

STATE OF CALIFORNIA

HORSE RACING BOARD

In the Matter of:)
)
Exchange Wagering Ad Hoc Committee)
_____)

SANTA ANITA PARK RACE TRACK
BALDWIN TERRACE ROOM
285 WEST HUNTINGTON DRIVE
ARCADIA, CALIFORNIA

THURSDAY, FEBRUARY 9, 2012

9:31 A.M.

Reported by:
Martha L. Nelson, CERT 00367

APPEARANCES

COMMISSIONERS

David Israel, Chairman

Richard Rosenberg, Commissioner

STAFF

Kirk Breed, Executive Director

Robert Miller, Staff Counsel

Jacqueline Wagner, Assistant Executive Director

Mike Marten

Francisco Gonzalez, CHRB

Bill Westermann, CHRB

Rad Coulter, CHRB

ALSO PRESENT

Stephen Burn, Betfair

John Hindman, Betfair

Tom Large, Betfair

Brad Blackwell, Twinpires

Scott Daruty, Santa Anita, Golden Gate and Xpressbet

Joe Harper, Del Mar Race Track

Josh Rubenstein, Del Mar Race Track

John Sadler, California Thoroughbred Trainers

Alan Balch, California Thoroughbred Trainers

APPEARANCES (CONT.)

ALSO PRESENT (CONT.)

Darrell Vienna, California Thoroughbred Horsemen's Association

Vladimir Cerin

Alexis Murphy, Global Betting Exchange

Barry Broad, Jockeys' Guild

Darrell Haire, Jockeys' Guild

Gary Stevens

Mark Thurman, CHRIMS Inc.

Jerry Jamgotchian

Jeff Platt, Horseplayers Association of North America

Lou Raffetto, Thoroughbred Owners of California

Sherwood Chillingworth

INDEX

	<u>PAGE</u>
<u>Action Items:</u>	
1. Opening remarks from Commissioner Israel.	5
2. Discussion and presentations from California racing industry representatives on exchange wagering and the proposed rules regulating exchange wagering in California.	6
ADVANCE DEPOSIT WAGERING PROVIDERS	
Betfair/TVG	6
Twinspires	67
RACING ASSOCIATIONS	
Stronach Group	82
Del Mar Thoroughbred Club	101
HORSEMEN'S ORGANIZATIONS	
California Thoroughbred Trainers	108
California Thoroughbred Horsemen's Assoc.	115
BETTING EXCHANGE PROVIDER	
Global Betting Exchange	127
OTHER PERSPECTIVES	
CHRIMS	149
Jockeys' Guild	131
Horsemen's Association of North America	153
3. Discussion and action by the committee regarding the proposed addition of Article 27, Exchange Wagering and the proposed CHRB Rules governing exchange wagering in California.	N/A
4. Discussion and presentation from CHRB enforcement and audit staff regarding enforcement plans for monitoring exchange wagering in California.	177
5. Public Comment: The committee affords an opportunity to members of the public to address the committee on items of interest that are within the committee's jurisdiction.	161
Adjournment	198
Certificate of Reporter	199

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

PROCEEDINGS BEGIN AT 9:31 A.M.

(The meeting was called to order at 9:31 A.M.)

ARCADIA, CALIFORNIA, THURSDAY, FEBRUARY 9, 2012

MEETING BEGINS AT 9:31 A.M.

EXECUTIVE DIRECTOR BREED: Ladies and Gentlemen,
please take your seats.

CHAIR ISRAEL: I'd like everybody to welcome back
Kirk Breed from --

COMMISSIONER ROSENBERG: Yeah. Here-here.

CHAIR ISRAEL: -- vacation. He looks a lot better,
doesn't he?

EXECUTIVE DIRECTOR BREED: This is the Exchange
Wagering Ad Hoc Committee meeting of the California Horse
Racing Board held on Thursday, February 9th, 2012, commencing
at 9:30 in the Baldwin Terrace Room at the Santa Anita Park
Race Trace, 285 West Huntington Drive, Arcadia.

Non-committee board members attending the committee
meeting may not participate in the public discussion, official
committee vote, or committee closed session.

The audio portion only of the California Horse Racing
Board regular meeting, well, this is -- this meeting, the Ad
Hoc Committee meeting, is available on the CHRB website.

I'd like to now turn the meeting over to the
Chairman, David Israel.

CHAIR ISRAEL: Okay. I just want to make a few brief

1 introductory remarks, and I mean brief.

2 However this turns out, when the Board finally acts
3 on this proposal, nothing we do this year will probably be as
4 controversial, scrutinized, or criticized, regardless of what
5 position we take. But today's session is a fact -- is fact
6 finding in nature, and it's going to be done respectfully and
7 in an orderly fashion. And to accomplish that, Richard and I
8 will follow the agenda. Then during public comment we'd ask
9 you to limit your remarks to three minutes each. And if
10 there's any other written material you'd like to present for
11 the Board to consider, we'd be glad to receive it.

12 With that said, the first presentation will be from
13 the advanced deposit wagering providers. Betfair, TVG, you're
14 up.

15 MR. BURN: Thank you, Commissioner Israel, and thank
16 you to the CHRB for holding the hearing. We are welcoming the
17 opportunity to have a, hopefully, interesting and potentially
18 heated and robust debate about exchange wagering.

19 MR. MILLER: Your name, please.

20 MR. BURN: My name is Stephen Burn. I'm the CEO of
21 TVG. And I head up Betfair here in the United States.

22 MR. HINDMAN: My name is John Hindman, and I am the
23 general counsel of TVG.

24 MR. BURN: One of the things that we hope will be
25 addressed at this meeting is some of the facts and the data

1 associated with this exchange wagering. There's been a lot of
2 stuff in the public domain. A lot of people make assumptions
3 about what Betfair, particularly, are proposing to do. And, of
4 course, we're proposing to do nothing much more than to work
5 the California horse -- horse racing industry, if given the
6 opportunity to do it.

7 I'd like to summarize, if I can, what Betfair and TVG
8 is. We are currently the world's largest online sports'
9 betting operators. We've got over 4 million active customers.
10 That doesn't sound a lot when you talk about Facebook, but it's
11 an awful lot of people as far as a betting company is
12 concerned. We've got over 2,000 employees worldwide. And I
13 think importantly, 350 of them are based in the U.S. And our
14 staffing here is growing, and we hope it will continue to grow.

15 Through TVG, we're the largest ADW provider in
16 California. I think we represent about 70 percent of the
17 online business. Last year we paid in excess of \$44 million
18 back to California racing. And we would like that to be bigger
19 as time goes on, obviously. But, again, we need to work with
20 the -- the racing industry in order to be able to do that.

21 For those who don't know, Betfair owns TVG. And it
22 also runs the TVG Television Network, which is currently
23 available in 36 million households in over 50 states. On busy
24 Saturdays and other days we ramp up to be in about 17 million
25 households. And we think that ultimately will be a very good

1 marketing tool, not just for the ADW betting but also for
2 betting exchanges. We broadcast about 27,000 races a year.

3 And, again, Betfair has relationships and alliances
4 with a number of organizations. And most recently we have one
5 with Facebook. We're one of only five gambling companies that
6 has an association to develop content for Facebook. And we're
7 currently working with them on a social exchange.

8 And we have comprehensive B to B capabilities,
9 which -- and a strong track record of working with people. And
10 although many people make allegations about exchange wagering
11 in California being just about Betfair, of course it isn't.
12 It's an open forum. Anyone can come in who has a product and
13 operate a betting exchange here. But if they do, we hope their
14 held to the same high -- high scrutiny and standards that we
15 think Betfair should be held to, as well.

16 We're willing and prepared to completely share our
17 technology with any competitors who are either in the ADW space
18 or who want to use a betting exchange platform to try and
19 market to a different kind of business. We'll -- we'll look to
20 do that and to cooperate with anybody that wants to cooperate
21 with us.

22 If we go on to the next slide, there's just a few
23 things here that I'd like to highlight. And then following
24 that I'll ask John, who is my colleague, to talk about issues
25 related to integrity. And after the integrity presentation

1 we'll do a little bit about the commercial proposition, which I
2 know doesn't maybe necessarily concern this Board, but we think
3 it's interesting and it's worth trying to get some information
4 out into the public as to what we would propose to do were
5 Betfair given the chance to operate here in California.

6 The data on the left I've already mentioned. I don't
7 think we need to go over that again.

8 We acquired TVG in 2009. Is the network perfect? Of
9 course it isn't. But we're trying to do is to put together an
10 alliance of tracks that want to work with us. We're setting up
11 an advisory board to invite participants from those tracks to
12 help change the editorial content of TVG. We'd like it to go
13 back to what its original roots were and get used to become
14 America's horse racing network. And we think that we can do
15 that with the cooperation of some premium track partners.

16 Specifically, as far as the exchange is concerned, we
17 spend an awful lot of money on technology, in my view too much
18 money sometimes when I look at the balance sheet, but never
19 mind. We do 7 million transactions a day. We have over 600
20 engineers. And we've got 12 years of experience running this
21 thing, so we know what we're doing. There's about 42 or 43, in
22 our estimation, betting exchanges in the world.

23 But there's a reason why Betfair has close to 90
24 percent of the market. It's because we know what we're doing
25 and we do it very well. 99.9 percent, you can see, of the bets

1 that we do are matched in less than a second. And the
2 customers funds are put in a ring-fenced account and they're
3 secured. It isn't Betfair's money. It's customers' money that
4 we hold on deposit in a trust account.

5 Important information on this slide that I'd like the
6 Board to give consideration to is the demographic, the kind of
7 customer that we attract. If we were to launch Betfair here in
8 California or, indeed, anywhere else, and all we did was take
9 the existing customer base from TVG or other ADW businesses or
10 people betting at the track, then I think it would be a failure
11 and it would be a flop. But that's not what we're proposing to
12 do. And in every jurisdiction that we've operated in we've not
13 seen it cannibalize our existing customer base.

14 The demographic of Betfair's customers is about 18
15 years younger than an average TVG customer. Thirty-six years
16 old is a typical horse racing punter on Betfair. It's in
17 excess of that, obviously, as you all know, on TVG. And I
18 think as an industry we have a problem about attracting new
19 fans. And I believe the betting exchange is a product that can
20 help do that. And we'll go fishing in different ponds to try
21 and attract a different kind of demographic and a different
22 type of customer base.

23 Now when they come and they find us and they bet with
24 us they behave in a different way than they do from the old-
25 fashioned pari-mutuel customers. This is a modern form of

1 pari-mutuel wagering -- excuse me -- that enables customers to
2 do things that they can't currently do with the ADW product.
3 And that will be an attractive proposition to folks who
4 currently don't even engage with horse racing at all.

5 Seventy-six of players who use an exchange, they do
6 things with it that they can't do with existing products. They
7 will back horses. They will lay horses. And, of course, as
8 everybody knows, it's possible now, were you to want to -- to
9 benefit from insider information and effectively to lay a horse
10 in a race, you just do it in a different way. The betting
11 exchange allows you to do it in a very simple way, but we
12 police it in a much more robust way than the ADW does. So we
13 don't think we're opening up California racing to -- by
14 providing a cheats charter. I think if anything we'll be doing
15 the opposite of that and helping to hand back some of the
16 cheats who are currently already active in not just California,
17 but elsewhere.

18 The average time that Betfair customers spend on the
19 site is about 11 minutes. That compares to 9.7 minutes with
20 Facebook, and a lot less with TVG. The only time we get people
21 spending a lot of time at TVG tends to be when they come to the
22 site and they can't work out how to register or make a deposit,
23 and they get frustrated and they leave because our interface
24 isn't very good.

25 I'd like to -- to go over, if we can, some core

1 principals that we think that exchange wagering needs to
2 deliver, not just through Betfair but through every operator
3 who wants to get involved in the U.S. market or, indeed, any
4 other market. And John is going to talk through some of them
5 on behalf of the company.

6 CHAIR ISRAEL: So before you go to John, I'd like to
7 ask -- and I'm sure Richard has some questions for you.

8 Let's start with the first slide where -- where
9 you're talking about 44 million goes directly to California.
10 Does that include race sponsorships?

11 MR. BURN: It does not, no. We --

12 CHAIR ISRAEL: No?

13 MR. BURN: -- put money in excess of race
14 sponsorships in there, as well. I think as the Board knows,
15 but others may not, we make a specific contribution, for
16 example, to Del Mar and ensure that the Pacific Classic is
17 still California's only million dollar race.

18 CHAIR ISRAEL: So --

19 MR. BURN: I don't think it would be without it.

20 CHAIR ISRAEL: So 44 million is -- is solely out of
21 takeout?

22 MR. BURN: Correct. Yes.

23 CHAIR ISRAEL: Okay. Then on -- okay. That's -- my
24 next question will be for John. So go ahead, Richard. Do you
25 have anything?

1 COMMISSIONER ROSENBERG: Yeah. I'm interested in the
2 demographics issue. You've cited some examples. Because to
3 me, that's one of the most interesting things about this, is we
4 can attract a younger audience to horse racing, those who were
5 raised in a different age than many of the people who are
6 betting today.

7 You say the average age is 18 -- it's 18 years
8 younger than the average age of -- of a punter where?

9 MR. BURN: On -- on the ADW system currently --

10 COMMISSIONER ROSENBERG: The ADW system?

11 MR. BURN: -- or the existing horse racing customer.

12 COMMISSIONER ROSENBERG: And then you came up -- you
13 came up with 36 years old is the average age.

14 MR. BURN: That's correct.

15 COMMISSIONER ROSENBERG: That's -- that's an average?
16 You add the total number of players of -- how did you compute
17 it? Because does that mean, for example, if the youngest
18 player is 21 and the oldest player is 75, you add those and you
19 just divide by the number of players; correct?

20 MR. BURN: That's a good question and one I don't
21 know the answer to. But the guy sitting behind you did the
22 data functioning, and he can answer that.

23 MR. LARGE: It's exactly that, yes. It's the -- it's
24 the sum total of everyone's age divided by the sum total of
25 players.

1 COMMISSIONER ROSENBERG: Do you have a median figure
2 available?

3 MR. LARGE: No, I don't. But it would be something
4 lower.

5 COMMISSIONER ROSENBERG: Because that would be
6 interesting.

7 MR. LARGE: A median figure would be lower than 36.

8 COMMISSIONER ROSENBERG: Well --

9 MR. MILLER: Can you introduce that --

10 MR. BURN: Yeah. That -- I beg your pardon.
11 That's -- that's Tom Large, and he's the director of the U.S.
12 exchange.

13 CHAIR ISRAEL: The -- the numbers we're talking about
14 that Richard is referring to are British players?

15 MR. BURN: No. They're global players. They're not
16 just British players.

17 COMMISSIONER ROSENBERG: What?

18 MR. BURN: They're global players. They're not --

19 CHAIR ISRAEL: Oh, well --

20 MR. BURN: They're not American players.

21 CHAIR ISRAEL: -- they're not American?

22 MR. BURN: And, obviously, we can't compare --

23 CHAIR ISRAEL: Right.

24 MR. BURN: -- exchange players in the U.S. because we
25 don't accept bets from people who are residents of the United

1 States currently.

2 CHAIR ISRAEL: But -- and -- and the average TVG
3 customer is American?

4 MR. BURN: They can only be American because we
5 don't --

6 CHAIR ISRAEL: Okay.

7 MR. BURN: -- accept bets --

8 CHAIR ISRAEL: So --

9 MR. BURN: -- from anywhere else.

10 CHAIR ISRAEL: -- what's the difference in the age of
11 the average Betfair exchange wagering player and the average
12 Betfair player who plays other wagers?

13 MR. BURN: Well, again, Betfair is a site to attract
14 a different kind of punter from people who would just
15 ordinarily go into the off-track betting shops or bet with a
16 conventional fixed-odds bookmakers. But the information is
17 pretty similar. So the -- the -- the betting industry, if you
18 like, in the U.K. and elsewhere has the same problem offline
19 about attracting customers who are, you know, engaged and
20 energized by off -- by online betting. So it's probably about
21 the same, but I haven't seen the data to be able to confirm
22 that.

23 CHAIR ISRAEL: Well, but that's the only fair
24 comparison, though, is a global player who plays conventionally
25 and a global player who plays exchange wagering, comparing it

1 to American players isn't really a valid comparison.

2 MR. BURN: Well, except we can't compare anything as
3 far as data for exchange wagering is concerned in the U.S.
4 because it doesn't exist in the U.S. except --

5 CHAIR ISRAEL: I understand. But it --

6 MR. BURN: -- for some sites --

7 CHAIR ISRAEL: But it's basically --

8 MR. BURN: -- that go illegally.

9 CHAIR ISRAEL: -- a useless comparison then, unless
10 you have the information on how it compares to the average age
11 of the player betting conventionally globally.

12 MR. BURN: I don't agree with you. But, of course,
13 you're entitled to your opinion though.

14 COMMISSIONER ROSENBERG: It makes common sense that
15 the younger player is going to want to play these computer
16 games, and older players haven't -- are not familiar with it.

17 MR. BURN: Well, we -- we have conventional tote and
18 pari-mutuel betting on Betfair, which was introduced four or
19 five years ago --

20 CHAIR ISRAEL: Right.

21 MR. BURN: -- the system that you know and that
22 you're familiar with here.

23 CHAIR ISRAEL: Okay. And what's the average age of
24 that player?

25 MR. BURN: That market has being, I think, improved

1 massively because of our interventions. So --

2 CHAIR ISRAEL: But what's the average age?

3 MR. BURN: There our core customers. So it's a
4 similar age to the people who are using the exchange. Because
5 what we do is we --

6 CHAIR ISRAEL: So there is no difference.

7 MR. BURN: -- we cross -- no, that's not correct. We
8 cross-sell. The product is what's attracting a younger
9 demographic. It's not the fact that it's an old-fashioned kind
10 of wagering or a different kind of wagering.

11 If you look at the vast majority of people betting on
12 horse racing in the U.K. that aren't using Betfair, those
13 people are in their 50s and they're older. That's just a fact.
14 We don't go out and look at that data because that's not our
15 core -- core customer base. We are an online business that
16 wants to attract online customers. There will be other people
17 that you can go and interrogate if you want to know what their
18 customer bases are. Every bit of evidence that we've got --

19 CHAIR ISRAEL: Excuse me --

20 MR. BURN: Every bit of evidence that we've got says
21 that folks who are betting offline on horse racing, which is
22 much more traditional, are in their 50s and they're older than
23 that. The people --

24 CHAIR ISRAEL: Yes, I've been criticized for making
25 that point kind of colorfully. So --

1 MR. BURN: I'm not criticizing you. I'm just
2 disagreeing with you.

3 CHAIR ISRAEL: Oh, with you're -- no. You're missing
4 the -- I've made the point that our on track and satellite
5 customers are -- the customer base is too old and it needs to
6 get younger, and I've been criticized for that. But the
7 statistics need to be valid. And -- and to compare Betfair's
8 exchange wagering global customer, their age with the average
9 age of a TVG customer in the United States, isn't really a
10 valid comparison. A more valid comparison would be is there --
11 is there a significant difference in age between the Betfair
12 customer who plays exchange wagering globally and the Betfair
13 customer who plays more traditional wagering globally, and you
14 don't have that comparison.

15 MR. BURN: Well, but I don't think that is the same
16 comparison. I think a more valid comparison would be a Betfair
17 customer versus a customer of another betting site. Because at
18 Betfair we specifically try and cross-sell products from the
19 exchange to the more conventional type of betting. We
20 specifically go after them to play with the exchange. I think,
21 if anything, they raise the age of the exchange customer. On
22 other sports, for example, the average age of a Betfair
23 customer is significantly lower than 36 years old.

24 CHAIR ISRAEL: Well, the average age of a sports'
25 better in Las Vegas is extremely young. I mean, probably ten

1 percent of the betters aren't even old enough to bet but they
2 take -- they take their action anyway. So -- so --

3 MR. BURN: Anyway, the comparison is there. You can
4 make it what you will. If you think it's a meaningless
5 comparison I respect your opinion.

6 CHAIR ISRAEL: Okay.

7 COMMISSIONER ROSENBERG: Are you going to cover and
8 are you going to speak after the -- the gentleman again --

9 MR. BURN: Yes. I'm --

10 COMMISSIONER ROSENBERG: -- on other subjects?

11 MR. BURN: I'm hoping to if --

12 COMMISSIONER ROSENBERG: On other subjects --

13 MR. BURN: -- if you give us time.

14 COMMISSIONER ROSENBERG: -- promotion, and things
15 like that?

16 MR. BURN: Yes. Right.

17 CHAIR ISRAEL: Good.

18 MR. HINDMAN: Good morning, Commissioners. And,
19 again, thank you for having us and allowing us to present to
20 you today.

21 As Stephen mentioned earlier, I'm going to go
22 through --

23 CHAIR ISRAEL: John, just tell them your name for --

24 MR. HINDMAN: I'm sorry. John Hindman, general
25 counsel of TVG, H-i-n-d-m-a-n.

1 I'm going to go through a few slides for you, talking
2 about some of the particulars of -- of -- of the California
3 opportunity and -- and some thoughts that we have on -- on how
4 we feel it could work best for everybody.

5 And moving to the first slide, it says up top,
6 "Exchange wagering has to deliver a positive return to racing."
7 And I think what we mean there is -- is, you know, we've --
8 we've been clear, I think since we started talking about this,
9 that we do not view exchange wagering in and of itself as a
10 panacea. It's not a silver bullet.

11 We believe it's a tool that racing can have in its
12 toolkit to grow the audience and specifically target players
13 such as traders, arbitragers, text savvy people, people who
14 will not currently interact with the tote today to interact
15 with horse racing. And your knowledge of racing can be very
16 low and you can have a good experience on a betting exchange.
17 It's win, place and show betting only. And you have the
18 ability to play prices and -- and lock in prices that don't
19 really involve knowing a lot about horse racing. It's
20 basically predicting price movements, as well.

21 So we believe that -- that it -- it's an important
22 tool that can help grow the industry. At the same time -- and
23 if we didn't believe that it wouldn't be worth trying. If --
24 if -- if exchange wagering won't grow the audience and all it
25 will do is cannibalize the existing audience, we realize that

1 it probably won't work.

2 However -- and, also, it must work for all facets of
3 California racing, even ourselves. And I think, as Stephen
4 mentioned earlier, we are the largest betting operator of any
5 kind through TVG in California. So if it hurts the -- the
6 traditional racing business in California we're going to be
7 hurt, as well. And that's something, certainly, that we have
8 no interest in doing.

9 So the way that this is set up, to ensure that it
10 does deliver a positive return for racing and works for racing,
11 it is puts the authority over that activity, the statute does,
12 in the hands of the racing industry itself. So what is unusual
13 here, compared to many other forms of betting or betting in
14 many other areas of the country or in other jurisdictions, is
15 an operator getting a license in and of itself doesn't entitle
16 that operator to do anything. If -- if Betfair/TVG, for
17 example, were to get -- were to get a license, that doesn't
18 mean that Betfair/TVG, on the basis of that license alone,
19 could take a single bet from a California resident.

20 The people, the groups, the stakeholders that hold
21 the key to that are the racing associations and fairs, and the
22 horsemen's groups, as well as the CHRB. Because in addition to
23 a license you must also have an exchange wagering agreement
24 with each track running live at the time that you're planning
25 to offer the wager. And this is a big distinction and I think

1 the first time that this has really been done in statute or
2 regulation in terms of giving this kind of authority to the
3 stakeholders to ensure that they are comfortable with the terms
4 under which the operator is -- is operating.

5 So when Stephen has said in the past that -- that the
6 tracks and the horsemen have the -- and -- and the CHRB, for
7 that matter, you know, have -- have the off switch, it's true.
8 If we are unable to reach terms with the applicable race tracks
9 and horsemen, it doesn't just mean we can't take bets on that
10 track. It means we can't take bets in California at all, or
11 whoever the operator is can't take bets in California at all.
12 So that is something that we feel is important and will help
13 ensure that exchange wagering can deliver a positive return
14 to -- to racing.

15 The other thing that we're promoting is a business
16 model that we think is a true partnership model with the racing
17 associations and the horsemen. And the model basically is that
18 for every dollar that we retain from -- from exchange wagering,
19 the track will retain \$1.00 and the horsemen will retain \$1.00.
20 So it's basically a third, a third, a third of the net revenues
21 or -- or net profits from exchange wagering will be -- will be
22 distributed equally amongst the racing association, the track,
23 and the operator.

24 Next slide please. Some additional views that we'd
25 like to share is we -- we believe and -- and have proposed

1 in -- in draft regulations that we sent to the Board that it's
2 important that the infrastructure for any licensed exchange
3 wagering system in California reside in California, and that's
4 for basically four main reasons.

5 First of all, during the legislative process it was
6 clear to us that the legislature and -- and their supporters
7 believed that it was important that racing do something that
8 could help in terms of promoting investment in California and
9 jobs in California. That's something that we, as one
10 particular operator, are -- are very keen to do, as well,
11 and -- and feel like we are doing, hiring additional people in
12 the state.

13 And, also, this is something I've heard over the
14 years from this Board lamenting that the ADW operators
15 operations or hubs are not located in California. And the
16 reason why that is, is because California was not the first
17 state in the country to have ADW legislation. There were
18 multiple states that had it before California, and those
19 operations were already set up in those states before
20 California came online. That is not the case here with
21 exchange wagering.

