staff would work with Dr. Arthur and the Medication and Track Safety Committee to determine how the regulation would be implemented. He added any controversy regarding the proposed regulation would be in its administration rather than the concept. Vice-Chairman Israel commented that California needed to implement a standardized way of administering the regulation while it was out for the 45-day public comment period. A uniform policy would be

the easiest way to enforce the regulation. Chairman Brackpool stated recommendations for administration of the proposed regulation could be presented at the hearing for adoption. Commissioner Winner **motioned** to initiate a 45-day public comment period regarding the proposed amendment to Board Rule 1845. Commissioner Choper **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO CONDUCT A HORSE RACING MEETING OF THE LOS ANGELES TURF CLUB (T) AT SANTA ANITA PARK RACE TRACK, COMMENCING DECEMBER 26, 2012 THROUGH APRIL 21, 2013, INCLUSIVE.

Jacqueline Wagner, CHRB staff, said the Los Angeles Turf Club (LATC) filed an application to conduct a race meeting beginning December 26, 2012 through April 21, 2013. LATC was proposing to race 71 days, eight days less than in 2012. The first post time would be 1:00 p.m. with a 12:03 p.m. post time on weekends and holidays. The horsemen's agreement, the advance deposit wagering (ADW) agreements and the vanning and stabling agreements were missing from the application. George Haines of LATC stated his organization did not have a 2013 vanning and stabling agreement, so it was asking the board of Southern California Off-Track Watering, Inc. (SCOTWINC) to approve an extension of the 2012 contract. Jack Liebau, SCOTWINC chairman, stated the vanning and stabling was entirely separate and apart from SCOTWINC. He said the Vanning and Stabling Committee, of which he was a member, did not anticipate a problem in supplying an agreement prior to the November 2012 Regular Board Meeting. Scott Daruty of Monarch Content Management (MCM) stated a seven party agreement regarding the signal and television distribution had been negotiated. Six of the parties had signed the agreement, and MCM was awaiting the signature of the seventh party, which was Churchill

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Downs. He added he understood there would be no problem obtaining the required signature. Commissioner Choper asked if the agreements would be submitted on time if parties were fined for every day they were late. Mr. Liebau said the agreements required signatures from multiple parties, and there were issues that could be complicated. It was not always the applicant's fault that the agreements were missing from the applications. Commissioner Choper commented it seemed odd that the agreements would get done, but not in time to save everyone from having to return to the subject at the next Regular Meeting. Every month, it probably took over five percent of the Board's time to extract a commitment that the agreements would be completed. Chairman Brackpool stated the Board changed its procedure to hear the license applications well before the race meetings. That gave the Board the ability to do something about missing documents. In the case of LATC the agreements would be done by the November 2012 Regular Meeting or the Board would take action. Commissioner Choper said the Board would not delay LATC's opening, so there had to be a way to provide an incentive to get the agreements done on time. He added there could be a monetary fine per-day for late documents. Chairman Brackpool stated the television agreement would be transformational because it would allow many more people to know LATC was racing. Only a small percentage of people with televisions could now watch the race meeting. Mr. Daruty said the actual number of households that could watch the LATC meeting was larger. Twenty percent of televisions across the nation had access to Horse Racing Television (HRTV). Chairman Brackpool asked what Direct TV access would add. Mr. Daruty stated Direct TV would add another 17 percent. Chairman Brackpool said there were additional cable networks that could distribute the signal. He added the Board had emphasized that television distribution was everything. The completion of the MCM agreement would mean LATC would be shown on HRTV and TVG, and the Hollywood Park spring

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meeting would be shown on both networks. Mr. Daruty said that was correct. Chairman Brackpool stated that meant some scientific data could be had regarding the effect of greater television distribution on the handle. He asked if the horsemen's agreement was close to being completed. Lou Raffetto of the Thoroughbred Owners of California (TOC) said there was one additional issue that had to be resolved, but the horsemen's agreement would be ready prior to the next Regular Board Meeting. Chairman Brackpool asked what was preventing the ADW agreements from being signed. Mr. Daruty stated the ADW contracts used to be negotiated prior to every meeting; however, MCM went through the contract process once a year. The current contract had not been sent out for execution. There was still 60 days until the opening of LATC, and the industry norm was that the contract would be signed approximately two or three weeks prior to the opening of a meeting. Mr. Daruty said he realized the Board was frustrated with the process, but at least the problem had been reduced to a once-a-year issue as opposed to happening prior to every meeting. Chairman Brackpool stated he recalled a couple years ago on the opening day of LATC the industry was subjected to wondering if it would be able to show or receive the signal. Such brinkmanship was so detrimental to horse racing that the Board was wondering why the industry participated in it. Horse racing fans wanted to place wagers and had no interest in such machinations. Mr. Daruty said the agreements were sent out for signature two to three weeks in advance. MCM wanted California horse racing to succeed, but it could not dictate how to do business to the rest of the world. The contracts could have been sent two months ago, but they would not have been returned with signatures until the last minute. MCM could state it would not send the California signal unless the contracts were returned by a date certain, but that would not be successful. Vice-Chairman Israel stated the Board was attempting to eliminate the repeated last minute receipt of agreements. Mr. Daruty said the reality was that

MCM had eliminated a year-long problem down to a single meeting. The problem was LATC, and that was because it was the first meeting. Vice-Chairman Israel stated the Board was suggesting that MCM set a date certain for the contracts to be signed, and then find a method for causing some hardship if they were not signed. Chairman Brackpool commented that idea worked two ways. If California withheld its signal, that would affect the handle and purses. However, he believed that MCM understood the Board was serious about the issue. Chairman Brackpool asked if there were any major changes to the 2013 contract over the 2012 contract. Mr. Daruty said he did not anticipate any difficult negotiations. The MCM had some two-year contracts in place which eliminated the need for a new contract. He added he would know more by November. Chairman Brackpool stated the increase in purses from 2012 to 2013 was within 2 percent. He asked if that was because 2012 was down. Gina Lavo of LATC stated the 2013 meeting would run fewer days, which meant the purses were actually up. She said there would be 30 to 32 fewer races in 2013, or about four days of racing. That meant each race should have more value and realistically there would be about a 4 percent or 5 percent increase in purses. Chairman Brackpool asked if there would be any changes to the stakes program in 2013. Rick Hammerle of LATC said the 2013 stakes schedule would be the same as the 2012 schedule. He commented the 2012 schedule was modified a lot and it worked well. LATC was still in discussions with the TOC so there would be some slight changes to what was reported in the application for license. However, in 2012 the stakes races were correctly placed, so the same system would be kept in place. LATC believed one of its most important jobs was preparing California horses for the Kentucky Derby. Chairman Brackpool asked how the Golden State Series worked for that purpose. Mr. Hammerle stated the series started in March 2012. Two races were run for two-year-olds, but the series did not have much of an effect on the program

because of the calendar. The series was a long-term thing that did have an effect both on sales and the track. Mr. Hammerle added LATC did have two races for three-year-olds that would be run on Sunshine Millions Day. The races would be run on that day to bolster it, so there would be some races from the Golden State Series that would help the meeting. Chairman Brackpool asked about the Sunshine Millions. He stated it started with great promise, but seems to have lost momentum. Mr. Hammerle said the original premise of the Sunshine Millions had changed. In the beginning horses were moved to and from Florida and California, and the purses were huge. Now, in its tenth year, California uses the Sunshine Millions for Cal-bred horses and Florida for Florida-bred horses. So there are not as many horses moving around, but it was still LATC's fourth biggest day. It was a good day for LATC as it fell between the playoffs and the Superbowl. Vice-Chairman Israel asked if the two-furlong races for two-year-olds would be run. Mr. Hammerle stated two-furlong races were negotiated in the horsemen's agreements. Chairman Brackpool asked if the handle on the two-furlong races was lower. Mr. Hammerle said it was. He added the purses were reduced and they were run as claimers so they did not get the maiden special bonus. Mr. Raffetto stated the TOC board met and asked LATC not to run the two-furlong races anymore. John Niedzwiedz of LATC stated the LATC marketing plan for the 2013 winter-spring season would build on some of the current initiatives. The first initiative was the attraction strategy, which would try to continue to bring a youthful demographic to the races. LATC would also try to appeal to the sports fan by using the Sirona area as an ESPN Sports Zone. Not only can fans go to LATC and wager on great thoroughbred racing, but they can also watch all of their sporting activities as well. Vice-Chairman Israel asked if ESPN and Disney gave LATC permission to use their name. Mr. Niedzwiedz said ESPN gave permission to become a designated ESPN sports zone through an ESPN radio promotion. He stated LATC

would also try to continue stimulating the core fan constituency. There had been a decline in the core over the first three weeks of racing, so LATC was reevaluating and trying to understand what the core's behaviors were. LATC was trying to identify by area code and age people who had a tendency to frequent the racetrack on weekdays to see if it could see a bump and what offers were valid, aside from the promotions to increase Sunday attendance. Mr. Niedzwiedz stated LATC would continue to try to enhance the on-track experience. That would include Sirona and a betterment of the televisions. Finally, LATC would place more emphasis on the Asian and Hispanic markets in Los Angeles. To accomplish that, LATC would study what went wrong with the current season and its core fans. Commissioner Winner stated he thought there were some good things in the LATC marketing plan, and there were things that anyone with a marketing background might see a little differently. The marketing overview stated that in 2013 the LATC marketing program would attempt to enhance and build on the strategies implemented during the 2012 season. He asked if LATC was suggesting that its 2012 program was successful. Mr. Niedzwiedz said it was important to note that Del Mar had a fantastic meeting. Then the LATC October 2012 meeting saw a decline on-track. It was very clear from the handle reports that the on-track handle moved into ADW, as total handle was up 1 percent. Mr. Niedzwiedz stated he believed LATC's promotions and event calendars helped stall the decline in handle. He added the same trends could be identified across the nation, so LATC was not alone in the month of October. Commissioner Winner said his question was: Did LATC think its program, which was currently being implemented, was successful, given the numbers that were generated. He stated even the Barona off-track casino was stating few people knew LATC was running. A lot of what LATC was doing was on-track, which had some advantages. However, was LATC accomplishing what it wanted with the money it was spending on-track? Commissioner Winner

stated the budgets were breaking down pretty consistently. They were being allocated in a nontraditional way – as opposed to how most organizations would be using advertising and marketing and branding budgets to accomplish what LATC wanted. He said he respected the idea of trying something new, but LATC had created essentially two audiences. One was its current audience, and that was its thoroughbred club. That was the four hundred thousand dollars allocated to direct mail and the new thoroughbred research program to market to the core constituency to get them back to the race track. Mr. Niedzwiedz said that was correct. Commissioner Winner asked if there was any outreach to new potential customers. Mr. Niedzwiedz stated outreach was in the promotions category and was a couple of hundred thousand dollars increase over the previous year. He said LATC was trying to create specific events and promotions that attracted a demographic that was not inclined to come to horse racing. Examples of that were the 626 Night Market events in the infield and a barbeque event with a radio promotion. Those were the kinds of things that were the attraction strategies, as well as the sporting initiative. Commissioner Winner asked how anyone knew such events were happening. Mr. Niedzwiedz said they were advertized primarily on radio and online, as well as outdoors. Commissioner Winner commented that most everyone in advertising knew such media were probably the least productive ways of reaching those people. The LATC budget had broadcast and cable television at \$100,000 which was the equivalent of spitting in the wind. The radio budget of \$275,000 was not much, but it was better than television, and the online budget of \$170,000 was more than the broadcast budget. Commissioner Winner stated he did not believe there was any research that would indicate online and digital advertising would produce more than television. He said the creative Asian and Latin budget was \$450,000 and asked if that was successful. Mr. Niedzwiedz stated LATC had a successful event on its opening

Saturday where it tied its food truck festival to the Asian lunar moon calendar for the Chinese market. For a minimal spend LATC was able to count up to 4,500 people in attendance. The same strategy would be applied to the upcoming 626 Night Market and then LATC would try to build the largest New Year event in February 2013. It would be a little different in that prior campaigns were primarily driven for ethnic marketing to specific events. LATC was going to promote its core product more in the language of the Hispanic and the Asian communities. That was why there was such a large number budgeted in that category relative to the entire budget. Commissioner Winner stated LATC had a limited budget, and it was taking \$465,000 for direct mail to its core audience; those were the people LATC already had. The rest of the budget was being used to reach the same core audience again, and also to reach out to a new audience, educate it, get it to the track, get it to wager, and get it to return multiple times. Mr. Niedzwiedz said LATC wanted to collect data, and to use direct mail to get the audience to return to the track and spend its money, and to come back again. Vice-Chairman Israel stated some of the outreach programs were based on a series of assumptions that the under-served communities were interested in going to the racetrack. He asked if LATC did a sophisticated market survey to determine if the underserved communities were actually predisposed go to a racetrack and just needed to be reached by a marketing effort. Mark Verge of LATC said LATC had not done a market survey. Commissioner Winner stated he asked the same question the last time LATC was before the Board and received the same answer. Now, LATC was stating it had not done the work, but it was continuing down the same road. Mr. Verge said LATC would definitely continue working with the Asian market. He stated he was very enthusiastic about the 626 Night Market. It drew 40,000 in Pasadena and was front-page news in the Los Angeles Times. LATC was lucky to attract the event. Vice-Chairman Israel said the Asian market was not uniform.

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There were different cultures and languages. He asked if LATC had determined the most effective language to use for its marketing. Mr. Verge said LATC was hosting the 626 Night Market with that in mind. It would bring out the audience and LATC could show them the track. Vice-Chairman Israel stated that was not scientific marketing. He asked how LATC even knew it was reaching out to the right people. Mr. Verge stated that would be determined. LATC agreed the Asian market had differences, but the younger Asians were English speaking, and that was the group LATC wanted. It was not seeking an older market that did not speak English entirely. He said a survey had not been done, but if LATC could attract 20,000 people on Saturday and 20,000 on Sunday and show them horse racing, that would be the survey. Commissioner Winner said he would not rely on Asian friends or relatives to tell him how the Asian market would react to any marketing plan. He was not sure that was scientific research. Mr. Verge stated it definitely was not scientific research, but he thought that after the weekend LATC would have a better basis on which to move forward. Commissioner Winner said that was not research; it was trial and error. At best, it was anecdotal. LATC was taking \$450,000 out of a very low traditional advertising budget and it was making a decision to concentrate on certain markets. He added he hoped LATC was right, and he believed those markets were there waiting to be tapped. It was the right direction to go. The problem was with the budget. Four hundred fifty thousand dollars was not very much money to reach out to that market. It would take a lot more to really engage the market, get it to the track, and to get it to return. LATC should do some research so that it could better target that \$450,000. It was a huge market with low hanging fruit, but where was the low hanging fruit? One could not just throw money at a wall and hope something would stick. Mr. Verge said he would love to spend money on research. However, the 626 Night Market would work. It would bring in a young Asian market.

He stated what would work for LATC was the younger Asian market going to the racetrack. Chairman Brackpool asked if any analysis or a formal study of why certain people were not going to the track had been done. He stated he believed Commissioner Winner was saying that rather than go out and have a giant festival in the hope that something would stick a more scientific approach might have been more effective. Mr. Verge stated his assistants were Chinese and their parents did not speak a word of English. They pointed out to him that the Chinese were afraid of the game as everyone involved was Caucasian and there were no Chinese. That meant they would not enter and would not play because they did not feel they had an advantage. So, his thought was to go after the young Chinese by making LATC a cool place to be. The 626 Night Market was cool, but LATC was not, and that was why the young Chinese were not coming. Mr. Verge said hopefully, those who attended the 626 Night Market would present something to the young Chinese crowd that was cool, and LATC would try to get them to learn about horse racing and that it was the greatest game around. Vice-Chairman Israel stated that the television advertising budget was paltry. If LATC was only going to spend \$100,000 on television, it ought not to spend it at all. One hundred thousand would not buy LATC anything. Mr. Verge said LATC did not have much advertising money, and he agreed about the television budget; it was not enough. Vice-Chairman Israel said LATC ought to find out what one Superbowl spot cost and spend it all on that. He added a padlock company spent its money on one Superbowl spot and it worked. Apple ran an ad once in 1984, and it was memorable. In other words, LATC should not spend the money on a bunch of small \$4,000 buys on shows no one watched. Put it all in one place and do it right. Commissioner Winner stated he agreed. If LATC was only going to spend \$100,000 on television it ought to spend \$20,000 on some research, and use the remainder to market to the Asian community or on other advertising. The

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problem was trying to do a lot within a very limited budget. LATC needed to recognize that it had a limited budget and then try to concentrate it in a way that it could spend its dollars to better reach its target audience. Commissioner Winner said he applauded LATC's research on the core audience. However, LATC was not doing research regarding the community it did not have. It should consider doing some market research so that it could target its remaining advertising dollars more effectively. Commissioner Beneto asked what day was LATC's slowest for attendance. Mr. Niedzwiedz stated for the first three weeks of the season Sundays were slow. He added, Thursdays and Fridays were also slow. Commissioner Beneto asked what LATC charged for admission on Sundays. Mr. Niedzwiedz stated there was a \$5.00 general admission. For members of the Thoroughbred Club the admission dropped \$2.00 and continued to drop the more one attended the live meeting. Commissioner Beneto asked what parking cost. Mr. Niedzwiedz said parking was \$4.00 for general parking and \$10.00 for valet parking. Commissioner Beneto asked if LATC had ever tried a free Sunday. Mr. Niedzwiedz said LATC never had a free Sunday. It had experimented with free general admission on Fridays, which produced spikes of a little over 10 percent in attendance. Ms. Lavo stated the pattern for the free days was an initial spike in attendance, then a leveling off. Commissioner Beneto stated Cal-Expo tried free parking and admission and it had a spike in attendance for a couple of weeks, then it leveled off. Chairman Brackpool stated the Board had no disagreement with LATC's efforts to improve on-track attendance. It was hearing that with very little money LATC was trying many different initiatives to attract on-track patrons. However, the concern was that for its next season LATC seemed to be doubling down on what it was doing despite data that showed the current season was not too successful. In addition, there did not seem to be a budget to accomplish LATC's efforts to make the place cooler and more modern. Chairman Brackpool

asked how much it would cost, and where was the budget to make LATC cool for a younger demographic. He added a common mistake was trying to market something to a specific group before it was ready for that group. Chairman Brackpool stated he recently visited LATC and found that the bars were the same as always, and they still had Bud Light on tap. He asked where the new bars with mixologists were. What was the plan; how long would it take and what was the budget? Mr. Verge stated a mixology bar would be opening in the clubhouse area. He added he loved horse racing and LATC was trying to find a path because horse racing did not currently have a path. Mr. Verge stated he had learned a great deal in six months, and it was an exciting time in racing with many positives things. Chairman Brackpool asked if there was a capital expenditure budget. Mr. Verge stated there was a budget for everything LATC did. Chairman Brackpool asked how much that budget was. Ms. Lavo stated there was currently no approved budget. A budget had been submitted and would soon be reviewed. Chairman Brackpool asked what the magnitude of the capital expenditure would be. Ms. Lavo said it was about \$3.5 million and it encompassed a wide range of things including the front side and backstretch. Chairman Brackpool asked how much of the \$3.5 million would be marketing related. Ms. Lavo stated there was not a lot for marketing. Vice-Chairman Israel said the Board was concerned that LATC's plans needed to be more focused and refined, as well as a comprehensive market research study. The studies were not expensive and would cost only \$20,000 to \$25,000. They helped the organization focus its marketing dollars, which then became more valuable and productive. Commissioner Winner said he did not believe LATC's doubling down on its plans was the problem. He stated he agreed with LATC's intentions with its Thoroughbred Club members, and its outreach to the Asian and the Hispanic communities, as well as its efforts to make LATC a cool place to be for a younger demographic. However, there

was currently no money for such initiatives, which meant the two did not weave together. Commissioner Winner stated he hoped that perhaps LATC would at least think about some of the Board's concerns. Chairman Brackpool said Hollywood Park had great success in bringing a younger demographic to the track with Friday night concerts. The problem was turning the audience into horseplayers. It would take a lot of convincing to get a corporate entity to approve putting so much money into bars and other renovations. He asked if LATC had thought about leasing a space to a bar operator who would do the necessary renovation work. Mr. Verge said potential operators had been approached, but they were worried about the unions. Chairman Brackpool **motioned** to conditionally approve the application by LATC to operate a race meeting, dependent on the completion of the horsemen's agreement and the stabling and vanning agreements being completed. Vice-Chairman Israel **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO CONDUCT A HORSE RACING MEETING OF THE PACIFIC RACING ASSOCIATION (T) AT GOLDEN GATE FIELDS, COMMENCING DECEMBER 26, 2012 THROUGH JUNE 18, 2013, INCLUSIVE.

Joe Morris of Pacific Racing Association (PRA) stated PRA was proposing to start its race meeting on December 26, 2012 and run through June 18, 2013. The race meeting would run the same number of days as in 2012. Mr. Morris said the horsemen's agreement was not completed, but PRA was projecting that purses for the proposed meeting would remain consistent with the current purse structure. The proposed race meeting would offer 12 stakes races, which was in line with PRA's continuing efforts to bring Golden Gate Fields back into relevance. Mr. Morris stated PRA expected to have extended distribution through the meeting with TVG, and the

marketing budget would be a little larger. He added PRA would be going into the meeting with more horses than it had in the previous year. Chairman Brackpool said one issue with PRA was starters per race. Statistics indicated that once a race meeting went from six to eight starters there was a 30 percent increase in the handle. However, PRA was continuing to propose to run the same number of races per day while it was plagued with short fields. Many claimed more income was made by running more races and it did not matter if there were short fields. However, Chairman Brackpool stated he did not believe that was accurate. There had to be something better that could be tried, even if it was painful for a while. Mr. Morris said the largest problem faced by PRA was the horse population. PRA did drop to seven races on Thursday, and its average runners per race were up a half a percent. That was not optimum, but it was an improvement and it represented progress. PRA was also strategizing on how to attract more horses. Chairman Brackpool stated he would like to see some of the Golden State races moved back to Northern California. That was a conversation to be had with the California Marketing Committee and the Thoroughbred Owners of California. It was incumbent on the industry to continue to try and do what it could to boost the north. It could be the start of a resurrection, but there had to be a quality product for horsemen and the wagering public. Mr. Morris said he agreed. The PRA racing schedule needed fixing and the fields needed to be larger. Those were the things holding back Golden Gate Fields, which had to be an anchor for the north, as there was nothing else. Chairman Brackpool said it appeared that Sunday was a good day for PRA. Mr. Morris stated the handle was up on Sundays, but the biggest days were the Chinese Day, the Filipino Days and the Hispanic Days. Chairman Brackpool said the Board would be interested in hearing about PRA's marketing and things that were working, or might work. Mr. Morris stated PRA had done a fair amount of marketing research. It planned to keep

its dollar days on Sunday, and in the spring of 2013 it would offer free concerts. Chairman Brackpool asked if the dollar days worked because the cost was a dollar or because it was Sunday. Dan Cirimele of PRA said the PRA market was difficult because it had five major league teams. When PRA tried Saturday dollar days it got stomped as there were too many competing events, but on Sundays there was a wide open market. So, PRA capitalized on the Sundays. In addition, PRA's branding for the past eight years was "Dollar Day Sunday". The concepts coupled together so it was difficult to state if it was the Sunday or the cost of a dollar that made Sundays successful. Mr. Cirimele stated the Sunday was cannibalizing other days of the week, so PRA teamed up with the Hass School of Business at UC Berkeley to have MBA students analyze what PRA could do on Saturdays that would be consistent with its Sunday program. PRA wanted to brand its Saturdays and it was also looking to see how it could get college students to attend – even on Sunday dollar days. Mr. Cirimele said the PRA heritage days worked well. PRA was in its third year of going after the Hispanic and Asian markets. Every year there was an increase in attendance on the heritage days. The last Hispanic day saw almost 10,000 patrons on track. Chairman Brackpool asked if the increase in attendance translated to an increase in handle. Mr. Cirimele said the Hispanic Day saw a double digit increase in the handle; the Chinese New Year event had a nice increase, but the Filipino Fest there was no corresponding increase in handle. He stated different groups seemed to be wagering at different rates, but it could also be the event that was keeping patrons from the windows. Mr. Morris said the twilights worked well. PRA moved its post time up behind Hollywood Park and it went side by side with Del Mar. That helped attendance and handle on those days. Mr. Cirimele commented PRA has sponsors interested in its heritage days. The River Rock Casino gave PRA free giveaways for its Filipino Festival and major brands such as

Miller and Coors were also looking at piggybacking on PRA's events. It was a way to expand PRA's marketing budget without using actual PRA dollars. Mr. Morris said other good news was that the PRA El Camino Real race was accepted as one of the Derby prep races. Chairman Brackpool stated he would be working to try to move a couple of the Cal-bred races up to PRA. The purses offered would attract horsemen. With the overlap in the north PRA needed to work towards creating a difference between the meetings. PRA should be more of a turf festival and not a meeting with low priced claiming races. Mr. Morris said PRA could take the first and second weekends of August for the first ever Golden Gate Fields Turf Festival. It depended on the horse population, but PRA should be able to run at least more than half of its races on those two weekends on the turf. PRA would also look at the condition books to arrive at a level below which races would not be written. It could be \$4,000 or \$6,000 claimers. Chairman Brackpool commented that would start to show a point of difference between the meetings. He stated there were some documents missing from the application. The Board understood about the horsemen's agreement, and it expected it would be delivered prior to the November 2012 Regular Meeting. He added the advance deposit wagering agreements also had the same Monarch Content Management issues as with the Los Angeles Turf Club. However, the basic notices requesting the low takeout adjustment on the Pick 5 were missing. Mr. Morris said the notices would be provided. He stated the two missing fire clearances would also be provided prior to the November Regular Meeting. Chairman Brackpool **motioned** to approve the application for license to operate a race meeting of PRA subject to receipt of the missing items. Commissioner Choper **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO CONDUCT A HORSE RACING MEETING OF WATCH AND WAGER LLC (H) AT CAL EXPO, COMMENCING DECEMBER 26, 2012 THROUGH MAY 25, 2013, INCLUSIVE.

Vice-Chairman Israel said Watch and Wager LLC (WW) submitted an application for license to operate a race meeting at Cal Expo commencing December 26, 2012 through May 25, 2013. Christopher Schick of WW and Golden Bear Racing (GBR) stated the proposed race meeting would open on December 26, 2012, the same day as the Los Angeles Turf Club race meeting. That would mark what WW hoped would be a return to a three-day race week for harness racing in California. The return to three days a week racing versus the current two days a week was fundamental to rebuilding the industry. Mr. Schick said WW was optimistic it would have enough horses to accomplish that goal. The racing schedule through the end of April 2013 was essentially three days a week. During the last two weeks of the meeting horses tended to leave for the east coast, so Cal-Expo would return to two days a week for the last days of the meeting in May 2013. Vice-Chairman Israel stated the Board was pleased that WW submitted all the required documents with its application for license. He added the only thing missing was the fire clearance, which was scheduled. Mr. Schick said the fire clearance would be delivered within the week. Vice-Chairman Israel asked who bore the ultimate financial responsibility in the event of a problem. Ed Cummings of WW said WW was the applicant. All the contracts and the lease agreement with Cal Expo were with WW. He stated WW contracted with GBR to physically run the track. Commissioner Beneto asked if WW put up any money or a letter of credit. Mr. Cummings said WW initially provided a \$100,000 check. It currently had a surety bond through an insurance company based in San Francisco. The bond was held by the CHRB. WW also put a \$200,000 deposit on its lease agreement with Cal Expo, and it injected some working capital into the race meeting which it believed was more than adequate for the next two years. The

capital totaled around \$410,000 and was held in the WW bank accounts. Commissioner Winner asked if the issues with the Fire Marshall and the backstretch housing were resolved. Ben Kenney of GBR said interested parties met several times and devised a plan to submit to Cal Fire regarding grooms living in the tack rooms for the coming year. Part of the plan would be the installation of windows in each tack room. The windows would act as a secondary escape route, if needed. The grooms were currently not living in the tack rooms. Mr. Schick added Cal-Expo was very hopeful of having the issue resolved. He stated the resolution was close and should be achieved soon. Once that happened, a plan was in place to move people back into the tack rooms in an orderly fashion. Commissioner Winner asked if anything had been done to compensate the people who had to move. Mr. Kenney said that had not been considered. The number one goal was to be in compliance. The horsemen went to great lengths to ensure the rooms were empty and that there were no violations with Cal Fire. Commissioner Choper **motioned** to approve the application for license to operate a race meeting of WW at Cal Expo. Commissioner Winner **seconded** the motion, which was **unanimously carried**.

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO CONDUCT A HORSE RACING MEETING OF THE LOS ALAMITOS QUARTER HORSE RACING ASSOCIATION (Q) AT LOS ALAMITOS RACE COURSE, COMMENCING DECEMBER 28, 2012 THROUGH DECEMBER 22, 2013, INCLUSIVE.