22 With exchange wagering you are the first state to
23 pass a statute permitting exchange wagering. And in all
24 likelihood if -- if you choose to move forward you will be the
25 first regulators in the United States to regulate exchange

1 wagering. So you do have an opportunity to -- to start from a
2 clean slate that way. And I think from -- from -- from a
3 regulatory perspective it's beneficial to have the
4 infrastructure located in California.

5 And I think, also, from -- from a legal perspective,
6 you have to think about it. With the exception of possibly New
7 Jersey, there is no other place in the United States right now
8 where it would technically be legal to have an operating
9 betting exchange. So that is something that we encourage the
10 Board to look at in the regulatory process.

11 Our next core principal, and this a very core
12 principal, is -- is we believe it's in everyone's interest to
13 ensure racing is -- is free from corruption. And I think, you
14 know, a lot of times Betfair is -- is in the middle of -- of a
15 lot of these discussions. And -- and the more that I've become
16 familiar with the company in -- in the three years since
17 Betfair purchased TVG the more that I become aware of the
18 reason why that is, is because no company is doing more to
19 ensure that racing is free -- free of corruption than Betfair.

20 It's offering -- and I think as you'll hear, your
21 staff members who were fortunate enough to visit the BHA and
22 Betfair's offices and -- and others, potentially, in London, I
23 think that you'll -- hopefully you'll hear that -- that our
24 level of -- of -- of transparency that we offer, the technology
25 that we offer to regulators, and the people and the money that

1 we're devoting to the integrity of the sport are -- are -- are
2 really unprecedented.

3 And we believe that we have an interest. We -- we
4 have the most interest in ensuring that the sport is clean and
5 that our -- that our platforms are clean to operate an ongoing
6 business. And we believe that we are completely aligned with
7 the regulators and the industry in terms of assisting them,
8 much more than is possible today, to ensure that the integrity
9 of this sport is being upheld.

10 And lastly, before I turn it back over to Stephen,
11 the -- the way that -- that, as it relates to the Board, the
12 way that the -- the statute, the betting exchange statute was
13 passed in California, there was no license fee on the activity,
14 but there was a provision that said that the operators should
15 bear the reasonable costs for the regulation of themselves by
16 the CHRB. And we are completely supportive of that and -- and
17 believe that it's appropriate.

18 What we encourage the -- the Board to do and would
19 like to work with you on is finding a model that takes into
20 account a couple of things; the fact that there could be, first
21 of all, numerous operators licensed in California, and there
22 could be several economies that come from that.

23 And secondly, as I said earlier, with the off switch,
24 that just by virtue of having a license doesn't mean you'll be
25 operating. For instance, this is a very, you know, real

1 example, for thoroughbred racing we could have -- we could have
2 agreements with tracks that want to do exchange wagering for
3 six months out of the year and be operating for six months out
4 of the year, and the tracks -- the track or tracks that run for
5 the other six months don't wish to participate in exchange
6 wagering, and we would literally be shut down. So it's
7 something to take into account. That -- that uncertainty, as
8 well, we believe would be very beneficial to the process.

9 With that I'll turn it back over to -- to Stephen.

10 MR. BURN: Just reiterating from John's point, I
11 think it --

12 CHAIR ISRAEL: Hey, could -- could I -- can I ask
13 John a question?

14 MR. BURN: Of course. Sure.

15 CHAIR ISRAEL: I agree, obviously, if we're going to
16 do this, the hub has to be in California. How many jobs are we
17 talking about?

18 MR. BURN: We've employed so far about 60 to 70
19 people, mainly technical staff. They're based in San
20 Francisco.

21 CHAIR ISRAEL: No. No. How many new jobs because of
22 exchange wagering?

23 MR. BURN: Well, they are specifically there because
24 of exchange wagering. So we -- we -- we made a decision.
25 We've invested in access, already, of \$10 million to build a

1 unique bespoke exchange in the hope -- in the hope that it will
2 be for California and other U.S. racing. But in the end, if it
3 can't be we'll deploy that work somewhere else. But we did it
4 in anticipation of working with the California racing industry.
5 So so far --

6 CHAIR ISRAEL: So, wait. If we do not approve -- if
7 don't --

8 MR. BURN: -- we've hired 60 to 70 --

9 CHAIR ISRAEL: If we don't approve it first the jobs
10 will go elsewhere?

11 MR. BURN: No. We -- we -- we don't believe so. We
12 want those jobs already -- those 60 or 70 jobs is where our
13 technical hub has been based in the U.S. And we made that
14 decision because we want to work with California racing. And
15 California is our home. That's where the corporate HQ of our
16 business is, in Los Angeles, through TVG. So those jobs aren't
17 going to disappear if the California Horse Racing Board decides
18 it doesn't want to go forward with the betting exchange. We'll
19 keep those jobs there. It's the new jobs, I think, that we
20 should be looking at to talk about. And there will -- there
21 will probably be about another 20 or 30 jobs in the early days.

22 It then depends specifically on how fast we grow the
23 business as to how much investment we'll need to make in order
24 to sustain the product. We're trying to build a product that
25 has scalability attached to it. We could easily have just

1 rolled something out, out of a little box, that would have made
2 do. But we want to try and build for success and for a long-
3 term future, rather than just something that's going to last
4 for a year or two.

5 CHAIR ISRAEL: Okay. I think Richard has a question.

6 COMMISSIONER ROSENBERG: So how much would you say
7 you -- the company has invested in exchange wagering to date,
8 since you've tried to get it passed her? And overall, just a
9 general number.

10 MR. BURN: I would say --

11 COMMISSIONER ROSENBERG: You mentioned ten million.

12 MR. BURN: I -- oh, it would be ten million on the
13 technical side. I think there would be some money, if we're
14 being completely candid, related to things like lobbying.

15 COMMISSIONER ROSENBERG: Right.

16 MR. BURN: And then we have infrastructural things,
17 people like, you know, Tom, who you heard from earlier who's
18 moved over here. So I would imagine now it's between the 12
19 and 13 million mark, something like that.

20 COMMISSIONER ROSENBERG: Because I ask that --

21 MR. BURN: And, of course, that's just to get us to
22 the first stage. We'd have to make significantly more
23 investment beyond that.

24 COMMISSIONER ROSENBERG: And the number of people
25 that you have now, the 60 or 70 people that are setting this

1 up, you -- you -- at the end of what you said earlier on that
2 subject you mentioned 20 or 30 more. Did you mean there would
3 be 80 -- there would be more or less than --

4 MR. BURN: No. That's -- that --

5 COMMISSIONER ROSENBERG: -- when you move forward?

6 MR. BURN: There would be more. What we have -- what
7 we have to do -- and, again, we're hoping -- one of the -- one
8 of the challenges that we have is we don't know if and when
9 this thing may ever get off the ground. But if we're trying to
10 employee people you can't just employee them the week before
11 you flick and on switch. You have to try and anticipate that
12 something may or may not happen. So all the infrastructure for
13 things, what we call market operations, the loading of the
14 markets, the managing of customers, the customer service side
15 of things, the ambassadorial stuff that you may or may not do
16 on a track, we haven't exactly started recruiting for them
17 because they are positions that we think we could find within a
18 month or two. But if and when we need to go out and find those
19 people, then we will.

20 And we think there will be about 20 to 30 of them in
21 the first instance. So that's around about 100 jobs that would
22 be specifically linked to exchange wagering. Many of those,
23 though, are pretty highly skilled technical jobs.

24 CHAIR ISRAEL: Okay. Was -- are -- are you done now
25 with your presentation as it relates to security or --

1 MR. BURN: There's -- there's a little bit more that
2 we can talk to you about as far as the audit trail and the
3 detail of that. Clearly, your guys have already been and they
4 can see it. We --

5 CHAIR ISRAEL: Okay. Well, then I'll -- then I think
6 it's a good time to ask some questions.

7 One -- one concern I have is that program traders, as
8 this become larger, can take over just as they've taken over
9 Wall Street with super computers, and it's all just looking for
10 small margins. And then the average better doesn't have a
11 chance against those guys. How do you track that, how do you
12 stop that, or do you want that because it will increase your
13 gross?

14 MR. BURN: So right now, of course, the -- the law
15 compels people to be single people, individuals, and not
16 corporations, and residents of California. We track and
17 monitor everything as far as the site is concerned. I think
18 your guys will be able to explain the detail of that.

19 CHAIR ISRAEL: No, I understand that.

20 MR. BURN: We hope and think there will be people who
21 do the kind of activity that you're talking about. They use
22 algorithms and math programs --

23 CHAIR ISRAEL: Right.

24 MR. BURN: -- and all the rest of it to try and get
25 themselves an edge. They feed into the liquidity of the

1 exchange and they allow people to take a price, to back a lay,
2 to do whatever it is that they want to do. There's a number of
3 people that operate in the ecosystem. Some of them are very
4 successful. Some of them are less successful. Many of them
5 tend to have an arrogance in common because they all think what
6 they do, they do better than anybody. That's been our
7 experience when we've looked over 12 years of the betting
8 exchange that you see a diverse set of customers, some of whom
9 win, some consistently win, but they tend to be people who know
10 the sport inside out and they know what they're doing. It
11 tends not to just be market traders who are looking for an edge
12 as far as price divergency is concerned.

13 CHAIR ISRAEL: Well, if you --

14 MR. BURN: But there will be some of those people.

15 CHAIR ISRAEL: But in -- in-race betting requires
16 such decision making, as I understand, that these program
17 traders would have an exorbitant edge and they'd be sharks
18 swallowing all the small fish. And eventually, instead of the
19 business expanding in the number of people who participate,
20 which -- and this is supposed to be a popular --

21 MR. BURN: Uh-huh.

22 CHAIR ISRAEL: -- sport, not -- not just a niche
23 thing --

24 MR. BURN: I think that's --

25 CHAIR ISRAEL: -- it's going to -- it's going to --

1 it's going to decrease the pool rather than increase the pool.

2 MR. BURN: I think it's a very reasonable concern and
3 it shows that you've put a lot of thought into this, which
4 I'm -- which I'm grateful for. Because I think looking at it
5 from the outside it could appear to be like that.

6 Our experience is somewhat different. I think if you
7 look at people who bet in play, one of the things that we allow
8 people to do is we have a functionality called key bet, which
9 means that you can try and interpret what you think is going to
10 happen in the race, and that bet is maintained at a
11 particularly price when the race is run. So you can get ahead
12 of those people if you want to, if you are a race reader and
13 you know what you're doing.

14 And we have a thing called best execution as far as
15 price matching is concerned. The race dynamics change
16 massively and readily. And, of course, some people will think
17 they have an edge because they have a fast computer system.
18 But, also, there will be people at the track who are watching a
19 race live and they're very good race readers, and they'll think
20 they have an edge because they know a jockey's style or they
21 know how a horse is running and whether it's in a good stride
22 or it isn't. And the -- the system itself just attracts a
23 different divergent customer base, some of whom are coming with
24 all different opinions, and they tend to match each other out
25 and cancel each other out.

1 So what you say is, of course, entirely possible.
2 But it's not been our experience to have witnessed it.

3 CHAIR ISRAEL: Okay. Then within that same sort of
4 realm, you know, people who -- who want to interfere with
5 businesses often use what I -- I guess they're called ghost IP
6 numbers, where they route they're -- they're computing through
7 computers that people unwittingly have up. And then they're --
8 it's very hard to trace. The government has a hard time
9 keeping that from happening.

10 How the hell do you keep that from somebody offshore
11 with large accounts running through a ghost -- a ghost IP
12 number, say in Sacramento, so it seems perfectly legal?
13 They've set up an account at that IP number. I mean, how would
14 you ever discover that if the government can't discovery it
15 when they're doing it to defense department computers?

16 MR. BURN: I think and hope when your security guys
17 come up here and talk in detail about what they did or didn't
18 see when they went over to Betfair you'll get reassurances that
19 we make more than best endeavors to do it, and we'd be market
20 leading as far as our technology is concerned to track and
21 trace and to ultimately shut down that kind of activity.
22 Because, obviously, from our perspective it's imperative that
23 we have as fair and as open and as honest a product as
24 possible.

25 We spend all this money on integrity, of course,

1 because we want to work with regulators, but ultimately because
2 we want to make money out of the system. And the -- the
3 fairest system that we can possibly produce and reassure our
4 fans that they've got as level a playing field as we can
5 possibly give them, the best change ultimately we have of
6 making money. Is it 100 percent perfect and fail proof?
7 Absolutely not. Do we make mistakes sometimes? Completely,
8 yes, we do. But what we do is learn from them and put the fix
9 in place when we need to do it, and ultimately evolve the
10 product until it -- until it's become what it is now, which in
11 my view is the most perfect betting system that the world has
12 currently got.

13 CHAIR ISRAEL: See, the thing that -- that bothers
14 me, this is basically sports' betting. It's -- because it's --
15 it's -- you're laying or -- or picking a team. It's not
16 traditional pari-mutuel win-place-show or exotic betting. You
17 know, you're taking just one side or another over a two-way
18 bet. So it's like betting on a ball game. Yet in -- in a
19 sports' book the house is taking a risk. They're booking the
20 bet. You're not taking any risk.

21 MR. BURN: That's correct.

22 CHAIR ISRAEL: You know, so the dynamic is completely
23 different. In a sports' book the house has a business purpose
24 for making sure that things aren't fixed, things aren't done
25 improperly, they're not taken to the cleaners by guys who have

1 an edge. You don't care who has the edge here because you're
2 just taking a percentage of the gross with no risk.

3 MR. BURN: No, that's not true. We don't care
4 ultimately about who is and who isn't winning, as long as what
5 they're doing is absolutely fair and appropriate. We do care
6 very much if people are trying to exploit a system or a
7 vulnerability in it. And if they're doing that we'll shut --
8 we'll shut them down. It's in our absolutely long-term best
9 interest to make sure that the playing field is as level as
10 possible.

11 We don't care about the outcome of an event, per se,
12 because we don't take positions, although some bits of our
13 business do, just to be clear about that. There are some parts
14 of Betfair that are conventional book-making products. But
15 that's a different thing from the exchange that we're talking
16 about. And there, that bit of the business, does care. The
17 vast majority of our business is -- is result neutral. No, we
18 don't care. But what we care very much about is making sure
19 that the playing field is as level as possible and that people,
20 any category of customer, isn't given an edge over anybody
21 else.

22 We actually go beyond certain things. So you may or
23 may not hear things like we have a premium charge elsewhere in
24 the rest of the world, which is a different method of payment
25 for people who do the kind of stuff that you do and are very

1 good at it. They have to pay more to be on the ecosystem than
2 a conventional fan who's coming in and is just paying a simple
3 commission. So some people pay significant amounts of what
4 they're doing -- of their activity in -- in commission, and
5 they do it because obviously they can find a relatively
6 consistent way of taking money out of the system. But for the
7 privilege of them doing that they have to pay to put more money
8 back.

9 CHAIR ISRAEL: But wait. So -- so -- so --

10 MR. BURN: And we use that money --

11 CHAIR ISRAEL: So --

12 MR. BURN: -- specifically for marketing.

13 CHAIR ISRAEL: So you have a system whereby if there
14 are program traders, guys who can beat the game, you charge
15 them more?

16 MR. BURN: No. It's not -- not -- we don't care
17 whether they're program traders or not. And it's not about
18 beating the --

19 CHAIR ISRAEL: No. Just as an example.

20 MR. BURN: The -- the people who can -- yeah, 0.3
21 percent of our customers from the 4 million, or whatever it is,
22 are phenomenally good at what they're doing. And if they do
23 that and they have certain criteria attached to them, they have
24 to make many hundreds and thousands of bets; they have to bet a
25 certain amount of money. And if they do that and they're

1 consistently winning they have to pay more for the privilege of
2 using Betfair. Yes, it's a different pricing entry point.

3 Because we have to spend millions of dollars attracting
4 customers that they guys come in and they play against.

5 We're not proposing, by the way, to do that in the
6 U.S. The reason we have to do that is when Betfair started we
7 charged too low a price. We were too good --

8 CHAIR ISRAEL: So --

9 MR. BURN: -- for customers.

10 CHAIR ISRAEL: So, I mean, this -- this -- it's
11 just -- it's kind of amazing to me. I mean, so basically
12 you're job is to be a magnet for the small fish who can get
13 eaten by the large fish who you charge more for?

14 MR. BURN: No. Our job is to try and provide an
15 innovative betting platform for the world to us. And the small
16 fishes you talk about, if a guy is coming in and wants to get
17 5-to-1 about a horse, in this instance, that the rest of the
18 industry and the pari-mutuel market isn't giving them a price
19 on and you don't know what it's going to be, or it's going to
20 be 2-to-1 at best, you actually as a customer, as a punter are
21 indifferent to who it is that isn't matching your bet. We give
22 you best execution. And people on the backside of the bet
23 traditionally get 20 to 25 percent better odds than they would
24 get anywhere else.

25 So whether it's made up with your bet being matched

1 by me, a kind of mug punter like me, or somebody that thinks
2 they're a savvy shark a big whale, or whatever else it happens
3 to be, the people that you describe as sharks, obviously they
4 have to compete with people who are also working in the racing
5 industry sometimes who have lots of information at their
6 fingertips too. And it's not as simple as some fat cat --

7 CHAIR ISRAEL: Well, those are the ones --

8 MR. BURN: -- sitting on a beach somewhere.

9 CHAIR ISRAEL: -- I'm concerned about figuring out
10 how to use ghost IP numbers.

11 MR. BURN: Well --

12 CHAIR ISRAEL: Because they -- they can -- they'll
13 know what the outcome is.

14 Look, if all if you have to do is finish second and
15 you win the bet, instead of finishing first, you know, that's
16 kind of an easy thing to pull off without people noticing.
17 That's the real flaw in the system.

18 MR. BURN: But -- but with respect --

19 CHAIR ISRAEL: Yeah.

20 MR. BURN: -- of course, there are people who are
21 exploiting that position now. If you're running a favorite of
22 a race and you know that horse isn't going to win, there's a
23 number of things that you can do to make sure that you do win.
24 It's not as simple as laying that horse to lose. But I don't
25 think anyone in this room is going to tell me that there aren't

1 people now who are able to exploit the existing system by
2 cheating.

3 What Betfair does is it shines a searchlight on those
4 cheats. And I think one of the issues we may have if this is
5 ever introduced is that there will be increased scrutiny on a
6 whole bunch of people, not because they're doing anything
7 different, but because if they try and do it with us, what
8 they're currently doing now, they will get caught. It's not
9 our job to prosecute them, but we will make that information
10 available to the regulator and the regulator will determine
11 what to do about it.

12 CHAIR ISRAEL: Yeah. But you shine a searchlight
13 over there while the other guys are digging a tunnel over here.
14 That's the problem.

15 MR. HINDMAN: You know, respectfully, Commissioner,
16 and I hope that when your staff gives their report they'll --
17 they'll -- they'll discuss some of this, but we -- we actually
18 do -- we are looking for patterns. And -- and you were
19 mentioning one particular type of technology that you think is
20 very hard to detect. Well, we have a whole profile on every
21 customer. And we're verifying every customer on their way in
22 through third party that tells us where they live, who they
23 are, what their social security number is, and they have to be
24 an individual.

25 After that we are keeping track of every bet they

1 make. So if Stephen over here normally bets \$500, but every
2 time Trainer X and Jockey Y run a horse he bets \$50,000 and he
3 usually wins, the California Horse Racing Board is going to
4 know about it. They're also going to know his entire profile
5 from his Facebook page, who all of his links are, who all his
6 friends are, what his cookie is in his computer every time he
7 logs into the system, what IP address he logs into every time
8 he logs into the -- the system. Every single aspect of that
9 person's pattern of betting is known.

10 So I think to Stephen's point, are we sitting here
11 saying it's absolutely fail proof? We are not. But is it a
12 higher level of scrutiny, a drastically higher level of
13 scrutiny than is available for horse racing or any sort of
14 gaming, for that matter, today on each individual transaction
15 with a complete audit trail, it really is.

16 MR. BURN: So it's on a different scale. And it's --
17 it's the kind of technology that we want to introduce into the
18 ADW business, as well, and not just with TVG. We hope that
19 other betting operators will use it so that the exploitation
20 that's going on now will be stopped and the sport will be able
21 to --

22 CHAIR ISRAEL: But you -- you want to sell the
23 software, I take it.

24 MR. BURN: No. No, we don't. We want -- we want to
25 make sure that that's available as widely as possible. We're

1 not interested in exploiting that as an advantage and making
2 money from it.

3 CHAIR ISRAEL: So you're going to give --

4 MR. BURN: We want to work with people.

5 CHAIR ISRAEL: -- your software to Twinpires, for
6 instance, for free?

7 MR. BURN: If -- if they -- if they work with us as
8 far as having the exchange is concerned, then absolutely they
9 would have the same part of the system that would be made
10 available to them --

11 CHAIR ISRAEL: Define --

12 MR. BURN: -- that we would have.

13 CHAIR ISRAEL: Define "work with us."

14 MR. BURN: Pardon me?

15 CHAIR ISRAEL: Define "work with us."

16 MR. BURN: Well, they'd need -- they'd -- they'd need
17 to pay a small license fee in order to be able to get the
18 infrastructure to Betfair. But they would get every --

19 CHAIR ISRAEL: That's what I just said, and you said,
20 "No."

21 MR. BURN: They'd get every -- they'd get every bit
22 of Betfair as far as the integrity stuff that would be made
23 available to them as we would make available to ourselves.

24 It's very interesting to me that just two weeks ago
25 we were invited to Geneva and we signed an agreement with the

1 International Olympic Committee specifically to work with them
2 on the integrity of -- of betting on sports and on the Olympic
3 Games. We're the only betting company that has a memorandum of
4 understanding with the IOU, and we have it because they've been
5 to Betfair, they've seen the back end, and they've gone through
6 and asked all the questions that you guys have, which are
7 completely valid.

8 CHAIR ISRAEL: IOC, not IOU.

9 MR. BURN: I'm sorry, the IOC. Yes, I meant to say
10 the IOC.

11 CHAIR ISRAEL: I was -- I was chief of staff of the
12 L.A. Olympics in 1984. Believe me, I know those people.

13 MR. BURN: Then you -- then you'll know as well as I
14 do that they're hypersensitive around betting. But I think
15 they've accepted that there's a massive amount of illegal
16 betting going on with the Olympic Games and they want to try
17 and police it as best they can, and they've come to us to help
18 them do that. And I'm obviously very proud that that's
19 happened.

20 CHAIR ISRAEL: Do you have a question?

21 COMMISSIONER ROSENBERG: I just want to drill down on
22 one thing about the question Commissioner Israel asked about
23 large betters betting with -- against small betters. You --
24 you seem to indicate that you are -- you are concerned about
25 it, but that nothing has developed so far to bother you in

1 terms of it being unfair to anyone; correct?

2 MR. BURN: Correct. There isn't --

3 COMMISSIONER ROSENBERG: Could you give --

4 MR. BURN: I don't think there's an unfairness.

5 COMMISSIONER ROSENBERG: Could you give a layman's
6 example of a specific type of bet we're talking about on those?
7 Are you speaking only about when you bet when the -- after the
8 race starts? Is that what you were speaking about, or before,
9 or any kind of a bet?

10 MR. BURN: No. I mean, there's lots of different
11 kinds of activity, and there's lots of different customer
12 profiles. So some of the people that do what Commissioner
13 Israel was talking about might employ a team of people to
14 work behind them and to give them banks of information in order
15 to be able to operate. Those people aren't in California and
16 they aren't operating in --

17 COMMISSIONER ROSENBERG: But give me an example as to
18 how they would have an unfair -- you seem to agree that they
19 may have -- might have an unfair advantage, other than the
20 amount of capitol they have to bet.

21 MR. BURN: So my -- my reference was simply that
22 they're able to use ever more sophisticated kinds of computer
23 technology, which means they have software programs that are
24 rapidly able to match bets more quickly than you or I do when
25 we click a mouse.

1 But one of the things that Betfair does is it builds
2 specifically those software programs as a company and we give
3 them away to our customers. So even a recreational lay casual
4 customer, if they want to do what some of the shark guys are
5 doing, which is basically have a piece of technology to match
6 your bets and do the clicking for you instead of you doing it,
7 then you can have that software from us and you've got the same
8 edge and inverted commas that some of the other guys think they
9 have by using --

10 COMMISSIONER ROSENBERG: Now I can see why this is --

11 MR. BURN: -- sophisticated software.

12 COMMISSIONER ROSENBERG: Now I can see why your
13 argument about younger demographic makes sense after hearing
14 that description.

15 MR. BURN: Well, frankly --

16 COMMISSIONER ROSENBERG: Okay.

17 MR. BURN: -- a lot of it's beyond me. I mean,
18 I'm -- I'm -- I'm the guy that comes in and wants to have a
19 \$50.00 bet on something, and I go to Betfair and I use it. And
20 I don't bet anywhere else, specifically because I get odds in
21 my favor, and it suits me and it works for me. But I accept it
22 may not be right for everybody.

23 CHAIR ISRAEL: But -- but the -- the individual
24 doesn't even know what bets he's making. The computer has
25 algorithms that automatically make -- make these bets, because

1 they're looking for minute edges.