Jacqueline Wagner, CHRB staff, said the Los Alamitos Quarter Horse Racing Association (LAQHRA) filed an application to operate a race meeting from December 28, 2012 through December 22, 2013. The meeting would last 155 days, one day more than in 2012. LAQHRA would run three nights per week with a first post time of 7:00 p.m. The advance deposit wagering (ADW) provider would be TVG. There was one outstanding item on the application,

which was the fire clearance that needed to be updated in March 2013. Commissioner Derek said she would like to see more actual horse related charities considered for the race day charity distributions. Rick English of Los Alamitos Race Course stated his organization was aware of Commissioner Derek's concerns and it looked forward to increasing its contributions towards horse related charities. Commissioner Winner asked how the races were divided between the quarter horses and thoroughbreds. Mr. English stated up to 75 percent of the races were for quarter horses with the remainder being thoroughbred races. He added the races were written only for the two breeds. It was not possible to write only quarter horse races given the horse population available. Vice-Chairman Israel asked if it would be detrimental to the financial health of the race meeting if it were 100 percent quarter horses. Mr. English said at one time the meeting was 100 percent quarter horses. However, there were not enough quarter horses and the thoroughbreds offered an expanded interest to the patrons. The handle was about the same regardless. Commissioner Beneto asked what the size of the average field of horses was. Mr. English said the average fields were below seven horses. Commissioner Winner asked if the stakes races were all quarter horse races. Mr. English stated LAQHRA was not allowed to have thoroughbred stakes. Chairman Brackpool **motioned** to approve the application for license to operate a race meeting of LAQHRA. Commissioner Winner **seconded** the motion, which was **unanimously carried**.

DISCUSSION BY THE BOARD REGARDING THE PRESENTATION FROM BETFAIR U.S., LLC, AND ITS PLANS FOR EXCHANGE WAGERING IN CALIFORNIA.

Chairman Brackpool stated the hearing for adoption of the exchange wagering regulations would be held at the November 2012 Regular Meeting. At the same time, the Board would hear the

license applications to operate exchange wagering from Betfair U.S., LLC (Betfair) and from Churchill Downs. In the mean time, Betfair requested to make a presentation before the Board regarding its plans for exchange wagering in California. John Hindman of Betfair stated his organization thought it might be helpful to make a presentation to the Board regarding Betfair and what it would like to do with exchange wagering. He added the most important aspect of the presentation was the ability for Betfair to answer questions regarding its future plans regarding exchange wagering. Chairman Brackpool said the presentation was for the Board, and as it had seen the slides Betfair could do a walk through and answer questions. It was not necessary to have a 20 minute slide presentation. Commissioner Winner stated he received the materials in advance and did not currently have any questions. If there were questions, they could be addressed at the November Regular Meeting. Commissioner Beneto said he agreed. Chairman Brackpool stated the materials were interesting. The license applications would be heard only if the Board adopted the proposed regulations. However, if there were a couple of highlights Betfair wanted to make that was fine, then questions could be heard. Vice-Chairman Israel asked what the difference was between the Betfair group and the Sporting Exchange Limited (SEL) and why did SEL have a small interest in ODS Technologies (ODS), which was effectively TVG? Mr. Hindman stated SEL and Betfair Group was basically the same thing. SEL was the original company and Betfair became the trade name. Betfair then went public on the London Stock Exchange. SEL's interest in TVG was a legal formality that kept the limited partnership alive. Mr. Hindman stated there was no separate entity with different ownership; all the companies were owned by the same entity. Mr. Hindman said one of the unique things exchange wagering brought to the table was the real-time monitoring of wagering. Currently, in the United States, roughly 80 percent of wagering was anonymous, and 100 percent of it was not

subject to real-time monitoring. Betfair was bringing real-time monitoring to the table and offering it to all regulators without charge. That was unique and it would help racing from an integrity standpoint. In addition, racing was Betfair's largest revenue driver, and it was all TVG did. That meant Betfair understood the need to work cooperatively with the racing associations and horsemen to ensure the product benefited. That was because Betfair was only as good as the product. Mr. Hindman added exchange wagering would bring a new demographic to the sport. Financial traders, technology savvy individuals and others who were not currently using the product would be attracted. That represented a big opportunity for California. Chairman Brackpool said that was a conversation about the merits of exchange wagering. Others might have different views. He asked about the strength of Betfair as an entity. Mr. Hindman stated the global company had over 5 million customers, \$200 million in the bank, and it was debt free. Betfair also held over \$400 million in client funds. The funds were held in trust immune from bankruptcy or administration. From that standpoint Betfair believed it was a very suitable applicant. Betfair and TVG had been in business over ten years, and neither company had any regulatory issues. Commissioner Winner asked if Betfair was making a presentation at its request. Chairman Brackpool said that was correct. Commissioner Winner asked if any similar requests to make a presentation by other applicants would have been granted. Chairman Brackpool said that was correct. If any applicant wished to make such a presentation they could do so as part of the license application. Chairman Brackpool asked how many transactions Betfair handled per day. Mr. Hindman stated Betfair handled eight million transactions a day. The average wager was around \$12.00 while TVG's average was \$10.00. Chairman Brackpool stated the Board would look forward to hearing Betfair's application for license at the November 2012 Regular Meeting.

DISCUSSION AND ACTION BY THE BOARD REGARDING THE 2013 ALLOCATED RACE DATES TO PACIFIC RACING ASSOCIATION AT GOLDEN GATE FIELDS AND THE HUMBOLDT COUNTY FAIR AT FERNDALE AND THE OVERLAP AND HOST FEE REVENUES ASSOCIATED WITH THESE 2013 RACE MEETINGS.

Chairman Brackpool stated the issue of the overlap of Pacific Racing Association (PRA) at Golden Gate Fields and the Humboldt County Fair (HCF) and the host fee revenues associated with the overlap has been before the Board for at least the last five years. The basic problem was the calendar and who should get what. In 2011 a negotiated arrangement was reached where by PRA ran at approximately the same time as HCF. At that time, all parties agreed there should be a weaning process for HCF that would result in its financial independence. The current issue was trying to arrive at an amount that might be called a supplement. Progress was made on most of the issues with one big financial issue left. The parties seemed to have substantially agreed on who would race on which days. PRA agreed that it would attempt to hold a turf festival and restrict the limit at which it could run so as to provide a real reason for the horse population to move towards HCF. The remaining difficult obstacle was which entity would be the host on which days. Jim Morgan of HCF stated he agreed with Chairman Brackpool's summary of the issues. Joe Morris of PRA said he also agreed. Chairman Brackpool commented he did not know if the issues lent themselves to the entire Board listening to arguments then making a decision. Chairman Brackpool encouraged the parties to continue their discussions to resolve the remaining issues. He said the parties had demonstrated they could work together, and the race dates and most of the other parameters were agreed upon. If necessary, Chairman Brackpool said he would become involved and he would make a recommendation at the November 2012 Regular Board Meeting. He predicted the Board would not make a split decision, but would probably pick one entity over the other. The parties needed to understand the consequences of not reaching a consensus. Commissioner Choper asked what was at stake for the parties. Mr.

Proceedings of the Regular Meeting of October 18, 2012

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Morris said the issue was which racing association would get the host fees. Commissioner Choper asked how much money was involved. Mr. Morris said there was a difference of about \$120,000 to PRA if it was not the host, and there would also be an effect on purses. Mr. Morgan said in 2011 HCF had host status for the Wednesdays and Thursdays when it raced without overlap. That generated a little less than \$100,000 in host fees. In lieu of having the host status on other race days, PRA provided a lump sum of \$50,000 and Thoroughbred Owners of California (TOC) and Del Mar Thoroughbred Club paid approximately \$104,000. HCF's current position was to have host status on its opening Wednesday and Thursday and 50 percent of the host status fees for the first weekend of Friday through Sunday. The following weekend, which was the Pacific Classic week, would be all-host status for PRA. Mr. Morgan stated HCF wanted a permanent solution. Host status would provide an avenue to revenues and purses that would sustain HCF's meeting. In 2012 when HCF ran without overlap and with host fees it received \$551,000. In 2011 HCF was overlapped the entire meeting and received two and a half days of host commissions worth \$255,000. The numbers that had been offered for 2013 would not be enough for HCF to sustain its meeting; that was the cause of the impasse. Commissioner Beneto asked how much revenue would be generated for HCF if PRA did not overlap. Mr. Morgan said based on 2010, HCF would probably receive close to \$1 million. However, HCF did not need that much income. All it needed was a sustainable share. Commissioner Beneto asked what HCF needed. Mr. Morgan said HCF wanted to have the host status on a Wednesday-Thursday where it raced without overlap. It also wanted 50 percent of the host status on the first weekend. That would sustain HCF in perpetuity. Commissioner Beneto commented the half million dollars was HCF's number. Vice-Chairman Israel stated the horsemen would lose when HCF ran un-overlapped. Mr. Morgan stated HCF only wanted to run un-overlapped on the initial

Wednesday and Thursday. The horse population was at Santa Rosa and HCF wanted them to migrate north. In 2012 HCF had 170 horses. Only two horses were from Oregon, whereas in previous years there were approximately 60 horses. HCF was only trying to sustain its horse population. Vice-Chairman Israel asked if the thoroughbred horsemen would run at HCF. Lou Raffetto of TOC stated a small number of thoroughbred horsemen ran at HCF; he did not have the exact numbers. Vice-Chairman Israel asked what the benefit to PRA and Del Mar Thoroughbred Club was when HCF was running. Mr. Morris stated there was no benefit. Josh Rubenstein of Del Mar Thoroughbred Club stated his organization would pay about \$83,000. Vice-Chairman Israel asked if PRA would run fewer races. Mr. Morris said under the proposed scenario he was not sure he would be able to run any. The proposal asked for more money than PRA paid in 2012. Vice-Chairman Israel asked how much money HCF received. Mr. Morgan stated HCF received a total of \$519,000. He added the number was down from 2010 when HCF received \$551,000 and it was more than in 2011 when HCF received \$255,000. Vice-Chairman Israel asked what benefit was it to PRA and the Del Mar Thoroughbred club that HCF was running. Mr. Rubenstein said there really was no benefit. The revenue generated in the north stayed in the north; however, his organization provided industry support. It was willing to do it in 2013, but any arrangement needed to also work for PRA. Mr. Morris stated PRA was trying to work with all the racing fairs in Northern California to revive the northern racing industry. HCF ran overlapped for up to 50 years, and there was state money to help. In 2012 PRA tried to fill the gap that was created by the loss of the state funds. PRA was willing to work with HCF and for 2013 PRA would give HCF the purses from the two Wednesdays, which would be \$71,000. PRA would write HCF a check for \$50,000 and there was money from Senate Bill 763, which was another \$75,000. HCF could also run eight more simulcast races a day, which it did

not do in 2012. That would bring in another \$15,000. It added up to \$166,000 from the industry and \$112,000 for purses. In addition, PRA would work with HCF and the Northern California Off-Track Wagering, Inc. board to create a minisatellite. Vice-Chairman Israel said the issue was being created by the absence of funds from the general fund of the State of California. That was due to a decline in tax revenue, which changed the budget process in Sacramento. The industry tried to address the problem as best it could. Vice-Chairman Israel stated it seemed to him that HCF did not want to experience the difficulties experienced by many other public entities. Everyone had to cut back. He said he did not understand why HCF did not take its fair share of the pain and suffering. Mr. Morgan stated HCF did cut back. What was happening was that PRA expanded its meeting over the HCF meeting and over the last two years wedged HCF out of any host status. Vice-Chairman Israel said the past 40 or 50 years did not support that argument. Mr. Morgan stated that before 2011 only the California Authority of Racing Fairs (CARF) was awarded dates by the Board. In 2012 HCF had one week with host status and no overlap. It made its expenses. Vice-Chairman Israel said there was a meeting at San Mateo, so it was a CARF meeting. There was really no difference. PRA was currently filling that space. PRA was trying to make HCF whole by having some of the money that would go to PRA go to HCF. That was the deal. The subsidy HCF was granted through the state budget was eliminated due to declining tax revenues in California. Mr. Morgan stated every other fair got host status. Every other fair needed host status. Santa Rosa made about \$1 million on its host status. HCF did not need that much money. Chairman Brackpool said the parties needed to resolve the issue. It would be on the November 2012 Regular Meeting agenda. He added the issue was not the merits or equity; it was about numbers. He asked that the parties send him statements of factual numbers and not arguments about the merits. Commissioner Choper said it behooved both

parties to try to get the issue settled. No one would get everything they wanted, unless it was left to the Board.

MEETING ADJOURNED AT 12:28 P.M.

A full and complete transcript of the aforesaid proceedings are on file at the office of the California Horse Racing Board, 1010 Hurley Way, Suite 300, Sacramento, California, and therefore made a part hereof.

Chairman

Executive Director

CALIFORNIA HORSE RACING BOARD

NOVEMBER 15, 2012
REGULAR BOARD MEETING

There is no board package material for Item 2

ALBERTA'S HORSE RACING BOARD

REGISTRATION
FORM

NAME OF HORSE

STAFF ANALYSIS
DISCUSSION AND ACTION BY THE BOARD REGARDING THE
DISTRIBUTION OF RACE DAY CHARITY PROCEEDS OF THE
HOLLYWOOD PARK RACING ASSOCIATION LLC, IN THE AMOUNT OF \$95,003 TO
17 BENEFICIARIES

Regular Board Meeting
November 15, 2012

BACKGROUND

Business and Professions Code section 19550 states the Board shall require each licensed racing association that conducts 14 or less weeks of racing to designate three racing days, and each licensed racing association that conducts more than 14 weeks of racing to designate five racing days during any one meeting, to be conducted as charity days by the licensee for the purpose of distribution of the net proceeds there from to beneficiaries through the distribution agent. No racing association shall be required to pay to a distributing agent for the purpose of distribution to beneficiaries more than an amount equal to two-tenths of one percent of the association's total on-track handle on live races conducted by the association at the meeting. Business and Professions Code section 19555 requires that proceeds are to be distributed to beneficiaries within 12 calendar months after the last day of the meet during which charity days were conducted. Business and Professions Code section 19556 provides that the distributing agent shall make the distribution to beneficiaries qualified under this article. At least 20 percent of the distribution shall be made to charities associated with the horse racing industry. An additional five percent shall be paid to a welfare fund and another five percent shall be paid to a non-profit corporation, the primary purpose of which is to assist horsemen and backstretch personnel who are being affected adversely as a result of alcohol or substance abuse. In addition to the above distributions, a separate 20 percent shall be made to a nonprofit corporation or trust, the directors or trustees of which shall serve without compensation except for reimbursement for reasonable expenses, and which has as its sole purpose the accumulation of endowment funds, the income on which shall be distributed to qualified disabled jockeys.

ANALYSIS

The Hollywood Park Racing Association LLC (HPRA) is requesting approval to distribute its race day charity proceeds generated during the 2011 race meeting. HPRA is distributing \$95,003 to designated charities. 2011 race day charity proceeds are \$94,479.44. HPRA is acting as distribution agent for charity day proceeds generated at Bet Fair Hollywood Park. The previous distribution agent, Hollywood Park Charities Inc. had a balance of \$523 remain in its account when the account was closed. These funds have transferred to HPRA and have been added to the 2011 charity day proceeds making the total amount of the 2011 distribution \$95,003. Seventy six percent of the proposed race day charity proceeds distribution will be given to horse racing related charities.

RECOMMENDATION

This item is presented for Board discussion and action.



October 16, 2012

Commissioners
California Horse Racing Board
1010 Hurley Way, Room 300
Sacramento, California 95825

Re: Request for Approval of Hollywood Park Racing Association LLC's Charity Days Proceeds Proposed Distribution

Dear Board Commissioners:

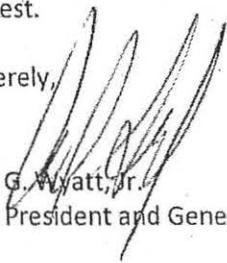
Hollywood Park Racing Association, LLC has determined the beneficiaries of proceed from "Charity Days" races conducted at Betfair Hollywood Park during its 2011 Spring/Summer meet from April 20, 2011 through July 17, 2011 and its 2011 Fall meet from November 9, 2011 through December 18, 2011 in the amount of \$94,480.

Hollywood Park Racing Association, LLC is now acting as the distributing agent for "Charity Days" proceeds generated at Betfair Hollywood Park beginning with the 2011 racing season. The previous distributing agent was Hollywood Park Charities, Inc. which had a balance of \$523 remaining in their account when it was closed. Those funds have been transferred to Hollywood Park Racing Association, LLC to be added to the 2011 "Charities Days" proceeds making the total amount of the 2011 distribution \$95,003.

Accordingly, Hollywood Park Racing Association, LLC requests approval to distribute Charity Days funds in the amount of \$95,003. Attached hereto are the list of organizations selected to be the beneficiaries of such Charity Days proceeds, the amount to be distributed to each and a description of each organization. Distribution of the proposed amounts will be made upon approval by the California Horse Racing Board.

Please feel free to contact me in the event you should have any questions regarding this request.

Sincerely,



Eual G. Wyatt, Jr.
Vice President and General Manager

EGW:slr
Attachment

Cc: Kirk Breed
Jacqueline Wagner
F. Jack Liebau
Barbara Helm

Hollywood Park Racing Association, LLC
Allocation of Charity Day Proceeds

Equine Related Charities

California Thoroughbred Horsemen's Foundation, Inc.	\$11,500	
Permanently Disabled Jockeys Endowment	\$29,500	
Winners Foundation	\$10,003	
California Equine Retirement Foundation	\$ 3,000	
Edwin J. Gregson Foundation	\$ 4,000	
Racetrack Chaplaincy of America (Southern California)	\$ 7,000	
Southern California Equine Foundation, Inc.	\$ 4,000	
Tranquility Farm	<u>\$ 3,000</u>	
SUBTOTAL	\$72,003	76%

Non-Equine Related Charities

Inglewood Educational Foundation	\$5,000	
Inglewood Children's Dental Center of Greater Los Angeles	\$2,000	
Los Angeles Urban League	\$2,000	
Centinela Youth Services, Inc.	\$2,000	
Inglewood After School Program	\$3,000	
Inglewood Senior Citizens Center	\$3,000	
Catholic Charities of Los Angeles, Inc./Saint Margaret's Center	\$2,000	
Salesian Boys & Girls Club of Los Angeles	\$2,000	
Watts/Willowbrook Boys & Girls Club	<u>\$2,000</u>	
SUBTOTAL	\$23,000	24%
TOTAL	\$95,003	100%

Hollywood Park Racing Association, LLC
Charitable Organization Descriptions

EQUINE RELATED:

California Thoroughbred Horsemen's Foundation, Inc. (CTHF)

Established in 1983 to provide assistance to needy backstretch workers and their dependents, primarily in the area of medical and dental care. The CTHF contracts physicians and dentists professional services; provides hospitalization, outpatient, rehabilitative or preventative medical programs and provides temporary family financial aid.

Permanently Disabled Jockeys Endowment

The fund was created in 2006, after merging with the DJE (Disabled Jockey Endowment). It is a collaborative effort between leaders in horse racing, race tracks, jockeys and horsemen to bring financial assistance to jockeys stricken by catastrophic injury.

Winners Foundation

Established in 1984 to provide information, support and referral services for employees and family members of the California horse racing community being adversely affected by alcohol and/or substance abuse. Maintains relationships with twelve step groups, detox centers, and inpatient and outpatient hospital programs

California Equine Retirement Foundation (CERF)

Established in 1986 to provide a full range of services to former racehorses in need of rehabilitation toward retirement or placement in a new career. CERF houses seventy-plus horses ranging in age from two to thirty-two years of age. Each horse is maintained with his or her own specific nutritional needs to ensure optimal health and fitness.

Edwin J. Gregson Foundation

Established in 2000 to provide educational programs to backstretch workers, such as scholarship grants, English as a Second Language, and computer skills. Recreational programs are also provided including sports leagues and games, i.e. dominoes, pool and poker tournaments.

Racetrack Chaplaincy of America (Southern California) RTCA/SC

Established in 1971 to assist backstretch personnel with everything from daily devotions to bible study, counseling, translations, social security, insurance and IRS appointments, tax preparation and notary services.

Southern California Equine Foundation, Inc.

Established in 1976, runs the equine hospital on Hollywood Park's backstretch, providing veterinary care, ambulances and all medical services for ill and injured race horses.

Tranquility Farm

Established in 1998 as a full service program for rehabilitating race horses for a second career as pleasure horses or humane retirement. All horses are given needed medical treatment as well as additional training as needed for ownership in a new career setting if possible.

EDUCATION/SOCIAL SERVICES**Inglewood Educational Foundation**

Established in 2003 to help Inglewood area teachers/schools submitting requests for needed materials and/or funding for classes and projects such as books, science materials, or costs for special off campus field trips.

Inglewood Children's Dental Center of Greater Los Angeles

Established in 1995 to provide outreach services to elementary school children in Inglewood and the surrounding area with dental care and education. In California more than 50% of kindergartners and 70% of 3rd graders suffer from tooth decay with 25% having never had any treatment. It remains the most common chronic childhood illness.

Los Angeles Urban League

Established in 1921 to provide advancement and business opportunities to African-Americans and minorities, employment development and training being their more recent focus. Programs include the Milken Youth and Family Literacy program working with area colleges and universities as well as the LAUSD.

Centinela Youth Services, Inc.

Established in 1975 to reduce violence at school and at home for Inglewood youth as well as those in surrounding communities. Provides at-risk youth with programs such as counseling, tutoring, educational support, targeted to help them form more productive lives and provides referrals to other agencies if needed.

Inglewood After School Program

Established in 1984 to provide citywide after school recreation program for elementary school youth within the Inglewood Unified School District. Provided through the Recreation, Parks and Community Services Department with activities such as music, art, dance and gymnastics as well as homework completion and tutoring for children with special needs.

Inglewood Senior Citizens Center

Established in 1973 to provide programs for Inglewood senior citizens. Peer counseling and visitor programs are provided for both those able to come to the center and home-bound seniors.

Catholic Charities of Los Angeles, Inc./Saint Margaret's Center

Established in 1987 to provide emergency support services to residents of Inglewood who live at or below the poverty level. Among the programs provided are a food pantry, medical and vision screening and an emergency shelter. Provides a Christmas program in conjunction with Hollywood Park each year for low-income families.

Salesian Boys & Girls Club of Los Angeles

Established in 1966, provides various educational programs to middle school and high school youth. Like the Watts/Willowbrook programs, this club is in a largely immigrant area marked by poverty, violence and poor educational achievement. Assists students in reaching requirements for entrance into UC or CSU campuses.

Watts/Willowbrook Boys & Girls Club

Established in 1957 to provide various programs to youth ages 7 - 18. Educational services are the primary focus with computer use for homework assignments, creative writing, art and health and wellness. Membership is predominantly African-Americans and Hispanics that live in neighborhoods plagued with drugs, violence and crime. Provides supervision and assistance in a safe environment.

Handle and Attendance Report

Date Range: 04/19/2011 -
12/19/2011

Race Type: Live Races

Hosts: Hollywood Park Fall,
Hollywood Park Spring

Locations: All Locations

Tracks: All Tracks

Report By: Host

On/Off: On Track

Host	Num Days	Total Handle	Avg. Handle	Attendance	Avg. Attendance
Hollywood Park Fall	26	12,395,889.90	476,765.00	86,605	3,331
Hollywood Park Spring	54	34,843,832.10	645,256.15	256,590	4,752
Total	80	47,239,722.00	590,496.53	343,195	4,290

1% of ontrack handle	\$ 472,397.22
² / ₁₀ of 1%	\$ 94,479.44

California Horse Racing Board
Audits Unit
Distribution of Charity Days Racing Proceeds

Purpose:

To determine whether to recommend approval or denial of charity distribution for the 2011 Racing Calendar Year for the Betfair Hollywood Park Racing Association.

Source:

Hollywood Park Racing Association

CHRIMS

Business & Professions Codes 19550, 19551, 19554, 19555, 19556, 19557

Methodology:

Listed the proposed charities and amounts submitted by Betfair Hollywood Park Racing Association Association analyzed the proposed amounts and percentages for distribution.

Verified whether the proposed charities, amounts, and percentages comply with California Horse

Analysis:

#	Nonprofit Organization	Amount	Proposed Disbursement Percentage	Percentage Required By Horse Racing Law (from the 2/10 of 1%)	Notes
1	Permanently Disabled Jockey Fund*	29,500	31%	minimum of 20%	d
2	Southern CA. Equine Foundation*	4,000	4%		a
3	Race Track Chaplaincy/ Southern California*	7,000	7%		a
4	Winners Foundation*	10,003	11%	minimum of 5%	c
5	Edwin J. Gregson Foundation*	4,000	4%		a
6	CA Equine Retirement Foundation*	3,000	3%		a
7	CA Thoroughbred Horsemen's Foundation*	11,500	12%	minimum of 5%	b
8	Tranquility Farms*	3,000	3%		a
	<i>Subtotal Equine Related Charities</i>	<i>72,003</i>	<i>76%</i>	<i>minimum of 50%</i>	<i>e</i>
9	Inglewood Children's Dental Center of Greater Los Angeles	2,000	2%		
10	Los Angeles Urban League	2,000	2%		
11	Inglewood Education Foundation	5,000	5%		
12	Centinela Youth Services	2,000	2%		
13	Inglewood After School Program	3,000	3%		
14	Inglewood Senior Citizens Center	3,000	3%		
15	Catholic Charities of Los Angeles/Saint Margaret Center	2,000	2%		
16	Salesian Boys & Girls Club of Los Angeles	2,000	2%		
17	Watts/Willowbrook Boys & Girls Club	2,000	2%		
	<i>Subtotal Non-Equine Related Charities</i>	<i>23,000</i>	<i>24%</i>		
	Total	\$ 95,003			

Notes:				
a	20% to charities associated with the horse racing industry (B&P 19556 (b))			
b	5% to welfare fund for backstretch personnel (B&P 19556 (b))			
c	5% to nonprofit organization to assist horsemen and backstretch personnel affected by alcohol and substance abuse(B&P 19556 (b))			
d	20% to nonprofit organization that benefits qualified disabled jockeys (B&P 19556 (c)(1))			
e	overall a minimum of 50% of the charity distribution should go to horse racing industry related nonprofit organizations.			
* Associations related to horse racing industry				
Background information for each organization is attached.				

Conclusion:

Recommend approval of charity distribution for the 2011 Racing Calendar year for the Betfair Hollywood Park Racing Association.

STAFF ANALYSIS
DISCUSSION AND ACTION BY THE BOARD
REGARDING THE 2013 ALLOCATED RACE DATES TO
PACIFIC RACING ASSOCIATION AT GOLDEN GATE FIELDS
AND THE HUMBOLDT COUNTY FAIR AT FERNDALE
AND THE OVERLAP AND HOST FEE REVENUES
ASSOCIATED WITH THESE 2013 RACE MEETINGS

Regular Board Meeting
November 15, 2012

BACKGROUND

Business and Professions Code section 19530 provides the Board the authority to allocate racing weeks to an applicant pursuant to the provisions of the horse racing law and to specify such racing days, dates, and hours for horse racing meetings as will be in the public interest, and will subserve the purposes of the law. Business and Professions Code section 19531 states the Board shall make allocations for racing weeks, including simultaneous racing between zones as it deems appropriate. The maximum number of racing weeks that may be allocated for horse racing other than at fairs, shall be as follows: (a) For thoroughbred racing: 44 weeks per year in the northern zone; 42 weeks per year in the central zone; and seven weeks per year in the southern zone. (b) For harness racing: 25 weeks per year in the northern zone. (c) For quarter horse racing: 25 weeks per year in the northern zone. (d) For harness racing and quarter horse racing: a total of 77 weeks per year in the combined central and southern zones. Business and Professions Code section 19532(a) specifies any association licensed to conduct thoroughbred racing in the northern zone may receive no more than 35 weeks of that racing. (b) Any association licensed to conduct thoroughbred racing in the central zone may receive no more than 17 weeks of that racing, except that any association which conducts a split meeting may receive up to 20 weeks of that racing. No more than one such split meeting may be licensed in any one year. Business and Professions Code section 19549 provides the maximum number of racing weeks that may be allocated to a fair shall be four weeks each, except under specified conditions.

Board Rule 1430, Allocation of Racing Weeks and Dates, states the Board shall allocate racing weeks and dates for the conduct of horse racing in this State for such time periods and at such racing facilities as the Board determines will best subserve the purposes of the Horse Racing Law and which will be in the best interests of the people of California in accord with the intent of the Horse Racing Law.

ANALYSIS

At the September 20, 2012 Regular Board meeting, Pacific Racing Association (PRA), California Authority of Racing Fairs (CARF) and the Thoroughbred Owners of California (TOC) submitted a joint request for 2013 Northern California Race Dates. PRA, CARF and the TOC were in agreement on the proposed 2013 Northern California race dates as submitted, with the exception of August 14-25.

PACIFIC RACING ASSOCIATION (PRA)

PRA at Golden Gate Fields - December 25, 2012 to June 18, 2013 (Winter/spring race meeting)

- PRA II at Golden Gate Fields – August 14, 2013 to September 17, 2013 (Summer race meeting)
- PRA at Golden Gate Fields – October 16, 2013 to December 25, 2013 (Fall race meeting)

CALIFORNIA AUTHORITY OF RACING FAIRS

- Alameda County Fair at Pleasanton – June 19, 2013 to July 9, 2013
- Cal Expo - July 10, 2013 to July 23, 2013
- Sonoma County Fair at Santa Rosa- July 24, 2013 to August 13, 2013
- Humboldt County Fair at Ferndale – August 14, 2013 to August 25, 2013
- San Joaquin County Fair at Stockton – September 18, 2013 to October 1, 2013
- Fresno County Fair at Fresno – October 2, 2013 to October 15, 2013

The Board allocated the proposed dates as submitted, leaving open for further discussion by the parties the issue of PRA overlap of the Humboldt County Fair and host revenues for the 2013 race meeting. Subsequent to the September 2012 Board meeting the parties were to continue to meet and come up with a plan and/or compromise to address the issue.

RECOMMENDATION

Staff recommends the Board hear from the parties.