2 MR. BURN: Oh --

3 CHAIR ISRAEL: And they can make a fortune on -- on a
4 tenth of a point.

5 MR. BURN: But -- but -- but they have -- that has to
6 be programmed, of course. You have to say I want to bet a
7 horse if it's in the lead and the --

8 CHAIR ISRAEL: Well, they've --

9 MR. BURN: -- price hits --

10 CHAIR ISRAEL: They've damn near --

11 MR. BURN: -- whatever it does.

12 CHAIR ISRAEL: -- brought down the equity markets a
13 few times doing the same thing. And they're all -- there are
14 many more safeguards there. So --

15 MR. BURN: But the same people, Commissioner Israel,
16 are also doing that activity now on pari-mutuel betting, and
17 we're not monitoring it or regulated at all. The vast majority
18 of the rebate shops and, indeed, the pirate shops offshore
19 specifically appeal to these guys. And what I want to do is to
20 try and police and monitor their business, legitimize it, bring
21 it onshore, and make sure the revenues that -- that we make are
22 split three ways, 2-to-1, racing in favor of the operator.

23 CHAIR ISRAEL: Okay. Do you have any more questions?

24 COMMISSIONER ROSENBERG: No. Not right now.

25 CHAIR ISRAEL: Go ahead with the --

1 MR. BURN: If I may, I'd just like to touch a little
2 bit on potential launches in growth and how we may go about
3 marketing, which -- which Commissioner Rosenberg would be
4 interested in.

5 We know in exchange proposition, whether it's Betfair
6 or anyone else, and there's a number of other alternatives, of
7 course, that are operating in California, that growth is going
8 to take time. It won't work if what we do is turn on a betting
9 exchange for Del Mar for six weeks and then disappear for eight
10 months and come back and try it again next year. I think if
11 we're going to try and embrace this thing, then you're either
12 pregnant or you're not pregnant. You know, I think that you
13 have to get off and do it and try and deliver the baby, and not
14 try and do it in a halfhearted way.

15 We propose and would very much like a betting
16 exchange, subject to agreements with all parties, to be
17 launched in May of 2012, which the statute allows us to do, and
18 to start with Hollywood Park, to do it relatively quietly as a
19 soft launch, find out what, if any, cracks there are from a
20 marketing point of view and everything else, how do we talk to
21 people, how does it, you know, how does it work, and then at
22 Del Mar make a bigger bang from a marketing perspective.

23 We propose fishing in different pools from what we
24 would currently fish in as far as trying to attract ADW
25 customers. We've had provisional conversations with people who

1 work in the financial markets about what websites that we can
2 specifically go to, to try and appeal to California residents
3 who are currently trading stocks and shares every day and
4 aren't actually actively betting or may have a casual interest
5 in horse racing. We've worked, for example, with companies
6 like Bloomberg who are obviously based on the East Coast, have
7 conversations with them about how, if at all, we could use
8 things like their network to try and speak specifically to
9 people that may want to use our betting product and to bet on
10 California racing.

11 And we're going to be looking to try and again market
12 the product in completely different ways from what we would do
13 with the ADW business. Because what we don't want to do is
14 cannibalize our existing ADW business. Of course, it will
15 appeal to some of them, and we'd like to use them and to have
16 them use the exchange. But we need to go out and look for a
17 new market, and that's what we're -- we're intending to do. We
18 think --

19 COMMISSIONER ROSENBERG: Why -- why did you pick May?

20 MR. BURN: Because the statute says May. The -- the
21 law that came out of Sacramento said that there would be --

22 COMMISSIONER ROSENBERG: But -- but in terms of the
23 practicality, have you gone over that with the staff in terms
24 of the practicality of getting rule promulgated and then, you
25 know, a 45-day comment period, etcetera, etcetera?

1 MR. BURN: I think it's -- I think it's very tight.
2 But I think if -- if things can progress relatively smoothly
3 from here on in then May is a possibility. Of course, it's
4 dependent on Hollywood Park and the horsemen from agreeing to
5 the commercial proposition, and to the CHRB having the rules in
6 place.

7 But one of the things I think that's changed the
8 agenda a little bit since we last discussed the exchange
9 wagering in depth is the DOJ letter that was sent just before
10 Christmas on a federal level. You know, they passed rulings
11 that talked about, in effect, the relaxation of online gaming
12 in the United States. And I think many people are very aware
13 that there's going to be online poker here pretty soon, it
14 seems, either at a federal or at a state level.

15 And I think the door has also been opened on other
16 things. There will be online slots or online roulette, a
17 number of online games that we don't even know and haven't
18 talked about yet. And I don't want to -- I don't want us to
19 get behind that wave. I want us to be in advance of it,
20 because I think we have something incredibly dynamic and
21 exciting. But I don't want it to get washed out and lost in a
22 number of noises that are going to be made about all these new and
23 exciting online gaming products that have got nothing to do
24 with horse racing.

25 CHAIR ISRAEL: I think it's unlikely anything in that

1 vain happens in this congress before the election. And then
2 the next congress, Barney Frank is retiring and he's been the
3 advocate for most of this stuff. So now they're going to find
4 a new leader to try and push this forward. It's -- it's not
5 close, I think, as you think it is.

6 COMMISSIONER ROSENBERG: I was referring to the
7 state.

8 CHAIR ISRAEL: The -- the state, yeah, but then the
9 state has issues. It's too small a market --

10 COMMISSIONER ROSENBERG: Right.

11 CHAIR ISRAEL: -- to make it work.

12 MR. BURN: I mean, obviously, we -- we'll wait and
13 see. I think we -- we -- we have, as many people do, lobbyists
14 that work in Washington that -- that say different things, but
15 we'll -- we'll wait and see.

16 I mean, independently of that, we just think it's the
17 right thing to do. I don't hear, with respect to other people
18 who are trying to do their best, I don't hear too many people
19 coming forward with innovative products that have the potential
20 to change the game in the way that this thing has.

21 Is it the solution to all our industry's ills? Of
22 course it isn't. But it's something different, it's something
23 dynamic, and I think it gives us a shot at making a difference.
24 If there were 1,000 other people out there proposing something
25 equally good or better, I'd be cheering you all on and saying

1 get on with it. But I don't hear those voices at all.

2 CHAIR ISRAEL: Okay. Is -- do you have any more of
3 the plan presentation or --

4 MR. BURN: There -- there are some things. But
5 please ask questions as you --

6 CHAIR ISRAEL: Yeah. Let's talk -- I'd like to talk
7 about the financial aspect of this.

8 MR. BURN: Uh-huh.

9 CHAIR ISRAEL: I know that in 2009 the Breeders' Cup
10 allowed you to take exchange wagering on the Breeders' Cup, as
11 well, here, the Zenyatta Breeders' Cup. What -- what were the
12 numbers?

13 MR. BURN: I think they handled large amounts of
14 money. And what they ended up receiving was a relatively low
15 amount of money because it was based on the existing model
16 that's there in Europe. I think it would be -- so the detail
17 of it, I honestly can't remember. Broadly, it was something
18 like --

19 CHAIR ISRAEL: It was like --

20 MR. BURN: -- 25 million was matched, and about 125
21 grand or something went to the Breeders' Cup.

22 CHAIR ISRAEL: Okay. That's --

23 MR. BURN: Broadly, something like that.

24 CHAIR ISRAEL: That sounds right to me. Because I
25 heard it was 25 million but it got -- it got, basically,

1 reduced to 10 percent of that, and then 5 percent of that 10
2 percent went to --

3 MR. BURN: So it's -- it's a good -- it's a good
4 point --

5 CHAIR ISRAEL: Yeah.

6 MR. BURN: -- that you raise. And I think it goes to
7 the heart of a lot of people's skepticism about whether you can
8 ever do this thing financially. And it comes from just a
9 misunderstanding of what that 25 million is. When we talk
10 about slots, for example, no one ever talks about handle in
11 slots. You know, you talk about the amount of money that was
12 returned to racing from slots. And I made the same mistake as
13 everybody else does.

14 CHAIR ISRAEL: Well, the amount of money returned to
15 racing from slots here is zero, so we never talk about that.

16 MR. BURN: No. But -- but the rest of the racing
17 industry does. And -- and -- and it is an issue that I hear
18 Californians talking about because you guys and many others
19 have argued that there ought to be slots, or some have thought
20 that there should be in California. Anyway, that's a separate
21 issue.

22 CHAIR ISRAEL: We've spent too much time or --

23 MR. BURN: The -- especially when you see what --
24 what some jurisdictions are now doing, which is taking away the
25 slot subsidy and looking to spend it on other things.

1 But -- but the -- the more interesting thing to me is
2 if -- you can't compare traditional pari-mutuel handle with
3 what you would call handle on an exchange. It operates in a
4 different way. And we spent a lot of time working with some
5 key track partners to try and help them understand a
6 proposition that we think would work commercially from them.
7 We don't know, A, if this is ever going to be licensed and it's
8 going to be around, of course, that's your decision and no one
9 else's, but let's assume for a second it might. How do we make
10 something work that works for the tracks, that works for the
11 horsemen, but most importantly it also works for the fans? If
12 we can't get something right as far as a pricing point is
13 concerned it will never fly anyway.

14 So we've got to thread the needle and get something
15 out there that gives everybody an element of comfort. We're
16 prepared to take a very long-term view and to make really
17 little or next to no money for -- for the foreseeable future in
18 terms of a return on our investment, in the hope that we can
19 try and grow something collectively.

20 The proposition that we've put forward so far is that
21 in California we look to try and see what last year's purses
22 were. Assuming that there was a commitment to give last year's
23 purses the same kick-start as this year, so let's imagine that
24 there's a figure of \$1 million of -- I mean, I know there
25 wasn't, but let's just use it for simple math -- if last year's

1 purses were \$1 million, then what we would propose is looking
2 at that and making sure that the purse structure this year
3 didn't fall below that. Irrespective of what did or didn't
4 happen with the betting exchange we would give a revenue
5 guarantee for a partner so that they got a percentage boost on
6 that number.

7 And then on the 25 percent gross profit share, if
8 this thing took off -- and I don't think it will in year one,
9 by the way, I think it will take time, but let's pretend for a
10 second that it just does absolutely unbelievable and it exceeds
11 our expectations, then obviously the tracks and the horsemen
12 would then get their share of anything over and above the 25
13 percent that was kicked in there. So they'd -- they'd get a
14 guaranteed increase in purse money from last year just for
15 working with us and cooperating with us. And then we try and
16 learn together over time, is ten percent the right structure?

17 CHAIR ISRAEL: But that's -- but that's a one time
18 only, 25 percent?

19 MR. BURN: No. No. No. That's the proposition that
20 we -- because we --

21 CHAIR ISRAEL: Is it guaranteed in perpetuity?

22 MR. BURN: No. It's not a 25 percent -- just to be
23 clear, it's not a 25 percent increase in California purse
24 money. Nobody could -- could come forward with that. It's a
25 25 percent gross -- gross profit share, basically --

1 CHAIR ISRAEL: You had me interested there for a
2 minute.

3 MR. BURN: -- and a 2-to-1 revenue. But -- but with
4 the purses what we're looking to do is to come up with what we
5 believe is a reasonable number, and it's -- we haven't
6 concluded any of those deals yet. But, you know, some of the
7 tracks, if they wish to, can talk about where we've got to on
8 that front, signing a big guarantee, and then we have a look at
9 it. And depending on the duration of those -- of those
10 contracts will determine how long the guarantee lasts.

11 COMMISSIONER ROSENBERG: Okay. Can you explain in
12 more detail the 25 percent gross profit? It's an estimate?
13 It's -- it's a guarantee of 25 percent of gross profit, if any,
14 that Betfair makes on that specific --

15 MR. BURN: Yeah. I think --

16 COMMISSIONER ROSENBERG: -- meeting; correct?

17 MR. BURN: I think from our perspective it's probably
18 easier for everybody, certainly for me, to think in terms of
19 revenue more than anything else. It's ultimately about the net
20 revenue that's left. And the proposition is, and obviously
21 it's just a proposal, that we give 66 -- it's actually 70
22 percent of net revenues to racing, and we make 30 percent of
23 it. So there's just a little bit more --

24 COMMISSIONER ROSENBERG: Oh. Okay.

25 MR. BURN: -- than a 2-to-1 split.

1 CHAIR ISRAEL: The definition --

2 MR. BURN: Now we would have -- we would have --

3 CHAIR ISRAEL: The definition -- look, I work in
4 Hollywood. It's all about the definition of net revenues.

5 MR. BURN: Of -- of course it is, and we know that.
6 So -- so we'll --

7 CHAIR ISRAEL: In Hollywood we call them net
8 revenues. You know that.

9 MR. BURN: Well, yeah, but -- but -- but with --
10 again, with respect, we're -- we're not Hollywood and we -- we
11 come at it with a different dynamic. There is not a betting
12 company anywhere in the world that comes with the same
13 principals and the same guidelines that we do. We will sit
14 down with the sport. Our books will be open. They'll see what
15 we're trying to bake in as far as cost is concerned, and we
16 think our costs are going to be roughly around about the 65
17 percent mark. So what will be -- for -- for \$100 it's going to
18 cost \$65.00 to keep the system up, to get it going, to market
19 it, to do the legal stuff, and to do everything else; \$35.00 of
20 that will be left. From that \$35.00 our proposition is we give
21 two-thirds of it to racing, and we keep a third as an
22 operating --

23 CHAIR ISRAEL: Okay. No. Could I just say one
24 thing? When ADWs started 12 years ago everybody said we're
25 going to use this model, this financial model, and we're going

1 to revisit it within a year or two, once costs have been
2 recouped, startup costs have been recouped and we understand
3 how it works and -- and we understand whether it's fair or not.
4 It's never been revisited. That was a lie. And it's
5 frustrated everybody involved where -- and -- and, look,
6 there -- the great thing about your business is once you have
7 the startup costs and you've paid the initial marketing costs,
8 you're not putting on the show. So your costs are relatively
9 minimal. You need a bunch of servers --

10 MR. BURN: That's not correct.

11 CHAIR ISRAEL: -- and some computer tech now.

12 MR. BURN: That is simply not correct.

13 CHAIR ISRAEL: Yeah. Well, that's my opinion. Okay?

14 MR. BURN: That doesn't make it correct that it's an
15 opinion. It would be good to see what the --

16 CHAIR ISRAEL: Well --

17 MR. BURN: -- evidence is --

18 CHAIR ISRAEL: -- you're not --

19 MR. BURN: -- to support that.

20 CHAIR ISRAEL: So you are putting on the show?

21 MR. BURN: We are putting on a show, which is that
22 we're marketing the bejesus out of it. So on TVG it's
23 something that -- that -- that is often, again, kicked around,
24 but it isn't valid. As an ADW business we make no or next to
25 no money. Now maybe we run our business badly, but we do it in

1 conjunction with television. The structure of the ADW
2 system --

3 CHAIR ISRAEL: Well --

4 MR. BURN: -- has us giving -- and more than any
5 other ADW, by the way. We get categorized as being like
6 everyone else. We're not. As an ADW we pay more than anybody
7 else back into the system. And I think if you ask some of our
8 track partners to validate that they will certainly do it.
9 John was around at the time ADW started and not me, and he can
10 speak better about what was said then, but I don't represent
11 those guys. I'm -- I'm not connected with them and I don't
12 have anything to do with them.

13 CHAIR ISRAEL: Okay. But the fact is the real
14 expense in putting on the show is maintaining this property,
15 putting horses on the track, maintaining the backstretch,
16 putting up the purse money, maintaining the parking lots, all
17 the infrastructure involved. That's a hell of a lot more than
18 marketing a computer platform. And -- and there has to be some
19 reasonable return to the people who are bearing the burden of
20 putting on the show that you're -- you're taking the bets.

21 MR. BURN: Of course it does, and we're not disputing
22 that, and that's what we're proposing. But I thin it would be
23 a mistake to think that all we have to do is market -- is just
24 to market it. The system has to be sustained and maintained.
25 The integrity needs to be monitored. There are a number of

1 things that just have to be done from a custom point of view.
2 And as far as we're concerned we spend a significant amount of
3 money, in excess of \$20 million a year, pushing and promoting
4 TVG. Now that benefits everybody. It benefits Twinspires.
5 It's benefits XpressBet when their customers do it. It
6 benefits the rebate shops because all their customers are
7 watching it and using it. And we don't get a single cent from
8 any of that business. We do it, yes, partly for ourselves, but
9 primarily for the racing industry, and we get no credit for it
10 whatsoever. And I'm getting tired, sick and tired of hearing
11 from a number of people -- you're not doing it, Commissioner
12 Israel, but I've heard it from --

13 CHAIR ISRAEL: Well, I don't care. You can say
14 whatever you want about me. That's okay.

15 MR. BURN: -- but I've heard it from other sources
16 that we're somehow leeches that's trying to suck the lifeblood
17 out of the sport, when we're doing the exact opposite of that.
18 The exchange --

19 CHAIR ISRAEL: Well, you have no business if the
20 sport goes down too.

21 MR. BURN: Exactly.

22 CHAIR ISRAEL: It's just about -- it's just -- the --
23 the question is whether the equation is fair, and why has it
24 never been revisited?

25 COMMISSIONER ROSENBERG: Excuse me. Excuse me.

1 CHAIR ISRAEL: Go ahead, Richard.

2 COMMISSIONER ROSENBERG: I want to just comment on --
3 I just want to make it clear, I disagree with Commissioner
4 Israel on this point. We've discussed it before. I don't
5 think we should even mention the ADW history here because if
6 the -- if the parties how have the right to veto the deal each
7 time it comes up decide not to -- not to change the terms, it's
8 not our problem. If the -- if the horsemen's group and the
9 tracks can agree that the rate stays the same it's irrelevant.
10 So the history on this, to me, is -- is -- is unnecessary.

11 MR. HINDMAN: And I agree with you, Commissioner
12 Rosenberg. And it's even more that way with exchange wagering.
13 They're -- even more than ADW, there simply can not be an
14 exchange wager struck unless there is an agreement on the
15 financial aspects of it with the racing association and the
16 horsemen's group.

17 CHAIR ISRAEL: I understand. But is it precedential?
18 The idea initially 12 years ago was no precedent was being
19 established. The numbers have never changed. The precedent --

20 MR. HINDMAN: They --

21 CHAIR ISRAEL: The precedent was established and it's
22 never been revised.

23 MR. HINDMAN: If we want to re-litigate ADW I will.
24 The truth is, it has. And we do not keep the same amount of
25 money from an ADW that we kept ten years ago. And -- and it

1 was revised, and it was revised down to the point where a bet
2 that's made through an ADW pays back more to the racing
3 association and the horsemen than a bet made from satellite
4 wagering. And that was the point where I think -- and that was
5 a long time ago, but I've been around a long time -- where
6 everybody kind of sat back and looked and said that seems fair.

7 And -- and in the meantime, as -- as Stephen was
8 saying, you know, we're plowing \$45 million a year into the
9 business, which we're happy to do, which goes to -- half to
10 horsemen and half to track -- to racing associations. We feel
11 that's a very worthwhile contribution. And we're putting the
12 races in 36 million homes, which is extremely expensive.

13 So I think that -- that we actually have gotten to a
14 point where people -- to Commissioner Rosenberg's point --
15 have -- have -- have looked at it and said that there is value
16 being returned to the industry, commensurate for --

17 CHAIR ISRAEL: Look, I --

18 MR. HINDMAN: -- what's going out the door here.

19 CHAIR ISRAEL: -- I agree that there's value being
20 returned. And there is -- you are certainly the -- the basis
21 of a lot of growth in the industry. But the growth has to be
22 priced fairly as it continues, that's all.

23 MR. BURN: I agree. And I think we also need to work
24 with the industry to try and help people go to the tracks. So
25 we worked with Keeneland last year. It's one of our partners.

1 I know they're not in California, as, of course, you do. But
2 we had specific programs and promotions to try and drive track
3 attendance at Keeneland during their autumn meet using TVG as a
4 medium to talk to people, both online and through the
5 television network. And Keeneland had a record attendance in
6 the autumn at their meet. Now they had good weather; of
7 course, that would have contributed to it. But they had more
8 fans going than they ever had before. And I think if you talk
9 to them you'll find out that we were very good and willing
10 partners on them.

11 We've done the same with Oaklawn this year. Oaklawn
12 are back on the TVG Network. They're also able to be shown on
13 HRTV. But since they came to TVG their handle has gone up.
14 They actually, yesterday, announced their putting more purse
15 money back for this particular meet because they've also had
16 both record attendances, record handle on track, and they're
17 doing more business now than they've ever done because of, I
18 believe, partly what we're doing with our TV network. And we'd
19 like to use the TV network to promote racing, and we think the
20 exchange is just one tool in the box, basically, that we could
21 use to try and help drive business.

22 COMMISSIONER ROSENBERG: Are you going to talk about
23 promotion and marketing further, or should be ask the questions
24 about that?

25 MR. BURN: Please ask the questions. We had decided

1 to try to keep this as short as possible, so we haven't got
2 detail --

3 COMMISSIONER ROSENBERG: Well, I --

4 MR. BURN: -- on marketing.

5 COMMISSIONER ROSENBERG: What I've heard from -- I
6 read something by someone who was a player, an exchange
7 wagering player, who mentioned liquidity. And you mentioned
8 liquidity too. How do you attract people to have enough action
9 to have a small better get his bets matched, or any better to
10 get his bets matched? How do you plan to do that --

11 MR. BURN: Well --

12 COMMISSIONER ROSENBERG: -- at the start of any --
13 any tests or any full-blown move forward?

14 MR. BURN: So we've had discussions with some
15 customers, many of whom are California, that have approached us
16 right now who are interested in becoming effectively liquidity
17 providers to markets. They're people who think that they
18 understand pricing, they understand the market. They want to
19 come in and they want to start playing because they think
20 they're going to get an edge.

21 Traditionally what we've seen is that it's one of
22 those if-you-build-it-they-will-come things as far as liquidity
23 is concerned. If you provide a platform with rapid access --
24 we have API access which allows people who do the kind of stuff
25 that you want to do -- but basically fans will come and --

1 CHAIR ISRAEL: I wish I could build it.

2 MR. BURN: -- fans -- fans will come and use it
3 and -- and get matched. If they don't get matched, obviously,
4 they will have a bad experience. But usually they won't get
5 matched because they're asking for prices that are a little bit
6 too excessive. If Sandy Akton (phonetic) is running and she
7 should be even money and you ask for 10-to-1, you're probably
8 not going to get 10-to-1. But if you ask for 3-to-2 or 8-to-5
9 the chances are you'll get 8-to-5.

10 But the key for us is attracting a large enough
11 player base into the pot in order for them to be able to play
12 with each other. And liquidity is the key, which is one of the
13 reasons why, incidentally, we would like to work with other
14 current ADW or betting operators who are legitimate because we
15 would like to have one liquidity pool at the back end that
16 everybody can bet into, because then I think it would benefit
17 everybody rather than have a number of separate pools that
18 they're all playing with.

19 COMMISSIONER ROSENBERG: I don't follow that, a
20 liquidity pool at the back end or --

21 MR. BURN: I'm sorry. So rather like with the --
22 with the tote system, there's -- I mean, now there's a number
23 of ADWs and they all have their own ADW system. You can go to
24 Twinpires or, you know, TVG or XpressBet or wherever you want
25 to go. But a lot of the technology for that is done by

1 different companies. There's an AmTote of there's a United
2 Tote or Sportech or whatever that are doing the kind of
3 technical bit as far as the bet matching and reconciliation and
4 whatnot is concerned. And it all tips into just one pool in
5 the end. There's not a specific Twinspires pool just for
6 Twinspires customers.

7 CHAIR ISRAEL: What he's suggesting is everybody
8 takes -- if all three platforms take exchange wagering --

9 COMMISSIONER ROSENBERG: Uh-huh.

10 CHAIR ISRAEL: -- it will be one --

11 COMMISSIONER ROSENBERG: Oh, it's consolidated.

12 CHAIR ISRAEL: -- consolidated pool --

13 COMMISSIONER ROSENBERG: Yeah.

14 CHAIR ISRAEL: -- instead of three separate pools --

15 MR. BURN: Exactly.

16 CHAIR ISRAEL: -- just as --

17 COMMISSIONER ROSENBERG: Right.

18 CHAIR ISRAEL: -- all of the win, place, show, and
19 exotic pools are one consolidated pool. It's that -- that
20 simple.

21 MR. BURN: But it doesn't have to be about that. You
22 know, anybody can come into the marketplace and operate, and
23 then it will be the survival of the fittest. But it's our job
24 to promote it and to make it as price competitive as possible.
25 We think fans will be attracted to it if we can promote it in

1 the right way because they see better odds for them. The
2 casual better is going to know -- and, again, it's just in the
3 win, place, and show, and potentially only just in the win
4 markets initially -- but they'll see a better price, better
5 value, that their \$10.00 is going to return more money to them
6 if they use the exchange than it would if they wanted a win bet
7 on the old-fashioned pari-mutuel system.

8 COMMISSIONER ROSENBERG: And do you have a marketing
9 plan developed yet?

10 MR. BURN: We have, yes. Yes.

11 COMMISSIONER ROSENBERG: Now do you have budget?

12 MR. BURN: I mean, it's -- it --

13 COMMISSIONER ROSENBERG: Do you have a budget for
14 that?

15 MR. BURN: We do, yes.

16 COMMISSIONER ROSENBERG: Can you tell us how much it
17 is?

18 MR. BURN: Well, the -- the budget is based on -- on
19 the back of projected revenues. But I think initially, as far
20 as the marketing spend and the short term is concerned, we
21 can't project revenues because we don't know if it's going to
22 be wrapped around one meeting or many meetings. So it's around
23 about the \$1.5 to \$2 million mark.