STAFF ANALYSIS

DISCUSSION AND ACTION BY THE BOARD TO APPROVE THE AUDIT REPORT OF THE CALIFORNIA HORSE RACING BOARD AUDITING UNIT OF THE STABLING AND VANNING FUND AND TO SET A HEARING DATE, FORUM AND BREIFING SCHEDULE REGARDING THE COMPLAINT OF SAN LUIS REY DOWNS

Regular Board Meeting
November 15, 2012

BACKGROUND

San Luis Rey Racing, Inc. filed suit in San Diego Superior Court against Hollywood Park Racing Association, the group owning Hollywood Park Race Track, Southern California Off-Track Wager, Inc. (SCOTWINC), Southern California Off-Track Wagering, Ltd., Thoroughbred Owners of California and the California Horse Racing Board. The primary issue in the litigation is whether the Stabling and Vanning Fund monies, received and managed by SCOTWINC, have been properly distributed. The Stabling and Vanning Fund is authorized pursuant to Business and Professions Code section 1907, et seq., to reimburse racing associations and fairs for the costs of providing offsite stabling at auxiliary training facilities in connection with race meets.

On September 13, 2012, the San Diego Superior Court stayed the litigation after being notified that several racing associations had requested the California Horse Racing Board to conduct an audit of the Stabling and Vanning Fund. The Superior Court ruled the Board's jurisdiction had been invoked and, therefore, the Board should be afforded the opportunity to investigate and adjudicate the distribution of funds from the Fund. A Status Conference is set for March 15, 2013.

ANALYSIS

Accordingly, an audit of the Stabling and Vanning Fund, as authorized by Business and Professions Code section 19433, was conducted by the Auditing Unit of the California Horse Racing Board. The field work of the audit was performed at the SCOTWINC office, Dublin, California, on October 8, 2012. The Audit Report, dated November 6, 2012, is attached for Board review and approval.

A copy of the Superior Court's Minute Order is attached which directs the California Horse Racing Board to investigate and adjudicate whether or not the Stabling and Vanning Fund monies have been distributed properly.

Also attached is Memorandum from Counsel for San Luis Rey Racing in response to noticing of this Agenda Item. Additionally, Counsel has requested the opportunity to address the California Horse Racing Board on the matter.

In order to afford all parties an opportunity to be heard on the issue, the Board should decide:

- Whether to hear the matter itself, refer the matter to a Committee of the Board or refer the matter to a Hearing Officer/Referee
- To set a date by which the matter must be adjudicated by the Board prior to March 13, 2012 Status Conference
- For the parties agree to a briefing schedule.

RECOMMENDATION

This Item is presented for Board discussion and action.

STAFF ANALYSIS
DISCUSSION AND ACTION BY THE BOARD
REGARDING THE REQUEST FROM WATCH AND WAGER LLC TO
AMEND ITS NOVEMBER 22, 2012 THROUGH DECEMBER 22, 2012 HARNESS
LICENSE APPLICATION TO ALLOCATE DECEMBER 23, 2012 AS AN ADDITIONAL
RACE DAY

Regular Board Meeting
November 15, 2012

BACKGROUND

Business and Professions Code section 19531 states the Board shall make allocation or racing weeks, including simultaneous racing between zones, as it deems appropriate. The maximum number of racing weeks that may be allocated for harness racing is 25 weeks per year in the northern zone. Business and Professions Code section 19549.6 states that notwithstanding subdivision (b) of section 19531 and sections 19540, 19546 and 19549, the Board may allocate additional weeks of harness racing to the California Exposition and State Fair in Sacramento or its lessee, to be raced at the California Exposition and State Fair in Sacramento.

ANALYSIS

At the July 19, 2012 Regular Meeting Watch and Wager, LLC (WAW) was allocated 16 days of harness racing from November 2, 2012 through December 22, 2012. WAW's application for license to conduct a horse racing meeting was approved at the August 23, 2012 Regular Board Meeting.

WAW is requesting to add Sunday December 23, 2012 as an additional race day with a post time of 2:35 p.m. The allocation of the additional date coordinates with the Los Alamitos Racing Association's allocated dates, which will allow a coordinated daytime harness and quarter horse racing program; north and south, on December 21, 22 and 23. Los Alamitos's request for an amendment to its 2012 racing application to adjust it post to 2:00 pm on December 21, 22 and 23 has been administratively approved.

Hollywood Park and Golden Gate will end their race meeting on Sunday, December 16, 2012. There will be no thoroughbred/daytime racing in the state until December 26, 2012. Los Alamitos and WAW propose to run three daytime programs on December 21, 22, and 23, presenting staggered quarter horse and harness races. TVG, faced with reduced racing product from around the country, and none from California, has endorsed the additional programming and has pledged to vigorously promote and showcase the race program. Cal Expo has also expressed support for WAW's additional date allocation request.

WAW and Los Alamitos submit that the proposal benefits not only the track and TVG, but also gives California racing fans a game to play during the holiday season.

RECOMMENDATION

This item is presented for discussion and action.

STAFF ANALYSIS
November 15, 2012

APPLICATION FOR APPROVAL TO CONDUCT ADVANCE DEPOSIT WAGERING OF
ODS TECHNOLOGIES, L.P., DBA TVG FOR AN OUT-OF-STATE MULTI-
JURISDICTIONAL WAGERING HUB, FOR A PERIOD OF UP TO TWO YEARS.

TVG filed its application as an out-of-state multi-jurisdictional wagering hub to provide Advance Deposit Wagering (ADW). It is currently licensed through December 31, 2012 as an out-of-state multi-jurisdictional wagering hub. TVG Network was acquired by Betfair Group Limited in January 2009.

A bond or other form of financial security in the amount of \$500,000 is required to be submitted with an application for license to conduct advance deposit wagering. TVG, as a current ADW provider, has a \$500,000 bond on file that will expire December 31, 2013.

Betfair has also filed a draft application for a license to operate exchange wagering for quarter horse and standardbreds with the California Horse Racing Board. The proposed exchange wagering rules are pending adoption and successful completion of the regulatory review process by the Office of Administrative Law.

This application provides for:

Dates of operation will be 365 days a year, 24 hours a day. CHRB Rule 2072, Approval to Conduct Advance Deposit Wagering by an out-of-state Applicant, allows for a two year license term.

- Business and Profession Code section 19604 includes specific provisions that must be met before an ADW provider can accept wagers. These include:

19604 (b)(1) and (2)

No ADW provider may accept wagers on **races conducted in California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. A written agreement allowing those wagers exists with the racing association or fair conducting the races on which the wagers are made.
3. The agreement referenced in subparagraph (2) shall have been approved in writing by the horsemen's organization responsible for negotiating purse agreements for the breed on which the wagers are made in accordance with the Interstate Horseracing Act (15 U.S.C. Sec. 3001, et seq.), regardless of the location of the ADW provider, whether in California or otherwise, including, without limitation, any and all requirements contained therein

with respect to written consents and required written agreements of horsemen's groups to the terms and conditions of the acceptance of those wagers and any arrangements as to the exclusivity between the host racing association or fair and the ADW provider. For purposes of this subdivision, the substantive provisions of the Interstate Horseracing Act shall be taken into account without regard to whether, by its own terms, that act is applicable to advance deposit wagering on races conducted in California accepted from residents of California.

No ADW provider may accept wagers on **races conducted outside of California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. There is a hub agreement between the ADW provider and one or both of (i) one or more racing associations or fairs that together conduct no fewer than five weeks of live racing on the breed on which wagering is conducted during the calendar year during which the wager is placed, and (ii) the horsemen's organization responsible for negotiating purse agreements for the breed on which wagering is conducted.

19604 (a)(7)

"Hub agreement" as a written agreement providing for contractual compensation paid with respect to advance deposit wagers placed by California residents on a particular breed of racing conducted outside of California. In the event a hub agreement exceeds a term of two years, then an ADW provider, one or more racing associations or fairs that together conduct no fewer than five weeks of live racing for the breed covered by the hub agreement, and the horsemen's organization responsible for negotiating purse agreements for the breed covered by the hub agreement shall be signatories to the hub agreement. A hub agreement is required for an ADW provider to receive contractual compensation for races conducted outside of California."

19604 (d)(1) (B)

"The board shall not approve an application for an original or renewal license as an ADW provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization . . ."

TVG has provided the Board with a copy of the following agreements in compliance with Business and Professions Code section 19604:

- License Agreement by and Between ODS Technologies, L.P. d/b/a TVG Network and Hollywood Park Racing Association dated as of November 6, 2007 agreement extended through and ending November 5, 2013.
- License Agreement by and Between ODS Technologies, L.P. d/b/a TVG Network and Los Alamitos Quarter Horse Racing Association, Los Alamitos Harness Racing Association, dated as of December 12, 2007 agreement ending December 31, 2018.
- License Agreement by and Between ODS Technologies, L.P. and Del Mar Thoroughbred Club, dated as of November 16, 2011 agreement ending September 2016.

- License Agreement by and Between ODS Technologies, L.P. and Watch and Wager.com, LLC (Cal Expo), dated as of August 29, 2012 agreement ending August 31, 2014.
- Addendum agreement with Pari-mutuel Employees Guild Local 280 (labor organization), extending the terms and conditions of the labor agreement through December 31, 2013.

Monarch Content Management (MCM), LLC, is acting as the negotiating party for the 2013 simulcast wagering agreements between the advance deposit wagering providers and the California thoroughbred racing associations, California Authority of Racing Fairs and the Los Angeles County Fair at Pomona. To date the 2013 contracts and/or agreements required pursuant to Business and Professions Code section 19604 that allow ADW providers to accept wagers on races conducted in and outside of California for the applied license term have not been received. On October 23, 2012, MCM provided that the ADW *"agreements will be going out in the next week or so and we don't anticipate any issue with the TVG, TwinSpires and XpressBet agreements"*.

There are 13 racing venues approved for racing by the California Horse Racing Board: four thoroughbred racing associations, one quarter horse racing association, one harness facility racing and seven fairs. TVG has provided documentation allowing it to accept wagering for only four of the thirteen.

TVG is listed as an ADW provider on the December 28, 2012 through December 22, 2013 Los Alamitos Quarter Horse Racing Association (Los Alamitos); the December 26, 2012 through May 25, 2013 Watch and Wager.com, LLC; the December 26, 2012 through June 16, 2013 Pacific Racing Association (PRA) and the December 26, 2012 through April 21, 2013 Los Angeles Turf Club (LATC) race meet application.

The following **items are outstanding** and will need to be submitted and/or resolved before ADW wagers can be accepted:

1. Contract and/or agreements required pursuant to Business and Professions Code section 19604 that allows TVG to accept wagers on the remaining 9 racing venues.
2. Horsemen's Agreement.

Specific items that will need **updating** in 2013:

1. License Agreement by and Between ODS Technologies, L.P. d/b/a TVG Network and Hollywood Park Racing Association (expires November 5, 2013).

RECOMMENDATION:

If the application is considered for approval, staff recommends a contingent approval upon the submission of outstanding items.

Application is made to the CHRB for approval to conduct Advance Deposit Wagering in accordance with the California Business and Professions (B&P) Code and CHRB Rules and Regulations (Rule) and the provisions of the Interstate Horseracing Act, 15 U.S.C. 3001 to 3007.

NOTICE - By submitting the Application the out-of-state Applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct Advance Deposit Wagering and must be accompanied by a bond from a surety company admitted in the state of California or other form of financial security in the amount of \$500,000.

1. OUT-OF-STATE MULTI-JURISDICTIONAL WAGERING HUB (out-of-state Hub)

A. Name, mailing address, telephone and fax numbers:

ODS Technologies, L.P. d/b/a TVG Network
19545 N.W. Von Neumann Drive, Suite 210
Beaverton, OR 97006
Tel: (503) 748-3800 Fax: (503) 748-3838

B. Name, title, license number and racing jurisdiction where licensed for all management personnel:

BJ Cosson, Vice President, Operations & Customer Relations, Oregon License # 20730
Dean Kokko, Manager, Wager Operations, Oregon License # 20705
Scott Pakel, Manager, Financial Services, Oregon License # 24465
Grace Kenworthy, Manager, Customer Relations, Oregon License # 14605

C. Name, title and mailing address of the California agent for receipt of service of process:

John Hindman
General Counsel
ODS Technologies, L.P. d/b/a TVG Network
6701 Center Drive West, Suite 800
Los Angeles, CA 90045

D. Attach the contract with the California racing association or fair and the required horsemen's approval under the Interstate Horseracing Act that permits you to provide Advance Deposit Wagering services and identify the amount of the market access fee to be paid to the California racing association or fair for access to the California market for wagering purposes.

APPENDIX 1 to this document contains 1) an abstract of valid and binding contracts with the following licensed California racing associations: Hollywood Park, Los Alamitos, Cal Expo, and Del Mar that identifies the amount of the market access fee to be paid to the California racing association or fair for access to the California market for wagering purposes; 2) copies of License Agreements between i) Hollywood Park; ii) Los Alamitos; and iii) Del Mar Thoroughbred Club.

CHRB CERTIFICATION

Application received: 9/5/12
Reviewed: *apu*

Hearing date: 11/15/12
Approval date:

2. DATES OF OPERATION

- A. Dates Advance Deposit Wagering will be conducted: 365 days/year
- B. Hours Advance Deposit Wagering will be conducted: 24 hours/day

3. BUSINESS STRUCTURE

- A. Corporation (complete subsection B)
- LLC (complete subsection C)
- Other (specify, and complete subsection D)

Complete the applicable subsection

B. CORPORATION

1. Registered name of the corporation:
2. State where incorporated:
3. Registry or file number for the corporation:
4. Name of all officers and directors, titles, and number of shares of the corporation held by each:
5. Names (true names) of all persons, **other than the officers and directors listed above**, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
6. Number of outstanding shares in the corporation:
7. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
10. Attach the most recent annual financial statement for the corporation, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the corresponding state where you registered your corporation.
11. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

C. LLC

1. Registered name of the LLC:
2. State where articles of organization are filed:
3. Registry or file number for the LLC:
4. Names of all officers and directors, titles, and the number of shares of the LLC held by each:
5. Names (true names) of all members, **other than the officers and directors listed above**, that hold 5% or more of the outstanding shares in the LLC and the number of shares held by each:
6. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
7. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
8. Attach the most recent annual financial statement for the LLC, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the LLC and/or the Securities and Exchange Commission and/or the corresponding state where you registered your corporation.
9. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. OTHER

1. Name(s) of partners/sole proprietor:

ODS Holding LLC
6701 Center Drive West, Suite 160
Los Angeles, CA 90045

Limited Partner: TSE US LLC

2. If a partnership, attach partnership agreement.

APPENDIX 2 to this document is a copy of the Limited Partnership Agreement for ODS Technologies, L.P.

Pursuant to California Horse Racing Board Rule 1497 and the California Public Records Act, APPENDIX 2 to this document contains personal financial data used to establish TVG's qualifications for licensure/approval and is not subject to public disclosure.

3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

APPENDIX 3 contains the TVG Advance Deposit Wagering Business Plan for the projected term of approval.

4. **ESTABLISHING ADVANCE DEPOSIT WAGERING ACCOUNTS** – must comply with Rule 2074.

A. List the procedures to establish an Account:

1. Customers must be at least 21 years of age to establish an advance deposit wagering account.
2. Customers can establish an account by telephone by calling 1-888-PLAY TVG, on the Internet at www.tvg.com, by mail, or in person at a TVG retail outlet or racetrack partner by providing the following information:
 - Name
 - Social Security Number
 - Date of Birth
 - Principal Residence Address Including Postal ZIP Code
 - Telephone Number
3. Each application submitted to TVG is subject to electronic verification by a nationally recognized third party information services provider with respect to name, principal residence address including postal zip code, date of birth and Social Security Number. If there is a discrepancy between the application information submitted to TVG and the information provided by the electronic verification described above, or if no information on the applicant is available from such electronic verification, the applicant will be required to provide identification issued by a recognized government agency (driver's license or government ID) showing his or her date of birth and residence address to complete the application process.
4. Provided that the account applicant's information has been positively identified, each applicant is assigned his or her TVG Personal Wagering Account Number and is asked to establish a Personal Identification Number consisting of four (4) numeric characters.

TVG provides each new wagering accountholder with a "Guide to Interactive Wagering" containing standard terms and conditions, deposit and withdrawal information (including customized deposit and withdrawal slips and a direct deposit/withdrawal authorization form) as well as comprehensive information about accessing account information, placing wagers and maintaining the account. APPENDIX 4 contains a TVG "Guide to Interactive Wagering."

B. If an application form is used to establish an Account attach a copy of the form.

A copy of the application form available on www.tvg.com is provided as APPENDIX 5 to this document.

C. Name and address of the third party you will use to verify identity, residence and age verification:

Equifax Credit Information Services
P.O. Box 4472
Atlanta, GA 30302

5. **OPERATION OF ADVANCE DEPOSIT WAGERING ACCOUNTS** – must comply with Rule 2073.

A. Submit a copy of your plan for operation.

The Plan of Operation is contained in APPENDIX 6 to this document.

B. List the type of deposits you will accept:

Deposits will be accepted in the form of:

1. Check, money order or negotiable order of withdrawal;
2. Cash (at designated financial/retail outlets);
3. Charges made to an account holder's credit card or debit card upon the direct and personal instruction of the account holder, which may be given by telephone or other secure electronic means;
4. Transfer by means of an electronic funds or ACH (Automated Clearing House) transfer from a monetary account controlled by an account holder to his/her account, said account holder may be liable for any charges imposed by the transmitting or receiving entity with such charges to be deducted from the account;
5. Stored value cards; and
6. Wire transfers.

C. Identify any fees or transaction-related charges and the amount that will be assessed:

TVG account holders have the choice of two fee plans.

1. A transaction fee of \$0.25 per wagering transaction (capped at \$19.95 a month) or
2. A monthly subscription fee of \$19.95.

6. SECURITY ACCESS

A. Attach your security access policy and safeguards pursuant to B&P Section 19604 (c) (2). Policy must include the following:

1. Description of the technology to ensure identity, residence, and age verification when an Account is established:

All of the necessary information is contained in the Plan of Operation (APPENDIX 6)

2. Description of the technology to ensure confidentiality of the Means of Personal Identification:

All of the necessary information is contained in the Plan of Operation (APPENDIX 6)

3. Methods and locations available for Account Holders to withdraw funds from their Account:

All of the necessary information is contained in the Plan of Operation (APPENDIX 6)

4. If the Advance Deposit Wagering records will be maintained at a site other than the out-of-state Hub provide the name, address, telephone and fax numbers and the hours of operation:

All of the necessary information is contained in the Plan of Operation (APPENDIX 6)

7. PARI-MUTUEL

A. Name, address and telephone number of the pari-mutuel audit firm:

Oregon Racing Commission
Suite 310
800 N.E. Oregon Street, #11
Portland, OR 97232
(503).731-4052

B. Type(s) of pari-mutuel or totalizator equipment to be used and the simulcast organization, name of the entity supplying equipment, and expiration date of the service contract:

Totalizator services are provided by contract with Sportech Racing, LLC. The contract expires December 31, 2015. Please refer to the Plan of Operation in APPENDIX 6 for more details.

C. List the locations of the racing venues on which Advance Deposit Wagering will be accepted:

Ajax Downs, Ajax, ON	Fairmount Park, Collisville, IL	Tampa Bay Downs, Tampa, FL
Arapahoe Park, Aurora, CO	Finger Lakes, Farmington, NY	Monticello Raceway, Monticello, NY
Assiniboia Downs, Winnipeg, MB	Fonner Park, Grand Island, NE	Mountaineer Park, Chester, WV
Balmoral Park, Crete, IL	Fort Erie Race Track, Fort Erie, ON	Meadowlands, East Rutherford, NJ
Beulah Park, Grove City, OH	Fraser Downs, Canada	Monmouth Park, Oceanport, NJ
Buffalo Raceway, Hamburg, NY	Freehold Raceway, Freehold, NJ	Northfield Park, Northfield, OH
Canterbury Park, Shakopee, MN	Great Britain	NYRA
CARF	Harrah's Philadelphia, Chester, PA	Oak Tree, Arcadia, CA
Cal Expo, Sacramento, CA	Harrington Raceway, Harrington, DE	Ocean Downs, Berlin, MD
Ferndale (Humboldt Co. Fair),	Hastings Racecourse, Vancouver, BC	Penn National Gaming Inc.
Fresno (Fresno Fair),	Hawthorne Racecourse, Stickney/ Cicero, IL	Charles Town, Charles Town, WV
Pleasanton (Alameda Co. Fair),	Hollywood Park, Inglewood, CA	Hollywood Slots, Bangor, ME
Golden Gate Fair,	Hialeah Park Race Track, Hialeah, FL	Hollywood Casino at Penn National Race Course, Grantville, PA
Santa Rosa (Sonoma Co. Fair),	Indiana Downs, Shelbyville, IN	Raceway Park, Toledo, OH
Stockton (San Joaquin Fair),	Japan Racing Association	Zia Park, Hobbs, NM
Vallejo (Solano Co. Fair),	Keeneland, Lexington, KY	Philadelphia Park, Bensalem, PA
Churchill	Kentucky Downs, Franklin, KY	Pocano Downs, Wilkes-Barre, PA
Arlington Park, Arlington Heights, IL	Lone Star Park at Grand Prairie, Grand Prairie, TX	Pompano Park, Pompano Beach, FL
Calder Race Course, Miami Gardens, FL	Los Alamitos, Los Alamitos, CA	Prairie Meadows Racetrack, Altoona, IA
Churchill Downs, Louisville, KY	Louisiana Downs, Bossier City, LA	Presque Isle Downs, Erie, PA
Fair Grounds Race Course, New Orleans, LA	Maywood Park, Maywood, IL	Remington Park, Oklahoma City, OK
Hoosier Park, Anderson, IN	Monarch Content Management CARF	Retama Park, TX
The Meadows,	Del Mar, Del Mar, CA	River Downs, Cincinnati, OH
Latin American Racing	Fairplex Park, Pomona, CA	Ruidoso Downs, Ruidoso, NM
Colonial Downs, New Kent, VA	Golden Gate Fields, Berkeley, CA	Running Aces, Columbus, NM
Del Mar, Del Mar, CA	Gulfstream Park, Hallandale Beach, FL	Sam Houston Race Park, Houston, TX
Delaware Park, Wilmington, DE	Hollywood Park, Inglewood, CA	Scioto Downs, Columbus, OH
Delta Downs, Vinton, LA	Laurel Park, Laurel, MD	Singapore (South Africa & Singapore (Kranji))
Dover Downs, Dover, DE	Lone Star Park, Grand Prairie, TX	Suffolk Downs, East Boston, MA
Dubai	Oak Tree, Arcadia, CA	Sunland Park (Nuevo Sol Turf Club), Sunland Park, NM
Ellis Park, Henderson, KY	Pimlico Race Course, Baltimore, MD	Tampa Bay Downs, Tampa, FL
Emerald Downs, Auburn, WA	Portland Meadows, Portland, OR	Tioga Downs, Nichols, NY
Evangeline Downs, Opelousas, LA	Santa Anita Park, Arcadia, CA	Turf Paradise, Phoenix, AZ
Fair Meadows, Tulsa, OK		

Turfway Park, Florence, KY
 Vernon Downs, Vernon, NY
 Will Rogers Downs, Claremore, OK

Woodbine Racetrack/Mohawk Raceway,
 Toronto, ON
 Wyvern, Australia

Yavapai Downs, Prescott, AZ
 Yonkers, Yonkers, NY

NOTICE – The pari-mutuel system used must use a device or combination of devices authorized and operated exclusively for placing, receiving, or otherwise making a wager and by which a person must subscribe to in order to place, receive or otherwise make a wager; an effective customer and age verification system and the appropriate data security standards to prevent unauthorized access by any person who has not subscribed or who is under the age of 18.

8. CONTRACTS AND AGREEMENTS

- A. List name and address of all organizations you will contract with to facilitate Advance Deposit Wagering that are not provided in other sections of this application:

Sportech Racing, LLC
 1500 Bluegrass Lakes Parkway
 Alpharetta, GA 30004
 (770) 664-3700

Equibase Company LLC
 821 Corporate Drive
 Lexington KY 40503-2794
 (859) 296-3079

Trackmaster, an Equibase Company
 851 Fremont Ave. #109
 Los Altos, CA 94024
 (650) 947-9020

- B. List each contract or agreement to facilitate Advance Deposit Wagering that is not finalized and signed:

9. ADVERTISING

Name and address of the advertising agency you will use:

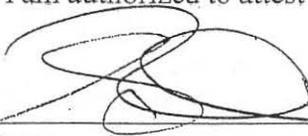
MEA Digital
 1111 6th Ave, 6th Floor
 San Diego, California 92101
 (T) 619.308.5266 (F) 619.238.8923

NOTICE – Pursuant to Rule 2072 (h) all advertisements shall contain a statement that persons under 18 are not allowed to open or have access to Accounts. All advertisements shall contain contact information for a recognized problem-gambling support organization. Additionally, pursuant to B&P Section 19604 (D) (3) advertisements shall not be deceptive to the public.

10. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this Application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this Application.

Stephen Burn
Print Name


Signature

CEO
Print Title

August 31, 2012
Date

STAFF ANALYSIS
November 15, 2012

APPLICATION FOR APPROVAL TO CONDUCT ADVANCE DEPOSIT WAGERING (ADW) OF CHURCHILL DOWNS TECHNOLOGY INITIATIVES COMPANY DBA TWINSPIRES FOR AN OUT-OF-STATE MULTI-JURISDICTIONAL WAGERING HUB, FOR A PERIOD OF UP TO TWO YEARS.

Twinspires filed its application as an out-of-state multi-jurisdictional wagering hub. It is currently licensed through December 31, 2012 as an out-of-state multi-jurisdictional wagering hub. Churchill Downs Technology Initiatives Company (CDTIC) acquired Youbet, a prior ADW licensed provider, in June 2010. At the July 19, 2012 regular Board meeting the Board approved an amendment to the Twinspires license allowing the ADW provider to offer an additional wagering service, Luckity.com. CDTIC described the new Luckity.com website as an innovative way to target new customers by using interactive games to generate pari-mutuel wagers and permitting customers to utilize simple betting concepts such as picking lucky numbers and colors.

A bond or other form of financial security in the amount of \$500,000 must be submitted with an application for license to conduct ADW. Twinspires, as a current ADW provider, has a \$500,000 bond on file that is continuous until cancelled.

CDTIC has also filed a draft application for a license to operate exchange wagering for all breeds with the California Horse Racing Board. The proposed exchange wagering rules are pending adoption and successful completion of the regulatory review process by the Office of Administrative Law.

This application provides for:

- Operation normally 24 hours a day, 7 days a week. CHRB Rule 2071 and 2072 allows for a two-year license term.

19604 (b)(1) and (2)

No ADW provider may accept wagers on **races conducted in California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. A written agreement allowing those wagers exists with the racing association or fair conducting the races on which the wagers are made.
3. The agreement referenced in subparagraph (2) shall have been approved in writing by the horsemen's organization responsible for negotiating purse agreements for the breed on which the wagers are made in accordance with the Interstate Horseracing Act (15 U.S.C. Sec. 3001, et seq.), regardless of the location of the ADW provider, whether in California or otherwise, including, without limitation, any and all requirements contained therein with respect to written consents and required written agreements of horsemen's groups to the terms and conditions of the acceptance of those wagers and any arrangements as to the exclusivity between the host racing association or fair and the ADW provider. For purposes of this subdivision, the substantive provisions of the Interstate Horseracing Act shall be taken into account without regard to whether, by its own terms, that act is applicable to advance deposit wagering on races conducted in California accepted from residents of California.

No ADW provider may accept wagers on **races conducted outside of California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. There is a hub agreement between the ADW provider and one or both of (i) one or more racing associations or fairs that together conduct no fewer than five weeks of live racing on the breed on which wagering is conducted during the calendar year during which the wager is placed, and (ii) the horsemen's organization responsible for negotiating purse agreements for the breed on which wagering is conducted.

19604 (a)(7)

“Hub agreement” as a written agreement providing for contractual compensation paid with respect to advance deposit wagers placed by California residents on a particular breed of racing conducted outside of California. In the event a hub agreement exceeds a term of two years, then an ADW provider, one or more racing associations or fairs that together conduct no fewer than five weeks of live racing for the breed covered by the hub agreement, and the horsemen's organization responsible for negotiating purse agreements for the breed covered by the hub agreement shall be signatories to the hub agreement. A hub agreement is required for an ADW provider to receive contractual compensation for races conducted outside of California.”

19604 (d)(1) (B)

“The Board shall not approve an application for an original or renewal license as an ADW provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization . . .”

Twinspires has supplied the Board with a copy of its addendum agreement with Pari-mutuel Employees Guild Local 280 (labor organization), extending the terms and conditions of the labor agreement through December 31, 2013. Monarch Content Management (MCM), LLC, is acting as the negotiating party for the 2013 simulcast wagering agreements between the advance deposit wagering providers and the California thoroughbred racing associations, California Authority of Racing Fairs and the Los Angeles County Fair at Pomona. To date the 2013 contracts and/or agreements required pursuant to Business and Professions Code section 19604 that allow ADW providers to accept wagers on races conducted in and outside of California for the applied license term have not been received. On October 23, 2012, MCM provided that the ADW “*agreements will be going out in the next week or so and we don't anticipate any issue with the TVG, TwinSpire and XpressBet agreements*”.

Twinspires is listed as an ADW provider on the December 26, 2012 through June 16, 2013 Pacific Racing Association and the December 26, 2012 through April 21, 2013 Los Angeles Turf Club race meet applications.

The following **items are outstanding** and will need to be submitted and/or resolved before ADW wagers can be accepted:

1. Contract and/or agreements required pursuant to Business and Professions Code section 19604 that allows Twinspires to accept wagers.
2. Horsemen's Agreement.

RECOMMENDATION:

If the application is considered for approval, staff recommends a contingent approval upon the submission of outstanding items.