24 COMMISSIONER ROSENBERG: Startup?

25 MR. BURN: Yeah.

1 COMMISSIONER ROSENBERG: And will that be primarily
2 on internet advertising?

3 MR. BURN: It will be primarily online, and some of
4 it may be in television.

5 COMMISSIONER ROSENBERG: Uh-huh.

6 CHAIR ISRAEL: Okay. Do they --

7 COMMISSIONER ROSENBERG: Oh, just one more question.
8 Excuse me. You mentioned these people who have approached you
9 to be interested in being sort to a startup. What's in it for
10 them?

11 MR. BURN: Money, presumably. That's usually the
12 motivation. They think --

13 COMMISSIONER ROSENBERG: You don't give them a
14 special rate, or do you give them a special --

15 MR. BURN: Absolutely not. No. Everybody will be
16 treated exactly the same. We're proposing one commission
17 structure. The idea is that we would charge a flat commission
18 of ten percent. And then we would rebate customers according
19 to how much money they win or lose or put into the system. So
20 it would get their blended rate down to something lower.

21 I mean, it's interesting, I have conversations with
22 the racing industry who complain that they wouldn't be getting
23 enough money and it should be more than ten percent. And I
24 have conversations with horse players who say it's outrageous;
25 why is it ten percent when the rest of the world is paying five

1 percent?

2 COMMISSIONER ROSENBERG: Okay.

3 MR. BURN: There's a lot more we could go through,
4 but I'm respecting the process and the time. And this is not
5 just about Betfair, so --

6 CHAIR ISRAEL: Is there -- is there -- they're -- so
7 you're done with the presentation part?

8 MR. BURN: We have.

9 CHAIR ISRAEL: Okay. I think we'll shut up. Thank
10 you very much.

11 MR. BURN: Thank you.

12 MR. HINDMAN: Thank you.

13 CHAIR ISRAEL: Twinpires. Do you have a PowerPoint,
14 too, Brad?

15 MR. BLACKWELL: No.

16 CHAIR ISRAEL: Okay.

17 MR. BLACKWELL: Good morning, Commissioner Israel,
18 Commissioner Rosenberg, and welcome back, Kirk. Brad Blackwell
19 on behalf of Churchill Downs and Twinpires.

20 First of all, we certainly appreciate the opportunity
21 to be here today to participate in this process.

22 CHAIR ISRAEL: Brad, move the microphone closer.

23 MR. BLACKWELL: Is that better?

24 CHAIR ISRAEL: Yeah.

25 MR. BLACKWELL: Okay. As I mentioned, we certainly

1 appreciate the opportunity to be here today to participate in
2 this process. And, Commissioner Israel, you're right in that
3 this is a lot of exposure for California. There's certainly a
4 lot of people watching to see what happens. And certainly this
5 potentially sets, you know, a precedent throughout U.S. racing.

6 As you know through, you know, our comments, we have
7 not pushed exchange wagering in any jurisdiction. While we're
8 all for innovation, the fact of the matter is exchange wagering
9 is a complicated and controversial form of wagering, just as
10 you mentioned earlier, and could have serious consequences for
11 our sport, and for California racing in particular.

12 This forum has been helpful already. Commissioner
13 Israel and Commissioner Rosenberg, you've raised a lot of good
14 questions, expressed a lot of the same concerns that -- that --
15 that we have with regards to exchange wagering. And we really
16 feel obligated to be here today to express some of these
17 concerns and kind of talk about the potential impact.

18 You know, one of the topics that, you know, has been
19 a topic of debate has been the economics. And it's well known
20 that exchange wagering has been -- as has been discussed,
21 returns a much lower margin per wagering dollar to the industry
22 than the traditional pari-mutuel wagering. We, at Churchill
23 Downs, have looked have looked at exchange wagering in the
24 past. We've been approached to provide our signals in the
25 exchange wagering market. And quite honestly, in addition to

1 some other issues, we could never get comfortable with what the
2 returns would be for our signal. We kind of really felt that
3 they were insulting returns for our investments. As,
4 Commissioner Israel, you mentioned, the cost of putting on the
5 show, that's a substantial cost.

6 While we do not fully understand the economics that
7 Betfair is suggesting, from what we do understand we feel that
8 more can be returned to the industry. And that's certainly
9 something that we want to look into.

10 And as has also been discussed, even if a track gets
11 past the economics that they're being provided for their signal
12 you into the issue of cannibalization, as we've mentioned. And
13 so one of the other things that's been discussed is that ADW
14 returns the highest margin per wagering dollar to the industry
15 than any other form of wagering, and essentially you run the
16 risk of trading off a high return to the industry for a low
17 return to the industry. And again, from a racing perspective
18 we just don't feel like that's a good decision for tracks and
19 horsemen.

20 CHAIR ISRAEL: Have you done any market surveys to do
21 see if there would be that kind of mosaic?

22 MR. BLACKWELL: We have not.

23 CHAIR ISRAEL: No?

24 MR. BLACKWELL: We have not. And certainly we would,
25 you know, welcome others, if they have any information. But

1 certainly that's a legitimate concern on our behalf.

2 CHAIR ISRAEL: And let me -- just one other thing.
3 Do you -- do you have a proprietary exchange -- exchange
4 wagering platform that you're working on or -- or already
5 developed?

6 MR. BLACKWELL: No, we do not.

7 CHAIR ISRAEL: Okay.

8 MR. BLACKWELL: One of the other issues, again,
9 that's been raised is just -- is the integrity issues. And
10 there are a couple of, you know, bets that are being proposed.
11 The first is essentially the ability to bet against a horse.
12 And we just feel like that has so many issues associated with
13 it, at the very least the perception issues. You know,
14 basically providing some type of incentive or reward for a
15 horse to lose, we think will create perception issues for the
16 tracks.

17 And one of the things that we would certainly like to
18 see is that, you know, each track, again, if this were to move
19 forward, has the ability to not offer that for their races,
20 that, you know, you -- maybe the regulations would require a
21 specific consent on the tracks so that they are aware that, you
22 know, they do not want to participate in that. Because again,
23 there's the perception issues. It's certainly been well
24 documented that it's much easier to hold a horse back than it
25 is to force a horse to win. Some of the concerns have already

1 materialized in the U.K. where it's been well known that
2 there's been issues, and the industry and exchange wagering
3 already have a black eye with regards to some of the concerns
4 with that wager.

5 The second controversial bet that's being discussed
6 is the ability to bet during a live race. And while the CHRB's
7 summary of the regulation suggests that oral approvals would be
8 necessary, the only approval I saw in the actual regulation was
9 that the CHRB would actually approve that type of bet. And
10 again, I feel like this would be a bet that would require
11 specific consent from a track. Because again, this is a whole
12 new type of bet that raises a number of concerns.

13 And some of the questions that we came up with, with
14 regards to this wager, is: Who's responsible for closing the
15 market? And will there be a steward at each race track
16 responsible for this responsibility? Will the host track be
17 responsible for sending a real-time signal to the operators?
18 How will customers be assured that the wagering is opened and
19 closed on time and that others can not gain an advantage? How
20 do you deal with latency between a real-time event and video
21 distributed over the TV and internet? And as has already been
22 raised, does this invite customer to show up at the race track
23 with their laptop in order to try to gain an advantage in terms
24 of some of these concerns and latency issues?

25 CHAIR ISRAEL: Nobody's got laptops anymore.

1 MR. BLACKWELL: Tablet, whatever. But essentially
2 that raises some concerns. And, actually, when I read through
3 the proposed regulations I thought the regulations with regards
4 to that type of wager were pretty light because there's a lot
5 of questions. Again, this is -- this is complicated issues
6 that we, as a U.S. racing industry, aren't used to dealing
7 with. And so I think that certainly more discussion is
8 warranted. And you know, these are some of the issues which an
9 entirely separate meeting could be helpful to talk through some
10 of those issues.

11 We also feel compelled to remind California of the
12 warnings that have been issued by other racing jurisdictions
13 experienced in exchange wagering. The British Horseracing
14 Authority has publicly discussed the disruption and
15 consequences of exchange wagering while making note of it's
16 impact on the economics and integrity of British racing. The
17 British Horseracing Authority went as far as warning any
18 international racing jurisdiction to carefully weight the
19 impact on their sport and learn from the British experiences.
20 So this is, again, something that concerns us when we hear
21 authorities mentioning these problems.

22 Moving on, I touched on some of the issues with the
23 proposed regs with regard to some of these bets. And while we
24 haven't had a lot of time to review the draft regulations, you
25 know, we hope that everyone has ample time to comment on them,

1 given their importance. There were a couple of issues that
2 has -- that stood out for us.

3 One, as has already been discussed, is the \$1.4
4 million fee. And we were just -- we've heard some of the
5 answers here, just in terms of where that -- but we still have
6 questions with regards to where that number came from, if
7 there's been any studies, if there's been a cost estimation
8 in terms of how you get to that number. And certainly one of
9 our fears is that that could essentially be a barrier to
10 competition, is that there may be others that -- that -- that
11 can't afford that, that this discourages them to participate.
12 And certainly we feel like it's extremely important that if
13 California moves forward that there is a level, fair playing
14 field that invites competition. We think that's good for the
15 customer. We think that's good for the industry.

16 The other question that we had was just regard to
17 what other jurisdictions are allowed into these markets. The
18 enabling bill mentioned jurisdictions outside of California.
19 We didn't know if that was a state, if that was a country, if
20 offshore liquidity is being allowed. There's some reference
21 that it would be in compliance with the Interstate Horse Racing
22 Act. We don't know if an analysis has been done to determine
23 if the Interstate Horse Racing Act actually covers exchange
24 wagering. So again, some questions that we had, but it wasn't
25 quite clear in the statute or regulation in terms of what

1 jurisdictions would be allowed.

2 One of the other concerns that's been raised with
3 regards to potential foreign liquidity is that offshore
4 jurisdictions that already allow exchange wagering would
5 essentially allow those experienced players to prey upon
6 California customers who really aren't up to speed on exchange
7 wagering. And that has the potential to extract money out of
8 the California racing system and go to other forms of gambling
9 that may be legal in other jurisdictions.

10 It's interesting that Betfair suggested earlier that
11 anyone can come into the marketplace and compete. We learned
12 recently in an interview that Betfair was taking the position
13 that they have a patent for exchange wagering in the U.S.
14 market, that this was done for defensive purposes, and that
15 while they were happy to license their technology to other
16 providers through a white label this comes across to us as an
17 attempt to control the market and monopolize the market, which
18 has been a big fear of ours.

19 Everyone in the industry knows what happened the last
20 time a single ADW provider had that much control over the ADW
21 market. The ADW provider controlled the ADW rights to racing
22 signals, and the tracks were paid three percent for their
23 signals compared to two to three times the amount that's here
24 today. This is a place the industry can not afford to go back
25 to. And again, the economics of this are extremely important.

1 We feel that if California moves forward that certainly the
2 ability to compete on a level playing field is important.

3 In closing, we feel this meeting was a great start.
4 And -- and we certainly appreciate the opportunity to be here
5 and discuss the numerous issues and complications, but we
6 certainly feel that more of these types of meetings are
7 necessary.

8 CHAIR ISRAEL: Right. Right.

9 MR. BLACKWELL: There certainly should not be a rush,
10 you know, to -- to regulate and license exchange wagering. I
11 know that the enabling statute mentions a May 1st date. But
12 certainly that's no sooner than May 1st. There's no obligation
13 that says you have to rush through this process.

14 CHAIR ISRAEL: Well, that -- that's a perfect setup
15 for my question, which is a cynical person might suggest that
16 Twinpires is engaging in a stalling tactic until they've
17 developed their own exchange wagering platform that they can
18 roll out and legitimize and have in place, and so they can
19 participate equally with -- with Betfair. How do you answer
20 that question?

21 MR. BLACKWELL: Well, I think, you know, certainly,
22 as I mentioned, we were not pushing exchange wagering, but we
23 would look at competing. And, certainly, we plan to compete if
24 California moves forward. It's something we would -- may do so
25 reluctantly. Again, we don't know that this is the best thing

1 for the industry. But certainly, again, to turn this over to
2 one company, we think would be a huge injustice to the
3 industry. And certainly we feel that we may be able to
4 offer --

5 CHAIR ISRAEL: Well, when --

6 MR. BLACKWELL: -- various other solutions.

7 CHAIR ISRAEL: When would you be ready to do that?

8 MR. BLACKWELL: I really don't know.

9 CHAIR ISRAEL: All right. One more question
10 before -- and then Richard will have a question.

11 You're an attorney.

12 MR. BLACKWELL: Correct.

13 CHAIR ISRAEL: There is -- you kind of intimated that
14 you -- you question the legality of this as it relates to the
15 Interstate Horse Racing Act. Is your view of this that it's a
16 pari-mutuel activity or that essentially the individuals are
17 engaging in bookmaking?

18 MR. BLACKWELL: To be honest, we haven't looked at
19 this from an Interstate Horse Racing Act perspective. That's
20 why I raised the question, to see if this has been thought
21 through.

22 Certainly, when we first looked at exchange wagering,
23 I think we saw it as something different than pari-mutuel,
24 because at the end of the day you are fixing the odds up front.
25 It's unlike the traditional pari-mutuel model where basically

1 the market decides what the rates are. This is an up-front --
2 much to the point you made earlier, Commissioner Israel, it's
3 more like sports' wagering. And I think that sports' wagering
4 would be considered more of a fixed-odds method of wagering
5 than it is a pari-mutuel system.

6 CHAIR ISRAEL: Sports' wagering requires a bookmaker.

7 MR. BLACKWELL: Right.

8 CHAIR ISRAEL: Yeah.

9 MR. BLACKWELL: So -- so essentially an exchange
10 allows each individual to operate as a bookmaker. I would
11 think, you know, offshore that it's -- there's potential that,
12 you know, bookmakers could use this as a forum to put out their
13 fixed odds. And certainly, you know, I would welcome, you
14 know, Betfair to, you know, comment if this is something
15 they've seen, have bookmakers use their system to basically
16 place fixed odds wagers in -- in whatever market, whether it's
17 horse racing, sports, or any other.

18 CHAIR ISRAEL: Thank you. Go ahead.

19 COMMISSIONER ROSENBERG: Well, were you speaking on
20 behalf -- you're speaking on behalf of the corporation. Are
21 they -- well, just kind of read through, as Commissioner Israel
22 was alluding to, what's the position of the company? Are you
23 opposed to exchange wagering in the State of California in its
24 present -- as proposed by the rules? Aside from the technical
25 changes in the rules --

1 MR. BLACKWELL: Right.

2 COMMISSIONER ROSENBERG: -- are you -- is the -- is
3 the corporation opposed to exchange wagering in the state?

4 MR. BLACKWELL: I would say our position is there's
5 still a lot of concerns that we continue to have. There's
6 questions. We have more questions than answers at this point.
7 Certainly, this process is helpful to try to get some of those
8 answers. And again, there's plenty of others to hear from
9 today. Our position is this is something we didn't push for.
10 It's something that we had a lot of doubts with in the
11 beginning. We still have a lot of doubts. We still don't
12 understand fully how the economics work. We think that there's
13 a lot of downside.

14 You know, we questioned, you know, the legality at
15 first. But you know, the -- the fact of the matter is
16 California is pushing forward with this. And we feel like, you
17 know, it could put us, certainly, at a disadvantage. It could
18 put any ADW at a disadvantage. It could put tracks at a
19 disadvantage. Again, we've talked about wagers where someone
20 may have an incentive to bring their laptop and -- and place
21 wagers at the track in order to gain an advantage.

22 CHAIR ISRAEL: Is it possible that Churchill or
23 Twinpires would take legal action to block the implementation
24 if -- if it's approved by the CHRB? And that -- that, by the
25 way, is not a foregone conclusion.

1 MR. BLACKWELL: Right.

2 CHAIR ISRAEL: I'm not saying that.

3 MR. BLACKWELL: I think anything is possible. It's
4 certainly something we have not discussed.

5 CHAIR ISRAEL: You haven't discussed it, but it's
6 possible you would take --

7 MR. BLACKWELL: Well, I think anything's possible,
8 Commissioner Israel. Would we do something like that? I doubt
9 that. It's nothing --

10 CHAIR ISRAEL: Is it possible though?

11 MR. BLACKWELL: I have not been privy to any
12 discussions. So -- but to say something is not possible --

13 CHAIR ISRAEL: Okay. All right.

14 MR. BLACKWELL: -- I can't answer that question.

15 CHAIR ISRAEL: Okay. That's all right.

16 COMMISSIONER ROSENBERG: Yeah. You alluded to, in
17 your earlier talk about the ADWs, do you -- do you break down
18 your profit and loss statement by division to show what -- how
19 profitable or not profitable the ADW operation is? I'm
20 speaking only of the ADW operation.

21 MR. BLACKWELL: Do we break it down --

22 COMMISSIONER ROSENBERG: Do you show those --

23 MR. BLACKWELL: -- by the ADW --

24 COMMISSIONER ROSENBERG: -- statements?

25 MR. BLACKWELL: -- as separate --

1 COMMISSIONER ROSENBERG: You're a public company. Do
2 you have to show --

3 MR. BLACKWELL: Separate -- separate from --

4 COMMISSIONER ROSENBERG: Yes.

5 MR. BLACKWELL: Those --

6 COMMISSIONER ROSENBERG: Yes.

7 MR. BLACKWELL: It's consolidated into the same
8 financial statements. Of course, we would know what those
9 numbers are. We release handle figures. But in terms of
10 breaking down what the profit is, I'm not certain that we break
11 it down to that level. Because those financial statements are
12 consolidated into the public parent companies.

13 CHAIR ISRAEL: You put Churchill into CDI; right?

14 MR. BLACKWELL: Correct.

15 CHAIR ISRAEL: Yeah.

16 MR. BLACKWELL: Right.

17 CHAIR ISRAEL: So you don't -- you're not -- you
18 don't issue a separate financial statement?

19 MR. BLACKWELL: No. There's no -- there's not
20 separate financials. It's consolidated into the parent company
21 financials.

22 COMMISSIONER ROSENBERG: Because Betfair has made
23 statement about, you know, they're -- I guess they're a public
24 company not registered in the U.S.; correct?

25 CHAIR ISRAEL: Yeah. It's English.

1 COMMISSIONER ROSENBERG: They've talked about their
2 ADW operation, TVG --

3 MR. BLACKWELL: Right.

4 COMMISSIONER ROSENBERG: -- as not being highly
5 profitable. Can you comment on whether it's profitable, highly
6 profitable, a loss? Are you investing money in it or what?

7 MR. BLACKWELL: I don't know those numbers off the
8 top of my head. You know, I would think it is profitable.
9 Certainly I think that we continue to invest in the business.
10 We have gone through numerous acquisitions. We've gone through
11 innovative developments. And so it's something that we see as
12 an important distribution of racing product.

13 Again, it's -- it's important, and we've gone through
14 this at previous meetings: What does ADW do? It certainly
15 provides the broadest distribution for racing product, and it
16 certainly returns the highest margin of return to the tracks
17 and horsemen. And again, we feel that's important in order to
18 support the system. The -- the system is based on being able
19 to run and put on the show. And as Commissioner Israel said,
20 that's a very costly process.

21 CHAIR ISRAEL: All right. Nothing? Thank you, Brad.

22 MR. BLACKWELL: Thanks.

23 CHAIR ISRAEL: Okay. Let's move on to the racing
24 associations. First up, Stronach Group. Good morning, Scott.

25 MR. DARUTY: Good morning. I'm Scott Daruty with the

1 Stronach Group. I'm speaking today on behalf of Santa Anita
2 Park, Golden Gate Fields, and also XpressBet, all of which are
3 subsidiaries of and operated by the Stronach Group. I'll get
4 this out of the way quickly.

5 We are opposed to exchange wagering. There's no
6 alternative motive here. There's no positioning. There's no
7 delay so we can get a business up and running; we're opposed to
8 it.

9 Exchange wagering is a very innovative approach to
10 horse racing. I will give them that. But ultimately the
11 question that -- that we try to answer for ourselves is: Is
12 this innovation that's going to be good for the industry or is
13 it innovation that ultimately is going to leave the industry
14 worse off.

15 Our company is -- is not opposed to innovation and --
16 and technology. We've spent over \$1 million this past meet
17 on -- on a new tote board. We're installing the Trakus
18 product, which -- which some people think is -- is great,
19 others think is, you know, not so great. It's technology may
20 be interfering with racing. Our decision has been that's a
21 good thing and we're moving forward with that. The Stronach
22 Group already has that in place at our track in Florida. And
23 hopefully by the end of the meet it will be here.

24 We've invested tens of millions of dollars in the
25 HRTV Television Network, which is using technology to hopefully

1 promote racing as a sport as opposed to just a pure racing --
2 wagering activity. And, of course, tens and tens and hundreds
3 of millions of dollars of other investment here in -- in the
4 California racing industry. We're trying to preserve not just
5 that investment, but also the long-term viability and success
6 of California racing. Our chairman was here at the last horse
7 racing board meeting and -- and talked about trying to set up a
8 framework to ensure racing would always be at this facility.

9 But what it ultimately boils down to is: Is exchange
10 wagering going to leave us better off or worse off? And you
11 know, our opinion today and our opinion at the time that this
12 bill was passed in late 2010 is that while it's a great
13 innovative idea, unfortunately the integrity problems that it
14 brings to play and the fact that the economic model doesn't
15 work, those two things lead us to the conclusion that it just
16 is not going to work and is not good for the industry.

17 I'm going to mention just one small piece of history,
18 not to dwell on it but because it's going to come up later as
19 we talk about the -- the enabling statute, and that is we have
20 to all remember how this bill came about. There was some
21 discussion earlier about ADW and when that bill got passed 12
22 years ago. Well, there was exhaustive discussion and
23 cooperation among the industry to try to figure out what the
24 bill should look like. And it went to the legislature at one
25 point and didn't get passed. And we came back the next

1 session, had a lot more discussion and -- and involvement, and
2 ultimately it got passed.

3 That was not the case with exchange wagering. This
4 was a jam at the last minute of a session on a bill that was
5 important to the industry for other reasons. And I think
6 because of that political way in which this bill came about
7 there are some flaws in it that have not been brought to light.

8 Again, just for the record, I'm speaking not only
9 behalf of Santa Anita and Golden Gate, but also --

10 CHAIR ISRAEL: What -- what are the flaws?

11 MR. DARUTY: What are the flaws?

12 CHAIR ISRAEL: Before I forget, what are the flaws?

13 MR. DARUTY: In the way the statute reads?

14 CHAIR ISRAEL: Yes.

15 MR. DARUTY: Well, first and -- and foremost, and you
16 brought this point up already, the statute is -- I don't think
17 it was absolutely necessary for them to even say this, but the
18 statute says that exchange wagering is a form of pari-mutuel
19 wagering. No, it's not. Exchange wagering is a system which
20 enables bookmaking to take place on horse racing.

21 Now I'm not drawing a conclusion. That might be a
22 good thing or a bad thing, and we can debate whether that's a
23 good thing or a bad thing. But it's not pari-mutuel. If you
24 and I placed a bet on last week's Super Bowl, that was not a
25 pari-mutuel bet. That was me and you betting against each

1 other. And that's what exchange wagering is.

2 So I think when you start with a flawed foundation on
3 a statute that was never discussed and never debated you end up
4 with an even more flawed result.

5 CHAIR ISRAEL: It was --

6 MR. DARUTY: Another problem --

7 CHAIR ISRAEL: It was a midnight rider. Nobody
8 disputes it -- disputes it.

9 MR. DARUTY: Another problem, and I was going to
10 touch on this later, but since you -- you brought it up now,
11 the whole way in which residents of California can bet on
12 California races and -- and import races but -- I'm sorry. Let
13 me -- let me rephrase this.

14 The way the statute reads is the exchange will be
15 authorized for both residents of California and residents
16 outside of California on California races. But a California
17 resident can bet only on California races, not on out-of-state
18 races, if you -- if you read the statute carefully. And
19 I'll -- when I get there in the presentation I'll talk to you
20 about --

21 CHAIR ISRAEL: Okay. Yeah.

22 MR. DARUTY: -- exactly what that is. That raises,
23 in my mind, some fundamental questions which Mr. Blackwell
24 spoke about a minute ago. When you start talking about out-of-
25 state persons wagering into the exchange against California

1 residents how is that going to be regulated? When we talk
2 about the fact that only natural persons are allowed to open
3 accounts, it's one thing to try to enforce that in
4 California -- and by the way, I think it will be near
5 impossible to enforce in California -- but how are you ever
6 going to enforce that in New Jersey or some other state? So
7 the -- when I talk about some of the flaws, I think those are
8 some of the things that maybe weren't thought through before
9 that bill was passed.

10 So again, we're -- we're opposed primarily for two
11 reasons; integrity issues, and the economics don't work. I
12 won't belabor the point because we've head it already several
13 times. But it is absolutely much easier to fix a race by
14 having one horse lose than it is to fix a race by having one
15 horse win. Not only does it take more people to be involved if
16 you're going to try to fix a race by having a horse win, you
17 know, you have -- you have the favorite, you know, pari-mutuel
18 system, it goes off at 2-to-5 and, okay, you're going to pull
19 it up a little bit so that another horse wins, but what other
20 horse is going to win? If it's a seven or eight horse field
21 you might have to cover four or five other horses, or maybe
22 every other horse in the race to ensure you're going to catch
23 your ticket. It's a much more expensive, much more complicated
24 process than to simply have one horse pull up and bet against
25 that horse to win.

1 Just this past December four jockeys and two owners,
2 as well as a number of their associates, were banned by the
3 British Horseracing Authority for conspiring to fix ten races.
4 Their plan? They were paying jockeys to lose, and then they
5 were laying bets against the horses ridden by those jockeys.
6 So it's not just theory. It actually happens.

7 CHAIR ISRAEL: Do you know how they were -- how they
8 were found out?

9 MR. DARUTY: I do not know how they were found out.
10 I would not be surprised to hear that the exchange potentially
11 reported that.

12 There's one thing I believe. Listen, Betfair, I'm
13 not knocking it as a company. They're a great company. The
14 people who work there are good, honest, hard-working people.
15 And I think they're truly doing the best job they can in trying
16 to monitor and -- and protect against cheating.

17 But I go to the analogy, you know, you hear it all
18 the time, what's the single biggest thing you can do to keep
19 someone from stealing you i-Pad out of your car? Lock the
20 door. You know, you can have the most sophisticated alarm
21 system or tracking device or all that stuff, but just lock the
22 door. And what I'm saying is when you create a situation where
23 people can -- can make a score by having a horse lose, we're
24 leaving the door unlocked. Let's not do that.

25 I will give just one more comment on the -- on the

1 betting a horse to lose. Chris Brand, the acting chief
2 executive of the British Horseracing Authority was quoted
3 recently as saying, "When you democratize the ability to profit
4 from horse race -- from a horse losing the risk rises
5 accordingly." He went on to say that "Integrity has been a
6 huge issue in the U.K., and it would be naive to think it won't
7 be the same in the U.S."

8 Let's listen to what the other jurisdictions are
9 saying. Let's make sure we think through their experience
10 before we jump into this thing.

11 There's another issue related to integrity. And --
12 and it's not so much the integrity of -- of what takes place
13 out on the race track, but it's an issue of integrity for our
14 betting customer, for the -- for the hard-working Californian
15 who works all week and wants to place some -- some money on
16 the -- on the horses on the weekend to relax. How do we
17 protect that person?

18 The liquidity in these pools are going to be provided
19 by professionals. Okay. They just are. You know, you think
20 to the -- think to the eBay analogy; right? We all like to
21 think of eBay, oh, it's this great thing. You know, one person
22 sells something to the other person. I cleaned out my garage
23 this weekend. I've got some old golf clubs anymore. I'll put
24 them on eBay. That's a very small percentage of what actually
25 takes place.

1 What you have is you have, you know, businesses.
2 They go purchase, you know, 10,000 surplus television out of a
3 warehouse and they go online and they sell it, and it's a
4 business. And that's not bad. That's not wrong. But it's not
5 this notion of, you know, one individual against another
6 individual.

7 Neither is a bet exchange. It's the exact same
8 thing. You're going to have large robotic players who will
9 come in to this market and they'll essentially act as
10 bookmakers. That's what they're doing. And they'll use
11 Betfair's technology to become bookmakers. And they'll do it,
12 if they're successful, at the expense of Californians. And
13 they'll do it at the expense of this race track, because the
14 guy who comes out here and bets \$100 on a weekend, if he's
15 doing it through the exchange the amount returned to the
16 industry is going to be less.

17 How are we going to -- again, when we talk about
18 who's really going to be using this, how are we going to
19 monitor that? The statute says it's got to be a natural
20 person. But how do we monitor and enforce it? Do we know that
21 a bookmaker from the U.K. doesn't set up some individual here.
22 Hey, you want a job? Be my front man in California. I'm not
23 even positive, you know, it would be illegal. I think they
24 could probably structure it in a way that would be acceptable
25 under our statute. But is that really what we want?

1 Again, you know, in our opinion this is all about
2 trying to preserve racing. It's trying to make sure that --
3 that 50 years from here there are still people meeting in this
4 room with the Santa Anita Race Track outside.

5 CHAIR ISRAEL: I hope this meeting is over before
6 then.

7 MR. DARUTY: Well, I don't know if it will be.

8 So let's talk -- let's talk for a minute about the
9 economics. Vice Chair Israel, you were critical earlier about
10 the economic model of -- of the account wagering business and
11 how it was supposed to be readdressed and never was. Let's
12 look for one second at account wagering and then compare it to
13 exchange wagering.

14 When a dollar is bet on -- through account wagering
15 today roughly 20 percent is taken out. Of that 20 percent the
16 California account wagering company holds a five percent hub
17 fee. The other 15 percent goes to the industry. So it's a 75
18 percent to the industry, 25 percent to the hub split. And what
19 does the hub do with its 25 percent? It pays its marketing
20 costs. It pays its technology costs. It pays its payroll for
21 its personnel. And whatever is left over is its -- is its
22 profit.

23 Now compare that to what we heard from Betfair a
24 minute ago. The model they're describing, for every dollar of
25 revenue they take 65 cents and they pay for marketing and

1 technology and building the platform. And the 35 cents that's
2 left over, they keep 10 percent -- or rather 10 cents, and 25
3 cents goes to the industry. So they're selling it as a one-
4 third, one-third, one-third model. But the problem with that
5 logic is they're taking 65 percent off the top to pay for their
6 expenses.

7 Now that is a problem about how you cut up the net
8 revenue from exchange wagering. And I think it's a flawed
9 distribution of that net revenue. But that's not even getting
10 to the point that the way you end up with a net revenue is --
11 is itself going to be undercutting to the economics of the
12 industry. In other words, the net revenue is so small from --
13 from every dollar wagered that ultimately not only is the
14 racing industry getting a smaller share of the net revenues,
15 but the net revenues are a smaller share of the wagering. And
16 I just don't understand how that's every going to work.

17 There's going to be cannibalization. There just will
18 be. People who are currently betting a horse to win out here
19 at Santa Anita are going to move to the exchange. I looked at
20 some of the materials submitted by Betfair earlier and their
21 claim was that only 8.5 percent of current handle is even
22 subject to cannibalization. And they arrive at that conclusion
23 by saying, well, roughly two-thirds of the wagering today is
24 exotic wagering and one-third is whip wagering, and that's
25 true. And so they're saying exotics don't even exist on the

1 exchange, so it's only the one-third that's -- that's whip
2 wagering that's subject to cannibalization.

3 And they then say that of the wagering roughly 25
4 percent is online today and 75 percent is not. So they take
5 the 25 percent online wagering of the whips and they end up at
6 8.5 percent. I would argue that that's flawed. I think that
7 when you talk about cannibalization what you're talking about
8 is the -- is the other opportunities for the wagering dollar.

9 When the Indian casinos opened up, you know, ten
10 years ago or whatever it was, did they not cannibalize racing?
11 Of course they did. But what percentage was bet in Indian
12 casinos prior to them opening up? Zero. So under this theory,
13 well, zero percent cannibalization would have resulted from
14 Indian casinos. We all know that's not the case.

15 What will the actual amount of cannibalization be? I
16 don't know. I think it's going to be very, very difficult to
17 tell. But I can say this: Why are we still sitting here
18 guessing at -- at an economic model? Why hasn't there been a
19 study done on the exact economics of what this will look like
20 in California. There's a lot of questions, questions such as
21 how many players are were going to need to make this thing a
22 success? How much is each one of those players going to have
23 to bet? What's the gross revenue that comes off of that wager?
24 What's the industry's share of that gross revenue? And then
25 how do we compare that new revenue to the revenue that we've

1 lost?

2 I don't think it's unreasonable, as -- as, you know,
3 the industry to say we should have some economic studies done.
4 We should have more detail. We should not be shooting in the
5 dark.

6 I mean, I will say that when -- when they talk about
7 their ten percent of matched wagers -- or actually it's ten
8 percent of net winnings on matched wagers create the revenue
9 pot but that rebates will be given back, you know, it looks
10 like probably around seven percent of net winnings is going to
11 be the ultimately hold for this activity. And when they're
12 talking about the racing industry receiving 25 percent of that
13 7 percent of net winnings, we're now talking about 1.75
14 percent, not of handle but of net winnings.

15 And where does that money have to go? It has to go
16 to the host jurisdiction who's running the race. It has to go
17 to the guest jurisdiction. In other words, if -- if we bet in
18 California on a wager from New Jersey does New Jersey get the
19 whole 1.75 percent? I don't think so. There's going to be
20 some split between the host jurisdiction and the source
21 jurisdiction. Maybe it's 50-50. Now we're down to .8 percent.
22 And then you split that between the tracks and the horsemen. I
23 mean, it just -- the economics are puzzling to me how this ever
24 makes sense.

25 COMMISSIONER ROSENBERG: Excuse me, Scott.

1 MR. DARUTY: Yes.

2 COMMISSIONER ROSENBERG: Speaking about the economics
3 to whom, to the industry, to the -- to the -- to the --

4 MR. DARUTY: To the race tracks and horsemen who put
5 on the show.

6 COMMISSIONER ROSENBERG: Okay. You're not speaking
7 about to Betfair --

8 MR. DARUTY: No.

9 COMMISSIONER ROSENBERG: -- of whether they should do
10 this or not? Okay.

11 MR. DARUTY: No.

12 COMMISSIONER ROSENBERG: Okay.

13 (Colloquy Between Commissioners)

14 MR. DARUTY: The -- the -- the point, I guess, I'm --
15 I'm trying to make is -- is, you know, we ignore the experience
16 of other jurisdictions at our own peril. If you look to the
17 U.K., you look to Australia, those industries have been
18 complaining for a long time about the negative impact that
19 Betfair has -- has had on their -- on their industry. They
20 sought the assistance of lawmakers in courts to try to force a
21 better system. Now maybe the system Betfair is proposing here
22 is better. But I haven't seen enough evidence to lead me to
23 the conclusion that we're in any way going to be better off
24 having bet exchanges in California.

25 CHAIR ISRAEL: All right.

1 MR. DARUTY: A couple of last thoughts. You know,
2 again, I touched on this earlier, the characterization of
3 exchange wagering as -- as a pari-mutuel wager is simply not
4 accurate. The -- the notion that -- the notion that they can
5 come into California and simply guarantee purses, in other
6 words, hey, this is a no-risk proposition. We'll guarantee
7 purses don't go down any more than they -- you know, any lower
8 than they were last year. Let us try the experiment and, you
9 know, who's harmed? Well, I think we've got to take note of --
10 of the statute, which I think that that plan violates. Section
11 19618 of the California Business and Professions Code.

12 "Which prevents any horse owner, agent or other person or
13 organization representing a horse owner or agent from
14 receiving or soliciting any funds from a person licensed
15 under this chapter for payment to the benefit of
16 horsemen."

17 I don't know. I mean, we'd have to -- to drill down
18 to see, does it -- does it -- their proposal violate the actual
19 letter of that statute? I think it might. I don't know. It
20 certainly violates the spirit of that statute. I'm not being
21 critical of them. I'm not saying they're doing anything
22 intentionally untoward. I just think that when they make that
23 offer to guarantee purses that's part of the bigger issue. We
24 really haven't thought this through. We really haven't thought
25 through all the implications.

1 If -- if you ignore the experience of the U.K. and
2 Australia, and if you, you know, disregard our comments as
3 owners of race tracks that run 50 percent of the days in
4 California, and you go forward and you license this or you --
5 you pass regulations, a couple of things to remember.

6 First of all, Golden Gate Fields and -- and Santa
7 Anita will not allow this. I mean, to the extent that the
8 statute requires the track to agree, our tracks will not agree.
9 Now am I saying in 12 months if there's a new economic model
10 and they've figured out a way that you can't bet against a
11 horse to lose and all the integrity concerns, but things
12 change -- but the way it stands today and what we see today it
13 will absolutely not be approved by Santa Anita Park or Golden
14 Gate Fields.

15 But during the other parts of the year when another
16 park may approve it, you know, please think about requiring
17 total transparency in the wagering information and the data.
18 Now they've offered that. They've said that. But just really
19 think about what that means and how you're going to know who's
20 betting. Are they robotic? Are they individuals? How is that
21 all going to be tracked so that we can understand that people
22 aren't taking unfair advantage of Californians.

23 I would ask that any payment made by an exchange
24 wagering company, whether it is a sponsorship of a race of --
25 or some other payment, that that be made public. Exchange

1 wagering is a matter of great public importance in California.
2 And I would hate to ever have the appearance that consents were
3 being bought or sold by behind-the-scene's deals. I'm not
4 saying it's not a legitimate business approach for Betfair to
5 go to a track and say I'll pay for a sponsorship. I just say
6 that needs to be made public so it's out in the open and we all
7 know what's going on. Transparency is the key.

8 Don't forget the massive regulatory burden this is
9 going to create. And make sure you understand how much it is
10 going to cost. We don't know. Do you need 5 additional
11 regulators or 50 additional regulators, and that's that going
12 to cost? I would suggest that probably Betfair should fund a
13 study of -- of the exact costs of the regulation and where that
14 money is going to come from.

15 A couple -- a couple more points. There needs to be
16 an agnostic exchange platform. And I heard them say they're
17 not opposed to that. But an agnostic exchange platform that if
18 this is approved in California, the different license holders-
19 customers should bet into a single pool of liquidity or -- or
20 it will simply never work. And maybe that should be our
21 strategy is to try to kill it that way. But -- but if you're
22 going to do it there needs to be an agnostic platform, and --
23 and preferably it should be industry owned.

24 Think about what's the next step? The next step is
25 legalized online poker. Okay. The next step after that is

1 legalized online sports' betting. It won't happen his year but
2 it's going to come at some point. And do we as an industry
3 want to turn over all of our customers to Betfair or another
4 exchange company so that when all that stuff happens we no
5 longer have customers and we no longer have control over those
6 customers and whether they're pushed towards one activity or
7 another. We're a horse racing interest. We want to make sure
8 that the customers stay tied to horse racing.

9 How are we going to know? Let's say we do a short-
10 term experiment at Del Mar. How are we going to know if it's
11 successful or not? All I'm suggesting is we should put some
12 parameters, if this thing gets approved, as to what's success
13 and what's not success. Is success based on the number of
14 accounts that are opened or the amount of wagering that takes
15 place, or is actually based on revenues paid to the industry?
16 I don't know the answer to those questions. I'm just
17 suggesting that somebody should think it through.

18 I don't think that if this is approved we should
19 allow wagers to cross state lines. I think this, if it is
20 approved, and I hope it's not, but if it is it should be
21 limited to California residents, period, end of story. Because
22 the -- the regulatory and the monitoring that would be
23 necessary if we start going into other jurisdictions is going
24 to be incomprehensible.

25 And I think that as a condition of moving forward

1 there should probably be an amendment to the statute that was
2 passed in the dark of night that clears up that confusing issue
3 I spoke about earlier where there's a specific reference to
4 what California residents can do on -- on instate tracks versus
5 out-of-state tracks. I think that needs to be cleared up by an
6 amendment in the statute.

7 Lastly, if we go forward with this how do we put the
8 Genie back in the bottle? If it ends up not working, what are
9 we going to do? I have no idea. Hopefully someone smarter
10 than me can come up with a Plan B. If it gets passed and it
11 works, great. But if it gets passed and it doesn't we should
12 have some plan to try to control the damage.

13 That's all I have. Thank you.

14 CHAIR ISRAEL: I'll ask you the same question I asked
15 Brad. If -- and it's not a foregone conclusion -- this does
16 get passed will -- will the Stronach Group take legal action to
17 prevent its implementation?

18 MR. DARUTY: I do not know the answer to that
19 question because we have not specifically set out that
20 strategy. I think it's certainly one of the options that we
21 would consider. And again, it's not -- would be done out of no
22 disrespect to the horse racing board. But we think that the
23 way this whole thing came about was completely flawed.

24 CHAIR ISRAEL: Okay. Thanks. Richard?

25 COMMISSIONER ROSENBERG: Quick question. Since

1 there's one person who owns the entity you probably got
2 direction from him. Can you project whether or not his sole --
3 is primary objection is the integrity issue? I know that you
4 raised a lot of points, which is your function, both technical
5 points, practical points. But is it -- if the integrity issue
6 were solved, hypothetically, to your satisfaction, to his
7 satisfaction, do you believe there would be a problem with
8 exchange wagering in his mind?

9 MR. DARUTY: Well, I think -- I think in Frank
10 Stronach's mind there are two fundamental problems. The
11 integrity is the one he always mentions first because he
12 believes that betting on a horse to lose is just fundamentally
13 bad. Even if people don't cheat, it's the appearance of what
14 might be going on. So that is what he always mentions first.

15 But there's really -- it's really both. It's the
16 economics. Because of his investment in this industry, and
17 especially here in California, he wants to see the sport
18 succeed. And so you would really have to address both those
19 concerns equally, and I'm not sure that that's possible. But
20 you'd have to have an economic model that worked, and you'd
21 have to have a system where you can't profit from a losing
22 horse.

23 COMMISSIONER ROSENBERG: Okay. Thank you.

24 CHAIR ISRAEL: That's it? Thank you, Scott. All
25 right.

1 Next up, Del Mar Thoroughbred Club. Yeah, it's
2 casual Thursday.

3 MR. HARPER: Very. And the other guys want to stay
4 in the back, I guess. Joe Harper, Del Mar Race Track. I guess
5 we don't really have a presentation today, but we're just here
6 to kind of bring you up to speed on some of the preliminary
7 discussions we've had with -- with Betfair.

8 Saying that, I think that we are -- this is really to
9 answer the basic question -- we are -- we are in support of
10 exchange wagering. We think it's -- we think it's -- it's --
11 it's innovative and will fortunately, we think, hopefully, go
12 into a market area that we're not in presently.

13 I've listened to everybody and what they've said, and
14 I -- and I agree with about half of them. I think the concerns
15 that are out there are certainly our concerns, and they were
16 when we -- when we started our conversations with -- with
17 Betfair. Look, this industry is in the pits, you know?

18 We've seen -- when I started here at this track in
19 1966 there were 70,000 people out there on weekends. I mean --
20 okay. So now during the week there's 2,000. Happy with that?
21 I don't think so. And I think the only way that we're going to
22 pull this thing out of the fire is really to be innovative and
23 to find some areas of -- of growth in -- in a market that we're
24 not in.

25 We went through two days this week talking to

1 operators of internet gaming sites and internet gaming
2 companies relative to -- to the poker bill, potential poker
3 bill. It's amazing what's out there. I think all of us in
4 those meetings were -- were floored by what we were hearing and
5 the numbers that we heard out there. We have to get a piece of
6 that somehow. This is a small step to it.

7 But let me just say that we have our preliminary
8 discussions with Betfair have been very good, very open. Our
9 concerns are the same concerns you just heard here; the
10 integrity issue, the financial issue. And I think Betfair has
11 gone overboard to meet our concerns. And we've listened to
12 them in depth about security. We're very impressed with the
13 system that they have currently in place and are putting in
14 place for the Olympics.

15 I think that, you know, our concern about
16 cannibalization on the -- on the whips is obviously a major
17 one. And although I -- our -- we're not signing anything,
18 obviously, and -- but our discussions, preliminary, have
19 been -- made us feel very comfortable that -- that -- that if
20 there were any cannibalization we'd be, you know, we'd be
21 covered with that. They have guarantees and things.

22 I don't -- you know, I look at this thing as -- as a
23 test, and strictly a test. We've all got -- we've all got our
24 hand on the plug. Certainly the racing board can stop it any
25 time they want. The horsemen can stop it any time they want.

1 We can stop it. This -- I think the only reason we're going to
2 find out if this thing works is to -- is to jump in the water.

3 And I think --

4 CHAIR ISRAEL: If you jump in the water with your
5 hand on the plug you're -- you're a big --

6 MR. HARPER: Maybe a life -- yeah, you got it. Hope
7 it drains quickly.

8 CHAIR ISRAEL: Yeah.

9 MR. HARPER: But -- but the measure of success, Scott
10 is right, I mean, he said, "What is the measure of success?"

11 And I think the measure of success in -- in any
12 venture like this is -- is a potential for -- for growth. It
13 may not be the -- the greatest thing in the world. We're not
14 going to go -- we're not -- it's not going to hurt us. If
15 there is a problem with it we're going to know about it. If we
16 can change it, we're going to change it. You have the power
17 to -- to write the regulations that -- that protect a lot of
18 us. We know that.

19 But you know, I tell you, if -- unless we do
20 something -- we -- we've been yelling for years on -- that our
21 betting platform is not the right platform for growth in this
22 industry. I think we've certainly proven that fact. We go to
23 Sacramento and we -- we make that argument and they hand us
24 this bill. You know, any one of these tracks could have killed
25 that bill. I -- but here it is. It's passed. And I think

1 that we -- we have to give it a whirl. I think we -- we have
2 to make sure that -- that -- that this isn't something that's
3 going to be really beneficial to us, and I think it will be.
4 But we have to -- we have to test it first.

5 CHAIR ISRAEL: Okay. I have two questions, Joe.

6 MR. HARPER: Okay.

7 CHAIR ISRAEL: One is you just -- you mentioned the
8 horsemen. Have you had conversations -- well, you've obviously
9 had conversations with TOC, and if so what have they -- what's
10 come out of them?

11 MR. HARPER: We've -- we've brought TOC kind of up to
12 speed on where we are within -- with -- with Betfair and our
13 discussions. It's all preliminary now. You know, they have
14 not been directly involved in that.

15 CHAIR ISRAEL: Okay. And then the second is to the
16 integrity issue.

17 MR. HARPER: Uh-huh.

18 CHAIR ISRAEL: I mean, it's been proven that at least
19 at some small level exchange wagering has been an incubator for
20 some form of corruption and has challenged, indeed, the
21 integrity of certain races in --

22 MR. HARPER: Uh-huh.

23 CHAIR ISRAEL: -- Great Britain and elsewhere. If we
24 have that kind of scandal here, given that we are hanging on by
25 a thread, given that the public is dubious in some ways about

1 the integrity of the game, can a sport hanging on by that
2 thread survive, especially is that corruption occurs at one of
3 our premiere race tracks like Del Mar?

4 MR. HARPER: Uh-huh.

5 CHAIR ISRAEL: You know, not -- you know, something
6 happens in Louisiana or Arkansas, that's one thing. If it
7 happens at Del Mar or Saratoga that's something else again.

8 MR. HARPER: Make sure those folks in Louisiana and
9 Arkansas don't hear this. But you know, let me go back just a
10 few years, because I'm -- I may not be the -- the oldest guy in
11 the room but I've probably been running race tracks longer than
12 anybody in this room.

13 I can go back to when I was here originally, that
14 there was a lot of talk about how Doc Strube said there would
15 never be a Daily Double at his race track because of integrity
16 issues. I was here when Santa Anita stood up, their general
17 manager, and said, "If we -- if a \$5.00 exacta is going to
18 break everybody and worry about fixing races." I was here when
19 Santa Anita, through a number of lawyers, fought Hollywood Park
20 for putting in the Pick 6. And again, integrity issues. It's
21 going to be the death of all of us if we put this in.

22 I've lived through all those days when integrity was
23 bantered about. And I remember just a few years ago when they
24 had the Pick 6 ticket, the phony Pick 6 ticket at the Breeders'
25 Cup. That was going to ruin racing. Well, it didn't really

1 ruin it, did it? It was simple computer fraud.

2 And are we facing simple computer fraud? Are we --
3 are we the Conarico (phonetic) with the jockeys fixing a number
4 of years ago, it was bad. It was a black eye. It didn't kill
5 racing.

6 I think that as long as we do everything we can to
7 prevent such a thing and to have the -- the facility and the
8 system that -- that Betfair has, I mean, the Olympic Committee
9 is certainly finding that -- that they're doing the right
10 thing, I think all those things go a long way. If there is a
11 problem --

12 CHAIR ISRAEL: Yeah.

13 MR. HARPER: -- you know, it's not going to say,
14 well, okay, they fixed a race at Del Mar, we're never going to
15 go to Del Mar again. I mean, you -- you -- you go throw the
16 jockey and the trainer in jail, and whoever else is involved,
17 and you get on with your life.

18 So I don't -- I don't -- I don't feel that that is
19 that -- it's important, but it's not -- it's not a shot in the
20 head.

21 CHAIR ISRAEL: Okay. Too -- but one thing you should
22 never do is raise up the IOC as a paragon of virtue. So
23 they -- they leave death and destruction in their wake
24 everywhere they go. One of the reasons Greece is in the
25 problem -- is having the problems now is because of the

1 Olympics. So that -- that's a bad example.

2 But -- but, well, I mean, some of your examples beg
3 the question of they did all those things and yet there's no
4 curve. It's a straight downward slide, if you look at the
5 graph. So maybe some of those ideas weren't that good.