Application is made to the CHRB for approval to conduct Advance Deposit Wagering in accordance with the California Business and Professions (B&P) Code and CHRB Rules and Regulations (Rule) and the provisions of the Interstate Horseracing Act, 15 U.S.C. 3001 to 3007.

NOTICE – By submitting the Application the out-of-state Applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct Advance Deposit Wagering and must be accompanied by a bond from a surety company admitted in the state of California or other form of financial security in the amount of \$500,000.

1. OUT-OF-STATE MULTI-JURISDICTIONAL WAGERING HUB (out-of-state Hub)

- A. Name, mailing address, telephone and fax numbers: **Churchill Downs Technology Initiatives Company (dba TwinSpires and Luckity), 800 W. El Camino Real, Mountain View, CA 94040. Phone (650) 429-2900 Fax: (650) 967-3201**
- B. Name, title, license number and racing jurisdiction where licensed for all management personnel:
Mike Cody, Vice President – licensed in California (294715)
Brad Blackwell, Vice President – licensed in California (304449) and Kentucky (9212)
Jeremy Clemons, Vice President – licensed in California (310063)
- C. Name, title and mailing address of the California agent for receipt of service of process:
CT Corporation System
818 West Seventh St.
Los Angeles, CA 90017
- D. Attach the contract with the California racing association or fair and the required horsemen's approval under the Interstate Horseracing Act that permits you to provide Advance Deposit Wagering services and identify the amount of the market access fee to be paid to the California racing association or fair for access to the California market for wagering purposes.

Attached at Tab 2

2. DATES OF OPERATION

- A. Dates Advance Deposit Wagering will be conducted:
Every day of the year.
- B. Hours Advance Deposit Wagering will be conducted:
24 hours a day

3. BUSINESS STRUCTURE

- A. Corporation (complete subsection B)
- LLC (complete subsection C)
- Other (specify, and complete subsection D)

CHRB CERTIFICATION

Application received: **8/31/12**
Reviewed: **apw**

Hearing date: **11/15/12**
Approval date:

Complete the applicable subsection

B. CORPORATION

1. Registered name of the corporation: **Churchill Downs Technology Initiatives Company**
2. State where incorporated: **Delaware**
3. Registry or file number for the corporation: **4284783**
4. Name of all officers and directors, titles, and number of shares of the corporation held by each:
Mike Cody, Vice President
Brad Blackwell, Vice President
Jeremy Clemons, Vice President

Robert Evans, Director
William Carstanjen, Director
Alan Tse, Director

No officer or director directly holds any shares of applicant as applicant is wholly-owned by its ultimate parent company, Churchill Downs Incorporated
5. Names (true names) of all persons, **other than the officers and directors listed above**, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each: **N/A as applicant is the wholly owned subsidiary of a corporate entity**
6. Number of outstanding shares in the corporation: **100**
7. Are the shares listed for public trading? Yes No
 If yes, on what exchange and how is the stock listed:
Applicant is wholly-owned by Churchill Downs Incorporated (traded as CHDN on Nasdaq)
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation: **Bradley K. Blackwell**
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
Churchill Downs Incorporated holds 100% of the shares of the applicant
10. Attach the most recent annual financial statement for the corporation, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the corresponding state where you registered your corporation. **Attached at Tab 3 is the most recent Annual Report on Form 10-K for Churchill Downs Incorporated**
11. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval. **Attached at Tab 4**

C. LLC

1. Registered name of the LLC:
2. State where articles of organization are filed:
3. Registry or file number for the LLC:
4. Names of all officers and directors, titles, and the number of shares of the LLC held by each:
5. Names (true names) of all members, **other than the officers and directors listed above**, that hold 5% or more of the outstanding shares in the LLC and the number of shares held by each:
6. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
7. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
8. Attach the most recent annual financial statement for the LLC, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the LLC and/or the Securities and Exchange Commission and/or the corresponding state where you registered your corporation.
9. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. OTHER

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

4. ESTABLISHING ADVANCE DEPOSIT WAGERING ACCOUNTS—must comply with Rule 2074.

- A. List the procedures to establish an Account: **See Section 2.1 of the Plan of Operations attached at Tab 6 which complies with Rule 2074**
- B. If an application form is used to establish an Account attach a copy of the form. **Attached at Tab 5 is the form of application available online at www.twinspires.com**
- C. Name and address of the third party you will use to verify identity, residence and age verification: **Equifax Secure, Inc., 1550 Peachtree St., NW, Atlanta, GA 30309**

5. OPERATION OF ADVANCE DEPOSIT WAGERING ACCOUNTS—must comply with Rule 2073.

- A. Submit a copy of your plan for operation. **Attached at Tab 6**
- B. List the type of deposits you will accept: **ACH, credit card, debit card, Green Dot Money Pack, cash at specified locations, check and money order by mail.**
- C. Identify any fees or transaction-related charges and the amount that will be assessed: **\$5 per credit/debit card transactions to offset charges and 4.5% is charged for credit card advance transactions processed over the phone by the processor. \$25 fee for returned checks.**

6. SECURITY ACCESS

- A. Attach your security access policy and safeguards pursuant to B&P Section 19604 (c) (2). Policy must include the following:
 1. Description of the technology to ensure identity, residence, and age verification when an Account is established: **Applicant uses Equifax, an independent third party, to provide comprehensive verification of the account information provided by customers. For a more detailed description of verification see Section 2.1.1.1 of the Plan of Operations attached at Tab 6.**
 2. Description of the technology to ensure confidentiality of the Means of Personal Identification: **See Section 2.1.5 of the Plan of Operations attached at Tab 6.**
 3. Methods and locations available for Account Holders to withdraw funds from their Account: **Requests for withdrawals may be made online or by phone. Checks are mailed to the address on file within five business days.**
 4. If the Advance Deposit Wagering records will be maintained at a site other than the out-of-state Hub provide the name, address, telephone and fax numbers and the hours of operation: **6130 NE 78th Court, Suite C4, Portland, OR (phone: (503) 253-0234; fax: (503) 253-0140) with hours of operation of 8:30 am to 10:30 pm PST or later depending on the last race of the day. Records are also maintained at 801 Corporate Drive, Lexington, KY (phone: (877) 774-7371) with hours of operation of 9:00 am to 1:00 am EST.**

7. PARI-MUTUEL

- A. Name, address and telephone number of the pari-mutuel audit firm: **PricewaterhouseCoopers LLP, 500 W. Main St., Suite 1800, Louisville, KY 40202**
- B. Type(s) of pari-mutuel or totalizator equipment to be used and the simulcast organization, name of the entity supplying equipment, and expiration date of the service contract: **Totalizator services will be provided by United Tote. The contract expires in 2017.**
- C. List the locations of the racing venues on which Advance Deposit Wagering will be accepted: **See the tracks listed at Tab 7 which are subject to annual simulcast agreements.**

NOTICE – The pari-mutuel system used must use a device or combination of devices authorized and operated exclusively for placing, receiving, or otherwise making a wager and by which a person must subscribe to in order to place, receive or otherwise make a wager; an effective customer and age verification system and the appropriate data security standards to prevent unauthorized access by any person who has not subscribed or who is under the age of 18.

8. CONTRACTS AND AGREEMENTS

- A. List name and address of all organizations you will contract with to facilitate Advance Deposit Wagering that are not provided in other sections of this application:
Global Cash Access, 3525 E. Post Rd., Suite 120, Las Vegas, NV 89120
Green Dot Corporation, 605 E. Huntington Dr., Suite 205, Monrovia, CA 91016
Roberts Communications Network, Inc., 4175 Cameron St., Suite B-10, Las Vegas, NV 89103
US-Offtrack, 6130 NE 78th Court, Suite C4, Portland, OR
- B. List each contract or agreement to facilitate Advance Deposit Wagering that is not finalized and signed: **N/A**

9. ADVERTISING

Name and address of the advertising agency you will use: **Hoffman York, 142 East Ontario, Suite 13, Chicago, IL 60611**

NOTICE – Pursuant to Rule 2072 (h) all advertisements shall contain a statement that persons under 18 are not allowed to open or have access to Accounts. All advertisements shall contain contact information for a recognized problem-gambling support organization. Additionally, pursuant to B&P Section 19604 (D) (3) advertisements shall not be deceptive to the public.

10. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this Application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this Application.

Brad Blackwell

Print Name

Vice President

Print Title

[Handwritten Signature]

Signature

8/27/12

Date

STAFF ANALYSIS

November 15, 2012

APPLICATION FOR APPROVAL TO CONDUCT ADVANCE DEPOSIT WAGERING (ADW) OF XPRESSBET.COM, FOR AN OUT-OF-STATE MULTI-JURISDICTIONAL WAGERING HUB, FOR A PERIOD OF UP TO TWO YEARS.

XpressBet, LLC (XpressBet) filed its application as an out-of-state multi-jurisdictional wagering hub to provide advance deposit wagering (ADW). It is currently licensed through December 31, 2012 as an out-of-state multi-jurisdictional wagering hub. In June 2011, The Stronach Group (TSG) Developments Investments Inc., acquired the gaming assets previously held by MI Developments Inc. (MID) as part of reorganization. Some of the assets acquired were Santa Anita Park, Golden Gate Fields, XpressBet, AmTote and MID's joint venture interest in HRTV.

A bond or other form of financial security in the amount of \$500,000 is required to be submitted with an application for license to conduct ADW. XpressBet, as a current ADW provider, has a \$500,000 bond on file that will expire December 31, 2013.

This application provides for:

- Operating during all times races are running up to twenty-four hours a day. XpressBet has applied for a one-year license beginning January 1, 2013 through December 31, 2013. CHRB Rules 2072, Approval to Conduct Advance Deposit Wagering by an out-of-state Applicant, provide for a two-year license term.
- XpressBet has listed PayNearMe as a new type of deposit it will accept. XpressBet described PayNearMe as a service allowing consumers to purchase items online from a variety of merchants, accepting payments for such purchases in cash offline at participating 7-Eleven stores. The PayNearMe service will allow ADW account holders to deposit funds into their accounts via the PayNearMe platform.
- Business and Profession Code section 19604 includes specific provisions that must be met before an ADW provider can accept wagers. These include:

19604 (b) (1) and (2)

No ADW provider may accept wagers on **races conducted in California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. A written agreement allowing those wagers exists with the racing association or fair conducting the races on which the wagers are made.
3. The agreement referenced in subparagraph (2) shall have been approved in writing by the horsemen's organization responsible for negotiating purse agreements for the breed on which the wagers are made in accordance with the Interstate Horseracing Act (15 U.S.C.

Sec. 3001, et seq.), regardless of the location of the ADW provider, whether in California or otherwise, including, without limitation, any and all requirements contained therein with respect to written consents and required written agreements of horsemen's groups to the terms and conditions of the acceptance of those wagers and any arrangements as to the exclusivity between the host racing association or fair and the ADW provider. For purposes of this subdivision, the substantive provisions of the Interstate Horseracing Act shall be taken into account without regard to whether, by its own terms, that act is applicable to advance deposit wagering on races conducted in California accepted from residents of California.

No ADW provider may accept wagers on **races conducted outside of California** from a resident of California unless all of the following conditions are met:

1. The ADW provider must be licensed by the Board.
2. There is a hub agreement between the ADW provider and one or both of (i) one or more racing associations or fairs that together conduct no fewer than five weeks of live racing on the breed on which wagering is conducted during the calendar year during which the wager is placed, and (ii) the horsemen's organization responsible for negotiating purse agreements for the breed on which wagering is conducted.

19604 (a) (7)

““Hub agreement” as a written agreement providing for contractual compensation paid with respect to advance deposit wagers placed by California residents on a particular breed of racing conducted outside of California. In the event a hub agreement exceeds a term of two years, then an ADW provider, one or more racing associations or fairs that together conduct no fewer than five weeks of live racing for the breed covered by the hub agreement, and the horsemen's organization responsible for negotiating purse agreements for the breed covered by the hub agreement shall be signatories to the hub agreement. A hub agreement is required for an ADW provider to receive contractual compensation for races conducted outside of California.”

19604 (d) (1) (B)

“The board shall not approve an application for an original or renewal license as an ADW provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization . . .”

XpressBet has supplied the Board with a copy of its addendum agreement with Pari-mutuel Employees Guild Local 280 (labor organization), extending the terms and conditions of the labor agreement through December 31, 2013. Monarch Content Management (MCM), LLC, is acting as the negotiating party for the 2013 simulcast wagering agreements between the advance deposit wagering providers and the California thoroughbred racing associations, California Authority of Racing Fairs and the Los Angeles County Fair at Pomona. To date the 2013 contracts and/or agreements required pursuant to Business and Professions Code section 19604 that allow ADW providers to accept wagers on races conducted in and outside of California for the applied license term have not been received. On October 23, 2012, MCM provided that the ADW “*agreements*

will be going out in the next week or so and we don't anticipate any issue with the TVG, TwinSpires and XpressBet agreements".

XpressBet is listed as an ADW provider on the December 26, 2012 through April 21, 2013 Los Angeles Turf Club and the December 26, 2012 through June 16, 2013 Pacific Racing Association race meet applications.

The following **items are outstanding** and will need to be submitted and/or resolved before ADW wagers can be accepted:

1. Contract and/or agreements required pursuant to Business and Professions Code section 19604 that allow XpressBet to accept wagers.
2. Horsemen's Agreement

RECOMMENDATION:

If the application is considered for approval, staff recommends a contingent approval upon the submission of outstanding items.

STATE OF CALIFORNIA
 CALIFORNIA HORSE RACING BOARD (CHRB)
 APPLICATION FOR LICENSE TO CONDUCT ADVANCE DEPOSIT WAGERING
 CHRB-133 (New 9/01)

Application is made to the CHRB for a license to conduct Advance Deposit Wagering in accordance with the California Business and Professions (B&P) Code and CHRB Rules and Regulations (Rule) and comply with the provisions of the Interstate Horseracing Act, 15 U.S.C. 3001 to 3007.

NOTICE – By submitting the Application the out-of-state Applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct advance deposit wagering and must be accompanied by a bond or other form of financial security in the amount of \$500,000.

1. OUT-OF-STATE MULTI-JURISDICTIONAL WAGERING HUB (out-of-state Hub)

- A. Name, mailing address, telephone and fax numbers:

XpressBet, LLC
200 Race Track Road
Washington, PA 15301
Telephone: (412) 232-6916
Facsimile: (412) 232-6917

- B. Name, title, license number and racing jurisdiction where licensed for all management personnel:

Please note that under Oregon law, the following individuals are not required to hold a license issued by the Oregon Racing Commission, but each individual does hold a license issued by the CHRB.

<u>Name</u>	<u>Title</u>	<u>CHRB License No.</u>
Ronald W. Luniewski	President	275875
Dan Newman	Vice President	305020
Lyle Strachan	Executive Vice President	306750
Michael M. Rogers	Vice President	306749

- C. Name, title and mailing address of the California agent for receipt of service of process:

CT Corporation System
818 West Seventh Street
Los Angeles, CA 90017

CHRB CERTIFICATION

Application received: 8/30/12
 Reviewed: *apa*

Hearing date: 11/15/12
 Approval date:

- D. Attach the contract with the California racing association or fair and the required horsemen's approval under the Interstate Horseracing Act that permits you to provide Advance Deposit Wagering services and identify the amount of the market access fee to be paid to the California racing association or fair for access to the California market for wagering purposes.

Below is a list of the Race Track licensees with which XpressBet either has contracted or is in the process of contracting for the purpose of offering such licensees' content through XpressBet's advance deposit wagering service. Please find attached as Exhibit 1 a copy of various Race Track licensee agreement, along with a copy of XpressBet's agreement with the Thoroughbred Owners of California.

<u>Race Track</u>	<u>Licensee</u>
Santa Anita Park	Los Angeles Turf Club, Incorporated
Golden Gate Fields	Pacific Racing Association/ Cal Fair
California Expo	Sacramento Harness Association
Sacramento	California State Fair
Stockton	San Joaquin Fair
Fresno	Fresno County Fair
Pleasanton	Alameda County Fair
Vallejo	Solano County Fair
Santa Rosa	Sonoma County Fair
Del Mar	Del Mar Thoroughbred Club
Fairplex Park	Los Angeles County Fair Association
Humboldt	Humboldt County Fair
Los Alamitos Race Course	Los Alamitos
Los Angeles Turf Club	Oak Tree Racing Association
Hollywood Park	Hollywood Park Racing Association, LLC

2. DATES OF OPERATION

- A. Dates Advance Deposit Wagering will be conducted:
XpressBet, LLC will conduct advance deposit wagering January 1, 2013 up to and including December 31, 2013.
- B. Hours Advance Deposit Wagering will be conducted:
While races are run, up to twenty-four (24) hours per day

3. BUSINESS STRUCTURE

- A. Corporation (complete subsection B)
 LLC (complete subsection C)
 Other (specify, and complete subsection D)

Complete the applicable subsection

B. CORPORATION

- Registered name of the corporation:
- State where incorporated:

3. Registry or file number for the corporation:
4. Name of all officers and directors, titles, and number of shares of the corporation held by each;
5. Names (true names) of all entities and persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
6. Number of outstanding shares in the corporation:
7. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
10. Attach the most recent annual audited financial statements for the corporation, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.
11. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the license.

C. LLC

1. Registered name of the LLC:
XpressBet, LLC
2. State where articles of organization are filed:
Delaware
3. Registry or file number for the LLC:
3373240

4. Names of all officers and directors, titles, and the number of shares of the LLC held by each:

<u>Name</u>	<u>Title</u>	<u>Number of Shares Owned</u>
Ronald W. Luniewski	President	None
Dan Newman	Vice President	None
Lyle Strachan	Executive Vice President	None
Michael M. Rogers	Vice President	None

5. Names (true names) of all members, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the LLC and the number of shares held by each:

TSG Developments Investments Inc., (The Stronach Group) a Delaware Corporation, holds 100% of the membership interests in the LLC and owns 100 shares.

6. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:

7. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:

TSG Developments Investments Inc., a Delaware Corporation that is ultimately controlled by the Stronach Trust, based in Ontario Canada. There are several holding companies between XpressBet, LLC and the Stronach Trust established for tax purposes.

8. Attach the most recent annual audited financial statements for the LLC, including balance sheet and profit and loss statement, and a copy of a report made during the preceding 12 months to shareholders in the LLC and/or the Securities and Exchange Commission and/or the California Corporations Commission.

Enclosed is a copy of the XpressBet, LLC Audited Financial Statement as of and for the Year Ended December 31, 2011, and an Independent Auditor's Report.

9. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the license.

XpressBet's business plan for 2013 is being provided under separate confidential cover and it is requested that such business plan remain confidential at all times to the CHRB.

D. OTHER - Not Applicable

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the license.

4. **ESTABLISHING ADVANCE DEPOSIT WAGERING ACCOUNTS** – must comply with Rule 2075

- A. List the procedures to establish an Account:
Included in the attached Exhibit 2, Plan of Operation, is the Applicant's Account Opening Procedures. (Page 2)
- B. If an application form is used to establish an Account, attach a copy of the form.
Attached as Exhibit 3 is a copy of the application form, similar forms are used for on-site or in-person applications.
- C. Name and address of the third party you will use to confirm identity, residence and age verification:
In respect of wagers placed through the Applicant's internet and telephone account wagering products, the Applicant will make use of the services of TransUnion, LLC to provide identity, residence and age verification services. The address of TransUnion, LLC is set forth below:

TransUnion, LLC
 555 W. Adams Street
 Chicago, IL 60661

5. **OPERATION OF ADVANCE DEPOSIT WAGERING ACCOUNTS** – must comply with Rule 2073.

- A. Submit a copy of your plan for operation.
Please see attached as Exhibit 2 is Applicant's Plan of Operation.
- B. List the type of deposits you will accept:
In respect of internet and telephone account wagering, the Applicant will accept the following types of deposits: cash deposits made directly, personal checks, cashier's checks, money orders made directly or mailed, debits to an Account Holder's credit card or debit card, Green Dot Money Packs, PayNearMe and wire and other electronic transfers from a monetary account controlled by Account Holder.
- C. Identify any fees or transaction-related charges and the amount that will be assessed:
For purposes of internet and telephone account wagering, customers will not be charged a monthly membership or wagering fee or a per-call or wager transaction fee. However, customers may be charged a value added transaction fee of \$0.25 per telephone call when dealing with a live teller. Processing fees may be charged in respect of deposits made pursuant to Item 5B above, via credit card cash advance or wire transfers.

To the extent credit cards are used/permitted in connection with internet and telephone account wagering, processing fees for credit card cash advances will be no greater than 6%. High value customers may not be subject to credit card cash advance processing fees.

A wire transfer of less than \$250.00 is subject to a \$5 processing fee. A wire transfer of greater than \$250.00 is not subject to any charge.

Customers requesting special delivery (e.g. courier) may be charged the cost of those services.

As the distribution platforms evolve and future enhancements deliver increased functionality to customers, monthly fees or surcharges may be implemented for added value services.

6. SECURITY ACCESS

- A. Attach your security access policy and safeguards pursuant to B&P Section 19604 (c) (2). Policy must include the following:

Please refer to Exhibit 4 for Items 1 – 4.

1. Description of the technology to ensure identity, residence, and age verification when an Account is established.
2. Description of the technology to ensure confidentiality of the Means of Personal Identification.
3. Methods and locations available for Account Holders to withdraw funds from their Account.
4. If the Account Deposit Wagering records will be maintained at a site other than the out-of-state Hub provide the name, address, telephone and fax numbers and the hours of operation.

7. PARI-MUTUEL

- A. Name, address and telephone number of the pari-mutuel audit firm:

Bowen & McBeth
10722 Arrow Route, Suite 110
Rancho Cucamonga, California 91730
Telephone: 909-944-6465
Facsimile: 909-980-4788

- B. Type(s) of pari-mutuel or totalizator equipment to be used and the simulcast organization, name of the entity supplying equipment, and expiration date of the service contract:

- (i) Types of pari-mutuel or totalizator equipment to be used.
 Totalizator equipment and services will be provided to Applicant by AmTote International, Inc. In addition to standard totalizator equipment and services, Applicant will be utilizing (a) IVR – “interactive voice response technology” (an automated touch-tone betting system); provided by AmTote International, Inc. (b) on-line computer wagering technology (c) IVR – natural language voice recognition system provided by AmTote International, Inc. and Applicant is currently operating under an agreement with AmTote International, Inc. which expires on October 31, 2012. XpressBet fully expects to renew a long term agreement with AmTote. The CHRB will be notified upon execution.

- (ii) Simulcast Organization
Roberts Communications Network, Inc., and AmTote International, Inc.
- (iii) Name of entity supplying equipment, and expiration date of the service contract.

Equipment to be supplied by:

AmTote International, Inc.
11200 Pepper Road
Hunt Valley, MD 21031-1324
Expiration date: October 31, 2012

- C. List the locations of the racing venues on which Advance Deposit Wagering will be accepted:

Attached as Exhibit 5 is the list of racing venues on which the Applicant currently intends to accept Advance Deposit Wagering. The applicant will update the website as racing venues are confirmed or added.

NOTICE – The pari-mutuel system used must use a device or combination of devices authorized and operated exclusively for placing, receiving, or otherwise making a wager and by which a person must subscribe to in order to place, receive or otherwise make a wager; an effective customer and age verification system and the appropriate data security standards to prevent unauthorized access by any person who has not subscribed or who is under the age of 21.

8. CONTRACTS AND AGREEMENTS

- A. List name and address of all organizations you contracted with to facilitate Advance Deposit Wagering:

AmTote International, Inc.
11200 Pepper Road
Hunt Valley, MD 21031-1324

- B. List each contract or agreement to facilitate Advance Deposit Wagering that is not finalized and signed:

N/A

9. ADVERTISING

Name and address of the advertising agency you will use:

SME Branding
212 West 35th Street
14th Floor
New York, NY 10001

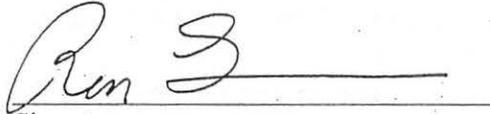
Agency 360
C/O Hawthorne Race Course
3501 S. Laramie Street
Stickney/Cicero, IL 60804

NOTICE – Pursuant to Rule 2072 (h) all advertisements shall contain a statement that persons under 18 are not allowed to open or have access to Accounts. All advertisements shall contain contact information for a recognized problem-gambling support organization. Additionally, pursuant to B&P Section 19604 (D) (3), advertisements shall not be deceptive to the public.

10. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this application are true and correct, and that I am authorized to attest to this application.

Ron Luniewski
Print Name:


Signature:

President
Print Title:

8-20-12
Date:

STAFF ANALYSIS

PUBLIC HEARING AND ACTION BY THE BOARD REGARDING THE PROPOSED ADDITION OF ARTICLE 27, EXCHANGE WAGERING AND THE FOLLOWING PROPOSED CHRB RULES GOVERNING EXCHANGE WAGERING IN CALIFORNIA: CHRB RULE 2086, DEFINITIONS; 2086.1, AUTHORIZATION FOR EXCHANGE WAGERING; 2086.5, APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING; 2086.6, OPERATING PLAN REQUIRED; 2086.7, EXCHANGE WAGERING DATA; 2086.8, MONITORING SYSTEMS AND NOTIFICATION; 2087, SUSPENDING MARKETS; 2087.5, ANTEPOST MARKET; 2087.6, CANCELLATION OF MATCHED WAGERS; 2088, DECLARED ENTRIES; 2088.6, CANCELLATION OF UNMATCHED WAGERS; 2089, ERROR IN PAYMENTS OF EXCHANGE WAGERS; 2089.5, REQUIREMENTS TO ESTABLISH AN EXCHANGE WAGERING ACCOUNT; 2089.6, DEPOSITS TO AN EXCHANGE WAGERING ACCOUNT; 2090, POSTING CREDITS FOR WINNINGS FROM EXCHANGE WAGERS; 2090.5, DEBITS TO AN EXCHANGE WAGERING ACCOUNT; 2090.6, WITHDRAWALS BY ACCOUNT HOLDER; 2091.5, SUSPENDING AN EXCHANGE WAGERING ACCOUNT; 2091.6, POWERS OF THE BOARD TO REVIEW AND AUDIT RECORDS; 2092, EXCHANGE WAGERS PLACED AFTER THE START OF A RACE; 2092.5, PROHIBITIONS ON WAGERS TO LAY A HORSE TO LOSE; 2092.6, SUSPENSION OF OCCUPATIONAL LICENSE AND RULE 2093, CERTAIN PRACTICES RELATED TO EXCHANGE WAGERING.

Regular Board Meeting

November 15, 2012

BACKGROUND

Senate Bill (SB) 1072, Chapter 283, Statutes of 2010, added Business and Professions Code section 19604.5 to provide that the Board has full power to prescribe rules, regulations and conditions under which exchange wagering may be conducted in California. Exchange wagering is a relatively new form of wagering which was introduced in the United Kingdom in 2000. Exchange wagering uses a "stock market model" to operate sports wagering. Exchange wagering account holders may buy and sell, or "back" and "lay" the outcome of horse races in a manner much like day trading on a stock exchange. Business and Professions Code section 19604.5(a)(7) defines exchange wagering as a form of pari-mutuel wagering in which two or more persons place identically opposing wagers in a given market.

Business and Professions Code section 19604.5(e)(2) provides that prior to the Board promulgating rules, regulations and conditions under which exchange wagering may be conducted in California, it shall consider studies or comments submitted by interested parties on the impact of exchange wagering on pari-mutuel wagering and the economics of the California horse racing industry. On August 2, 2011 the Board published a notice of intent to promulgate exchange wagering rules. The notice solicited written comments and studies concerning the impact of exchange wagering, and advised that all written materials would be used to develop rules and regulations that are in the best interest of the public and the California horse racing industry. The 45-day public notice period closed on September 26, 2011. Substantive comments were received from TVG-Betfair (TVG); Christensen Capital Advisors LLC; Global Betting

Exchange; Los Angeles Turf Club/Pacific Racing Association (LATC/PRA); Churchill Downs Incorporated; Thoroughbred Owners of California (TOC); California Thoroughbred Horsemen's Foundation; and CHRIMS, Inc. Several individuals also wrote to express opinions regarding exchange wagering. TVG, Christensen Capital Advisors LLC, Global Betting Exchange, and CHRIMS, Inc. offered positive comments and suggested exchange wagering regulations. LATC/PRA, Churchill Downs Incorporated and TOC questioned whether exchange wagering would benefit California horse racing. All comments were taken into consideration and used in drafting the proposed exchange wagering regulations that constitute the proposed addition of Article 27, Exchange Wagering.

On February 9, 2012 the Exchange Wagering Ad Hoc Committee (Ad Hoc committee) met at Santa Anita Park Race Track. The Ad Hoc committee heard testimony regarding exchange wagering from advance deposit wagering providers, racing associations, horsemen's organizations and betting exchange providers, as well as comments from CHRIMS, the Jockey's Guild and Horseplayer's Association of North America. The Ad Hoc committee also heard and discussed a presentation from the CHRB enforcement and audit staff regarding enforcement plans for monitoring exchange wagering in California. Following discussion by all concerned parties the Ad Hoc committee took no action, as an agreement between the parties had not been reached. Following the Ad Hoc committee meeting changes were made to certain proposed regulations in response to comments.

At the March 22, 2012 Regular Board Meeting staff was instructed to initiate a 45-day public comment period regarding the addition of Article 27, Exchange Wagering. During the public comment period written comments were received from a wide variety of interested industry parties.

At the June 28, 2012 hearing for adoption of Article 27, Exchange Wagering, the Board determined that it would hold an Ad Hoc committee meeting to review written comments received during the 45-day public comment period and to authorize modifications to proposed regulations where the Ad Hoc committee felt changes were appropriate. The Board directed staff to organize the comments so that only those relating directly to the text of proposed regulations were provided, and to modify the text of the regulations where it believed comments should be accepted.

On August 22, 2012 the Ad Hoc committee met at Del Mar Race Course Surfside Race Place. The Ad Hoc committee heard testimony regarding proposed changes to specific exchange wagering regulations. The Ad Hoc committee instructed interested parties to resubmit their comments with proposed texts that included strikeouts and underlines. The parties were to submit comments no later than August 31, 2012. The comments would be placed on the Board's website for all interested persons to view, and staff recommendations would be made at the September 20, 2012 Regular Board Meeting. At that time the Board could instruct staff to initiate an additional comment period, or it could adopt the proposed Article 27 as previously presented.

At its September 20, 2012 Regular Meeting, the Board reviewed proposed modifications to 14 of the 25 proposed exchange wagering regulations. Comments regarding the proposed

modifications and exchange wagering in general were heard from representatives of the California Thoroughbred Trainers (CTT), Los Angeles Turf Club (LATC) and Pacific Racing Association (PRA), the Jockey's Guild, Betfair-TVG and others. In addition, there was considerable discussion regarding alternative versions of the proposed Rule 2092.5, Prohibitions on Wagers to Lay a Horse to Lose. The Board voted to endorse version "A" of the regulation, which was the version presented at the August 22, 2012 Ad Hoc committee meeting. The Board voted to direct staff to initiate a 15-day public comment period regarding the proposed modifications of the exchange wagering regulations, as presented. The notice of the 15-day public comment period specified, pursuant to the Administrative Procedures Act section 11346.8(c), that interested parties should limit their comments to the modifications of the texts of the regulations which appeared as either double underlined text or in ~~strikeout~~. The regulations that were noticed for the 15-day public comment period were:

Rule 2086, Definitions, Provides definitions of exchange wagering terms. The proposed modification of Rule 2086 would amend subsection 2086(p):

- 2086(p) "Matched Wager" means the wager that is formed when two or more persons, none of whom may be an exchange provider or its agents, are confirmed by the exchange provider as having placed identically opposing wagers in a given market on the exchange.

Rule 2086.6, Operating Plan Required, requires that an exchange wagering applicant submit an operating plan detailing its proposed method of operation as an exchange with any application for a new or renewal license. The proposed modification to Rule 2086.6 would change subsections:

- 2086.6(c) to include a reference to Business and Professions Code section 19604.5(d) which lists the security policies and safeguards required under the statute.
- 2086.6(h), which requires the exchange operator to provide its requirements for exchange wagering accounts established and operated for persons whose principal residence is *outside the state*. The proposed modification states: "which for the purposes of these rules, shall apply only to wagering on California races." This is in keeping with Business and Professions Code section 19604.5(b) which states that exchange wagering by residents of jurisdictions outside of California on the results of races conducted in California shall be lawful under specified conditions.

Rule 2086.7, Exchange Wagering Data, addresses analysis and reporting of exchange wagering data. The proposed modification corrects a misspelling of "pari-mutuel".

Rule 2086.9, Financial Security and Integrity Audits, requires specified audits of exchange wagering providers. The proposed modification will require that the exchange provider submit an annual audited financial statement to the Board 120 days after the end of the fiscal year rather than 90 days.

Rule 2087.5, Antepost Market, describes the antepost wager. The proposed modification of Rule 2087.5 narrows the types of races on which the wager may be made and clarifies that such wagers are not “single wagers” made by one person.

- (a) Antepost market wagers are authorized on Grade 1/Group 1 or Grade 2/Group 2 stakes races and are exchange wagers placed in advance of the closing of entries where one single wager is made on an outcome that includes both

Rule 2087.6, Cancellation of Matched Wagers, describes the circumstances under which a matched wager may be canceled. The proposed modification of the rule allows the exchange provider to cancel part of a matched wager as provided under Business and Professions Code section 19604.5(k).

- (a) An exchange provider may cancel or void a matched wager or part of a matched wager if required by law or where, in its sole discretion, it determines...

Rule 2088.6, Cancellation of Unmatched Wagers, allows cancellation at any time of an unmatched wager by the exchange provider.

- Modified the regulation to allow the account holder to cancel an unmatched wager.
- Modified the regulation to allow exchange provider and account holder to cancel an unmatched wager without cause.

Rule 2089, Errors in Payments of Exchange Wagers, sets the procedures for the exchange provider to remedy errors in payment of exchange wagers.

- Modified regulation to require the exchange provider to notify the account holder of an underpayment.
- Modified regulation to allow exchange provider to recover overpayments, as specified. The modification includes a provision that allows the account holder to dispute the exchange provider’s actions. The Board would determine the validity of the exchange provider’s actions.

Rule 2089.5, Requirements to Establish an Exchange Wagering Account, states what is necessary for a natural person to establish an exchange wagering account. The regulation also requires the exchange provider to comply with Internal Revenue Service reporting requirements, and requires the recording and retention of specified transactions and conversations. The rule was modified to state that the rule would apply only to wagers on California races with regards to residents of another state establishing an exchange wagering account. The modification also changed “jurisdiction” to “state” for purposes of clarity. The modifications included a change to subparagraph (d) to allow the exchange provider to refuse to establish an account for any reason.

- Modify subsection 2089.5(a) to state: Residents of another jurisdiction state may establish exchange wagering accounts provided it is not unlawful under United States

federal law or the law of that jurisdiction state to place an exchange wager provided, however, that these rules shall apply only to wagering on California races.

- (d) An exchange provider may refuse to establish an account, or may cancel or suspend a previously established account, without notice, if it ~~is found~~ finds that any information supplied by the prospective account holder is untrue or incomplete, or for any other reason as determined by the exchange provider.

Rule 2089.6, Deposits to an Exchange Wagering Account, provides how an exchange wagering account holder may make deposits to an account. The modification to this regulation states the exchange wagering account holder may make deposits in any form accepted by the exchange provider.

- (a) The account holder's deposits to the account shall be submitted by the account holder to the exchange provider and shall be in the form of any one of the following as may be accepted by the exchange provider:

Rule 2090, Posting Credits for Winnings from Exchange Wagers, provides the requirements for the posting of credits for winnings from matched wagers. The proposed change adds a new subsection 2090(b) to require credits for wagers on a scratched entry to be posted immediately to exchange wagering accounts, as applicable.

- Update subsection 2090(b) to add “(b) Credit for any wagers on a scratched entry shall be posted to the account by the exchange provider immediately after the scratch.

Rule 2092.5, Prohibitions on Wagers to Lay a Horse to Lose, prohibits certain classes of licensees from placing wagers to lay a horse to lose, prohibits others from making such wagers on behalf of such licensees, and provides that only the owner of an account may use his account to place such a wager. The Board voted to notice version “A” of the regulation, which added the substitute trainer, and The veterinarian or any assistant to the veterinarian providing services to the trainer who trains the horse.

Rule 2092.6, Suspension of Occupational License, provides that the Board of Stewards may suspend the occupational license of any person after a **preliminary hearing** finds probable cause to believe that such person has committed acts of fraud in connection with exchange wagering or any other action or inaction that threatens the integrity of exchange wagering. The proposed amendment to this regulation adds “preliminary hearing” to subsection 2092.6(a) and substantially modified subsection 2092.6(b) to address concerns expressed by the Jockeys’ Guild.

- (b) Such suspension of license shall be for a period of time designated by the Board of Stewards, unless otherwise determined by the Board, provided that any such suspension under this section shall be limited to ten days and, if probable cause that a

violation has occurred has been found, a hearing under Business and Professions Code section 19461 to determine whether a licensee has committed a violation of the rules must be held before any further discipline may be imposed.

ANALYSIS

The 15-day public comment period closed on October 22, 2012. Comments regarding the proposed changes to the exchange wagering regulations were received from the CTT, Churchill Downs Technologies, Inc.(CDTIC), and Couto and Associates representing Global Betting Exchange (GBE). The CTT's comments objected to the provision in the proposed Rule 2086.6, Operating Plan Required; however, the comment addressed the provision that stated the operating plan is non-disclosable, and did not address the proposed changes to the regulation. The CTT also addressed Rule 2087.5, Antepost Market, in its entirety, stating it is inconsistent with exchange wagering law in that there was nothing in the exchange wagering statute that defined or allowed antepost wagers. Furthermore, the CTT stated the proposed regulation did not protect the public with regards to declared non-starters. The CTT objected to the proposed Rule 2087.6, Cancellation of Matched Wagers, also with regards to matched antepost wagers. None of the CTT's comments directly addressed the proposed changes to the regulations. The CTT raised significant objections to the proposed Rule 2092.6, Suspension of Occupational License, and asked for additional time to review and make further comments on the regulation. The CTT submitted a second document regarding the economic impact of exchange wagering. The CDTIC submitted comments regarding Rule 2086.1, Authorization for Exchange Wagering, and Rule 2086.5, Application for License to Operate Exchange Wagering. Both regulations were not among the regulations modified and notice for a 15-day public comment period. The CDTIC suggested the addition of language to Rule 2086.5, which would require an additional 15-day public comment period. The CDTIC's comments regarding Rule 2086.5 centered on the proposed license fee. Any changes to the regulation would also require an additional comment period. The CDTIC also commented on Rule 2086.9, Financial and Security Integrity Audits Required. However, it suggested eliminating language from the regulation that were not part of the 15-day comment period. Finally, the CDTIC commented on Rule 2089.6, Deposits to an Exchange Wagering Account. CDTIC suggested language additions that would allow the provider to accept alternate forms of depositing funds to accounts if approved by the Board. This suggestion was previously made, but not included in the 15-day changes. The GBE comments suggested additional language changes to Rule 2086, Definitions, which would add the concept of "best execution" to the regulation. Changes were also suggested to revise Rule 2086.5, Application for License to Operate Exchange Wagering, to change the proposed license fee to a surety bond. These changes did not address proposed changes to the regulations as provided in the 15-day public comment, and they would require an additional public comment period if accepted by the Board. GBE also provided extensive commentary on regulatory process.

RECOMMENDATION

This item is presented for Board discussion and action. The Board may adopt the proposed addition of Article 27, exchange Wagering, as presented. Modifications to any of the proposed texts would require an additional public comment period.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086. DEFINITIONS

Regular Board Meeting
November 15, 2012

2086. Definitions

As used in this article:

(a) “Back” means to wager on a selected outcome occurring in a given market.

(b) “Confidential information” means the following:

(1) the amount of money credited to, debited from, or present in any particular account holder's exchange wagering account;

(2) the amount of money wagered by a particular account holder on any races or series of races;

(3) the exchange wagering account number and personal identification number of an account holder;

(4) the identities of particular entries on which the account holder is wagering or has wagered; and

(5) unless otherwise authorized by the account holder, the name, address, and all other information in possession of the exchange provider that would identify the account holder to anyone other than the Board or the exchange provider.

(c) “Credits” means all positive inflow of money to an exchange wagering account.

(d) “Debits” means all negative outflow of money from an exchange wagering account related to a wager placed from such account.

(e) “Declared Entry” means a horse withdrawn from a race in which its entry has been accepted.

(f) “Deposit” means a credit of money to an exchange wagering account from an account holder.

(g) “Exchange” means a system operated by an exchange provider in which the provider maintains one or more markets in which account holders may back or lay a selected outcome.

(h) “Exchange wagering” means a form of pari-mutuel wagering in which two or more persons place identically opposing wagers in a given market, as provided under Business and Professions Code section 19604.5.

(i) “Exchange wagering account,” “account” means the account established with an exchange provider by a natural person participating in exchange wagering. An account may only be established or maintained with an exchange provider by a natural person.

(j) “Exchange wagering license applicant,” “applicant” means any entity including, but not limited to, corporations, partnerships, limited liability companies, limited partnerships, or individuals that file an application with the Board to conduct exchange wagering.

(k) “Exchange wagering license application” means the application form CHRB 229 (New 5/12), Application for License to Operate Exchange Wagering.

(l) “Exchange wagering licensee,” “exchange provider” means a person located within or outside of California that is authorized to offer exchange wagering to residents of California pursuant to Business and Professions Code section 19604.5 and this article.

(m) “Identically opposing wagers” means wagers in which one or more persons offer to lay a selected outcome at the same price at which one or more persons offer to back that same outcome, with the amount subject to the lay being proportionately commensurate to the amount subject to the back.

(n) “Lay” means to wager on a selected outcome not occurring in a given market.

(o) “Market” means, in relation to a given horse race or a given set of horse races, a particular outcome that is subject to exchange wagering as determined by an exchange provider.

(p) “Matched wager” means the wager that is formed when two or more persons, none of whom are the exchange provider or agents, are confirmed by the exchange provider as having placed identically opposing wagers in a given market on the exchange.

(q) “Means of personal identification” means the unique number, code, or other secure technology designated by an exchange wagering account holder to assure that only that account holder has access to his account.

(r) “Natural person” means a living, breathing human being, as opposed to a legal entity.

(s) “Net winnings” means the aggregate amounts payable to a person as a result of that person’s winning matched wagers in a pool less the aggregate amount paid by that person as a result of that person’s losing matched wagers in that pool.

(t) “Operating plan” means the plan submitted to the Board by an exchange provider detailing the proposed method of operation of the exchange.

(u) “Other electronic media” means any electronic communication device or combination of devices including, but not limited to, personal computers, the Internet, private networks, interactive television and wireless communication technologies, or other technologies approved by the Board.

(v) “Person” means any individual, partnership, corporation, limited liability company, or other association or organization.

(w) “Pool” means the total of all matched wagers in a given market.

(x) “Price” means the odds for a given exchange wager.

(y) “Unmatched wager” means a wager or portion of a wager placed in a given market within an exchange that does not become part of a matched wager because there are not one or more available exchange wagers in that market with which to form one or more identically opposing wagers.

(z) “Withdrawal” means a payment from an exchange wagering account by the exchange provider to the account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.1. AUTHORIZATION FOR EXCHANGE WAGERING

Regular Board Meeting
November 15, 2012

2086.1. Authorization for Exchange Wagering.

(a) Exchange Wagering may be conducted upon the approval of the Board as provided for in this article and under the provisions of Business and Professions Code sections 19604.5(b)(2) to (7), inclusive.

(b) Despite subsection (a) of this regulation, a licensee may conduct exchange wagering on any horse race conducted outside of California where the licensee does not offer exchange wagering to residents of California on that race.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.5. APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING

Regular Board Meeting
November 15, 2012

2086.5. Application for License to Operate Exchange Wagering.

(a) Prior to any exchange wagers being accepted, the applicant for license to operate exchange wagering must obtain a license from the Board.

(b) An applicant must complete CHRB form 229 (New 05/12) Application for License to Operate Exchange Wagering, hereby incorporated by reference, which shall be available at the Board's headquarters office. The application must be filed not later than 90 days in advance of the scheduled start of operation. A certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6), a detailed operating plan as described under Rule 2086.6, Operating Plan Required, and proof of the applicant's compliance with labor provisions of Business and Professions Code section 19604.5(f), must accompany the application.

(c) The term of the exchange wagering License shall be not more than 2 years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

(d) The Board shall notify the applicant in writing within 30 calendar days from the receipt date if the application is deficient. No later than 90 calendar days following the receipt of the application, the Board shall make a final determination on the application. The Board may approve the application if, after reasonable investigation and inspection, as it deems appropriate, it determines that the applicant has demonstrated that exchange wagers placed through the exchange will be accurately processed and that there will be sufficient safeguards to protect the

public and to maintain the integrity of the horse racing industry in this state. If the Board denies an application, the applicant has 30 calendar days, from the receipt of the Board's denial notification, to request a reconsideration of the Board's decision. The request must be in writing and sent to the Board's headquarters office. The Board shall respond in writing to the reconsideration request within 30 working days from the receipt date of the request. If reconsideration is denied, the applicant may file for judicial review in accordance with Government Code section 11523.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.
Section 11523, Government Code.

STATE OF CALIFORNIA
 CALIFORNIA HORSE RACING BOARD (CHRB)
APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING
 CHRB-229 (New 5/12)

Application is hereby made to the California Horse Racing Board (CHRB) for approval to conduct exchange wagering in accordance with the California Business and Professions Code section 19604.5, Chapter 4, Division 8, California Code of Regulations, Title 4, Division 4, CHRB Rules and Regulations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct exchange wagering.

The applicant must supply complete responses. The information is to be provided as of the date of this application unless otherwise specified. The applicant may refer to an exhibit/attachment in response to a question; however, you must specify the page number and line in which the text is responsive.

NOTICE – By submitting the application the applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

No application for a license to operate exchange wagering shall be granted unless the applicant has deposited with the Board a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5 (e)(6), which provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

1. APPLICANT INFORMATION

Company name:

Facility address:

City:

State:

Zip Code:

Phone:

Fax:

Website:

County:

CHRB CERTIFICATION

Application received:
 Cashier check received:
 Reviewed:

Hearing date
 Approved date:
 License number:

2. CONTACT PERSON (authorized representative)

Name and title of contact:

Business name and address:

City:	State:	Zip Code:
Phone:	Fax:	County:

Email address:

3. CALIFORNIA AGENT FOR RECEIPT OF SERVICE OF PROCESS

Name and title of contact:

Business name and address:

City:	State:	Zip Code:
Phone:	Fax:	County:

Email address:

4. MANAGEMENT PERSONNEL

NOTICE TO APPLICANT: All management personnel responsible for the California operations must be CHRB licensed. Business and Professions Code section 19604.5 (e) (5) provides the Board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

List name, title, email address, phone and license number for all management personnel directly involved in management of exchange wagering. Identify which management staff is responsible for California operations:

Name and title	Email address	Phone	License No.	Responsible for California Operations
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No

5. DATE OF OPERATION

NOTICE TO APPLICANT: CHRB Rule 2086.5 provides the term of the exchange wagering license shall not be more than two years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

- A. Dates applicant is proposing to conduct exchange wagering:
 Beginning date: _____ Ending date: _____
- B. Dates exchange wagering will not be conducted:

C. Indicate the days and hours exchange wagering will be conducted below:

<u>Days:</u>	<u>Hours:</u>
Sunday	
Monday	
Tuesday	
Wednesday	
Thursday	
Friday	
Saturday	

6. BUSINESS STRUCTURE

A. Identify your business structure (below):

- Corporation (complete subsection B and E)
- LLC (complete subsection C and E)
- Other (Specify and complete subsection D and E)

B. CORPORATION

1. Registered name of the corporation:
2. State and/or country where incorporated:
3. Registry or file number for the corporation:
4. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
5. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
6. Number of outstanding shares in the corporation:
7. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
 - A. Is parent and/or paired corporation or entity a publically traded or privately held

company that guarantees the obligation of the applicant? If no, proceed to section E.

If yes, answer questions 10-17. Yes No

10. Registered name of the corporation:
11. State and/or country where incorporated:
12. Registry or file number for the corporation:
13. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
14. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
15. Number of outstanding shares in the corporation:
16. Are the shares listed for public trading? Yes No
17. If yes, on what exchange and how is the stock listed:
18. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
19. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

C. LLC

1. Registered name of the LLC:
2. State and/or country where articles of organization are filed:
3. Registry or file number for the LLC:
4. Attach a list of the names of all members (including individuals (true names), corporations, other LLCs and or foreign entities), titles, and the number of shares of the LLC held by each:
5. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
6. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or

entity:

A. Is parent and/or paired entity either a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E. If yes, answer questions 7-13

Yes No

7. Registered name of the LLC/Corporation:
8. State and/or country where articles of organization are filed:
9. Registry or file number for the LLC:
10. Attach a list of the names (true names) of all members (members may include individuals, corporations other LLCs and foreign entities), titles, and the number of shares of the LLC held by each:
11. Are the shares listed for public trading? Yes No
12. If yes, on what exchange and how the stock is listed:
13. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. OTHER

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

E. FINANCIAL INFORMATION *

1. Attach the most recent audited annual financial statement or financial report for the applicant. Attach a separate audited annual financial statement for the applicants California operations. The financial statement or financial report shall include all relevant financial information specific to the applicant including:
 - Statement of Financial Position: also referred to as a balance sheet. Statement should report on applicant's assets, liabilities, contingent liabilities and ownership equity as of the date of the prepared statement.
 - Statement of Comprehensive Income: also referred to as Profit and Loss ("P&L") Statement. Statement should include report on applicant's income, expenses, and profits.
 - Profit and Loss statement for prior two years and Profit and Loss statement for projected

- year.
- Statement of Changes in Equity: to include the changes of the applicants' equity through the reporting period.
 - Statement of Cash Flows: to include a report of the applicant's cash flow activity, particularly its operating investing and financing activities during the reporting period.
 - Copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.
2. Provide certification from the Chief Financial Officer that the account holders' funds will not be commingled with any other funds pursuant to CHRB rule 2086.6.

*NOTICE TO APPLICANT: The financial information provided pursuant to subsection (E) above is exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

7. ORGANIZATIONAL INFORMATION

- A. Provide a detailed organizational chart for the applicant company and parent company if applicable.
- B. List all jurisdictions inside and outside of the United States in which you offer exchange wagering to patrons.
- C. Does the applicant or parent company hold a financial interest in the following (*mark all that apply*):
- Race track
 - Casino
 - Advance deposit wagering

If you have indicated you have an interest in any of the above identify name and address of business interest.

- D. What contributions is the applicant making to the California horse racing industry?
- E. Has there been any action initiated against the applicant its parent, any of its directors, partners, officers or subsidiary corporation this year, or in the last year, by any court or regulatory agency? If so, please identify the issue.

8. TRACK AGREEMENT AND HORSEMEN ORGANIZATION APPROVAL

EXCHANGE WAGERING LICENSING REQUIREMENTS

Business and Professions Code section 19604.5, identifies specific provisions that must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Business and Professions Code section 19604.5 (b)(4) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with the racing association/fair located in the northern zone authorized by the Board when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(5) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone authorized by the Board, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(6) provides an exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the Board to conduct a live quarter horse racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

Business and Professions Code section 19604.5 (b)(7) provides an exchange wagering licensee may only offer exchange wagering on standardbred horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

Business and Professions Code section 19604.5 (k) provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

Identify the breed of races (8A through 8E) on which exchange wagering will be offered. Attach a copy of each agreement permitting these wagers.

(*) If you do not have the required agreements permitting you to accept wagers in compliance with Business and Professions Code section 19604.5, you must attach a letter addressing the status of the outstanding document(s). Please reference section 8 and the title of the outstanding agreement you are addressing. The letter must include the status of negotiations and the outstanding issues that need to be resolved and an estimated completion date for each outstanding agreement.

If the information required in response to 8A through 8E is in one agreement provide a single copy of the document.

- A. Thoroughbred wagers from persons whose primary residence address is in the northern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- B. Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the central/southern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the central/southern zone?
 Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- C. Quarter wagers from persons whose primary residence address is in California.
1. Do you have an agreement with a racing association or fair that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, identify which quarter association or fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- D. Standardbred wagers from persons whose primary residence address is in California.
1. Do you have a contract and/or agreement with a racing association, fair that allows you to accept standardbred wagers in California? Yes No

- a. If yes, identify which standardbred association/fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
2. Do you have an agreement with the horsemen's organization that allows you to accept standardbred horse wagers in California? Yes No
- a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- E. Wagers will be accepted after the start of the race.
1. Do you have an agreement that allows you to accept wagers after the start of the race with a racing association or fair that conducts the races? Yes No
- a. If yes, identify which association/fair the agreement is with and provide a copy: _____
 - b. If no, see above instructions (*).
2. Do you have a contract and/or agreement with the horsemen's organization that allows you to accept wagers after the start of the race? Yes No
- a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).

9. LABOR ORGANIZATION

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (f) (1) provides the Board shall not approve an application for an original or renewal license as an exchange wagering provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

- A. Do you have a labor agreement for the applied term of the application? Yes No
- 1. If yes, answer questions B – D.
 - 2. If no, answer question E.
- B. If yes, what is the name of the bona fide labor organization?
- C. What is the term of the agreement? (Begin date): _____ (End date): _____
- D. Provide a copy of the labor agreement.
- E. If no, have you been in contact with a labor organization? Yes No
- 1. If yes, what was the date of contact?
 - 2. Include a letter with your application titled (Labor Status) addressing the status of the current labor negotiations. Include, date of last negotiation contact, remaining issues that need to be resolved and an estimated completion date.

10. ESTABLISHING EXCHANGE WAGERING ACCOUNTS

NOTICE TO APPLICANT: CHRB Rule 2089.5 provides that specific provisions must be met to establish an exchange wagering account. Business and Professions Code section 19604.5 (c) provides in part only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

- A. Provide a detailed listing of the procedures to be used for establishing an account (must comply with rule 2089.5):
- B. Provide a copy of the form and terms of agreement used to establish an account for an account holder.
- C. Name and address of the third party you will use to verify identity, residence and age verification:

11. LOCATION AND PHYSICAL PLANT

- A. Do you have a call center to accept verbal wagers? Yes No
If so, what is the name, address and phone number of the location?
- B. What is the website address available for patrons to place wagers:
- C. Do you have a location in which patrons can place a wager in person: Yes No
If so, what is the name, address and phone number of the location?

12. OPERATION OF EXCHANGE WAGERING ACCOUNTS

- A. Submit a copy of your detailed operating plan pursuant to CHRB Rule 2086.6. Plan must include all items outlined in CHRB Rule 2086.6 including:
 - 1. a detailed report of the daily operation of the exchange
 - 2. a description of policy to prevent commingling of account holders' funds with any other funds.
 - 3. management policy of customer accounts including deposit, withdrawals, debits and credits.
- B. List the type of deposits you will accept:
- C. Identify any fees or transaction-related charges and the amount that will be assessed:

13. SECURITY POLICY

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for persons establishing exchange wagering accounts, location and age verification confirmation for persons establishing exchange wagering accounts, the use of identifying factors to

ensure security of individual accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

- A. Attach your security access policy and safeguards pursuant to Business and Professions Code section 19604.5 (d). Policy must include the following:
 - 1. Description of the technology to ensure identity, residence, and age verification when an account is established:
 - 2. Description of the technology to ensure confidentiality of the means of personal identification:
 - 3. Methods available for account holders to withdraw funds from their account:
- B. Attach a copy of your information security incident management policy.
 - 1. Have you had any computer related security issues this year, or in the last year, with data, data storage or hardware? Yes No
 - 2. If yes, please identify the issue.
- C. Provide the name, address, phone number and hours of operation of the location in which the physical and electronic data will be will be stored:

14. ENFORCEMENT OVERSIGHT

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity. CHRB Rule 2091.5 (b) states the exchange provider shall immediately notify the Board if it suspends an account due to probable fraud in connection with exchange wagering. The provider shall also submit to the Board a written account of the suspension.

- A. Identify the physical location of the applicant's security oversight operation.
- B. Attach an organizational chart including chain of command and contact information (phone number and email address) for key members of the applicant's security oversight operation.
- C. Describe what forensic and analytical tools will be used for the oversight/enforcement of exchange wagering security.

15. CONTRACTS AND AGREEMENTS

- A. List name, address and phone number of all organizations you will contract with to facilitate exchange wagering:

<u>Company name, address and phone:</u>	<u>Describe services:</u>

16. ADVERTISING

- A. Name and address of the advertising agency you will use:
- B. Describe marketing strategies planned for exchange wagering:
- C. What marketing contribution is the applicant making to the California horse racing industry?
- D. What innovative programs have been created by the applicant to help invigorate the California horse racing industry?
- E. Will there be rebate programs offered? If so, identify the programs.

17. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this application.

Print Name

Signature

Print Title

Date

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.6. OPERATING PLAN REQUIRED

Regular Board Meeting
November 15, 2012

2086.6. Operating Plan Required.

As part of the exchange wagering license application, and any renewal application, the applicant shall submit a detailed operating plan in a format and containing such information as required by the Board. At a minimum, the operating plan shall address the following:

- (a) A detailed report of the daily operation of the exchange.
- (b) Management of customer accounts including deposits, withdrawals, debits and credits. This shall include:
 - (1) A policy to prevent commingling of funds; and
 - (2) Evidence of an established account with an a Federal Deposit Insurance Corporation (FDIC) insured bank in which all funds of the account holders will be deposited. This shall include evidence that account holder's funds are segregated and held in a separate FDIC insured bank account of the exchange provider, and that the funds shall not be used for any purpose other than those required by the account holder's exchange wagering transactions.
- (c) Technology and hardware and software systems information, which shall include a data security policy as provided under Business and Professions Code section 19604.5(d), as well as a policy for the notification of the Board and account holders of any unauthorized access that may compromise account holders' personal information.

(d) Financial information that demonstrates the financial resources to operate an exchange and a detailed budget that shows anticipated revenue, expenditures and cash flows by month projected for the term of the license.

(e) Document retention policies including those related to account holder personal information and wagering information.

(f) A customer complaint and conflict resolution process.

(g) Programs for responsible wagering.

(h) The requirements for exchange wagering accounts established and operated for persons whose principal residence is outside of the state, which for the purposes of these rules, shall apply only to wagering on California races.