6 MR. HARPER: Some of them weren't. But would we be
7 better off if we didn't do them?

8 CHAIR ISRAEL: No, not some of them.

9 MR. HARPER: I doubt it.

10 CHAIR ISRAEL: Well --

11 MR. HARPER: But I would -- unless you want to --
12 okay.

13 CHAIR ISRAEL: No. No. I'm just saying.

14 MR. HARPER: Let's -- let's have, you know, Santa
15 Anita tomorrow get rid of the Daily Double, the Pick 6s and the
16 exactas and see what they look like.

17 COMMISSIONER ROSENBERG: Right.

18 CHAIR ISRAEL: Yeah.

19 MR. HARPER: Come on. And you know, we have to be
20 innovative here. I mean, if we're not we're through. Okay. I
21 mean, I really -- you -- it's real easy to say no. It's an
22 easier to say than yes. It takes fewer muscles and everything
23 else. But if -- if we don't think out of the box and plan
24 ahead with some -- some innovative ideas this industry is shot.
25 And I'll tell you, at Del Mar we're, yeah, we're probably more

1 successful than most other race tracks, and we've been thinking
2 out of the box for a long time to get people on track. You
3 know, we have to think innovative about our betting platform,
4 and it's time to do that.

5 CHAIR ISRAEL: All right. Richard?

6 COMMISSIONER ROSENBERG: No. I'm fine.

7 CHAIR ISRAEL: Anything else? Good. Josh, you came
8 all the way and you're not going to say anything?

9 MR. RUBENSTEIN: I know.

10 MR. HARPER: Yeah.

11 MR. RUBENSTEIN: Great.

12 CHAIR ISRAEL: Joe is just so captivating.

13 MR. RUBENSTEIN: Yeah.

14 MR. MILLER: Sir, would you say your name for the
15 record, please?

16 MR. RUBENSTEIN: Oh, Josh Rubenstein, Del Mar.

17 CHAIR ISRAEL: You weren't going to get away that
18 easy. Thank you.

19 COMMISSIONER ROSENBERG: It's CTT.

20 CHAIR ISRAEL: Okay. California Thoroughbred
21 Trainers.

22 MR. SADLER: John Sadler, President, California
23 Thoroughbred Trainers. And --

24 MR. BALCH: Alan Balch, Executive Director, CTT.

25 MR. SADLER: Yeah. We're opposed to exchange

1 wagering. I think most of the arguments you've -- you've heard
2 here today from Scott Daruty, we think this would be just
3 terrible for us. You know, a lot of people are going to be
4 accused, even if they're not found guilty in these
5 investigations which are going to happen. We're terrified of
6 this and we really look forward to hoping it doesn't get in.

7 I spoke to John Gosden, and you guys may not remember
8 him. You weren't here when -- when he was here, but he's a
9 good trainer in -- in Europe and one of the best. And -- and
10 he told me that it makes good people cheat, exchange wagering,
11 and the worst thing to ever happen to English racing. That's
12 what John Gosden told me.

13 We have an intern here from England this winter --
14 it's a jockey -- told me it's a nightmare over there. So I'm
15 just talking to -- to people over there that are -- are racing
16 under these conditions. And we think it's -- it's a terrible
17 thing.

18 And I really don't know what to say beyond -- you've
19 heard, already heard most of the arguments.

20 CHAIR ISRAEL: Well, can you explain, when he said
21 it's a nightmare, how does it manifest itself as a nightmare
22 for the jockeys and for Gosden?

23 MR. SADLER: Gosden said that it encourages good
24 people to cheat.

25 CHAIR ISRAEL: And -- and what did the jockey say?

1 What -- a nightmare in what way? What -- what's occurred?

2 What --

3 MR. SADLER: Well, I mean, you might want to go to
4 YouTube and watch Kierin Fallon's ride. You can see if on
5 YouTube, the one that got him a year's suspension. You know,
6 the top riders over there -- and it's just been -- it's --
7 you've seen the number of scandals. You -- I think Darrell
8 later will give you the numbers on the number of investigations
9 and the number of suspensions that have occurred. And the
10 thing, I think, that -- that Joe Harper didn't -- I mean, we've
11 always had new types of gambling and we want to be innovative.
12 But this is going to be the first time you can bet to lose, and
13 that's going to be a big first for us, and we've never done
14 that and we don't think it's a good idea.

15 I'm going to let Alan speak a little bit.

16 CHAIR ISRAEL: Okay.

17 MR. BALCH: Alan Balch, again, CTT. There's no sense
18 in repeating most of what Scott Daruty said. I think we
19 endorse his comments in whole. The -- the first one being that
20 the negative impact of -- of exchange wagering as to the
21 expansion of all these types of bets and things over the years
22 can't really be argued, but the degree of the impact is what we
23 would disagree about. So it's not whether exchange wagering
24 would cannibalize existing pari-mutuel wagering but how much
25 and over what period of time?

1 And in response to Joe, I -- who I greatly respect,
2 and we've been colleagues, basically, forever, once exchange
3 wagering is approved, even if it should be made available
4 ostensibly on a trial basis, discontinuing it may well prove to
5 be impossible. The agony of reducing racing days, or
6 eliminating exotic bets once they're offered, or adjusting
7 takeout are all noteworthy examples of how problematic it is
8 for racing as a whole to respond to market forces given its --
9 given its regulatory environment.

10 How do you actually pull the plug on something or
11 discontinue something? Almost everybody that I talk to in
12 racing management believes there is too much exotic wagering,
13 but they all fear reducing exotic betting or even changing it
14 very much because it's here and they don't, given the way there
15 are conflicting state regulations and nationwide off-track
16 bettering and so forth, it is extremely difficult to stop
17 something once it's been started.

18 Now I was surprised, actually, that Mr. Daruty didn't
19 give you some figures on, you know, the proliferation of
20 betting and what's happened over the years when you actually
21 look at the finances. And I had done a little research on this
22 and I want to share it with you, because it's extremely
23 important for the horsemen, owners, breeders, and trainers
24 alike, that the tracks be successful. And the operators of the
25 tracks are facing enormous pressure. And I looked up this

1 figure. In 1985 Santa Anita handled \$12.6 million on track
2 only for its record single day at the time, prior to all the
3 enormous expansion of off-track opportunities that followed.
4 That would be well over 24 million in 2011 dollars, according
5 to U.S. Bureau of Labor stats.

6 Now compare that to Santa Anita's biggest single day
7 in 2011 from all sources, \$15.2 million; \$15.2 million some 25-
8 plus years later. Similarly, Santa Anita's handle from all
9 sources has declined from its 2000 record for the winter
10 meeting of \$1 billion in 2000 for 87 days of racing, to
11 approximately half that in 2011, though racing days declined
12 about 20 percent. So without adjusting for inflation Santa
13 Anita handled more on track only in its last season before the
14 advent of off-track betting, which was '86/'87, than it did in
15 all of 2011.

16 So racing itself can not succeed, let alone thrive,
17 if the fundamental and necessary conditions for it, healthy
18 operators and motivated breeders and horsemen, are financially
19 compromised by ancillary operators who succeed in profit at the
20 expense of the tracks, the breeders, and the horsemen.

21 Now we've -- we've talked a lot about integrity. And
22 to us it really boils down to a very simple thing, that
23 integrity in racing or in any sport is based on a simple
24 principle, that incentives to win must always exceed incentives
25 to cheat.

1 Now this is not a normal innovation, the way the Pick
2 6 was. Frankly, I was in the room. Fortunately I didn't have
3 to make the presentation for Santa Anita against the Pick 6.
4 That was somewhat embarrassing to me at the time, because why
5 would picking one winner or two winners -- the Double was
6 offered then -- be any different than picking six winners. But
7 there were certain political and competitive things going on
8 behind the scenes there. It was still pari-mutuel wagering.

9 In this case we are talking about non-pari-mutuel
10 wagering or pari-mutuel wagering, to be maybe polite, as
11 redefined. Betting against -- you know, betting a horse to
12 lose, and given Scott's very concise explanation of exchange
13 wagering, is really a redefinition of pari-mutuel wagering. So
14 it's not just innovation, as -- as Mr. Harper mentioned,
15 it's -- it's a change, really, in -- in complete concept.

16 I think the other points have already been covered
17 adequately. We're certainly going to be reaching out and
18 talking to our members. But as John said, and I'll just
19 emphasize, the CTT is opposed to this.

20 MR. SADLER: And we'll come with a similar type poll
21 that we had for Lasix. I think you guys saw that, that, you
22 know, we expect about 90 percent of the trainers to be opposed
23 to this exchange wagering. Way too fast coming in. We'd like
24 to -- we'd like to have some more time on this, also. So we
25 think it's -- it's -- it's a bad deal for the trainers and

1 jockeys.

2 COMMISSIONER ROSENBERG: That was my question.

3 MR. SADLER: Yes.

4 COMMISSIONER ROSENBERG: So you answered it. The
5 survey, there was no survey done yet.

6 MR. SADLER: We're in the process of doing it.

7 COMMISSIONER ROSENBERG: Right. Okay.

8 MR. SADLER: But we know -- we know, if you're out
9 there talking to the trainers, we know what the numbers are
10 going to be. I'm fairly confident in that. We'll have that,
11 you know, before you -- before you have to vote on something
12 like this. So unless you have a question of us --

13 CHAIR ISRAEL: Thank you.

14 MR. SADLER: Okay.

15 CHAIR ISRAEL: California Thoroughbred Horsemen's
16 Association.

17 MR. VIENNA: I just want to make sure this is working
18 here. Yeah, it's not.

19 CHAIR ISRAEL: Oh. You have show and tell?

20 MR. VIENNA: Yeah, I've got show and tell. Well,
21 maybe I can make it work from here.

22 CHAIR ISRAEL: He's got the --

23 COMMISSIONER ROSENBERG: Yeah.

24 CHAIR ISRAEL: -- screen.

25 MR. MARTEN: I think the problem is that this has to

1 be higher, I'm pretty sure. Let's see if -- if -- if we can
2 hear. We might not hear that feedback.

3 MR. VIENNA: Okay. Good morning. How's that,
4 Michael?

5 MR. MARTEN: I think that --

6 MR. VIENNA: Okay.

7 MR. MARTEN: -- you're not going to have the
8 feedback.

9 MR. VIENNA: Right. I'm Darrell Vienna, and I speak
10 today as counsel to the California Thoroughbred Horsemen's
11 Association.

12 Before starting our presentation I'd like to thank
13 the CHRB for the opportunity to address this issue, and also to
14 thank the staff at Betfair for their cooperation in responding
15 to some questions we have in -- in preparing to present this
16 morning.

17 Our concerns are, quite obviously, the big three;
18 integrity, funding, potential cannibalization. I'm going to
19 discuss the issue of integrity and a few related concerns. And
20 then Mr. Cerin, who's to my right here, will join me to discuss
21 the remaining issues.

22 With regard to integrity, we're -- we're really
23 speaking about, and in the context of this discussion,
24 integrity is freedom from or the establishment of impediments
25 to corruption or deceptive practices.

1 What has been established in the relatively short
2 history of exchange wagering in other jurisdictions has
3 demonstrated that people will -- will try to cheat using
4 exchanges. One of the attractions to the cheater is the almost
5 inevitable success in the outcome. That is because it's
6 infinitely easier to lose a race than to win one, and you can
7 take that from a fact authority.

8 The -- the auditing and investigative process
9 utilized by Betfair may deter most cheaters, but it will not
10 deter all cheaters. And while the discovery of corruption is
11 essential it brings with it undesirable publicity, further
12 blemishing the public perception of the sport.

13 I think, Kirk, you're blocking my line of --

14 EXECUTIVE DIRECTOR BREED: Oh, sorry. All right.

15 MR. VIENNA: Okay. Great. The British experience.
16 Paul Scotney, who is director Integrity Services for the
17 British Horseracing Authority, addressed the Association of
18 Racing Commissioners International in March of last year.
19 Scotney is responsible on a daily basis to ensure, as far as
20 possible, the integrity of racing participants. He
21 unequivocally stated that "where there is an incentive to
22 cheat, that people will be trying to cheat." He further stated
23 that "exchange betting was the gravest risk, indicating that
24 betting exchanges offer cheaters a ready means to play their
25 trade."

1 There are other integrity concerns. With regard to
2 the incidents of corruption Scotney concluded,

3 "I hope for the sake of the sport in the United States and
4 for your sakes as those -- as those responsible for the
5 integrity of this sport that you will be thinking through
6 very carefully every consequence and address them in
7 advance. That," he suggested, "would take many years to
8 get right."

9 There are other integrity concerns to be addressed.
10 One is the reliability of the system. The other is: Is the
11 CHRB facilitating a contract of adhesion and are CHRB proposed
12 regulations facilitating a illusory contracts?

13 Less than two months ago a dispute involving over \$35
14 million arose between Betfair and its account holders. The
15 controversy arose after Betfair canceled all in-running bets
16 after discovering that a Betfair account holder lacked
17 sufficient funds to lay the bets. Betfair claimed that the
18 decision to void all bets was taken after it became apparent
19 that the bet was due to an obvious technical failure which
20 allowed a customer to exceed his exposure limit.

21 If a multi-million dollar flub of this kind can
22 escape the monitoring system we are concerned with this same
23 system's ability to uncover more surreptitious or better
24 conceived plans of the purposely unscrupulous.

25 Contract of adhesion. A contract of adhesion exists

1 when the agreement is extraordinarily -- extraordinarily
2 imbalanced in favor of one party over the other. The exchange
3 wagering account is offered on a take-it-or-leave-it basis.
4 While it -- it -- while not unenforceable or illegal, this
5 contract could, in practice, become unconscionable. Proposed
6 CHRB Rule 2089.5(f) provides for the suspension of an account
7 without even a hearing. This denial of basic rights does not
8 comport with established principles of justice and fair play.

9 Is an illusory contract being established? Illusory
10 contracts exist when there's a contract which by its very terms
11 is not binding on at least one of the parties. Do proposed
12 CHRB rules facilitate these kind of agreements between Betfair
13 and the account holders? 20.87.6 [sic] provides that Betfair,
14 under certain vaguely defined circumstances, can unilaterally
15 cancel a wager. 2090.6(a)(2) anticipates that Betfair may have
16 insufficient funds to settle accounts and prescribes partial
17 payments.

18 Funding; what's the deal? Moving on to funding or
19 the underlying business proposal outlined by Betfair with
20 regard to racing associations and purses, we need to look at
21 the Betfair which was discussed earlier today. The commission
22 or takeout under the Betfair model is called exchange revenue,
23 and it represents a charge of ten percent on aggregate winning
24 transactions on the same event. This might seem a bit
25 confusing, but I believe that the next couple slides will help

1 clarify the concept.

2 Of that to percent of the winning transaction Betfair
3 receives 75 percent and racing receives 25 percent, divided
4 equally between racing associations and purses, each receiving
5 12-and-a-half percent.

6 At this point I'd like to turn the presentation over
7 to Vladamir Cerin.

8 MR. CERIN: Good morning. Vladamir Cerin. I'm a
9 trainer and a horse owner. I have been betting on horses since
10 I was old enough to drive and drive out to Bay Meadows.

11 Betting on horses is interesting to a person that
12 likes to put together a lot of facts and predict a winner. You
13 can't get 7-to-1 on a football game, but you can certainly get
14 7-to-1 on a horse that you think is 2-to-1. This has allowed
15 me to acquire a lot of property or pay for a divorce. But it's
16 still -- the idea is there that you can wager and predict what
17 will happen and be rewarded for that prediction, if accurate.

18 In -- where is the slider?

19 MR. VIENNA: Right here. Uh-huh.

20 MR. CERIN: If you look at -- for -- for that
21 privilege of betting on a horse and picking a winner the race
22 track charges you 15.43 percent, or let's say \$15.00 per \$100.
23 Of that, roughly \$6.50 goes to purses. If you compare that to
24 exchange wagering you can see that it's much better. The
25 example that we're listing is if two people bet \$50.00, one to

1 win and one to lose on a horse, so that's a total of \$100;
2 two -- two people are betting. Or if you are betting \$50.00 on
3 the horse and against the horse yourself you win \$50.00. Ten
4 percent commission on that is \$5.00, of which, under the
5 information that Betfair provided us the last meeting, roughly
6 \$.62 would go to purses.

7 MR. VIENNA: May I interrupt a minute?

8 MR. CERIN: Sure.

9 MR. VIENNA: I just need to -- to clarify. This is
10 the comparison of a \$100 wagered on the pari-mutuel system and
11 \$100 wagered on exchanged system. The reason that you see ten
12 percent of \$50.00 is that's the average --

13 CHAIR ISRAEL: It's only the win ticket.

14 MR. VIENNA: Right.

15 CHAIR ISRAEL: Right.

16 MR. VIENNA: Okay. Go ahead.

17 MR. CERIN: And Betfair charges five percent across
18 the world, but they're proposing to charge ten percent in
19 California.

20 I'd like to skip to the arbitrage slide that you
21 have.

22 MR. VIENNA: Okay. Let's go here. He wants to skip,
23 so he can skip.

24 MR. CERIN: Okay. And what I liked about being able
25 to bet on exchange wagering is it gives you a ten percent play,

1 \$10.00 per \$100, because exchange wagering will only charge you
2 5 percent and the track charges you 15.

3 And then I thought about it and I said, well, there
4 must be some opportunities for a better, if you really do your
5 homework, to ensure that you won't lose and you -- the horse
6 doesn't have to win. So if you take a horse and you know that
7 a particular owner likes to bet late, or a trainer, and the
8 horse is 5-to-1 on the board and you bet \$100 on that horse
9 about 20 minutes to post, and a few minutes later you can see
10 the price is coming down to, let's say, 3-to-1, but you offer
11 4-to-1 on exchange wagering, you're assured that you will not
12 lose, because there are two possible outcomes; the horse will
13 win, and for your \$100 at 5-to-1 you will receive \$500, or the
14 horse will lose and where you offered \$400 you will break even.

15 So in the first scenario, when the horse wins you pay
16 a commission of \$5.00 on your winnings. Roughly \$1.25 of that
17 goes to purses. In the second scenario you break even. So
18 what goes to purses? Zero. So you ended up wagering \$500 on
19 the race. And this is the part that somehow I don't think you
20 can reconcile with horse racing and contribution to purses,
21 because you've really wagered \$500 and not \$100, but you're
22 only paying commission on the \$100. So that \$1.25 is really
23 6/10th of a percent that would go to purses, as opposed to 6
24 percent. And I think we would have a hard time finding enough
25 players to make up that nine-fold difference.

1 CHAIR ISRAEL: Well, to expand -- to expand the
2 sports' betting analogy that I made earlier, this is middling,
3 and this is finding a middle as the odds move. But the
4 difference is how the vigorous is charged, to be really honest.
5 And on a sports' bet vig is ten percent surcharge on the loss.
6 This is a ten percent charge against the win. So if there's
7 win there's no charge and the loser doesn't have to pay the ten
8 percent, so he's not paying \$110. That's the -- that's the
9 hole in the donut.

10 MR. CERIN: Right. Because you could bet \$1,000 on a
11 race and win nothing, so you wouldn't pay any commission and
12 nothing would go to purses. You could have a \$10 million pool
13 where nothing goes to purses, and that's the part that troubles
14 me. And with the --

15 COMMISSIONER ROSENBERG: So aren't -- aren't you
16 speaking about a possible benefit here by attracting people who
17 might like these -- make these type of bets who don't presently
18 bet? Isn't the whole idea to get --

19 MR. CERIN: Absolutely.

20 COMMISSIONER ROSENBERG: -- some of those new guys
21 in?

22 MR. CERIN: Yes, I am. And I would like to be one of
23 those people. But if I don't have to pay any commission, or if
24 you bet \$10,000 on a race and your commission is only \$50.00,
25 that's a huge advantage to bet there. But there is -- there is

1 not enough going back into purses and to horsemen.

2 And if I may just backtrack for just one second.

3 About 10 or 12 years ago the Travel Channel came out with *World*
4 *Poker Tour*, and everybody started playing poker. So I bought a
5 couple of books, went to clubs. There were a lot of fish there
6 who didn't know how to play, but I read my books so I could
7 beat them. Well, now all the fish are gone. Now I'm the fish,
8 so I don't play anymore. And I think the same thing could
9 happen here.

10 COMMISSIONER ROSENBERG: I'm thinking of a younger
11 demographic, though.

12 CHAIR ISRAEL: He was young ten years ago.

13 MR. CERIN: Thank you, David.

14 MR. SADLER: I'd like to backtrack and run quickly
15 through those portions that Vladamir dismissed so easily. I
16 just want to clarify. On this comparison of takeout, we're --
17 we're trying to do something that Betfair has, in my
18 discussions, discouraged us to do. But I want to go through it
19 because I'm going to show you another model.

20 Just briefly, this is \$100 bet to win on track. And
21 the contribution to purses is \$6.48. That same \$100 wagered in
22 the exchange nets to purses \$.625.

23 Moving to the analysis of takeout versus exchange
24 revenue, and again, this is an on track bet compared to an
25 exchange wager. The wager -- the -- the player wagers \$100.

1 The takeout is \$100 times 15.43 percent. And the -- that total
2 takeout is 15.43. The exchange revenue total on this same bet
3 in terms of -- of the dollar exchange -- and that's -- the
4 example uses a \$20.00 better against an \$80.00 layer. The
5 exchange revenue under one situation is \$8.00, and under the
6 other it's \$2.00, depending on who is on the side of the
7 transaction that's considered winning. And so the average
8 revenue between those two -- and I heard that at an
9 informational meeting of Betfair, that they say these pretty
10 much even out. So the average exchange -- total exchange
11 revenue on that \$100 wager is \$5.00.

12 Now the effective commission on exchange wagering,
13 for every dollar wagered five-eighths of one cent goes to
14 purses. So again, contribution to purses per \$100 wagered in
15 this type of wager, just a straight win wager of -- of \$100, an
16 on track wager brings to the purse account \$6.48. That same
17 wager placed through a wagering exchange or a betting exchange
18 brings the purses \$.625.

19 The -- there was a bit of a misstatement on --

20 EXECUTIVE DIRECTOR BREED: Do you know the breakage
21 in on your normal wagering, on your --

22 MR. SADLER: Pardon me?

23 EXECUTIVE DIRECTOR BREED: -- on your -- on your left
24 column?

25 MR. SADLER: I did not --

1 EXECUTIVE DIRECTOR BREED: You didn't?

2 MR. SADLER: -- talk about breakage at all. Okay.

3 On this comparison of arbitrage, this is the same
4 player in both sides, just different outcomes. The player bets
5 \$100 at 5-to-1. He then lays \$400 at 4-to-1. If the horse
6 wins the player has bet -- has gained \$500 and lost \$400. He
7 has a net winnings that are subject to the exchange revenue of
8 \$100 and, again, to -- to purses we're -- we're getting this --
9 excuse me. That -- that should read to -- no, that's fine.
10 Purses, we get \$1.25. If the horse loses --

11 (Colloquy Between Commissioners)

12 MR. SADLER: I'm sorry, do you have a question?

13 CHAIR ISRAEL: No. No. No.

14 MR. SADLER: No. If the horse loses the player --
15 under the same situation, the same scenario there is a zero
16 outcome and there's nothing to purses. Okay.

17 So now I want to get to -- to -- to kind discuss
18 Betfair's concern. Is this a fair comparison? In on track
19 wagering a wagerer looks at the tote board odds on a horse he
20 wants to bet. He sees 4-to-1. He looks at this phone app or
21 his i-Pad or his laptop and he sees that someone is laying 6-
22 to-1 on the exchange. Where do you suppose he's going to bet?
23 In this case, like the comparison between handle and exchange
24 revenue, we believe that this comparison is appropriate.

25 Now with regard to the arbitrage, I think it's -- I

1 think that the Betfair argument starts to come into play, but
2 I'm not completely clear on it.

3 Cannibalization: How will exchange wagering impact
4 existing handle? Will there be a substantial migration of
5 pari-mutuel wagering betters to exchange wagering? Well, I
6 think we've heard that nobody really knows that answer. There
7 are some predictions based on the European model. But -- but
8 let's look at our own history here.

9 The history of wagering in California has shown --
10 it's a little bit off the chart, but I think you can see the
11 operative portion -- that as we have added and spread wagering
12 from on track to these various off-track operations the
13 migration of handle from on track to off-track has resulted in
14 increases in handle and decreases in purses. Exchange wagering
15 offers a lower contribution to purses than any of the previous
16 off-track operations. This continuing trend of higher handle-
17 lower purse threatens the very future of horse racing.

18 Conclusion: Exchange wagering offers something a bit
19 different than making traditional wagers through different
20 methods. Exchange wagering brings in a new, potentially more
21 dynamic type of wagering. And, yes, as it is with all new
22 things we foresee new problems and face unresolved concerns.
23 However, before initiating exchange wagering we must identify
24 and provide solutions to the concerns regarding integrity and
25 potential detrimental diminution of our existing base.

1 And last but not least, we need to reach an agreement
2 on a business model that makes sense and is fair to all
3 interests. Until there is a consensual agreement on these
4 issues it would be foolhardy to move forward. And the -- the
5 CTHA position as of today.

6 And we -- we really posit to concepts. One is that
7 the entire industry should be encouraged to continue to work
8 with exchange wagering interests on issues of integrity,
9 funding/business model, cannibalization, and any other issues
10 that may arise. And we believe that the adoption of a
11 regulatory framework is premature, absent attainment of
12 industry-wide consensus on these unresolved issues. Thank you
13 for the opportunity.