(i) The operating plan submitted pursuant to this regulation, and any subsequent updates or changes to such operating plan, shall be exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(4),
Business and Professions Code.
Section 6254(k),
Government Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.7. EXCHANGE WAGERING DATA

Regular Board Meeting
November 15, 2012

2086.7. Exchange Wagering Data.

(a) For the purposes of pari-mutual pari-mutuel accounting and settlement of exchange revenues according to contract, as well as reporting and analysis of data related to exchange wagering, the exchange provider shall furnish the nonprofit horse racing data base as designated by the Board with the following data interface in a format agreed upon by the exchange provider and the nonprofit horse racing data base:

(1) A daily reconciliation of the amounts settled by the exchange provider and its account holders, including but not limited to:

(A) Race date, event, race number, wagering interests, breed type;

(B) Post time of race, start time of race, finish time of race;

(C) Winning, losing and net wagers;

(D) Wagers by type before race; by winning, losing, and net wagers, odds, amounts, backer, layer;

(E) Wagers by type during race; by winning, losing and net wagers, odds, amounts, backer, layer;

(F) Cancellations of wagers made by customers on betting interest, or interests during one event;

(G) Zip code of each account holder;

(H) Percentage or flat fee paid to source of event;

(I) Percentage or flat fee rebated to each account holder.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.8. MONITORING SYSTEMS AND NOTIFICATION

Regular Board Meeting
November 15, 2012

2086.8. Monitoring Systems and Notification.

(a) Pursuant to an agreement between the exchange provider and the Board, or its designee, the exchange provider shall:

(1) Furnish the Board and its designee full access to the provider's real-time monitoring system that displays all wagers made over a set amount approved by the Board in the operating plan, including online documentation and training;

(2) Provide immediate notification by email to the Board and its designee of any unusual wagering patterns;

(3) Provide immediate notification by email to the Board and its designee of when certain predetermined and agreed upon events occur as set out in the operating plan occur;

(4) Establish and distribute criteria for anti money laundering procedures which include risk based systems for customer due diligence.

(5) Establish and distribute criteria for monitoring telephone records of account holders.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2086.9. FINANCIAL AND SECURITY INTEGRITY AUDITS REQUIRED

Regular Board Meeting
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Rule 2086.9. Financial and Security Integrity Audits Required.

(a) Ninety One hundred twenty days after the end of each calendar year the exchange provider shall submit to the Board an annual audited financial statement for its California operations.

(b) On a calendar year basis the provider shall undergo the Statement on Standards for Attestation Engagements 16 (SSAE 16) audits:

- (1) Service Organization Controls I (SOC I) and;
- (2) Service Organization Controls II (SOCII) reports.

The SOC I and SOC II reports shall be submitted to the Board ninety days after the end of the calendar year.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2087. SUSPENDING MARKETS

Regular Board Meeting
November 15, 2012

2087. Suspending Markets.

(a) An exchange provider may suspend a market at any time, including after the race is declared official but before winning wagers are credited, if the provider has reason to suspect that fraud or any other action or inaction by any person connected with the race raises questions about the integrity and fairness of the market.

(b) The provider shall immediately notify the Board by means of electronic mail any time a market is so suspended. Upon settlement of the market the provider shall submit to the Board a written account of the suspension that at a minimum provides the following information:

- (1) The market suspended;
- (2) The date and time of the suspension;
- (3) The reason for suspending the market;
- (4) The results of the investigation;
- (5) How the market was settled.

(c) Upon the completion of an investigation, the exchange provider shall settle the market as appropriate.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2087.5. ANTEPOST MARKET

Regular Board Meeting
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2087.5. Antepost Market.

(a) Antepost market wagers are authorized on Grade 1/Group 1 or Grade 2/Group 2 stakes races and are exchange wagers placed in advance of the closing of entries where one single wager is made on an outcome that includes both:

(1) that the selected horse will run the race; and

(2) that the selected horse will finish the race in the selected position of win, place, or

show.

(b) Antepost markets close for wagering at the close of entries.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2087.6. CANCELLATION OF MATCHED WAGERS

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2087.6. Cancellation of Matched Wagers.

(a) An exchange provider may cancel or void a matched wager or part of a matched wager if required by law or where, in its sole discretion, it determines:

(1) there is a technological failure and the market must be voided; or

(2) there is good cause to suspect that a person placing a wager through the exchange has breached any term of the person's agreement with the exchange provider;

(3) it is in the interest of maintaining integrity and fairness in a particular market; or

(4) human error by the exchange wagering provider in recording an exchange wager.

(b) If a matched wager is canceled or voided due to situations described in subparagraphs (a)(1), (a)(2) and (a)(3) of this regulation, the exchange provider shall notify the Board in writing of its actions and the circumstances that resulted in such action.

(c) An account holder who believes a payout was inappropriately disrupted due to the cancellation of a matched wager may submit a claim to the exchange provider in accordance with Rule 2089 of this article.

Authority: Sections 19420, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(k), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2088. NON-STARTERS AND DECLARED OR SCRATCHED ENTRIES

Regular Board Meeting
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2088. Non-Starters and Declared or Scratched Entries.

(a) Except for in an antepost market, matched wagers on non-starters and declared or scratched entries shall be voided by the exchange provider.

(b) In the event of a non-starter, declared or scratched entry, the price of all other matched wagers existing at the time the declared or scratched entry occurred, or the non-starter declared, may/may not be reduced proportionally by the exchange provider in accordance with the terms set forth in its operating plan to reflect the increased probability that those outcomes will become winning outcomes.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2088.6. CANCELLATION OF UNMATCHED WAGERS

Regular Board Meeting
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2088.6. Cancellation of Unmatched Wagers.

~~An unmatched wager may be cancelled by the exchange provider at any time before it is matched by the provider to form one or more identically opposing wagers.~~

The exchange provider or the account holder who offered the unmatched wager may cancel an unmatched wager at any time without cause before it is matched to form one or more identically opposing wagers.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(j),
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2089. ERRORS IN PAYMENTS OF EXCHANGE WAGERS

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2089. Errors in Payments of Exchange Wagers.

If an error occurs in the payment of amounts for exchange wagers, the following shall apply:

(a) In the event the error results in an over-payment to the individuals wagering, the exchange provider shall be responsible for such payment account holder, the exchange provider may prohibit the withdrawal of funds equal to the overpayment. The exchange provider shall immediately notify the account holder of the overpayment and shall be entitled to recover from such account holder the amount of the overpayment.

(1) An account holder who disputes an overpayment may, within 90 calendar days of the date of the overpayment, request in writing that the Board determine the validity of such overpayment.

(b) In the event the error results in an under-payment:

(1) The exchange provider shall notify the account holder of such underpayment.

(2) An account holder must submit a claim for the underpayment within 30 90 calendar days inclusive of the date on which the alleged underpayment occurred. The exchange provider shall investigate such claims and shall pay each claim, or a part thereof, which it determines to be valid, and shall notify the claimant in writing if his claim is rejected as invalid.

(23) Any claim not filed with the exchange provider within 30 90 calendar days inclusive of the date on which the alleged under-payment occurred shall be deemed waived and the exchange provider shall have no further liability therefore.

(34) Any person whose claim is rejected by the exchange provider may, within 15 45 calendar days from the date he received the notice of rejection, request in writing that the Board determine the validity of the claim. Failure to file such request with the Board within the said time shall constitute a waiver of the claim.

(45) A hearing shall be held on each such rejected claim timely filed with the Board. The Board shall give notice of such hearing to the claimant and the exchange provider. The Board may determine a claim to be valid, in whole or in part, and thereafter order the exchange provider to pay to the claimant the amount of the claim determined to be valid, or may deny the claim I whole or in part. Any such determination shall be final and binding on all parties.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2089.5. REQUIREMENTS TO ESTABLISH AN EXCHANGE WAGERING
ACCOUNT

Regular Board Meeting
November 15, 2012

2089.5. Requirements to Establish an Exchange Wagering Account.

(a) An exchange wagering account is necessary to place exchange wagers. Exchange wagering accounts may be established by residents of California. Residents of another jurisdiction state may establish exchange wagering accounts provided it is not unlawful under United States federal law or the law of that jurisdiction state to place an exchange wager provided, however, that these rules shall apply only to wagering on California races. An account may be established in person, by mail, telephone, or other electronic media including but not limited to the Internet. Only natural persons may open an account. An account shall not be assignable or otherwise transferable.

(b) The information required to establish an account shall include:

(1) The prospective account holder's full legal name.

(2) The principal residence address of the prospective account holder. Such address shall be deemed the address of record for mailing checks, withdrawals, statements, if any, of the account, notices, or other correspondence or materials. It is the responsibility of the account holder to notify the exchange provider of any address change.

(3) Telephone number.

(4) Social Security Number or Individual Tax Identification Number.

(5) Certification or other proof that the applicant is at least 18 years of age.

(c) An exchange provider shall employ electronic verification with respect to each prospective account holder's name, principal residence address, date of birth and social security number at the time of the account establishment by a Board-approved national, independent, individual reference company or another independent technology approved by the Board which meets or exceeds the reliability, security, accuracy, privacy and timeliness provided by individual reference service companies.

(d) An exchange provider may refuse to establish an account, or may cancel or suspend a previously established account, without notice, if it is found finds that any information supplied by the prospective account holder is untrue or incomplete, or for any other reason as determined by the exchange provider.

(1) If the exchange provider cancels a previously established account, within five business days it shall return to the account holder at the address of record any funds held in the account.

(e) If an exchange provider or an affiliate of such provider is also licensed by the Board to conduct advance deposit wagering, the exchange provider may offer holders of existing advance deposit wagering accounts held with such exchange provider or such affiliate a convenient method of establishing an exchange wagering account by verifying information on file for the existing advance deposit wagering account.

(f) The exchange provider shall have the right to suspend or close any account at its discretion.

(g) The account applicant shall supply the exchange provider with a means of personal identification to be used by the account holder to access his account. Exchange wagering accounts are for the use only of the account holder and the account holder is responsible to

maintain the secrecy of the account number and means of personal identification. The account holder must immediately notify the exchange provider of any breach of security for the account.

(h) Each account shall have a unique identifying account number. The exchange provider shall inform the account holder of the assigned account number and provide a copy of the exchange provider's exchange wagering procedures, terms, and conditions, as well as any information that pertains to the operation of the account.

(i) Each exchange provider shall, at all times, comply with Internal Revenue Service (IRS) requirements for reporting and withholding proceeds from exchange wagers by account holders and shall, following the credit to an account for a winning exchange wager, send to any account holder who is subject to IRS reporting or withholding a Form W2-G summarizing the information for tax purposes. Upon written request by an account holder, the exchange provider shall provide the account holder with summarized tax information on exchange wagering activities.

(j) All wagering conversations, transactions or other wagering communications through the exchange wagering system, verbal or electronic, shall be recorded by means of electronic media, and the tapes or other records of such communications shall be kept by the entity for at least 180 days, unless otherwise directed by the Board. These tapes and other records shall be made available to the Board upon request or order by the Executive Director.

(k) Upon request of the account holder the exchange provider shall provide a statement detailing account activity for the immediate 30 days prior to the request. Unless the exchange provider receives written notice disputing the statement within 14 calendar days of the date a statement is forwarded, it shall be deemed to be correct.

(l) No employee or agent of the exchange provider shall divulge any confidential information related to the placing of any exchange wager or any confidential information related to the operation of the exchange wagering system without the consent of the account holder, except to the account holder as required by this article, the Board, and as otherwise required by state or federal law.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2089.6. DEPOSITS TO AN EXCHANGE WAGERING ACCOUNT

Regular Board Meeting
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2089.6. Deposits to an Exchange Wagering Account.

Deposits to an exchange wagering account shall be made, in person, by mail, by telephone, or by other electronic media, as follows:

(a) The account holder's deposits to the account shall be submitted by the account holder to the exchange provider and shall be in the form of any one of the following as may be accepted by the exchange provider:

(1) cash given to the exchange provider;

(2) check, money order, negotiable order of withdrawal, or wire or electronic transfer, payable and remitted to the exchange provider; or

(3) charges made to an account holder's debit or credit card upon the account holder's direct and personal instruction, which instruction may be given by telephone communication or other electronic media to the exchange provider or its agent by the account holder if the use of the card has been approved by the exchange provider.

(4) the name and billing address for any credit card, debit card, bank account, or other method of payment through which an account holder funds or transfers from an account shall be the same as the account holder's registered name and address.

(b) Funds in an account shall bear no interest to the account holder.

(c) The account holder may be liable for any charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer, and such charges may be deducted from the account holder's account.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2090. POSTING CREDITS FOR WINNINGS FROM EXCHANGE WAGERS

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2090. Posting Credits for Winnings from Exchange Wagers.

(a) Credit for winnings from matched wagers placed with funds in an account shall be posted to the account by the exchange provider after the race is declared official.

(b) Credit for any wagers on a scratched entry shall be posted to the account by the exchange provider immediately after the scratch.

(bc) Notwithstanding Rule 1955 of this division, where the outcome of a matched antepost wager can be determined with certainty by the exchange provider prior to the time that the race is declared official, the exchange provider may settle such matched antepost wager as soon as that outcome is determined with certainty.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
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ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2090.5. DEBITS TO AN EXCHANGE WAGERING ACCOUNT

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2090.5. Debits to an Exchange Wagering Account.

Debits to an exchange wagering account shall be made as follows:

(a) Upon receipt by the exchange provider of an exchange wager properly placed, the provider shall determine whether there are sufficient funds in the account holder's wagering account to cover the maximum amount the account holder could be liable for based on the wager. If so, the wager shall be accepted. The exchange provider will debit the account holder's account the total maximum amount which the account holder could be liable for based on all exchange wagers placed by the account holder on races which have not yet been declared official.

(b) Wagers shall be accepted only during days and times designated as operating by the exchange provider.

(c) The exchange provider may at any time declare the system closed for receiving any wagers on any race or closed for all exchange wagering.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
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ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2090.6. WITHDRAWALS BY ACCOUNT HOLDER

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2090.6. Withdrawals by Account Holder.

(a) Withdrawals shall be completed within five business days after the exchange provider receives a request from an account holder by mail, by telephone, or other electronic media, accompanied by the valid account number and a means of personal identification or, if by mail, a signed completed withdrawal form. In the case of any withdrawal requested by mail, by telephone, or by other electronic media:

(1) If sufficient funds are available in the account, the exchange provider shall send a check payable to the account holder in the amount of the requested withdrawal to the address of record.

(2) If sufficient funds are not available in the account, the exchange provider shall, within five business days of receipt, provide notification to the account holder of insufficient funds and send a check payable to the account holder in the amount of the funds available to the address of record.

(3) A wire or electronic funds transfer, including but not limited through the automated clearing house system, may be used in lieu of a check, at the discretion of the account holder and the exchange provider, to deliver funds withdrawn from an exchange wagering account to a monetary account controlled by the account holder. The account holder may be liable for any

charges imposed by the transmitting or receiving entity involved in a wire or electronic transfer, and such charges may be deducted from the account holder's account.

(b) Exchange wagering account holders may make withdrawals in person with such identification as required by the exchange provider, the valid account number, and a means of personal identification.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
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ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2091. CLOSING AN INACTIVE EXCHANGE WAGERING ACCOUNT

Regular Board Meeting
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2091. Closing an Inactive Exchange Wagering Account.

The exchange provider may close any exchange wagering account that has remained inactive for six months or longer. When an account is closed the exchange provider shall return any funds remaining in the account to the account holder at the address of record within five business days of closing the account.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
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ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2091.5. SUSPENDING AN EXCHANGE WAGERING ACCOUNT

Regular Board Meeting
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2091.5. Suspending an Exchange Wagering Account.

(a) An exchange provider may suspend any exchange wagering account if the provider has reason to believe that the account holder may have committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering, or is otherwise ineligible to hold the account.

(b) The exchange provider shall immediately notify the Board by electronic mail if it suspends an account due to fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering. The provider shall also submit to the Board a written account of the suspension that at minimum states:

- (1) The name of the person whose account was suspended;
- (2) The date and time of the suspension;
- (3) The reason for suspending the account;
- (4) The results of any investigation associated with the suspension of the account.

(c) Funds in a suspended account shall be maintained by the exchange provider until such time as any investigation associated with the suspension is complete and/or the account is no longer suspended.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5,
Business and Professions Code.

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ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2091.6. POWERS OF THE BOARD TO REVIEW AND AUDIT RECORDS

Regular Board Meeting
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2091.6. Powers of the Board to Review and Audit Records.

The Board shall have access for review and audit, to all records and financial information of an exchange provider. The information shall be made available upon notice from the Board, at all reasonable times to the extent such disclosure is not prohibited by law. Board access to and use of information concerning exchange wagering transactions and account holders shall be considered proprietary to the exchange provider and shall not be disclosed publicly except as may be required by law.

Authority: Sections 19420, 19433, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(4), Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2092. EXCHANGE WAGERS PLACED AFTER THE START OF A RACE

Regular Board Meeting
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2092. Exchange Wagers Placed After the Start of a Race.

(a) As reflected in the exchange provider's operating plan, and as approved authorized by the racing association and horsemen's organization, and as approved by the Board, an exchange provider may accept wagers placed on a market after the start of a live race but before the results of that race have been declared official.

(b) No exchange wagers shall be placed on a market after the conclusion of a live race.

(c) Exchange wagering on previously run races is prohibited.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(k),
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2092.5. PROHIBITIONS ON WAGERS TO LAY A HORSE TO LOSE

Regular Board Meeting
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2092.5. Prohibitions on Wagers to Lay a Horse to Lose.

(a) No exchange wager that lays a horse to lose may be made by a person who owns such horse in whole or in part, nor shall an exchange wager to lay the horse to lose be made by:

- (1) The trainer, or assistant trainer or substitute trainer who trains the horse;
- (2) The authorized agent who represents the owner of the horse;
- (3) The jockey or driver who rides or drives the horse;
- (4) The jockey agent who represents the jockey who rides the horse;
- (5) The valet who attends the jockey; or
- (6) Any stable employee of the trainer who trains the horse;
- (7) The veterinarian or any assistant to the veterinarian providing services to the trainer who trains the horse.

(b) Nor shall any of the persons named in subsection (a) through (a)(7) of this regulation instruct another person to lay a horse to lose on their behalf, or receive the whole or any part of any proceeds of such a lay.

(c) No exchange wagering account shall be used to lay a horse to lose, except by the account holder. All wagers that lay a horse to lose will be presumed to be effected by, and for the benefit of, the account holder.

(d) Nothing herein is intended to otherwise alter the applicability or application of Rule 1970.

(e) Individuals prohibited from wagering under Rule 1969 Shall be prohibited from placing an exchange wager while on duty at a race meeting or off-track wagering facility, including an out-of-state-Hub.

Authority: Sections 19420, 19440, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(3)(A),
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
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PROPOSED ADDITION OF
RULE 2092.6. SUSPENSION OF OCCUPATIONAL LICENSE

Regular Board Meeting
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2092.6. Suspension of Occupational License.

(a) The Board of Stewards may suspend the occupational license of any person if, after a preliminary hearing, it determines there is probable cause to believe that such person may have has committed acts of fraud in connection with exchange wagering or any other action or inaction which threatens the integrity or fairness of any exchange wagering.

(b) Such suspension of license shall be for a period of time designated by the Board of Stewards, unless otherwise determined by the Board, provided that any such suspension under this section shall be limited to ten days and, if probable cause that a violation has occurred has been found, a hearing under Business and Professions Code section 19461 to determine whether a licensee has committed a violation of the rules must be held before any further discipline may be imposed.

(c) The licensee may make an appeal to the Board by complying with the provisions of Rule 1761 of this division.

Authority: Sections 19420, 19440, 19460, 19461, 19590 and 19604.5,
Business and Professions Code.

Reference: Sections 19461, 19593 and 19604.5,
Business and Professions Code.

CALIFORNIA HORSE RACING BOARD
TITLE 4. CALIFORNIA CODE OF REGULATIONS
ARTICLE 27. EXCHANGE WAGERING
PROPOSED ADDITION OF
RULE 2093. CERTAIN PRACTICES RELATED TO EXCHANGE WAGERING

Regular Board Meeting
November 15, 2012

2093. Certain Practices Related to Exchange Wagering.

(a) The exchange provider shall provide an account holder with information on the race, including the track where the race will take place and the names of the participating horses before the account holder may place an exchange wager.

(b) The exchange provider shall require the account holder making the exchange wager to select the specific race and horse for the wager. The exchange provider may not offer automatic, quick-pick, or similar features to aid in the placing of an exchange wager.

(c) The exchange provider shall not display the results of an exchange wager through the use of video or mechanical reels or other slot machine or casino game themes, including, but not limited to, dice games, wheel games, card games, and lotto.

Authority: Sections 19420, 19440, 19590 and 19604.5, Business and Professions Code.

Reference: Sections 19593 and 19604.5(e)(3), Business and Professions Code.

STAFF ANALYSIS
November 15, 2012

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING BY BETFIAR US LLC; FOR A PERIOD OF UP TO TWO YEARS.

Senate Bill (SB) 1072, (Calderon), Chapter 283 Statutes of 2010 added Business and Professions Code section 19604.5 which authorizes exchange wagering in California. At the March 22, 2012, Regular Meeting, the Board approved for notice Article 27, Exchange Wagering, which is comprised of 25 proposed regulations. The proposed regulations including the Application for License to Operate Exchange Wagering are pending adoption by the Board and approval by the Office of Administrative Law (OAL). In anticipation of the completion of the rulemaking process to allow exchange wagering in California, applications have been accepted from interested parties. The exchange wagering applications were placed on the June 28, 2012, meeting agenda. However, the Board did not hear the applications in June after it decided to refer the proposed exchange wagering rules back to the ad hoc committee for review of suggested changes.

Betfair (Betfair) US LLC filed an application for a license to operate exchange wagering at the Los Alamitos and Cal Expo Race Course. The applicant proposes to operate 24 hours a day, 7 days a week. Betfair has applied for a two-year license effective March 1, 2013 through February 28, 2015. Proposed Rule 2086.5, Application for License to Operate Exchange Wagering, allows for a two-year license term.

Betfair operates TVG, which is an advance deposit wagering (ADW) provider licensed with the Board through December 31, 2012. The proposed application from Betfair identifies its financial interest in ODS Technologies, L.P. d/b/a TVG Network. There is a Betfair exchange wagering operation in the United Kingdom. However, the applicant does not state that it has any ties to the Betfair exchange wagering operations in the United Kingdom. The applicant provides "*Betfair US LLC does not currently offer exchange wagering to patrons in any jurisdiction inside or outside of the United States.*"

Business and Professions Code section 19604.5 (b)(1) provides exchange wagering shall only be conducted by an exchange wagering licensee pursuant to a valid exchange wagering license issued by the Board. Business and Professions Code section 19604.5 (e)(6), provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering. Proposed Rule 2086.5, Application for License to Operate Exchange Wagering, stipulates a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6).

Business and Professions Code section 19604.5 states specific provisions must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Summary of B&P code 19604.5 (b)(6)

An exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

19604.5 (f)(1)

The Board shall not approve an application for an original or renewal license as an exchange wagering licensee unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

19604.5 (k)

Provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

The Betfair application identified the following breed of races on which it proposes to offer exchange wagering:

- Quarter horse wagers from persons whose primary residence address is in California.
- Standardbred horse wagers from persons whose primary residence address is in California.
- Betfair proposes to accept wagers after the start of the race for quarter horse and standardbred wagers. However the quarter horse agreement provided does not address the issue. The standardbred agreement does address wagers after the start of the race.

Documents received in compliance with Business and Professions Code section 19604.5:

- Betfair US LLC/ODS Technologies, L.P. d/b/a TVG Network agreement between Los Alamitos Quarter Horse Racing Association and Pacific Coast Quarter Horse Racing Association.
- Betfair US LLC/ODS Technologies, L.P. d/b/a TVG Network agreement between Watch and Wager.com LLC and California Harness Racing Association.
- TVG agreement with Local 280 labor organization.

The following **items are outstanding** and will need to be submitted and/or resolved before exchange wagering can be accepted:

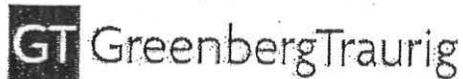
1. License fee.
2. Contract and/or agreements required pursuant to Business and Professions Code section 19604.5 that allows Betfair to accept quarter horse wagers after the start of the race.
3. CHRB License: Stephen Burn, Tom Large and Mark Tompkins.

Gene Livingston, of Greenberg Traurig, LLP, a law firm representing TwinSpires a subsidiary of Churchill Downs, submitted a letter dated June 14, 2012, questioning why the exchange wagering application process has been initiated without the final exchange wagering regulations in place. Mr. Livingston's letter provides that in Churchill's judgment, the preferable approach would be to get the regulation in place before accepting applications.

Edward Allred, Los Alamitos Quarter Horse Racing Association (LAQHRA), Dominic Alessio, Pacific Coast Quarter Horse Racing Association (PCQHRA), submitted letters dated June 12, 2012, in support of Betfair's application to conduct exchange wagering on live races at LAQHRA. David Elliott, California Exposition and State Fair, submitted a letter dated June 17, 2012, in support of the Betfair application to conduct exchange wagering on live races from Los Alamitos Race Course. Jack Liebau of Hollywood Park submitted a letter dated June 19, 2012 in support of the application of Betfair US to conduct exchange wagering on Los Alamitos' live racing.

RECOMMENDATION:

If the application is considered for approval, staff recommends an approval contingent upon the adoption of the exchange wagering regulations, successful completion of the regulatory review process by the Office of Administrative Law and resolution of noted outstanding items.



GENE LIVINGSTON
livingston@gflaw.com
(916) 442-1111

June 14, 2012

Mr. Kirk Breed
Executive Director
California Horse Racing Board
1010 Hurley Way, Suite 300
Sacramento, CA 95825

Re: Proposed Exchange Wagering Regulations

Dear Kirk:

Thank you for talking with me about the Board's exchange wagering regulations and activities. As you know, I represent Twin Spires, a subsidiary of Churchill Downs. Twin Spires submitted an application to be licensed as an exchange wagering vendor and intends to complete the licensing process in the appropriate time frame as the process is clarified. Accordingly, it has a significant interest in the Board's implementation of SB 1072.

Twin Spires has asked me to assist it in preparing written comments to the proposed regulation. Our goal is to help the Board develop regulatory standards that are consistent with SB 1072, clear, and workable. We have already identified a number of changes that will strengthen the implementation of exchange wagering. We anticipate that the Board will want to make several changes to the regulations in response to the comments that will be submitted by Churchill Downs/Twin Spires and others.

We recognize that the Board has just begun the rulemaking process, that the 45-day comment period has not yet run, that the Board will most likely authorize changes to the regulation, necessitating at least one 15-day notice, that you and your staff will have to prepare a Final Statement of Reasons and other documents to satisfy the Administrative Procedures Act before submitting the rulemaking record to the Office of Administrative Law, and that OAL has 30 working days to review the adopted regulation and rulemaking record. Accordingly, the regulation will not likely be final for at least two or three months, at the earliest. Because of what remains to be done before the regulation is in effect, we ask why has the Board started the application process? To use a standard-bred analogy, it seems to be placing the cart before the horse.

In our judgment, the preferable approach would be to get the regulation in place before accepting applications. The regulation could change in a way that would affect the

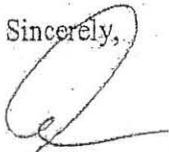
Mr. Kirk Breed
June 14, 2012
Page 2

application process. The final regulation could also affect who might apply for a license or what entities might choose to enter into an exchange wagering agreement. It would remove the uncertainty that exists today about the actual standards that will be in place to implement exchange wagering. Also, it definitively addresses the legal question of whether an application submitted or license issued in advance of regulations being in place is valid. As of now, we do not think the process is valid.

We understand that, at one time, you anticipated a vendor wanting to begin exchange wagering by July 19th. We also understand that the prerequisite agreements for a license to be effective by that date are no longer likely. Accordingly, we would urge the Board to hold off on soliciting or accepting license applications until after OAL has approved the exchange wagering regulations and the regulations are in effect.

Thank you for considering our request. If you have any questions about this letter, please feel free to let me know.

Sincerely,



GENE LIVINGSTON

SAC 442,207,056v1 6-14-12

June 12, 2012



Mr. Kirk Breed
 Executive Director
 California Horse Racing Board
 1010 Hurley Way, Suite 300
 Sacramento, CA 95825

Dear Mr. Breed,

I write on behalf of Los Alamitos Race Course in strong support of the application of Betfair US to conduct exchange wagering on our live races. We believe that the approval of the Betfair US exchange wagering application is in the best interest of California racing in general, Los Alamitos and our horsemen for many reasons including the following:

- With its groundbreaking exchange wagering technology, Betfair has proven around the world that it has the ability to attract millions of new fans to horseracing, especially younger, technology-savvy customers and traders in financial markets that are not currently attracted to our pari-mutuel product;
- Betfair provides a transparent system with a full audit trail that assists regulators such as the CHRB, racing associations and horsemen in rooting-out corruption in our game with real-time monitoring and forensic analysis of betting patterns;
- Betfair has agreed to guarantee an amount equal to 10% of our non-stakes purses – over \$1 million – in initial funding from exchange wagering regardless of business volume, all of which will support our purse program in this otherwise difficult operating environment; and
- This is a unique opportunity for the state of California, the CHRB, Los Alamitos and our horsemen to capitalize on the opportunity to lead the way to the future for the US racing industry by introducing exchange wagering here for the first time.

Two years ago, the Legislature provided the racing industry with an opportunity to help itself through technology and innovation. By approving the Betfair US application to conduct exchange wagering on Los Alamitos' races, the CHRB will allow us to put that technology and innovation to work. Thank you for your time and attention.

Sincerely,

Edward C. Allred
 Owner



Pacific Coast Quarter Horse Racing Association

June 12, 2012

Mr. Kirk Breed
 Executive Director
 California Horse Racing Board
 1010 Hurley Way, Suite 300
 Sacramento, CA 95825

Dear Mr. Breed,

I write on behalf of Los Alamitos in strong support of the application of Betfair US to conduct exchange wagering on our live races. We believe that the approval of the Betfair US exchange wagering application is in the best interest of California racing in general, Los Alamitos and our horsemen for many reasons including the following:

- With its groundbreaking exchange wagering technology, Betfair has proven around the world that it has the ability to attract millions of new fans to horseracing, especially younger, technology-savvy customers and traders in financial markets that are not currently attracted to our pari-mutuel product;
- Betfair provides a transparent system with a full audit trail that assists regulators such as the CHRB, racing associations and horsemen in rooting-out corruption in our game with real-time monitoring and forensic analysis of betting patterns;
- Betfair has agreed to guarantee an amount equal to 10% of our non-stakes purses – over \$1 million – in initial funding from exchange wagering regardless of business volume, all of which will support our purse program in this otherwise difficult operating environment; and
- This is a unique opportunity for the state of California, the CHRB, Los Alamitos and our horsemen to capitalize on the opportunity to lead the way to the future for the US racing industry by introducing exchange wagering here for the first time.

Two years ago, the Legislature provided the racing industry with an opportunity to help itself through technology and innovation. By approving the Betfair US application to conduct exchange wagering on Los Alamitos' races, the CHRB will allow us to put that technology and innovation to work. Thank you for your time and attention.

Sincerely,

Dominic Alessio
 President



June 17, 2012

Mr. Kirk Breed
Executive Director
California Horse Racing Board
1010 Hurley Way, Suite 300
Sacramento, CA 95825

Dear Mr. Breed,

On behalf of the California Exposition & State Fair, we respectfully forward our support for the application of Betfair USA to conduct exchange wagering on live races from Los Alamitos Race Course.

As an association, we look forward to be able to draw upon the Betfair/Los Alamitos exchange wagering experience in evaluating future business relationships with Betfair.

Respectfully,
CALIFORNIA EXPOSITION & STATE FAIR

David Elliott,
Assistant General Manager, Racing Events

cc: John Hindman, Betfair



June 19, 2012

Mr. Kirk Breed
Executive Director
California Horse Racing Board
1010 Hurley Way, Suite 300
Sacramento, CA 95825

Dear Mr. Breed:

I write on behalf of Hollywood Park Racing Association in support of the application of Betfair US to conduct exchange wagering on Los Alamitos' live races, which we believe is in the best interest of California racing.

Betfair's exchange wagering has been proven in other parts of the world to energize the horseracing industry with over 4 million customers that are younger and more technologically savvy than the average racing customer in California today and include new categories of customers such as traders in financial markets. For example, the average Betfair racing customer is 18 years younger than the average customer of TVG, our leading online advance deposit wagering provider here in California. We need to move forward and embrace new technologies such as exchange wagering to breathe new life into our customer base.

We see three additional benefits to the Betfair/Los Alamitos exchange wagering application. First, the Betfair exchange wagering system will provide the CHRB, the racing associations and horsemen with a full audit trail for all wagers in real time for the first time, which can be a tool in improving the integrity of the sport and rooting out corruption. Second, our understanding is that Betfair and Dr. Allred of Los Alamitos have designed a financial arrangement that will provide an immediate boost for non-stakes purses available to horsemen at Los Alamitos, which is vitally important in California. Finally, all of the other stakeholders in California can draw on the experiences of Betfair, Los Alamitos and its horsemen in evaluating the efficacy of California exchange wagering moving forward.

Thank you for your time and attention.

Sincerely,

Hollywood Park Racing Association

F. Jack Liebau
President

cc: John Hindman, Betfair US

STATE OF CALIFORNIA
CALIFORNIA HORSE RACING BOARD (CHRB)
APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING
CHRB-229 (New 5/12)

Application is hereby made to the California Horse Racing Board (CHRB) for approval to conduct exchange wagering in accordance with the California Business and Professions Code section 19604.5, Chapter 4, Division 8, California Code of Regulations, Title 4, Division 4, CHRB Rules and Regulations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct exchange wagering.

The applicant must supply complete responses. The information is to be provided as of the date of this application unless otherwise specified. The applicant may refer to an exhibit/attachment in response to a question; however, you must specify the page number and line in which the text is responsive.

NOTICE – By submitting the application the applicant consents to the jurisdiction of California courts and the application of California law as to all California wagers and operations.

No application for a license to operate exchange wagering shall be granted unless the applicant has deposited with the Board a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5 (e)(6), which provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

CHRB CERTIFICATION

Application received: 9/28/12

Cashier check received:

Reviewed: *[Signature]*

Hearing date 11/15/12

Approved date:

License number:

1. APPLICANT INFORMATIONCompany name: Betfair US LLCFacility address: 6701 Center Drive West, Suite 800City: Los AngelesState: CAZip Code: 90045Phone: (310) 242-9520Fax: (310) 242-9501Website: www.us.betfair.comCounty: Los Angeles

2. CONTACT PERSON (authorized representative)

Name and title of contact: John Hindman

Business name and address: Betfair US LLC, 6701 Center Drive West, Suite 800

City: Los Angeles

State: CA

Zip Code: 90045

Phone: (310) 242-9520

Fax: (310) 242-9501

County: Los Angeles

Email address: jhindman@tvig.com

3. CALIFORNIA AGENT FOR RECEIPT OF SERVICE OF PROCESS

Name and title of contact: John Hindman

Business name and address: Betfair US LLC, 6701 Center Drive West, Suite 800

City: Los Angeles

State: CA

Zip Code: 90045

Phone: (310) 242-9520

Fax: (310) 242-9501

County: Los Angeles

Email address: jhindman@tvig.com

4. MANAGEMENT PERSONNEL

NOTICE TO APPLICANT: All management personnel responsible for the California operations must be CHRB licensed. Business and Professions Code section 19604.5 (e) (5) provides the Board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

List name, title, email address, phone and license number for all management personnel directly involved in management of exchange wagering. Identify which management staff is responsible for California operations:

Name and title	Email address	Phone	License No.	Responsible for California Operations
Stephen Burn, CEO	stephen.burn@betfair.com	(310) 242-9520	License pending	X Yes <input type="checkbox"/> No
Tom Large, Director, US Exchange	tom.large@betfair.com	(310) 242-9488	License pending	X Yes <input type="checkbox"/> No
BJ Cosson, VP of Wager Ops and Customer Relations	bjcosson@tvig.com	(503) 748-3839	# 20730	X Yes <input type="checkbox"/> No
Mark Tompkins, VP Engineering	mark.tompkins@betfair.com	(415) 516-7836	License pending	X Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No

5. DATE OF OPERATION

NOTICE TO APPLICANT: CHRB Rule 2086.5 provides the term of the exchange wagering license shall not be more than two years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

A. Dates applicant is proposing to conduct exchange wagering:

Beginning date: 03/01/2013Ending date: 02/28/2015B. Dates exchange wagering will not be conducted: N/AC. Indicate the days and hours exchange wagering will be conducted below:

<u>Days:</u> All 7 days per week	<u>Hours:</u> 24 hours/day
<u>Sunday</u>	24 hours/day
<u>Monday</u>	24 hours/day
<u>Tuesday</u>	24 hours/day
<u>Wednesday</u>	24 hours/day
<u>Thursday</u>	24 hours/day
<u>Friday</u>	24 hours/day
<u>Saturday</u>	24 hours/day

6. BUSINESS STRUCTUREA. Identify your business structure (below):

- Corporation (complete subsection B and E)
 LLC (complete subsection C and E)
 Other (Specify and complete subsection D and E)

B. CORPORATION

- Registered name of the corporation:
- State and/or country where incorporated:
- Registry or file number for the corporation:
- Names of all officers and directors, titles, and the number of shares of the corporation held by each:
- Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
- Number of outstanding shares in the corporation:
- Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
- Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:

9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
- A. Is parent and/or paired corporation or entity a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E.
- If yes, answer questions 10-17. Yes No
10. Registered name of the corporation:
11. State and/or country where incorporated:
12. Registry or file number for the corporation:
13. Names of all officers and directors, titles, and the number of shares of the corporation held by each:
14. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each:
15. Number of outstanding shares in the corporation:
16. Are the shares listed for public trading? Yes No
17. If yes, on what exchange and how is the stock listed:
18. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation:
19. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

C. LLC

1. Registered name of the LLC: Betfair US LLC
2. State and/or country where articles of organization are filed: Delaware, USA
3. Registry or file number for the LLC: File Number 4927807
4. Attach a list of the names of all members (including individuals (true names), corporations, other LLCs and or foreign entities), titles, and the number of shares of the LLC held by each:

ODS Holding LLC is the sole member and owns 100% of the ownership units of Betfair US LLC

5. Are the shares listed for public trading? Yes No
If yes; on what exchange and how is the stock listed:

6. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:

ODS Holding LLC is the sole member and owns 100% of the ownership units of Betfair US LLC

A. Is parent and/or paired entity either a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E. If yes, answer questions 7-13

Yes No

7. Registered name of the LLC/Corporation:
8. State and/or country where articles of organization are filed:
9. Registry or file number for the LLC:
10. Attach a list of the names (true names) of all members (members may include individuals, corporations other LLCs and foreign entities), titles, and the number of shares of the LLC held by each:
11. Are the shares listed for public trading? Yes No
12. If yes, on what exchange and how the stock is listed:
13. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. OTHER

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

E. FINANCIAL INFORMATION *

1. Attach the most recent audited annual financial statement or financial report for the applicant. Attach a separate audited annual financial statement for the applicants California operations. The financial statement or financial report shall include all relevant financial information specific to the applicant including:

ODS Holding LLC is the sole member and owns 100% of the ownership units of Betfair US LLC. Betfair US LLC financials are consolidated within Betfair Group PLC financials for public and shareholder reporting purposes. To that extent, please find attached Appendices 1 and 2 that detail the Betfair Group annual reports for the 2010 and 2011 financial years respectively.

- Statement of Financial Position: also referred to as a balance sheet. Statement should report on applicant's assets, liabilities, contingent liabilities and ownership equity as of the date of the prepared statement.

Betfair Group Balance Sheets for 2010 and 2011 can be found on pages 9 and 60 within Appendices 1 and 2 respectively.

- Statement of Comprehensive Income: also referred to as Profit and Loss ("P&L") Statement. Statement should include report on applicant's income, expenses, and profits.

Betfair Group Profit and Loss statements for 2010 and 2011 can be found on pages 8 and 58 within Appendices 1 and 2 respectively.

- Profit and Loss statement for prior two years and Profit and Loss statement for projected year.

Betfair Group Profit and Loss statements for 2010 and 2011 can be found on pages 8 and 58 within Appendices 1 and 2 respectively. Betfair US LLC projected Profit and Loss for year one of operation in California can be found on page 1 of Appendix 10.

- Statement of Changes in Equity: to include the changes of the applicants' equity through the reporting period.

Betfair Group Changes in Equity for 2010 can be found within the consolidated Balance Sheets on pages 9 of Appendix 1. The Statement of Changes in Equity for 2011 can be found on page 61 of Appendix 2.

- Statement of Cash Flows: to include a report of the applicant's cash flow activity, particularly its operating investing and financing activities during the reporting period.

Betfair Group Cash Flow statements for 2010 and 2011 can be found on pages 10 and 61 within Appendices 1 and 2 respectively.

- Copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.

Appendix 2 details the Betfair Group PLC 2011 annual report. This report was made available to all shareholders in July 2011.

2. Provide certification from the Chief Financial Officer that the account holders' funds will not be commingled with any other funds pursuant to CHRB rule 2086.6.

Appendix 3 contains a letter from TVG-Betfair VP, Finance certifying that account holder' funds will not be commingled with company or any other funds. The relevant information is displayed on page 1 of the appendix.

*NOTICE TO APPLICANT: The financial information provided pursuant to subsection (E) above is exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

7. ORGANIZATIONAL INFORMATION

- A. Provide a detailed organizational chart for the applicant company and parent company if applicable.

Appendix 4 contains the Betfair US LLC organizational chart. The relevant information is displayed on page 1 of the attachment.

- B. List all jurisdictions inside and outside of the United States in which you offer exchange wagering to patrons.

Betfair US LLC does not currently offer exchange wagering to patrons in any jurisdiction inside or outside of the United States.

- C. Does the applicant or parent company hold a financial interest in the following (*mark all that apply*):

Race track

Casino

Advance deposit wagering

If you have indicated you have an interest in any of the above identify name and address of business interest.

ODS Technologies, L.P. d/b/a TVG Network
6701 Center Drive West, Suite 800
Los Angeles, CA 90045

D. What contributions is the applicant making to the California horse racing industry?

Betfair US operations will begin with the California exchange wagering operation being applied for in this application. To establish the operation, Betfair US has invested over \$10 million to design, construct and house an exchange wagering system in Sacramento, California. We have added over 80 employees in our Los Angeles headquarters and our San Francisco technology center. Additionally, our sister company TVG is the largest ADW company in California, contributes over \$40 million a year to California racetracks and horsemen, is the largest sponsor of racing and tracks in California and televises California racing on a daily basis into over 36 million television households nationwide. Finally, we have entered into a 5 year agreement for naming rights, infrastructure investment, advertising, sponsorship and marketing with Hollywood Park Racing Association –the first of its kind in the US.

E. Has there been any action initiated against the applicant its parent, any of its directors, partners, officers or subsidiary corporation this year, or in the last year, by any court or regulatory agency? If so, please identify the issue.

No

8. TRACK AGREEMENT AND HORSEMEN ORGANIZATION APPROVAL

EXCHANGE WAGERING LICENSING REQUIREMENTS

Business and Professions Code section 19604.5, identifies specific provisions that must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Business and Professions Code section 19604 (b)(4) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with the racing association/fair located in the northern zone authorized by the Board when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(5) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone authorized by the Board, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604 (b)(6) provides an exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the Board to conduct a live quarter horse racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

Business and Professions Code section 19604 (b)(7) provides an exchange wagering licensee may only offer exchange wagering on standardbred horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

Business and Professions Code section 19604 (k) provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

Identify the breed of races (8A through 8E) on which exchange wagering will be offered. Attach a copy of each agreement permitting these wagers.

(*) If you do not have the required agreements permitting you to accept wagers in compliance with Business and Professions Code section 19604.5, you must attach a letter addressing the status of the outstanding document(s). Please reference section 8 and the title of the outstanding agreement you are addressing. The letter must include the status of negotiations and the outstanding issues that need to be resolved and an estimated completion date for each outstanding agreement.

If the information required in response to 8A through 8E is in one agreement provide a single copy of the document.

- A. Thoroughbred wagers from persons whose primary residence address is in the northern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy:
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the northern zone? Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- B. Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.
1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the central/southern zone? Yes No
 - a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy:
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the central/southern zone?
 Yes No
 - a. If yes, provide a copy of the agreement.
 - b. If no, see above instructions (*).
- C. Quarter wagers from persons whose primary residence address is in California.
1. Do you have an agreement with a racing association or fair that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, identify which quarter association or fair the agreement is with and provide a copy:

 Los Alamitos Race Course. A copy of the agreement is provided in Appendix 12.
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept quarter horse wagers in California? Yes No
 - a. If yes, provide a copy of the agreement.

 A copy of the agreement is provided in Appendix 12.
 - b. If no, see above instructions (*).

- D. Standardbred wagers from persons whose primary residence address is in California.
1. Do you have a contract and/or agreement with a racing association, fair that allows you to accept standardbred wagers in California? Yes No
 - a. If yes, identify which standardbred association/fair the agreement is with and provide a copy:
 Cal Expo. A copy of the agreement is provided in Appendix 13.
 - b. If no, see above instructions (*).
 2. Do you have an agreement with the horsemen's organization that allows you to accept standardbred horse wagers in California? Yes No
 - a. If yes, provide a copy of the agreement.
 A copy of the agreement is provided in Appendix 13.
 - b. If no, see above instructions (*).
- E. Wagers will be accepted after the start of the race.
1. Do you have an agreement that allows you to accept wagers after the start of the race with a racing association or fair that conducts the races? Yes No
 - a. If yes, identify which association/fair the agreement is with and provide a copy:
 Los Alamitos Race Course. A copy of the agreement is provided in Appendix 12.
 Cal Expo. A copy of the agreement is provided in Appendix 13.
 - b. If no, see above instructions (*).
 2. Do you have a contract and/or agreement with the horsemen's organization that allows you to accept wagers after the start of the race? Yes No
 - a. If yes, provide a copy of the agreement.
 Copies of the agreements are provided in Appendices 12 & 13.
 - b. If no, see above instructions (*).

9. LABOR ORGANIZATION

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (f) (1) provides the Board shall not approve an application for an original or renewal license as an exchange wagering provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

A. Do you have a labor agreement for the applied term of the application? Yes No

1. If yes, answer questions B – D.

2. If no, answer question E.

B. If yes, what is the name of the bona fide labor organization?

PMGE Local 280

C. What is the term of the agreement? (Begin date): (End date):

Begins with issuance of exchange wagering license by CHRB. No set end date.

D. Provide a copy of the labor agreement.

Appendix 5 contains a copy of the agreement.

E. If no, have you been in contact with a labor organization? Yes No

1. If yes, what was the date of contact?

2. Include a letter with your application titled (Labor Status) addressing the status of the current labor negotiations. Include, date of last negotiation contact, remaining issues that need to be resolved and an estimated completion date.

10. ESTABLISHING EXCHANGE WAGERING ACCOUNTS

NOTICE TO APPLICANT: CHRB Rule 2089.5 provides that specific provisions must be met to establish an exchange wagering account. Business and Professions Code section 19604.5 (c) provides in part only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

A. Provide a detailed listing of the procedures to be used for establishing an account (must comply with rule 2089.5):

1. Customers must be at least 21 years of age to establish an exchange wagering account.

2. Customers can establish an account on the Internet at www.us.betfair.com, by providing the following information:

- Name
- Social Security Number
- Date of Birth
- Principal Residence Address Including Postal ZIP Code
- Telephone Number

3. Each application submitted to Betfair is subject to electronic verification by a nationally recognized third party information services provider with respect to name, principal residence address including postal zip code, date of birth and Social Security Number. If there is a discrepancy between the application information submitted to Betfair and the information provided by the electronic verification described above, or if no information on the applicant is available from such electronic verification, the applicant will be required to provide identification issued by a recognized government agency (driver's license or government ID) showing his or her date of birth and residence address to complete the application process.
 4. Each applicant is asked to establish a unique Betfair username and alpha-numeric password.
- B. Provide a copy of the form and terms of agreement used to establish an account for an account holder.

A copy of the application form available on www.us.betfair.com is provided as Appendix 6 to this document. A copy of the account holder terms and wagering rules are provided in Appendices 7 and 8 respectively.

- C. Name and address of the third party you will use to verify identity, residence and age verification:

Equifax Credit Information Services
P.O. Box 4472
Atlanta, GA 30302

11. LOCATION AND PHYSICAL PLANT

- A. Do you have a call center to accept verbal wagers? Yes No
If so, what is the name, address and phone number of the location?

- B. What is the website address available for patrons to place wagers:

www.us.betfair.com

- C. Do you have a location in which patrons can place a wager in person: Yes No
If so, what is the name, address and phone number of the location?

12. OPERATION OF EXCHANGE WAGERING ACCOUNTS

- A. Submit a copy of your detailed operating plan pursuant to CHRB Rule 2086.6. Plan must include all items outlined in CHRB Rule 2086.6 including:
1. a detailed report of the daily operation of the exchange

2. a description of policy to prevent commingling of account holders' funds with any other funds.
3. management policy of customer accounts including deposit, withdrawals, debits and credits.

A copy of the detailed operating plan is provided as Appendix 9 to this document.

B. List the type of deposits you will accept:

Deposits will be accepted in the form of:

1. Check, money order or negotiable order of withdrawal;
2. Cash (at designated financial/retail outlets);
3. Charges made to an account holder's credit card or debit card upon the direct and personal instruction of the account holder, which may be given by telephone or other secure electronic means;
4. Transfer by means of an electronic funds or ACH (Automated Clearing House) transfer from a monetary account controlled by an account holder to his/her account; said account holder may be liable for any charges imposed by the transmitting or receiving entity with such charges to be deducted from the account;
5. Stored value cards; and
6. Wire transfers.

C. Identify any fees or transaction-related charges and the amount that will be assessed:

1. Commission on net winnings – a commission equal to ten per cent (10%) of net market winnings (i.e. any profits arising from the aggregate position of all wagers placed and subsequently matched on a single wagering proposition) will be collected by Betfair at the point of market settlement from all winning account holders in that market.
2. Deposit fees – Betfair intends to charge a service fee for deposits made via specific methods (e.g. credit and debit cards). Any deposit fees of this nature will be made visible to the account holder prior to the deposit being processed. Initially, it is likely that any deposit fees will be waived for a promotional period.
3. Dormant account fees – after a period of at least six months' inactivity, \$1.75 will be debited from the 'dormant' account each month until the account balance reaches \$0 or the account becomes reactivated (i.e. wagering activity occurs on the account).

13. SECURITY POLICY

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for persons establishing exchange wagering accounts, location and age verification confirmation for persons establishing exchange wagering accounts, the use of identifying factors to ensure security of individual accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

- A. Attach your security access policy and safeguards pursuant to Business and Professions Code section 19604.5 (d). Policy must include the following:

A copy of Betfair US LLC's security policy is provided in Appendix 11.

1. Description of the technology to ensure identity, residence, and age verification when an account is established:

The relevant information is displayed on page 1 (section 1.1) of Appendix 11.

2. Description of the technology to ensure confidentiality of the means of personal identification:

The relevant information is displayed on page 1 (section 1.2) of Appendix 11.

3. Methods available for account holders to withdraw funds from their account:

An account holder may authorize by mail (with a valid withdrawal slip), by telephone, by other secure electronic means (with presentation of appropriate account number and means of personal identification), or in person at designated retail outlets (with presentation of appropriate identification and account information) a withdrawal from his/her account. Established procedures and security measures (including appropriate electronic apparatus) will be utilized to identify the account holder and all telephonic conversations will be recorded. Withdrawals will be processed, according to customer preference, by check or via ACH transfer direct to the customer's authorized bank account.

- B. Attach a copy of your information security incident management policy.

1. Have you had any computer related security issues this year, or in the last year, with data, data storage or hardware? Yes No
2. If yes, please identify the issue.

- C. Provide the name, address, phone number and hours of operation of the location in which the physical and electronic data will be stored:

Herakles Data Center

1100 North Market Blvd
 Sacramento CA 95834
 +1 916-679-2170
 Operating Hours: 365/24/7

14. ENFORCEMENT OVERSIGHT

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity. CHRB Rule 2091.5 (b) states the exchange provider shall immediately notify the Board if it suspends an account due to probable fraud in connection with exchange wagering. The provider shall also submit to the Board a written account of the suspension.

A copy of Betfair US LLC's enforcement oversight policy and other relevant information is provided in Appendix 11.

- A. Identify the physical location of the applicant's security oversight operation.

The relevant information is displayed on page 1 (section 2.1) of Appendix 11.

- B. Attach an organizational chart including chain of command and contact information (phone number and email address) for key members of the applicant's security oversight operation.

The relevant information is displayed on page 2 (section 2.4) of Appendix 11.

- C. Describe what forensic and analytical tools will be used for the oversight/enforcement of exchange wagering security.

The relevant information is displayed on page 2 (section 2.3) of Appendix 11.

15. CONTRACTS AND AGREEMENTS

- A. List name, address and phone number of all organizations you will contract with to facilitate exchange wagering:

<u>Company name, address and phone:</u>	<u>Describe services:</u>
Equifax Credit Information Services P.O. Box 4472 Atlanta, GA 30302 (800) 829 4577	Player identity verification
MEA Digital 1111 6th Ave, 6th Floor San Diego, California 92101 (T) 619.308.5266	General marketing services.

16. ADVERTISING

A. Name and address of the advertising agency you will use:

MEA Digital
 1111 6th Ave, 6th Floor
 San Diego, California 92101
 (T) 619.308.5266 (F) 619.238.8923

B. Describe marketing strategies planned for exchange wagering:

Betfair's exchange wagering marketing strategy includes an integrated mix of online and offline efforts directed towards both the TVG customer base and the non-traditional California audience. Additionally, database driven contact strategies will be developed to enable customer segmentation, personalization and offer versioning. Reporting and analysis will be tied to all efforts to ensure optimized results.

C. What marketing contribution is the applicant making to the California horse racing industry?

Betfair US operations will begin with the California exchange wagering operation being applied for in this application. However, our sister company TVG is the largest ADW company in California, contributes over \$40 million a year to California racetracks and horsemen, is the largest sponsor of racing and tracks in California and televises California racing on a daily basis into over 36 million television households nationwide. We have also recently entered into a 5 year agreement for naming rights, infrastructure investment, advertising, sponsorship and marketing with Hollywood Park Racing Association –the first of its kind in the US.

D. What innovative programs have been created by the applicant to help invigorate the California horse racing industry?

The core proposition of exchange wagering is Betfair's major innovation and is proven to help invigorate racing by attracting a younger audience of player that don't wager via the traditional system.

In order to sensitize this population of would-be player, Betfair has developed sophisticated player and referral programs, in addition to robust retention efforts and quality customer relation programs. In addition to incremental revenues raised directly, there is strong evidence to suggest that a number of new exchange wagering players that would otherwise have no interest in the sport of Racing, go on to become general fans of the sport, increasing revenues through direct participation, and also through incremental traditional wagering handle.

E. Will there be rebate programs offered? If so, identify the programs.

All players wagering on the exchange platform will have the opportunity to earn a monthly 'Player Pool' bonus. The bonus will be proportional to the total amount of market winnings

and losses accumulated in the previous month. Initially, the table below specifies the criteria for qualifying for the Player Pool bonus at each successive level of monthly markets wins and losses.

Monthly market wins and losses	Player Pool Percentage
\$500	1.0%
\$1,000	1.1%
\$2,500	1.2%
\$5,000	1.3%
\$10,000	1.4%
\$25,000	1.5%
\$50,000	1.6%
\$100,000	1.7%
\$250,000	1.8%
\$500,000	1.9%
\$1,000,000	2.0%

For example, if Player A wins and loses a total of \$10,500 during July, he will qualify for a Player Pool bonus of 1.4% of total wins and losses. Accordingly, a credit of \$147 ($\$10,500 \times 1.4\%$) will be applied to Player A's Betfair account at the start of August.

17. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this application.

John Hindman

Print Name

[Handwritten Signature]

Signature

General Counsel

Print Title

11/5/2012

Date

STAFF ANALYSIS
November 15, 2012

DISCUSSION AND ACTION BY THE BOARD ON THE APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING BY CHURCHILL DOWNS TECHNOLOGY INITIATIVES COMPANY, FOR A PERIOD OF UP TO TWO YEARS.

Senate Bill (SB) 1072, (Calderon), Chapter 283 Statutes of 2010 added Business and Professions Code section 19604.5 which authorizes exchange wagering in California. At the March 22, 2012, Regular Meeting, the Board approved for notice Article 27, Exchange Wagering, which is comprised of 25 proposed regulations. The proposed regulations including the Application for License to Operate Exchange Wagering are pending adoption by the Board and approval by the Office of Administrative Law (OAL). In anticipation of the completion of the rulemaking process to allow exchange wagering in California, applications have been accepted from interested parties. The exchange wagering applications were placed on the June 28, 2012, meeting agenda. However, the Board did not hear the applications in June after it decided to refer the proposed exchange wagering rules back to the ad hoc committee for review of suggested changes.

Churchill Downs Technology Initiatives Company (CDTIC) filed an application for a license to operate exchange wagering for all breeds. The applicant proposes to operate 24 hours a day, 7 days a week, dependent upon the content available and agreements with tracks. CDTIC has applied for a two-year license effective upon Board approval. Proposed Rule 2086.5, Application for License to Operate Exchange Wagering, allows for a two-year license term.

CDTIC also operates Twinspires an advance deposit wagering (ADW) provider licensed with the Board through December 31, 2012. CDTIC holds a financial interest in Arlington Park Racecourse, Churchill Downs Racetrack, Calder Casino & Racecourse, Fair Grounds Racecourse & Casino and Harlow's Casino Resort & Hotel.

Business and Professions Code section 19604.5 (b)(1) provides exchange wagering shall only be conducted by an exchange wagering licensee pursuant to a valid exchange wagering license issued by the Board. Business and Professions Code section 19604.5 (e)(6), provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering. Proposed Rule 2086.5, Application for License to Operate Exchange Wagering, stipulates a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5(e)(6).

Business and Professions Code section 19604.5 states specific provisions must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Summary of B&P code 19604.5(b)(4)

An exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with the racing association/fair located in the northern zone and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

19604.5 (b)(5)

An exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

19604.5 (b)(6)

An exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

19604.5 (b)(7)

An exchange wagering licensee may only offer exchange wagering on standardbred horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

19604.5 (f)(1)

The Board shall not approve an application for an original or renewal license as an exchange wagering licensee unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

19604.5 (k)

Provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

The CDTIC application identified the following breed of races on which it proposes to offer exchange wagering:

- Thoroughbred wagers from persons whose primary residence address is in the northern zone of California.
- Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.
- Quarter horse wagers from persons whose primary residence address is in California.
- Standardbred wagers from persons whose primary residence address is in California.
- CDTIC proposes to accept wagers after the start of the race.

The pertinent contracts and/or agreements required pursuant to Business and Professions Code section 19604.5 that would allow an exchange wagering licensee to accept wagers on races conducted in and outside of California for the applied license term have not been received.

The following **items are outstanding** and will need to be submitted and/or resolved before exchange wagering can be accepted:

1. License fee.
2. Contract and/or agreements required pursuant to Business and Professions Code section 19604.5 that allows CDTIC to accept wagers.
3. Horsemen's Agreement(s).
4. Labor Agreement.
5. CHRB License: Jeremy Clemons.
6. Phone number and hours of operation for location physical/electronic data will be stored.
7. Physical location of security oversight operation.
8. Organization chart with chain of command for security oversight operation.
9. Description of forensic and analytical tools used for oversight/enforcement security.