14 CHAIR ISRAEL: Thank you. Do you have any questions?
15 Thanks, guys.

16 Next up, Global Betting Exchange.

17 MR. MURPHY: Commissioners, good morning. My name is
18 Alexis Murphy. I'm speaking on behalf of Global Betting
19 Exchange.

20 Global Betting Exchange is the leading provider of
21 betting -- betting exchange technology worldwide. We were
22 established 12 years ago, and own and operate a retail betting
23 exchange called BETDAQ, which is the primary competitor to
24 Betfair in the U.K. and Irish marketplace. We match
25 approximately one million bets per week to an annual value of

1 approximately seven billion euros. And approximately 70
2 percent of our business is in horse racing.

3 We are regulated by both the U.K. and the Alderney
4 Gambling Control Commission. We also comply fully with
5 integrity management processes undertaken by sports' bodies,
6 including the British Horseracing Authority.

7 We're primarily a technology business, and hence, our
8 perspective on newly regulating exchange opportunities, both
9 internationally and more specifically in the U.S., is somewhat
10 different to Betfair's, that it's not our intention to compete
11 on a retail level, but instead we're looking to license our
12 technology on a cost efficient basis to existing players in the
13 U.S. horse racing and, potentially, gaming industry.

14 We have been following the opening of the California
15 market with great interest, although primarily through
16 discussions with potential partners rather than as a frontline
17 proponent of the exchange betting model.

18 We've submitted some detailed proposals in relation
19 to the draft regulations, but I've not had any further
20 engagement with the CHRB or the Californian regulatory bodies
21 in relation to the regulations, other than receiving the
22 documentation for this meeting.

23 Global Betting Exchange can offer a technology
24 platform that is not only capable of replicating the type of
25 exchange betting product that is made available by BETDAQ and

1 Betfair in the U.K., but it can also adopt its technology to
2 meet particular market requirements whether, among other
3 things, changes to commission structure, rebates, tax
4 structures, and -- and other systems.

5 As a technology provider we pride ourselves on
6 providing technology to power the business model that best
7 suits our partners' requirements. We do not seek to impose our
8 current European business model in other jurisdictions.
9 However, we are happy to share our experience of doing business
10 in the U.K. and Ireland in order to enable newly regulating
11 jurisdictions to determine the optimal business model for them.

12 We believe that the issues surrounding the
13 introduction of exchange wagering in California, as reflected
14 in the -- the previous discussions, are complex and require
15 mature consideration and debates amongst all parties concerned.
16 There are many options and models that can be considered, both
17 in terms of the business model and the methods for ensuring the
18 continued high integrity in racing. All of these should be
19 given careful consideration before licenses are issued to any
20 party. Global Betting Exchange is available to provide
21 constructive commentary throughout the process of framing the
22 appropriate regulations and rules of engagement.

23 One final point, although clearly not disinterested,
24 is that whatever model is adopted we would vigorously encourage
25 the relevant stakeholders to ensure that there is a level

1 playing field for all participants that fosters competitions --
2 competition, as excessive dominance from an individual operator
3 will eventually work to the detriment of the racing industry.

4 Thank you for providing us with the opportunity to
5 present at this forum, and we remain available to engage with
6 parties on any the substantive issues.

7 COMMISSIONER ROSENBERG: Thank you. So in other
8 words, you're looking for a partner to operate exchange
9 wagering in California if it's legalized, fully legalized?

10 MR. MURPHY: A partner or multiple partners.

11 COMMISSIONER ROSENBERG: Right. And, well, clarify
12 one thing. You -- you provide the system in -- where, in what
13 countries? You mentioned Ireland.

14 MR. MURPHY: Well, at the moment we've got a base in
15 the U.K. We've also got a currency hub. We -- we can provide
16 it wherever. It's most cost efficient to do it out of our
17 existing exchange platform based in Europe.

18 COMMISSIONER ROSENBERG: But do you actually operate
19 an exchange in -- in England?

20 MR. MURPHY: We -- we do, yes. So --

21 COMMISSIONER ROSENBERG: Oh, you do?

22 MR. MURPHY: So we -- we're both a technology
23 company.

24 COMMISSIONER ROSENBERG: And --

25 MR. MURPHY: That's -- that's the core of the

1 business. But we also have a retail betting business called
2 BETDAQ which operates primarily in the U.K. and -- and Ireland.

3 COMMISSIONER ROSENBERG: So has your company made a
4 decision that it's not to try to operate as -- as an exchange
5 wagering provider in the united -- in California?

6 MR. MURPHY: Correct. I mean, there's -- there's
7 sort of a long history behind it. But really the company, as
8 it was originally set up, was always positioned as a technology
9 play. It has a retail exchange in the U.K. and Ireland, but
10 internationally the intention is very much to try and monetize
11 our technology rather than compete as a business-to-consumer
12 business.

13 COMMISSIONER ROSENBERG: All right. Thank you.
14 Okay.

15 Next is Jockeys' Guild.

16 MR. HAIRE: Good morning. Barry Broad on behalf of
17 the Jockeys' Guild. I have Darrell Haire, our western manager,
18 and Gary Stevens, actually our former president. He knows a
19 lot about racing.

20 Let me begin by saying this. We -- the Guild likes
21 to see new innovative things to try to keep the industry afloat
22 and profitable. We -- we're not taking a position opposed to
23 exchange wagering. We have significant anxieties about it.
24 And we -- and, of course, I've said to them, okay, everybody's
25 come to us and said you have significant anxieties. They're

1 reasonable. They're very reasonable. What do we do about it?
2 And we're not clear what to do about it yet. And, of course, I
3 think it's incumbent upon us to try to figure something out.
4 We're just not there yet.

5 So let me discuss the problem, the issue, and it's
6 something that I think collectively we need to figure out if
7 this is going forward.

8 I don't think there's any question about it, when you
9 start allowing people to bet on losing horses the opportunity
10 for mischief and corruption increases. Does that mean there
11 will be substantially more race fixing? No, not necessarily.
12 Who knows? But an atmosphere of suspicion around races will be
13 created; it's inevitable, and we'll talk about the reasons why.
14 And a disproportionate amount of that suspicion will naturally
15 fall upon jockeys.

16 Every investigation, and this is the -- and a lot of
17 what we know, we know from talking to our -- our -- our
18 brothers and sisters in England -- every investigation begins
19 with the jockey, always. It always starts with the jockey. It
20 doesn't necessarily end with the jockey, but it always starts
21 with the jockey because the jockey is on the horse. The jockey
22 is riding the horse. The conduct of the horse in the race is
23 typically the issue. And the jockey is the person who has the
24 last bit of information to tell.

25 CHAIR ISRAEL: In every shooting the investigation

1 begins with the guy who holds -- holds the gun. It's that
2 simple.

3 MR. BROAD: Yeah. And you know what, I'm not saying
4 that that is -- is going to be inappropriate. I think that's a
5 fact.

6 CHAIR ISRAEL: Yeah.

7 MR. BROAD: It's a fact. It's -- it just is, and
8 it's not going to go away. And if we have exchange wagering
9 it's going to happen.

10 Now why? Well, what's the problem? First of all, as
11 we all know, jockeys and trainers have conversations all the
12 time about how to ride the horse. The trainer says to the
13 jockey, I want you to do this, I want you to do that, I want
14 you to do the next thing.

15 CHAIR ISRAEL: Uh-huh.

16 MR. BROAD: These are judgment calls. It's not
17 corruption, it's -- it's a fact, you know? The horse had an
18 injury. Don't overdo it on the horse. In fact, the rules
19 say -- and this is the damned if you do and damned if you don't
20 problem -- the rules are -- and these are judgment calls by --
21 by the stewards, in fact. They're not -- it's not -- nothing
22 is in black and white.

23 All of this is a judgment call. If the horse is
24 going to lose don't use the whip too much or you could be
25 disciplined. If the horse is going to win you better use the

1 whip enough. Now if the horse has been hurt how aggressive is
2 the jockey supposed to be in the next race when that horse is
3 riding? That horse is not in optimal shape. The -- the jockey
4 knows it. The trainer knows it. The owner may or may not know
5 it, but the jockey knows it. The jockey can feel it. The
6 jockeys are often riding these horses in the morning. They
7 know when they feel funny. The jockeys know or worry when
8 drugs are being administered: How much is this masking
9 symptoms? All of these are factors.

10 If everybody -- if the whole issue was about winning
11 then the -- then the opportunity, the atmosphere, the concern
12 about how the race is run is really oriented towards winning
13 and losing. And the -- and the accusations are just not as --
14 there's not as much room for concern.

15 So think about these kind of scenarios, and this is
16 just a few. A lot of times, for very good reason, the horse
17 that's favored to win doesn't win. Sometimes the horse that's
18 favored to win comes in last. The horse just doesn't perform.
19 I mean, it wouldn't be horse racing if everybody could predict
20 everything and it always came true. There would be nothing to
21 be on. Okay?

22 Now sometimes -- what if the morning of that race the
23 jockey is seen to have a heated conversation with the trainer
24 after riding the horse? The horse if the favored horse. The
25 horse just dies after -- after the race starts. It turns out a

1 substantial amount of money was bet in exchange wagering on
2 that horse to lose. Will an investigation go forward? Has the
3 jockey done anything wrong? Let's assume, no. And let's
4 assume the trainer has done nothing wrong. Let's assume
5 everybody is innocent. There is no corruption. There is no
6 race fixing. Will an investigation go forward? Maybe.

7 And how many of those investigations will -- will
8 there be? And how much of this is going to hang over the head
9 of jockeys all the time? In other words, a constant atmosphere
10 of suspicion. That's hard to live with, you know? It's nice
11 to know you're innocent, but you're not innocent until finally
12 somebody stops telling you, you might be guilty. So that's an
13 issue. That is the core of the problem. That is the core of
14 the problem.

15 And what's gone on in England is -- is that the
16 number of investigations, the time that the British Racing
17 Authority spends investigating things, a large percent, I
18 understand like 85 percent of their investigations are related
19 to exchange wagering.

20 CHAIR ISRAEL: And what percentage of their total
21 handle is exchange wagering?

22 MR. BROAD: I don't know. I don't know the answer to
23 that question. But what -- what -- I don't know. But the
24 reality is --

25 CHAIR ISRAEL: About 85 percent, probably.

1 MR. BROAD: I assume not, but I don't -- I don't know
2 the exact number.

3 So because I think it's really natural, I don't -- I
4 don't think -- I think it's -- you can look at how a race is
5 run and suspicions can arise, and they can be reasonable
6 suspicions. But there's not as many of those situations that
7 arise under the current situation. So more of that is going to
8 happen. Now -- and I -- and I think that's probably
9 undeniable, and that's the experience.

10 I've had conversations with Betfair folks. I don't
11 think that -- nobody's into persecuting jockeys. Nobody wants
12 to persecute jockeys. It may be sort of the accidental
13 consequence of this, that we create this kind of atmosphere of
14 suspicion. And Darrell and I were talking about it. There was
15 a jockey just the other day, a guy -- what's his name --

16 MR. HAIRE: Delgado.

17 MR. BROAD: -- Alberto Delgado, and this was in
18 Maryland. And it was one of these situations where -- and this
19 happened today. But the question is: What's supposed to
20 happen? You know, the horse wasn't -- there horse was -- was
21 favored to win. The horse -- the trainer said to the horse --
22 to the jockey, you know, go easy on him. You know, he might --
23 he might -- he might -- I want him to just be sort of a
24 claimer. This is the allegation.

25 Probably what the jockey should have done was scratch

1 the horse. But, of course, if jockeys start scratching horses
2 based on their own reasonable suspicions how much work are they
3 going to get, and what reputation is it going to be for a
4 jockey who's trying to enforce this system singlehandedly. You
5 see the -- the problem?

6 Now this guy -- this guy got in trouble. This jockey
7 got in trouble. How many -- what are we supposed to do with
8 these cases? This is the reality. So --

9 CHAIR ISRAEL: He thought the horse was off?

10 COMMISSIONER ROSENBERG: No. He -- he didn't
11 think -- but this is a good -- he didn't think --

12 CHAIR ISRAEL: What did he do?

13 COMMISSIONER ROSENBERG: -- the horse was off. He
14 just said he followed the instruction to -- to not push the
15 horse.

16 CHAIR ISRAEL: Oh.

17 COMMISSIONER ROSENBERG: Well --

18 MR. BROAD: Exactly.

19 COMMISSIONER ROSENBERG: -- and he broke and he
20 didn't -- he --

21 MR. BROAD: But -- but -- but had he pushed the
22 horse -- the horse was the favorite. Had he pushed the
23 horse --

24 COMMISSIONER ROSENBERG: Yeah.

25 MR. BROAD: -- he might have caused a giant accident

1 and hurt everybody, including the horse.

2 CHAIR ISRAEL: So in other words, it was -- it was --
3 it was a minor version of Life at Ten?

4 MR. BROAD: It -- it was a major version because this
5 guy got a 30-day suspension.

6 CHAIR ISRAEL: Right. Johnny --

7 MR. BROAD: The horse was claimed.

8 CHAIR ISRAEL: Right.

9 MR. BROAD: He got the horse to the gate. It was --

10 CHAIR ISRAEL: Yeah.

11 MR. BROAD: -- the same situation.

12 CHAIR ISRAEL: Same situation.

13 MR. BROAD: Yes. Yes.

14 CHAIR ISRAEL: Yeah.

15 MR. BROAD: Exactly.

16 CHAIR ISRAEL: And that was --

17 MR. BROAD: And if you -- and if you were toss in
18 exchange wagering in the mix of that, somebody made a bunch of
19 money off of that, then it goes from one of these judgment call
20 things to every time a scenario like this even looks like it's
21 happening somebody, you know, Mr. Breed is going to have to
22 launch an investigation, because what else is he supposed to
23 do?

24 CHAIR ISRAEL: Well, Life at Ten, everybody who was
25 watching it on ESPN -- were you working that?

1 MR. BROAD: No.

2 CHAIR ISRAEL: It's --

3 MR. BROAD: I was watching --

4 CHAIR ISRAEL: You were watching?

5 MR. BROAD: -- like you.

6 CHAIR ISRAEL: Yeah. I mean, everybody who was home
7 watching would -- would have gone down and beat the hell out of
8 everybody who was at the race track. I mean, that -- it would
9 have been millions.

10 MR. BROAD: So -- so here's -- here's my thought
11 about where to go with this. And I'll let Darrell comment and
12 Gary comment, and they answer, obviously, more real-life
13 questions than I can since I'm just a hack, you know? But --
14 but -- at least I've reached officious inter-meddler status
15 after 15 or 20 years of this.

16 But anyway, the -- the -- I think we have to look at
17 a couple of things if we're going to make this work. One, we
18 have to figure out some way of looking at enforcement of this
19 that -- and this is my own thought. It's not the Guild's
20 position yet because really it hasn't reached a position. But
21 I think it's incumbent to at least start thinking about this.

22 A, we have to have a situation where an investigation
23 is not going to be launched against a jockey unless there's
24 some reasonable suspicion that they are involved in race fixing
25 or corruption. And, of course, throw the book at them if they

1 are, you know, race fixing. But if we're into this area of the
2 conduct of the race and these judgment calls that jockeys make,
3 I think it's incumbent that the CHRB -- and I don't know how
4 you codify this as a regulation -- have a practice where they
5 show prosecutorial discretion and see these kind of things for
6 what they really are.

7 And I don't know how you create hard and fast rules,
8 because there really are situations where you use the whip to
9 much or you're not urging the horse on enough and you're not
10 riding -- I mean, there really are these situations, and we
11 don't mean to take the discretion away from the CHRB. But we
12 need it to exercise discretion in a way that's reasonable.

13 Now perhaps in some way we need to look at the level
14 of proof, the standard of proof, something here that would
15 create more security for the jockeys in this situation and not
16 subject -- subject them to constant investigation.

17 I also think if the -- and I -- and I guess I would
18 pose this question to Mr. Breed -- if the way of investigating
19 this is going to involve informants and people who come forward
20 anonymously, you know, the horse racing industry already is a
21 place where people jabber-jabber, talk-talk all the time about
22 nothing. And half the time the stuff that they're jabbering
23 about -- I mean, I've seen this myself.

24 I have -- it's like a game of telephone when you're a
25 kid. Some jockey says something, and the next thing you know

1 somebody calls me up and says is it true that the Jockeys'
2 Guild paid you \$1 million to do such and such and such and
3 such, you know? And it's like it becomes truth. And it's just
4 the way the horse racing industry is because everybody's
5 talking to everybody all the time. It's like one big giant
6 crazy dysfunctional family, but it's a family.

7 And so I worry that if we're going to have that thing
8 with informants, that we're going to have people doing these
9 out of spite and out of crazy suspicion, and out of I lost my
10 bet and therefore I'm looking at the conduct of the race, and I
11 think something happened. I think we need to look at a
12 protocol, if you will, for investigations that's written and
13 transparent so that -- so that we don't have a steward in one
14 place exercising one standard of investigation, and a steward
15 in another place exercising another.

16 So with that I'll stop. I mean, I feel like this is
17 sort of calling out for some kind of therapy. But actually
18 we -- we do need to deal with this, I'm just not sure how.
19 So --

20 COMMISSIONER ROSENBERG: Stop.

21 MR. BROAD: -- Darrell?

22 COMMISSIONER ROSENBERG: You should stop and start
23 drafting, because that language would be very difficult to put
24 in writing. I agree with you.

25 MR. BROAD: Well, that's what's stumping me, frankly.

1 CHAIR ISRAEL: Well, Darrell? Gary?

2 MR. HAIRE: Well, you want to give him an example?

3 MR. BROAD: Yeah.

4 MR. STEVENS: Mr. Israel?

5 CHAIR ISRAEL: Just say your name, Gary.

6 MR. STEVENS: Gary Stevens, former president of the
7 Jockeys' Guild, analyst for HRTV and NBC Sports.

8 You asked the question, Mr. Israel, for -- to -- for
9 John Sadler to give an example of the nightmare for the
10 jockeys. I'm going to give you the nightmare.

11 I was at Sandown in 1999 when Betfair, they were --
12 would sponsor days of races. They were putting a lot of money
13 into racing. They were great for racing. It came up one day
14 that they were going to start this exchange wagering. I
15 asked -- Frankie Dettori was there, Kieren Fallon, Richard
16 Hughes, all the top jockeys. And I was riding their
17 permanently at the time. And I was on the Jockey Association.
18 And I said, "Exchange wagering; what is that?"

19 And Frankie said, "They can bet on horses to get
20 beat."

21 I said, "You're kidding me?"

22 And he said, "No."

23 I said, "This is nuts. If you guys allow this it
24 will be the ruination of a lot of careers. It's going to cause
25 people that wouldn't normally cheat, if there's a little bit of

1 larceny in somebody they're going to cheat. And I'd like to
2 think that a majority of the top riders have an ethical reason
3 to give forth their best or they're out of -- out of a
4 business, out of a job."

5 Let me give you a scenario of what would happen. If
6 I was still riding, and the mentality and the majority of these
7 riders is going to be, if this wager is out there to lay horses
8 to get beat, it will change the way that jockeys ride races. I
9 was taught to save ground on the turf, keep a horse in the
10 pocket, find a gap, let him run. If I have the -- enough horse
11 to go around and win and lose ground, then I will do that.
12 I'll keep the horse out of as much trouble as I can. But I was
13 taught to take chances.

14 Normally, on any given day a horse is not good enough
15 to give up that type of ground and still win. Now my mentality
16 is going to change a perception. If I sit in there and I get
17 beat and finish second or third I probably wasn't going to win
18 if I had to go around anyway. But the perception was going to
19 be that I didn't get the horse stopped.

20 Now as you as the better that sat up there and -- and
21 bet on whatever horse Gary Stevens is riding and I have to eat
22 the horse, and I finish second or third anyway -- the hole
23 doesn't open up on the fence -- and money does come in from --
24 some unknown person has laid this horse to get beat, the -- the
25 person who has bet on this horse to win automatically is going

1 to think that something has gone on.

2 And so you will see jockeys riding races that are
3 going five wide, six wide, consciously saying I've got to keep
4 this horse out of trouble, he's the favorite today. And if I
5 get stopped and somebody has bet money there's going to be that
6 perception. So by doing that you are penalizing the people
7 that are playing the pari-mutuel bets and are betting on me to
8 win. You're penalizing them by not seeing Gary Stevens or
9 whoever ride the best race.

10 And real quickly I'll give you one other scenario.
11 I'm riding, let's say, a three-year-old that's on the Derby
12 trail. And he's -- we know that he's got a little bit of a
13 foot issue, but we need to run him. And I've talked to the
14 trainer and he says if anything doesn't feel right at all prior
15 to the start of the race, scratch him. If he feels all right,
16 go on with it. But during the running of the race if you feel
17 anything, take care of him. Just look after him. He's not
18 telling me to get him beat.

19 So now I'm the 1-to-5 favorite in -- in the, let's
20 say the San Felipe Stakes coming up next month, and I'm
21 tracking him third, and I feel the horse take a very subtle
22 wrong step at the half-mile pole, and I just ride him in. I
23 don't completely pull him up but I -- I'm looking after him, or
24 maybe I do pull him up. Now the horse gets back to the barn,
25 he pops an abscess four days later. Nine days later he comes

1 back and he works 5 furlongs at 58 and 2, has the fastest work
2 of the day.

3 And he comes back up in San Francisco in a prep race
4 and he wins by 15, and money has been laid for him to get beat
5 in that race that something did not go right. You're not only
6 jeopardizing a jockeys career by a false investigation which --
7 investigation which may taint his career and cause long lasting
8 damage, but you are also taking away his abilities to look for
9 the best interest of that horse that he is riding.

10 And that's all I have to say. Any questions?

11 COMMISSIONER ROSENBERG: On your example of riding a
12 horse and then -- and deciding whether to go -- deciding
13 whether to go wide or not --

14 MR. STEVENS: Yes.

15 COMMISSIONER ROSENBERG: -- don't you have to face
16 that now if you're riding a big favorite?

17 MR. STEVENS: Yes. Absolutely.

18 COMMISSIONER ROSENBERG: Same issue; right?

19 MR. STEVENS: Absolutely. And depending on which
20 trainer I was riding for and how well that horse was traveling,
21 I may have been riding a horse that was a super horse. But on
22 that particular day he was not at his best. And going around
23 in the final turn I had to make a decision, conscious decision,
24 do I go around here? And if it was a horse that was not on his
25 game that day and couldn't go three wide and still win I would

1 choose not to do that, knowing that if I stayed inside and a
2 gap opened up inside he probably is still going to be good
3 enough to get there. I've got a 50-50 choice of what I want to
4 do.

5 Well, I turn that choice -- that choice goes from 50-
6 50 to 100 percent go around if you've got exchange wagering,
7 because I don't want to give the perception that I've stayed
8 inside on this horse to get him beat. I'm taking the risk
9 that -- let's say it's a jockey in front of me that normally
10 floats out coming into the stretch. I know he's going to drift
11 out, unless somebody holds him in. I'm going to get through,
12 and more than likely I'm going to win.

13 Well, now the odds change because of perception. I'm
14 not going to take that chance of getting stopped, and the horse
15 is going to get beat anyway because I've lost ground. But I've
16 taken away -- you, if you've bet on that horse, I've just put
17 it to you because I've taken away all chance of that horse
18 winning, when it may have been just a mediocre day. And I know
19 that's a little tough to follow, but hopefully you --

20 CHAIR ISRAEL: Well --

21 MR. STEVENS: -- do understand what --

22 CHAIR ISRAEL: Yeah. I know. Look --

23 MR. STEVENS: -- I'm trying to say.

24 CHAIR ISRAEL: Look what happens to Desormeaux after
25 he pulls up Big Brown in the Belmont.

1 MR. STEVENS: Oh. And -- and big money, the same
2 money --

3 CHAIR ISRAEL: Huge money.

4 MR. STEVENS: -- came in late.

5 CHAIR ISRAEL: Oh, sure.

6 MR. STEVENS: And one other thing is, you know, there
7 are so many other parties involved, not just the jockey and the
8 trainer. Let's say that the groom knows something has happened
9 to this horse that he spiked a little bit of a temperature four
10 days before the race, and he hasn't eaten well, and he gives
11 information to somebody that the trainer or the jockey is not
12 even aware of, that that information has gone out, and large
13 money has been laid for that horse to get beat. And once
14 again, the -- the finger is going to be pointed at the smoking
15 gun. And who's holding the gun? The jockey.

16 CHAIR ISRAEL: Right.

17 MR. STEVENS: And then it goes to the trainer.
18 And -- and -- and I'm -- I'm not accusing or saying that a
19 groom would do this. But you've got a lot of different parties
20 involved with every individual horse that could pass out
21 information that is -- is good information.

22 CHAIR ISRAEL: Anything else? Darrell, you have
23 anything?

24 MR. HAIRE: It's just -- I think they've summed it up
25 well. I think Gary --

1 CHAIR ISRAEL: Identify yourself.

2 MR. HAIRE: Darrell Haire, Western Regional Manager
3 of the Jockeys' Guild.

4 It is -- you know, the -- it's a complex issue.
5 It's -- it's too easy to lose. Too many things can go wrong at
6 any time. And it's out of the jockey's control. And they're
7 trying to do the right thing. You know, a horse could just
8 have a bad day or whatever. But they are scrutinized no matter
9 what.