Gene Livingston, of Greenberg Traurig, LLP, a law firm representing TwinSpires a subsidiary of Churchill Downs, submitted a letter dated June 14, 2012, questioning why the exchange wagering application process has been initiated without the final exchange wagering regulations in place. Mr. Livingston's letter provides that in Churchill's judgment, the preferable approach would be to get the regulation in place before accepting applications.

RECOMMENDATION:

If the application is considered for approval, staff recommends an approval contingent upon the adoption of the exchange wagering regulations, successful completion of the regulatory review process by the Office of Administrative Law and resolution of noted outstanding items.



GENE LIVINGSTON
 livingstong@gtlaw.com
 (916) 442-1111

June 14, 2012

Mr. Kirk Breed
 Executive Director
 California Horse Racing Board
 1010 Hurley Way, Suite 300
 Sacramento, CA 95825

Re: Proposed Exchange Wagering Regulations

Dear Kirk:

Thank you for talking with me about the Board's exchange wagering regulations and activities. As you know, I represent Twin Spires, a subsidiary of Churchill Downs. Twin Spires submitted an application to be licensed as an exchange wagering vendor and intends to complete the licensing process in the appropriate time frame as the process is clarified. Accordingly, it has a significant interest in the Board's implementation of SB 1072.

Twin Spires has asked me to assist it in preparing written comments to the proposed regulation. Our goal is to help the Board develop regulatory standards that are consistent with SB 1072, clear, and workable. We have already identified a number of changes that will strengthen the implementation of exchange wagering. We anticipate that the Board will want to make several changes to the regulations in response to the comments that will be submitted by Churchill Downs/Twin Spires and others.

We recognize that the Board has just begun the rulemaking process, that the 45-day comment period has not yet run, that the Board will most likely authorize changes to the regulation, necessitating at least one 15-day notice, that you and your staff will have to prepare a Final Statement of Reasons and other documents to satisfy the Administrative Procedures Act before submitting the rulemaking record to the Office of Administrative Law, and that OAL has 30 working days to review the adopted regulation and rulemaking record. Accordingly, the regulation will not likely be final for at least two or three months, at the earliest. Because of what remains to be done before the regulation is in effect, we ask why has the Board started the application process? To use a standard-bred analogy, it seems to be placing the cart before the horse.

In our judgment, the preferable approach would be to get the regulation in place before accepting applications. The regulation could change in a way that would affect the

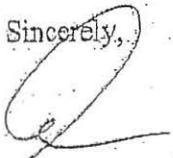
Mr. Kirk Breed
June 14, 2012
Page 2

application process. The final regulation could also affect who might apply for a license or what entities might choose to enter into an exchange wagering agreement. It would remove the uncertainty that exists today about the actual standards that will be in place to implement exchange wagering. Also, it definitively addresses the legal question of whether an application submitted or license issued in advance of regulations being in place is valid. As of now, we do not think the process is valid.

We understand that, at one time, you anticipated a vendor wanting to begin exchange wagering by July 19th. We also understand that the prerequisite agreements for a license to be effective by that date are no longer likely. Accordingly, we would urge the Board to hold off on soliciting or accepting license applications until after OAL has approved the exchange wagering regulations and the regulations are in effect.

Thank you for considering our request. If you have any questions about this letter, please feel free to let me know.

Sincerely,



GENE LIVINGSTON

STATE OF CALIFORNIA
 CALIFORNIA HORSE RACING BOARD (CHRB)
APPLICATION FOR LICENSE TO OPERATE EXCHANGE WAGERING
 CHRB-229 (New 5/12)

Application is hereby made to the California Horse Racing Board (CHRB) for approval to conduct exchange wagering in accordance with the California Business and Professions Code section 19604.5, Chapter 4, Division 8, California Code of Regulations, Title 4, Division 4; CHRB Rules and Regulations.

Application must be filed not later than 90 days in advance of the date scheduled to conduct exchange wagering.

The applicant must supply complete responses. The information is to be provided as of the date of this application unless otherwise specified. The applicant may refer to an exhibit/attachment in response to a question; however, you must specify the page number and line in which the text is responsive.

NOTICE - By submitting the application the applicant consents to the jurisdiction of California courts and the application of California laws to all California wagers and operations.

No application for a license to operate exchange wagering shall be granted unless the applicant has deposited with the Board a certified check in the amount of \$1,400,000 payable to the California Horse Racing Board, or an amount to be determined by the Board to fulfill Business and Professions Code section 19604.5 (e)(6), which provides that the Board may recover any costs associated with the licensing or regulation of exchange wagering from the exchange wagering licensee by imposing an assessment on the exchange wagering licensee in an amount that does not exceed the reasonable costs associated with the licensing or regulation of exchange wagering. Funds received pursuant to this subdivision shall be deposited in the Horse Racing Fund, to be available upon appropriation by the Legislature for the sole purpose of regulating exchange wagering.

II. APPLICANT INFORMATION

Company name: Churchill Downs Technology Initiatives Company

Facility address: 800 W. El Camino Real, Suite 400

City: Mountain View

State: California

Zip Code: 94040

Phone: 877-774-7371

Fax: N/A

Website: twinspires.com

County: Santa Clara

CHRB CERTIFICATION

Application received: 5/29/12
 Cashier check received:
 Reviewed: ap

Hearing date 11/15/12
 Approved date:
 License number:

2. CONTACT PERSON (authorized representative)

Name and title of contact: **Brad Blackwell, Vice President**

Business name and address: **Churchill Downs Inc., 700 Central Avenue**

City: **Louisville** State: **Kentucky** Zip Code: **40208**

Phone: **502-636-4419** Fax: **502-636-4439** County: **Jefferson**

Email address: **bblackwell@kyderby.com**

3. CALIFORNIA AGENT FOR RECEIPT OF SERVICE OF PROCESS

Name and title of contact: **CT Corporation System**

Business name and address: **818 West Seventh Street**

City: **Los Angeles** State: **California** Zip Code: **90017**

Phone: **(213) 627-8252** Fax: **N/A** County: **Los Angeles**

Email address: **N/A**

4. MANAGEMENT PERSONNEL

NOTICE TO APPLICANT: All management personnel responsible for the California operations must be CHRB licensed. Business and Professions Code section 19604.5 (e) (5) provides the Board may reasonably require licensure or registration of officers or directors of any exchange wagering licensee.

List name, title, email address, phone and license number for all management personnel directly involved in management of exchange wagering. Identify which management staff is responsible for California operations:

Name and title	Email address	Phone	License No.	Responsible for California Operations
Mike Cody	Mike.cody@twinspires.com	650-429-2873	294715	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Jeremy Clemons	Jeremy.clemons@twinspires.com	650-429-2874	Requesting	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Brad Blackwell	bblackwell@kyderby.com	502-636-4419	304449	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No
				<input type="checkbox"/> Yes <input type="checkbox"/> No

5. DATE OF OPERATION

NOTICE TO APPLICANT: CHRB Rule 2086.5 provides the term of the exchange wagering license shall not be more than two years from the date the exchange wagering license is issued, unless otherwise determined by the Board.

A. Dates applicant is proposing to conduct exchange wagering:
Beginning date: **When approved by CHRB** Ending date: **2 years**

B. Dates exchange wagering will not be conducted: **Pursuant to license and agreements with tracks and horsemen.**

C. Indicate the days and hours exchange wagering will be conducted below:

<u>DAYS:</u>	<u>HOURS:</u>
<u>Sunday Yes</u>	<u>Up to 24 hours each day of the week day depending on content availability and agreements with tracks</u>
<u>Monday Yes</u>	
<u>Tuesday Yes</u>	
<u>Wednesday Yes</u>	
<u>Thursday Yes</u>	
<u>Friday Yes</u>	
<u>Saturday Yes</u>	

C. BUSINESS STRUCTURE

A. Identify your business structure (below):

- Corporation (complete subsection B and E)
- LLC (complete subsection C and E)
- Other (Specify and complete subsection D and E)

B. CORPORATION

1. Registered name of the corporation: **Churchill Downs Technology Initiatives Company**
2. State and/or country where incorporated: **Delaware, United States**
3. Registry or file number for the corporation: **4284783**

4. Names of all officers and directors, titles, and the number of shares of the corporation held by each:

Robert Evans, Director
William Carstanjen, Director
Alan Tse, Director

Mike Cody, Vice President
Jeremy Clemons, Vice President
Brad Blackwell, Vice President

No officer or director holds any shares of applicant which is a wholly-owned subsidiary of Churchill Downs Incorporated, a publicly held company traded on NASDAQ under the symbol CHDN.

5. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares

held by each: N/A

6. Number of outstanding shares in the corporation: 100
7. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
Applicant is a wholly-owned subsidiary of Churchill Downs Incorporated which is a publicly traded company on NASDAQ under the symbol CHDN.
8. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation: **Brad Blackwell**
9. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity: **Churchill Downs Incorporated owns 100% of the shares of Applicant**
 A. Is parent and/or paired corporation or entity a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E.
If yes, answer questions 10-17. Yes No
10. Registered name of the corporation: **Churchill Downs Incorporated**
11. State and/or country where incorporated: **Kentucky**
12. Registry or file number for the corporation: **0009274**
13. Names of all officers and directors, titles, and the number of shares of the corporation held by each: **See Exhibit 1**
14. Names (true names) of all persons, other than the officers and directors listed above, that hold 5% or more of the outstanding shares in the corporation and the number of shares held by each: **Except for Messrs. Duchossois and the Duchossois Group (as detailed in the Security Ownership of Certain Beneficial Owners and Management document in Exhibit 1), no other shareholder holds more than 5% of the outstanding shares in the corporation.**
15. Number of outstanding shares in the corporation: **As of April 13, 2012, 17,337,968 shares stock were outstanding.**
16. Are the shares listed for public trading? Yes No
17. If yes, on what exchange and how is the stock listed: **NASDAQ**
18. Name of the custodian of the list of shareholders and/or the transfer agent for the share holdings of the corporation: **American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219**

19. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval. See Exhibit 2

C. LLC

1. Registered name of the LLC:
2. State and/or country where articles of organization are filed:
3. Registry or file number for the LLC:
4. Attach a list of the names of all members (including individuals (true names), corporations, other LLCs and or foreign entities), titles, and the number of shares of the LLC held by each:
5. Are the shares listed for public trading? Yes No
If yes, on what exchange and how is the stock listed:
6. If more than 50% of the shares are held by a parent corporation or are paired with any other corporation or entity, give the name of the parent and/or paired corporation or entity:
A. Is parent and/or paired entity either a publically traded or privately held company that guarantees the obligation of the applicant? If no, proceed to section E. If yes, answer questions 7-13
 Yes No
7. Registered name of the LLC/Corporation:
8. State and/or country where articles of organization are filed:
9. Registry or file number for the LLC:
10. Attach a list of the names (true names) of all members (members may include individuals, corporations other LLCs and foreign entities), titles, and the number of shares of the LLC held by each:
11. Are the shares listed for public trading? Yes No
12. If yes, on what exchange and how the stock is listed:
13. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

D. OTHER

1. Name(s) of partners/sole proprietor:
2. If a partnership, attach partnership agreement.
3. Attach a business plan to include a detailed budget that shows anticipated revenue, expenditures and cash flow by month projected for the term of the approval.

E. FINANCIAL INFORMATION *

1. Attach the most recent audited annual financial statement or financial report for the applicant. Attach a separate audited annual financial statement for the applicants California operations. The financial statement or financial report shall include all relevant financial information specific to the applicant including. See Exhibit 3
 - Statement of Financial Position: also referred to as a balance sheet. Statement should report on applicant's assets, liabilities, contingent liabilities and ownership equity as of the date of the prepared statement.
 - Statement of Comprehensive Income: also referred to as Profit and Loss ("P&L") Statement. Statement should include report on applicant's income, expenses, and profits.
 - Profit and Loss statement for prior two years and Profit and Loss statement for projected year.
 - Statement of Changes in Equity: to include the changes of the applicants' equity through the reporting period.
 - Statement of Cash Flows: to include a report of the applicant's cash flow activity, particularly its operating investing and financing activities during the reporting period.
 - Copy of a report made during the preceding 12 months to shareholders in the corporation and/or the Securities and Exchange Commission and/or the California Corporations Commission.
2. Provide certification from the Chief Financial Officer that the account holders' funds will not be commingled with any other funds pursuant to CHRB rule 2086.6. See Exhibit 4

*NOTICE TO APPLICANT: The financial information provided pursuant to subsection (E) above is exempt from disclosure pursuant to Government Code section 6254(k) and non-disclosable to the public.

F. ORGANIZATIONAL INFORMATION

- A. Provide a detailed organizational chart for the applicant company and parent company if applicable. See Exhibit 5
- B. List all jurisdictions inside and outside of the United States in which you offer exchange wagering to patrons. Applicant does not currently offer exchange wagering in any jurisdiction.

C. Does the applicant or parent company hold a financial interest in the following (mark all that apply):

- Race track
- Casino
- Advance deposit wagering

If you have indicated you have an interest in any of the above identify name and address of business interest.

Arlington Park Racecourse
2200 West Euclid Avenue
Arlington Park, Illinois 60006

Churchill Downs Racetrack
700 Central Avenue
Louisville, Kentucky 40208

Calder Casino & Racecourse
21001 Northwest 27th Avenue
Miami Gardens, Florida 33056

Fair Grounds Racecourse & Casino
1751 Gentilly Blvd
New Orleans, LA 70118

Harlow's Casino Resort & Hotel
4280 Harlow's Blvd
Greenville, Mississippi 38701

D. What contributions is the applicant making to the California horse racing industry?

Applicant is a licensed ADW company that distributes all California signals on its ADW system in all states from which it accepts ADW wagers and pays the California tracks host fees. Applicant also accepts ADW wagers from California residents and contributes the majority of such profits back to California horse racing interests pursuant to its California hub agreement on file with the CHRB. Applicant is a wholly-owned subsidiary of Churchill Downs Incorporated which owns four racetracks which distribute their racing signals to California licensed ADWs and California tracks and wagering facilities. This includes the Kentucky Derby and Kentucky Oaks racing cards which represent some of the most wagered upon and celebrated racing events. Churchill Downs Incorporated entities paid California tracks \$11,373,805 in host fees in 2011 and Applicant paid California racing interests \$13,385,551 in market access fees in 2011.

E. Has there been any action initiated against the applicant its parent, any of its directors, partners, officers or subsidiary corporation this year, or in the last year, by any court or regulatory agency? If so, please identify the issue. No

8. TRACK AGREEMENT AND HORSEMEN ORGANIZATION APPROVAL

EXCHANGE WAGERING LICENSING REQUIREMENTS

Business and Professions Code section 19604.5, identifies specific provisions that must be met before an exchange wagering provider may accept thoroughbred wagers on horse races from persons whose primary residence address is in the northern and central/southern zone of California; and specific requirements for quarter and standardbred wagers accepted from a resident whose primary residence address is in California:

Business and Professions Code section 19604 (b)(4) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the northern zone of this state if it has an exchange wagering agreement with the racing association/fair located in the northern zone authorized by the Board when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the northern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604.5 (b)(5) provides an exchange wagering licensee may only offer exchange wagering on thoroughbred horse races, conducted within or outside of this state, to persons whose primary residence address is in the central/southern zone of this state if it has an exchange wagering agreement with the racing association or racing fair located in the central/southern zone authorized by the Board, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is in the central/southern zone of this state, and the horsemen's organization responsible for negotiating purse agreements for a live thoroughbred racing meeting.

Business and Professions Code section 19604 (b)(6) provides an exchange wagering licensee may only offer exchange wagering on quarter horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the Board to conduct a live quarter horse racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live quarter horse racing meeting.

Business and Professions Code section 19604 (b)(7) provides an exchange wagering licensee may only offer exchange wagering on standardbred horse races, conducted within or outside of this state, to persons whose primary residence address is in this state if it has an exchange wagering agreement with the racing association or racing fair located in the state authorized by the board to conduct a live standardbred racing meeting, when the exchange wagering licensee is offering exchange wagering to persons whose primary residence is this state, and the horsemen's organization responsible for negotiating purse agreements for the live standardbred racing meeting.

Business and Professions Code section 19604 (k) provides exchange wagers placed on a market after the start of a race shall be lawful if authorized by the Board, racing association, or racing fair conducting the races, and the horsemen's organization responsible for negotiating purse agreements for the breed on which the exchange wager is made.

Identify the breed of races (8A through 8E) on which exchange wagering will be offered. Attach a copy of each agreement permitting these wagers.

(*) If you do not have the required agreements permitting you to accept wagers in compliance with Business and Professions Code section 19604.5, you must attach a letter addressing the status of the outstanding document(s). Please reference section 8 and the title of the outstanding agreement you are addressing. The letter must include the status of negotiations and the outstanding issues that need to be resolved and an estimated completion date for each outstanding agreement. See Exhibit 6.

If the information required in response to 8A through 8E is in one agreement provide a single copy of the document.

A. Thoroughbred wagers from persons whose primary residence address is in the

northern zone of California.

1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the northern zone? Yes No

a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____

b. If no, see above instructions (*).

2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the northern zone? Yes No

a. If yes, provide a copy of the agreement.

b. If no, see above instructions (*).

B. Thoroughbred wagers from persons whose primary residence address is in the central/southern zone of California.

1. Do you have an agreement with a racing association or fair that allows you to accept thoroughbred wagers in the central/southern zone? Yes No

a. If yes, identify which thoroughbred association or fair the agreement is with and provide a copy: _____

b. If no, see above instructions (*).

2. Do you have an agreement with the horsemen's organization that allows you to accept thoroughbred wagers in the central/southern zone?

Yes No

a. If yes, provide a copy of the agreement.

b. If no, see above instructions (*).

C. Quarter wagers from persons whose primary residence address is in California.

1. Do you have an agreement with a racing association or fair that allows you to accept quarter horse wagers in California? Yes No

a. If yes, identify which quarter association or fair the agreement is with and provide a copy: _____

b. If no, see above instructions (*).

2. Do you have an agreement with the horsemen's organization that allows you to accept quarter horse wagers in California? Yes No

a. If yes, provide a copy of the agreement.

b. If no, see above instructions (*).

D. Standardbred wagers from persons whose primary residence address is in California.

1. Do you have a contract and/or agreement with a racing association, fair that allows you to accept standardbred wagers in California? Yes No

- a. If yes, identify which standardbred association/fair the agreement is with and provide a copy: _____
- b. If no, see above instructions (*).
2. Do you have an agreement with the horsemen's organization that allows you to accept standardbred horse wagers in California? Yes No
- a. If yes, provide a copy of the agreement.
- b. If no, see above instructions (*).
- E. Wagers will be accepted after the start of the race.
1. Do you have an agreement that allows you to accept wagers after the start of the race with a racing association or fair that conducts the races? Yes No
- a. If yes, identify which association/fair the agreement is with and provide a copy:
- b. If no, see above instructions (*).
2. Do you have a contract and/or agreement with the horsemen's organization that allows you to accept wagers after the start of the race? Yes No
- a. If yes, provide a copy of the agreement.
- b. If no, see above instructions (*).

9. LABOR ORGANIZATION

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (f) (1) provides the Board shall not approve an application for an original or renewal license as an exchange wagering provider unless the entity, if requested in writing by a bona fide labor organization no later than ninety days prior to licensing, has entered into a contractual agreement with that labor organization.

A. Do you have a labor agreement for the applied term of the application? Yes No

1. If yes, answer questions B - D.

2. If no, answer question E.

B. If yes, what is the name of the bona fide labor organization?

C. What is the term of the agreement? (Begin date): _____ (End date): _____

D. Provide a copy of the labor agreement.

E. If no, have you been in contact with a labor organization? Yes No

1. If yes, what was the date of contact? We have reached out to Mr. Richard Castro with Pari-Mutuel Employees Guild, Local 280 and on May 24, 2012 he promised to send us information and we will schedule a follow-up meeting.

2. Include a letter with your application titled (Labor Status) addressing the status of the current labor negotiations. Include, date of last negotiation contact, remaining issues that need to be resolved and an estimated completion date. See Exhibit 7

10. ESTABLISHING EXCHANGE WAGERING ACCOUNTS

NOTICE TO APPLICANT: CHRB Rule 2089.5 provides that specific provisions must be met to establish an exchange wagering account. Business and Professions Code section 19604.5 (c) provides in part only natural persons with valid exchange wagering accounts may place wagers through an exchange. To establish an exchange wagering account, a person shall be at least 18 years of age and a resident of California or of another jurisdiction within which the placement of exchange wagers would not be unlawful under United States federal law or the law of that jurisdiction.

- A. Provide a detailed listing of the procedures to be used for establishing an account (must comply with rule 2089.5); See Exhibit 8
- B. Provide a copy of the form and terms of agreement used to establish an account for an account holder. See Exhibit 9
- C. Name and address of the third party you will use to verify identity, residence and age verification: Equifax Secure, Inc., 1550 Peachtree St., NW, Atlanta, GA 30309

11. LOCATION AND PHYSICAL PLAN

- A. Do you have a call center to accept verbal wagers? Yes No
If so, what is the name, address and phone number of the location?
- B. What is the website address available for patrons to place wagers:
www.twinspires.com
- C. Do you have a location in which patrons can place a wager in person: Yes No
If so, what is the name, address and phone number of the location?

12. OPERATION OF EXCHANGE WAGERING ACCOUNTS

- A. Submit a copy of your detailed operating plan pursuant to CHRB Rule 2086.6. Plan must include all items outlined in CHRB Rule 2086.6 including: See Exhibit 10
1. a detailed report of the daily operation of the exchange
 2. a description of policy to prevent commingling of account holders' funds with any other funds.
 3. management policy of customer accounts including deposit, withdrawals, debits and credits.
- B. List the type of deposits you will accept: ACH, credit card, debit card, Green Dot Money Pack, cash at specified locations if available, check and money order.
- C. Identify any fees or transaction-related charges and the amount that will be assessed: \$5 per credit/debit card transactions to offset charges and 4.5% is charged for credit card advance transactions processed over the phone by the processor. \$25 fee for returned checks.

13. SECURITY POLICY

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity, including, but not limited to, provisions governing the acceptance of electronic applications for persons establishing exchange wagering accounts, location and age verification confirmation for persons establishing exchange wagering accounts, the use of identifying factors to ensure security of individual accounts, and the requirements for management of funds in exchange wagering accounts. An exchange wagering licensee may not accept a wager, or series of wagers, if the results of the wager or wagers would create a liability for the exchange wagering account holder that is in excess of the funds on deposit in the exchange wagering account of that holder.

- A. Attach your security access policy and safeguards pursuant to Business and Professions Code section 19604.5 (d). Policy must include the following. See Exhibit 11
1. Description of the technology to ensure identity, residence, and age verification when an account is established:
 2. Description of the technology to ensure confidentiality of the means of personal identification:
 3. Methods available for account holders to withdraw funds from their account:
- B. Attach a copy of your information security incident management policy. See Exhibit 12
1. Have you had any computer related security issues this year, or in the last year, with data, data storage or hardware? Yes No
 2. If yes, please identify the issue.
- C. Provide the name, address, phone number and hours of operation of the location in which the physical and electronic data will be will be stored:

Electronic:

Viawest_ 3935 NW Aloclek, Hillsboro, OR 97124

Savvis Datacenter, 2425 Busse Road, Elk Grove Village, IL 60007 IL

Physical:

800 Corporate Drive, Lexington, KY 40503, phone: Phone (859) 219-4629

14. ENFORCEMENT OVERSIGHT

NOTICE TO APPLICANT: Business and Professions Code section 19604.5 (d) provides in part the Board shall approve, as part of the exchange wagering licensee's application for an exchange wagering license, security policies and safeguards to ensure player protection and integrity. CHRB Rule 2091.5 (b) states the exchange provider shall immediately notify the Board if it suspends an account due to probable fraud in connection with exchange wagering. The provider shall also submit to the Board a written account of the suspension.

- A. Identify the physical location of the applicant's security oversight operation. TBD
- B. Attach an organizational chart including chain of command and contact information (phone number and email address) for key members of the applicant's security oversight operation. See Exhibit 13
- C. Describe what forensic and analytical tools will be used for the oversight/enforcement of exchange wagering security. See Exhibit 14

15. CONTRACTS AND AGREEMENTS

A. List name, address and phone number of all organizations you will contract with to facilitate exchange wagering:

Company name, address and phone	Describe services
Global Cash Access, 3525 E. Post Rd., Suite 120, Las Vegas, NV 89120	Credit and debit card processing
United Tote, 600 North Hurstbourne, Louisville, KY 40222, 502-636-4400	Tote and customer account services
Roberts Communications Network, Inc., 4175 Cameron St., Suite B-10, Las Vegas, NV 89103	Video services
Equifax Secure, Inc., 1550 Peachtree St., NW, Atlanta, GA 30309	Identity, age and residency verification.
Green Dot Corporation, 605 E. Huntington Dr., Suite 205, Monrovia, CA 91016	Customer funding services

16. ADVERTISING

A. Name and address of the advertising agency you will use: Hoffman York, 142 East Ontario, Suite 13, Chicago, IL 60611

B. Describe marketing strategies planned for exchange wagering: TwinSpires.com will support exchange wagering with a fully integrated marketing communications strategy. TwinSpires.com will develop unique marketing plans for each exchange wagering customer segments. These segments will be further defined as we learn more about the exchange wagering market, but at this point we do understand several segments to be crucial to the success of exchange wagering. A tailored plan will be developed to cultivate "market makers" which are critical to providing liquidity in the exchange ecosystem. TwinSpires.com will create a plan to communicate with two other new segments which would be new to traditional US horse racing. The first of which is a segment that is familiar with financial markets and trading. The second of which is a segment that is familiar with fixed odds sports betting. TwinSpires.com will also create a plan to educate existing pari-mutuel players about the exchange wagering product with the hope that it will drive incremental wagering.

C. What marketing contribution is the applicant making to the California horse racing industry?

TwinSpires.com's marketing strategy is to break down the typical barriers for players to wager on horse racing. TwinSpires.com's philosophy of not nickel and diming our players with fees allows for all of their bankroll to be used for

wagering which contributes to tracks, purses and the rest of the California racing industry. We don't charge a per wager or subscription fee. We provide free handicapping information from Brisnet.com including free Ultimate Past Performances, Insider Picks and detailed Brisnet Super Stats within our wagering interfaces. We also provide free access to live streaming video and race replays. In addition to this unmatched value proposition, TwinSpires.com has invested heavily in our online and mobile wagering platforms in order to make wagering on horse racing more convenient. TwinSpires.com players can wager through their mobile or tablet device virtually anywhere there is cellular service.

With respect to California racing, TwinSpires.com utilizes a vertical marketing strategy designed to capitalize on big events that motivate non-active players to wager and active players to increase their play. TwinSpires executes this strategy by heavily promoting pari-mutuel wagering events that are important to California racing to its members. TwinSpires.com offers an array of promotions designed to motivate players to wager on these events including rewards program bonuses, contests and giveaways. The results have shown that when these events and promotions occur, TwinSpires.com routinely accounts for 10% to 15% of all sources handle on the events. Two examples include TwinSpires accounting for 12.5% of all sources handle in the guaranteed \$500,000 Pick 4 on Big Cap Day at Santa Anita and 13.6% of all sources handle bet into a \$335,167 Pick 6 Carryover at Golden Gate Fields on Nov. 11, 2011.

D. What innovative programs have been created by the applicant to help invigorate the California horse racing industry?

TwinSpires.com offers all of its players, including those in California, membership in the TSC Elite player-rewards program. This program allows members to earn points for each wager made through TwinSpires.com. These rewards points can be redeemed for everything from free wagering credits to special VIP access to racing events like the Kentucky Derby. TwinSpires.com provided several California customers a boost in 2010 when TwinSpires.com merged with Youbet.com. The Youbet.com rewards program had not previously been made available to California customers. One of the first decisions TwinSpires.com made when merging with Youbet.com was to allow California customer to participate in our TSC Elite Rewards program. California customers were very happy with this player-friendly decision.

TwinSpires has partnered with tracks in California to offer several innovation promotions. For example, TwinSpires and Cal Expo combined to offer a 0% Takeout promotion to both TwinSpires members and on-track patrons. As part of the promotion, any player who hits the Late Pick 4 on Friday night, either on-track or through TwinSpires, receives a bonus equal to 17.65% of their gross winnings, up to \$500 per day. Since its debut on Nov. 27, 2010, Cal Expo and TwinSpires have paid out more than \$40,000 in bonuses to winners and the average amount bet into the Late Pick 4 from TwinSpires players has increased 284%. Average all sources handle in the Late Pick 4 has also increased 38% since the promotion was launched in the fall of 2010. TwinSpires routinely averages close to 20% of all sources handle in the Late Pick 4 pool on Friday nights.

TwinSpires has also worked with California tracks to send its local players to the

track through a program called "TwinSpires Day at the Races". . In the past three years, TwinSpires has invited its players to events at Del Mar, Hollywood Park and Santa Anita. TwinSpires will mail a postcard to selected active players within a specific radius of a racetrack to invite them to a day at the races. The player then brings the postcard to the track to redeem it for free admission, free Brisnet racing information, special gifts and a chance to win tickets for two to the Kentucky Derby, betting vouchers and other prizes. The TwinSpires Day at Del Mar attracted over 400 players to races and the TwinSpires Day at Hollywood attracted over 150. TwinSpires also hosted an invitation-only event for its very best Southern California players in Santa Anita's new Arcadia Suite on Santa Anita Derby day. All of these events were well-received by both our players and our track partners.

E. Will there be rebate programs offered? If so, identify the programs. TBD

17. CERTIFICATION

I hereby certify under penalty of perjury that I have examined this application, that all of the foregoing statements in this Application are true and correct, and that I am authorized to attest to this application.

Brad Blackwell

Print Name

Signature

VP

Print Title

Date

4/14/12