10 And I think, in talking to the riders throughout the
11 United States, they're very uncomfortable. And we've had
12 presentations by Betfair and -- and they're still not
13 convinced. And riders in Australia or England, they -- they --
14 they're against this. They don't like it at all.

15 CHAIR ISRAEL: Is your position, the bottom line,
16 that implementation at this time is a non-starter for you?

17 MR. BROAD: I think our position is that
18 implementation without some very significant written protocols
19 to protect jockeys from a sort of barrage of false accusations
20 is -- will not work for us. And -- and we -- and I guess this
21 is the quote "integrity issue" or some part of the integrity
22 issue. I think the -- the Board clearly has to address that
23 and -- and maybe in a way that, you know, that -- that's
24 different from England, or based on suggestions about -- I
25 don't know. I mean -- or maybe we have to look at a slightly

1 different model. I don't know.

2 The problem is that usually in these situations, I
3 confess that I can come here and tell you exactly what we want.
4 And I have often told -- the Guild and I tell other people I
5 represent that, basically, if you don't know what you want then
6 you basically don't get anything. And you've gotten the right
7 to complain, but if you want something you better come up with
8 it.

9 And I -- so I think we -- we -- we're -- we're open
10 to other suggestions from people on how this could be done,
11 because we haven't figured it out yet. And that's -- I confess
12 the truth.

13 CHAIR ISRAEL: Okay. Would you -- just one -- one
14 final question that I've asked some others.

15 If -- and it's obviously not a foregone conclusion --
16 the Board votes yes to implement this, would you take legal
17 action against the Board?

18 MR. BROAD: I very, very much doubt that.

19 CHAIR ISRAEL: Okay. All right. Thanks. Thank you.

20 All right. CHRIMS.

21 MR. THURMAN: Mark Thurman with CHRIMS. I'll keep
22 mine very brief.

23 CHAIR ISRAEL: Thank you.

24 MR. THURMAN: We are here as a utility for the
25 industry, so we will primarily, if and when exchange wagering

1 gets legalized and the regulations get in place, monitor the
2 exchange wagering, and also do the distribution to the
3 stakeholders in California.

4 We do feel like it's -- getting these regulations
5 right are extremely important. Exchange wagering will be much
6 easier to monitor, from our perspective, because it's going
7 through one computer system, compared to pari-mutuel wagering
8 where we're having to deal with, you know, many many computer
9 systems and pulling in the data. So that will clean up a lot.
10 But we're willing to work with the exchange wagering companies
11 to figure out what we need to do.

12 I would suggest that we need to come together as an
13 industry to create a baseline that we're going to be analyzing
14 the data against, because that's what's going to be happening.
15 We're going to be asked to -- what's it doing to pari-mutuel
16 wagering? Is there cannibalization? And we should work on it
17 as far as like what we want that baseline to be and agree to
18 it.

19 CHAIR ISRAEL: How long would it take you to prepare
20 that?

21 MR. THURMAN: A baseline?

22 CHAIR ISRAEL: Yeah.

23 MR. THURMAN: Probably two or three weeks --

24 CHAIR ISRAEL: Okay.

25 MR. THURMAN: -- maybe.

1 CHAIR ISRAEL: And then -- (Horn plays in
2 background.) Oh, I'm not going to stop for that.

3 To Betfair's suggestion that if -- if we go forward
4 with this under multiple operators that there be one pool, how
5 easily is that accomplished?

6 MR. THURMAN: Well, if you -- if you're doing it on
7 one system then it's very easy to accomplish. If you're doing
8 it on multiple systems then we're getting back --

9 CHAIR ISRAEL: I think it's almost inevitable there
10 will be multiple systems because that's --

11 MR. THURMAN: Then we get back into the --

12 CHAIR ISRAEL: -- that seems to be the case.

13 MR. THURMAN: Then -- then we'll get back into -- it
14 won't be as complicated because you're not going to have 100
15 systems out there. But we'll have to be talking to multiple
16 systems.

17 CHAIR ISRAEL: Okay. And do you think that that's
18 the best thing to do?

19 MR. THURMAN: Have one system?

20 CHAIR ISRAEL: Have -- have one pool?

21 MR. THURMAN: I think liquidity wise that's
22 definitely what you're going to have to do. Because otherwise
23 you're going to spread this around and you're not going to get
24 the -- you're not going to get the kind of success that you're
25 looking for.

1 CHAIR ISRAEL: Okay.

2 MR. THURMAN: Thank you.

3 CHAIR ISRAEL: Thanks. Thank you, Mark.

4 HANA, Jeff Platt. Do you have a PowerPoint or were
5 you just taking notes on your computer?

6 MR. PLATT: I do, but it's only one screen and I
7 couldn't get -- get it up on the computer -- or up on the
8 projector.

9 CHAIR ISRAEL: Oh, you can't? Okay. All right.

10 MR. PLATT: Jerry, what --

11 CHAIR ISRAEL: Introduce yourself.

12 MR. JAMGOTCHIAN: Jerry Jamgotchian.

13 CHAIR ISRAEL: And -- and --

14 MR. PLATT: Wait a minute.

15 CHAIR ISRAEL: Wait.

16 MR. PLATT: No.

17 CHAIR ISRAEL: Are you part of the HANA presentation?

18 MR. PLATT: No.

19 MR. JAMGOTCHIAN: Oh. I thought you were allowing me
20 to come up.

21 MR. PLATT: No.

22 MR. JAMGOTCHIAN: Okay.

23 MR. PLATT: No.

24 MR. JAMGOTCHIAN: Excuse me. All right.

25 CHAIR ISRAEL: Sorry, Jeff. All right, Jeff.

1 MR. PLATT: Jeff Platt, speaking for HANA.

2 I want to make the commission aware that as relates
3 to betting against horses or betting horses to lose, that is
4 currently happening in the pari-mutuel pools. And the slide
5 that I have up on my computer -- and I'll be happy to show it
6 to you afterwards, and give Mike a copy -- it shows what
7 happens in races where the favorite loses.

8 Long story short, if I know a favorite is going to
9 lose a race I can bet the second through seventh ranked horses,
10 as ranked the odds in the win pool, and statistically guarantee
11 myself a profit. And if I can repeat this thousands of times
12 over the course of several years I can become extremely
13 wealthy. At every race track in North America every day people
14 are betting in the pari-mutuel pools, and they're betting
15 horses to lose.

16 I heard earlier the concern voiced about robotic
17 players, large robotic players, preying upon the less
18 sophisticated smaller player. That is happening in the pari-
19 mutuel pools. I think the most recent figures that I heard
20 indicate that as much as 15 to 17 percent of all pari-mutuel
21 handle is generated by large robotic players currently. If I
22 am cheating in the pari-mutuel pools I can do so anonymously.
23 I can walk up to a mutual teller, as long as I look like I'm
24 of -- of age, 18 or older, I can make bets in exchange for
25 cash, I can walk away, I can't cash those winning bets at the

1 same or a different facility, and I can do it weeks later, and
2 I can do anonymously.

3 If I'm going to cheat on an exchange, at least I have
4 to identify myself as an account holder. And they know who I
5 am, and they get a complete audit trail of my betting activity.

6 The exchange offers a couple of advantages for
7 players that makes it very attractive, aside from the lower
8 commission. One of the main complaints I hear about pari-
9 mutuel win betting is that the odds change during the running
10 of the race. Every player I talk to hates the idea of betting
11 a horse at 7-to-2 as it goes into the gate and seeing it change
12 to 8-to-5 when it crosses the wire in front.

13 CHAIR ISRAEL: Well, it doesn't change when it
14 crosses the wire.

15 MR. PLATT: Well, by the time it crosses the wire.
16 All right. With an exchange your odds are locked in.

17 The other aspect that makes an exchange very
18 attractive to players is the ability to shop for odds. I am a
19 handicapper. I make a horse 6-to-1. Now I go shop. Here's a
20 guy offering 8-to-1. Here's a guy offering 7-to-1. Which one
21 am I going to -- which one am I going to snatch up first?
22 Obviously, the best price. Once I've locked in my price the
23 price doesn't change from that point forward.

24 I would like to see exchange wagering given the
25 chance to succeed. I've heard a lot of concerns today, and

1 those concerns are valid. There have to be rules in place to
2 handle those concerns.

3 I want to voice a couple of other concerns that we
4 have at HANA as relates to security of money on deposit. Are
5 there assurances in the rules that a bond must be posted in the
6 event that the exchange provider can't pay the customer? Are
7 customer funds going to be held separately from the operating
8 expenses of the exchange provider? As relates to integrity,
9 are insiders of the game going to be allowed to wager on horses
10 or against horses? Can a trainer bet on or against his own
11 horse? An owner? A rider? A jockey agent? A steward? Our
12 concern is that these things are addressed by the rules.

13 CHAIR ISRAEL: All right. There are -- you can get a
14 copy of the rules.

15 MR. PLATT: I have them. I just want to get this as
16 part of the transcript.

17 CHAIR ISRAEL: Right.

18 MR. PLATT: And basically that's what I have to say,
19 and I'm open to questions.

20 CHAIR ISRAEL: Well, now, you mentioned that if you
21 make a horse 6-to-1 you'll go on -- you know, you'll find an 8-
22 to-1 price and take it.

23 MR. PLATT: Right.

24 CHAIR ISRAEL: Then you won't make that bet in the
25 pari-mutuel pool

1 MR. PLATT: If he's 11-to-1 in the pari-mutuel pool,
2 I'll take it there. In other words, you look as a player.

3 CHAIR ISRAEL: So -- but --

4 MR. PLATT: You look at --

5 CHAIR ISRAEL: But what you're saying then --

6 MR. PLATT: -- all aspects.

7 CHAIR ISRAEL: -- is as it relates to you, you're
8 going to shop for the best price, therefore you will
9 cannibalize your whips bet?

10 MR. PLATT: I will.

11 CHAIR ISRAEL: Okay.

12 MR. PLATT: There's no question about that.

13 CHAIR ISRAEL: There is no question? Okay.

14 MR. PLATT: Right.

15 CHAIR ISRAEL: Go ahead.

16 COMMISSIONER ROSENBERG: Mr. Platt, the statement you
17 made at the beginning was very -- I was surprised at that. I
18 hadn't -- I've never heard that. And it answers one of the --
19 the major concerns that I think everyone has about, you know,
20 automatically thinking that by allowing people to bet against a
21 horse would increase the possibility of cheating. Could you
22 explain that again? I mean, you said -- you mentioned seven
23 horses. Is there a mathematical number, a maximum number of
24 horses in a race that --

25 MR. PLATT: No. What --

1 COMMISSIONER ROSENBERG: -- this applies to?

2 MR. PLATT: What I did do arrive at that number is I
3 took all starters per calendar year 2011 and I wrote a data
4 query that answered the question: What happens when the
5 favorite fails to win the race? And then I looked at the
6 expectation, the complete history. It's a history. It's a
7 snapshot of what actually happened in calendar year 2011. And
8 in races where the favorite lost the player would be able to
9 generate a profit with no handicapping whatsoever, simply by
10 betting the second through seventh ranked horses in the odds.

11 COMMISSIONER ROSENBERG: Oh.

12 CHAIR ISRAEL: In the odds --

13 COMMISSIONER ROSENBERG: So in the odds --

14 CHAIR ISRAEL: -- no matter what the --

15 COMMISSIONER ROSENBERG: -- like Gary -- in the odds.

16 MR. PLATT: Right. Now you can improve that with
17 good handicapping. But --

18 CHAIR ISRAEL: Well, that's two-thirds of the races.
19 The favorite wins about a third of the time.

20 MR. PLATT: Exactly.

21 CHAIR ISRAEL: Yeah. So --

22 MR. PLATT: It's actually closer to 36 percent with
23 smaller --

24 CHAIR ISRAEL: Okay. And --

25 MR. PLATT: -- race sizes, but --

1 CHAIR ISRAEL: And what's the margin?

2 MR. PLATT: The margin? About 20 percent. In other
3 words, if I bet \$1.00 I get back \$1.20 for every dollar that I
4 bet under those circumstances.

5 CHAIR ISRAEL: So then -- so if you figure in the
6 cost of money you're still way ahead?

7 MR. PLATT: Oh, yeah. Absolutely.

8 CHAIR ISRAEL: Okay.

9 MR. PLATT: And, you know, my -- my point is if you
10 think that betting against horses is not happening now in the
11 pari-mutuel pools, you're fooling yourself.

12 COMMISSIONER ROSENBERG: Have you surveyed other
13 members of your organization on this?

14 MR. PLATT: On exchange wagering? No. We are
15 working on that. During our surveys we have surveyed them, and
16 the three core issues they consistently identify are takeout,
17 odds of the change after the bell, and drugs. Drugs doesn't
18 really relate to what we're talking about today.

19 CHAIR ISRAEL: Well --

20 MR. PLATT: Odds that change after the bell certainly
21 does.

22 CHAIR ISRAEL: -- it actually can.

23 MR. PLATT: It can, right.

24 CHAIR ISRAEL: Drugs -- drugs can --

25 MR. PLATT: You can drug a horse to -- to win or to

1 lose.

2 CHAIR ISRAEL: Just give it a little less Lasix if
3 you know it's a bleeder and --

4 MR. PLATT: Exactly.

5 CHAIR ISRAEL: Yeah.

6 MR. PLATT: Yeah. Okay.

7 CHAIR ISRAEL: Yeah. It's -- there's -- there's --
8 there's a myriad of ways to do that. I --

9 MR. PLATT: But on the surface --

10 CHAIR ISRAEL: I grew up New Jersey. I'm sort of --

11 MR. PLATT: Yeah.

12 CHAIR ISRAEL: -- hip to all that stuff.

13 MR. PLATT: On the surface --

14 CHAIR ISRAEL: So did he, actually.

15 COMMISSIONER ROSENBERG: Yeah.

16 MR. PLATT: On the surface exchange wagering would
17 address odds that change after the bell, and it would improve
18 the value expectation for players. And my belief is you would
19 reach a demographic that you're not reaching now.

20 CHAIR ISRAEL: Who is that demographic?

21 MR. PLATT: Our current demographic, when I look at
22 HANA membership, they are people that have been in the game of
23 racing betting for over 20 years. They're 55 or older.
24 They're highly educated. Almost all of them have college
25 degrees. And most of them are retirees. And their favorite

1 hobby is handicapping and betting on -- on horses.

2 CHAIR ISRAEL: How many members do you have?

3 MR. PLATT: Currently just under 2,500.

4 CHAIR ISRAEL: All right. Anything else.

5 COMMISSIONER ROSENBERG: No. Thank you.

6 CHAIR ISRAEL: All right. Thanks, Jeff.

7 MR. PLATT: All right. Thank you.

8 CHAIR ISRAEL: If you'd give Mike a copy of that page
9 there. Thanks. Okay.

10 We're -- I'm -- I think we should go out of order
11 here, because we're keeping people a long time. And let's move
12 on to public comment. So if Mike can -- and then we'll come
13 back to our staff presentations.

14 COMMISSIONER ROSENBERG: I do have another meeting.

15 CHAIR ISRAEL: Yeah. Is this -- Mike, is this the
16 order?

17 MR. MARTEN: I know they -- I -- there's no order
18 that they were given to me. Sorry.

19 CHAIR ISRAEL: Okay.

20 MR. MARTEN: Yeah. Actually, the -- the one at the
21 bottom would be the first one given to me.

22 CHAIR ISRAEL: Oh, so they're opposite? Okay. All
23 right.

24 Lou Raffetto, TOC.

25 MR. RAFFETTO: Good afternoon. Lou Raffetto,

1 President of TOC. For the record, also from New Jersey.

2 One other question. Would you have a problem -- Josh
3 Rubenstein did such a good job with Joe Harper, could he come
4 up and assist me also? Just wanted to know. Just --

5 MR. HARPER: I'm right here, President.

6 MR. RAFFETTO: Okay. Good. Thank you.

7 CHAIR ISRAEL: You mean Harpo?

8 MR. RAFFETTO: I'm not going there.

9 We all agree we need to seek innovative ways to
10 stimulate business, and as -- as far as the TOC is concerned,
11 increase purses. However, our position regarding exchange
12 wagering remains the same, as you've heard time and time today.
13 We have the same concerns about integrity and cannibalization,
14 and certainly about the financial model. But our concern about
15 the financial model actually became grave concerns after
16 Betfair held an informational seminar about two weeks ago and
17 we learned about the rates. It's the first time I ever heard
18 where this ten percent could actually go down to five percent
19 in terms of the rebating aspect of that.

20 And when one looks at that, and assuming there will
21 be some large players taking a six percent skin, realistically
22 if one individual wins \$1,000, and that take is \$60.00 at that
23 point in time, the purse gets \$7.00, the track gets \$7.00,
24 TOC -- I mean, Betfair would get \$6.00. And again, this is
25 assuming a six percent take on one side. We understand there's

1 a bet on both sides. So one could make the argument it's
2 actually a three percent takeout.

3 But that being said, the wagerer, to equate to a win
4 wager where on a 15.43 that -- that generally about a five
5 percent hold for purses and for the track the -- the amount
6 wagered would have to be about seven times the amount. The --
7 the \$1,000 win would have to be \$7,000 to equate to -- to a win
8 bet on -- on \$100 -- excuse me, on \$1,000 bet in the win pool.
9 So -- and then, again, if one looks at it as three percent it
10 has to be twice that much.

11 The point is, to this point in time we've kept the
12 car in neutral on this whole issue, and now we've actually
13 thrown it in reverse a little bit. We feel the concept needs
14 extensive additional review. We urge the CHRB to extend the
15 deadline so that other financial models can also be considered
16 and reviewed. And since the TOC's approval, authority is a key
17 element to implementation, at this point in time we're not
18 prepared to move forward with any such approval. That's all I
19 have.

20 COMMISSIONER ROSENBERG: Well, are you negotiating at
21 present with them, or are you -- you --

22 MR. RAFFETTO: No, we are not.

23 COMMISSIONER ROSENBERG: You're not? Okay.

24 CHAIR ISRAEL: And do you anticipate -- I mean, Del
25 Mar obviously expressed interest to engage in -- in this, this

1 summer. Do you anticipate being able to construct a deal
2 between now and whatever time would be sufficient to do that?

3 MR. RAFFETTO: We have no idea whatsoever. Because
4 quite honestly, as I said, the financial model just doesn't
5 work for us. It doesn't work for the industry at this point in
6 time, so I couldn't answer that.

7 CHAIR ISRAEL: All right. Thank you, Lou.

8 MR. RAFFETTO: Thank you.

9 CHAIR ISRAEL: Sherwood Chillingworth.

10 MR. CHILLINGWORTH: Good afternoon. Good to see Kirk
11 back. That's a real pleasure.

12 Sherwood Chillingworth. I'm the executive vice
13 president of Oak Tree. I'm not appearing today on behalf of
14 Oak Tree. We were never asked for our opinion, so we have no
15 Board approval for any slant on this.

16 But I personally, I've been in the racing business
17 for 40 years as an owner, a breeder, a member of different
18 industry organizations, a member of the board of directors of
19 TRA and TRBB. So I'm reasonably informed as what's going on in
20 the business. And my feeling is that I agree with the people
21 who feel that the -- well, I haven't seen a working model yet
22 that would excite me. And you also have a problem that the --
23 the jockeys have expressed here.

24 Nevertheless, I believe in standing for equity and a
25 chance for somebody to prove himself or disprove himself. And

1 I think that having Del Mar, which has been one of the most
2 successful tracks in the country for years, has -- spend seven
3 weeks experiencing with this thing will at least give us some
4 insight. I realize that seven weeks doesn't a whole year make.
5 But at least it gives us some insight as to how the -- the
6 process works and whether or not this is a terrible idea or a
7 reasonably good idea that can be improved upon.

8 So I -- I'm speaking personally, for myself. I think
9 that Del Mar is doing the right thing in attempting to try and
10 experiment. If it works, it works, if it doesn't work, it
11 doesn't work. Thank you.

12 CHAIR ISRAEL: Thank you, Chillie.

13 Jerry Jamgotchian.

14 MR. JAMGOTCHIAN: Chairman Israel, Members of the
15 CHRB, I've spent a lot of time on this personally. In fact, a
16 few nights ago Stephen Burn, Tom Large, and I met for nearly
17 three hours to talk about this. Because as an owner and as an
18 interested party in horse racing with a large financial
19 investment I -- I really want to see horse racing succeed
20 economically. In my discussions with those two gentlemen and
21 the passion that they put out I kind of, during the meeting,
22 was feeling that maybe I needed to listen a little bit more to
23 what they were saying because maybe there was a link here that
24 would work.

25 And we all know that the economics don't work. We

1 all know about the integrity issues. TVG, certainly, and
2 Betfair, certainly, are progressive technological companies who
3 bring a lot to the table. We don't all disagree with what they
4 do, but I think they should be listened to.

5 My position with regards to exchange wagering,
6 obviously, is that it's not right at this time. I was an owner
7 in England and I had my trainers essentially tell me that
8 they're going to lay my horses the first three times, and the
9 fourth time we're going to go with him to see how good he is.

10 I get calls frequently from friends in England
11 saying -- I didn't get one today. I have a horse running
12 today. But I usually would get a call saying how's your horse
13 going to run today? And I say he's got no chance, well,
14 obviously, the laying boys in England and Ireland are going to
15 be all over my horse. But then again, it's a business model
16 that they use in England. It's not here.

17 The facts that I want to bring out tonight are,
18 number one, we know that it doesn't work economically for
19 California horse racing. More importantly, though, the
20 regulations are not understood by the regulators. I know Kirk
21 and -- and I'm sure Ms. Wagner, they have no idea what they're
22 talking about when we're dealing with exchange wagering. They
23 don't have any experience. And what -- the experience they
24 have, it's told to them by Betfair. And I just don't believe
25 that that's the way to write a regulation. I can talk a little

1 bit about some of the regulations briefly.

2 The regulations don't protect the player. In fact,
3 what scares me the most, and in talking with Stephen and Tom,
4 they can shut off a players account for any reason. I mean,
5 there's no due process, there's nothing. In fact, I'm not sure
6 they even have to give his money back.

7 And you're dealing with another issue that's --
8 that's kind of concerning to me, and that's the fact that this
9 is a foreign company. And there's been no discussion how and
10 what would happen if the money ends up in a foreign country,
11 how do we get our money back if we're exchange wagers?
12 That's something that's totally been ignored.

13 Additionally, the \$1.4 million license fee that's in
14 the application, I don't know where that number comes from. It
15 might be far less than needed. And in speaking with CHRB
16 staff, they've said that essentially it's just a baseline. It
17 could be a lot more, it could be a lot less. We don't know
18 what it is. Well, you can't walk into another CHRB mandate
19 with this same situation. Now --

20 CHAIR ISRAEL: Jerry, that's three minutes. I'll
21 give you another minute.

22 MR. JAMGOTCHIAN: Okay. Thank you. The -- the
23 regulations with regards to exchange wagering, and I could go
24 through with regards to just what's happened, but there's a
25 classic example that's already occurred in California, and it's

1 with Del Mar. Del Mar in August 2009, they signed a contract
2 with the TOC's approval -- I have a copy, I'll give it to Mike
3 Marten -- where they essentially did exchange wagering for a
4 month, and they allowed exchange wagering in Europe and in --
5 in other parts of the -- of the world. It netted a grand total
6 of \$12,000 to Del Mar. Now obviously Joe is getting millions
7 of dollars guaranteed on his purse pool, but that's not in the
8 benefit -- the best interest of California horse racing.

9 If you took a poll in this room today, I'm sure if
10 you wanted to, you're going to find out that there's not the
11 support for this exchange wagering. Although it might be a
12 good idea in some cases, it's not good for California racing
13 and it's not good for the integrity of our sport.

14 CHAIR ISRAEL: Okay.

15 MR. JAMGOTCHIAN: I have one last thing that's very
16 important. Penal Code section 227(a)(6), relating to a lay
17 wagerer, which is a felony in California. Thank you.

18 CHAIR ISRAEL: Thanks. Okay. Let's see. John
19 Hindman.

20 MR. HINDMAN: Thank you kindly, Commissioner Israel.
21 I just wanted to respond to a few things we've heard here
22 today. And I'll -- I'll make it as quickly -- as quick as I
23 possibly can.

24 CHAIR ISRAEL: Okay.

25 MR. HINDMAN: First, on -- on laying horses and

1 cheating, I think this quote from Paul Scotney who -- you've
2 heard Paul Scotney quotes earlier today -- says it all.

3 CHAIR ISRAEL: Mike, I got it.

4 MR. HINDMAN: "There's been cheating in racing
5 for 250 years, long before exchanges came along. We
6 can now have access to the records of the cheats, which
7 gives us a clear audit trail, which then helps us prove
8 who the corruptors and the corrupted are."

9 And this is something I've really found interesting
10 today is that we sit here and act like there's no cheating
11 going on and that we have a perfect system here today, and that
12 this somehow is -- is -- is going to be introducing evil, when
13 the opposite is true. Seventy percent of all the wagering --
14 over 70 percent of all the wagering in California today is
15 anonymous, everything but ADW. So around 70 to 75 percent is
16 anonymous. We simply don't know, nor do we have any means to
17 know, what is actually going on and the current environment
18 today. And the scrutiny that's being put on this system is
19 because we can know, and we do have the ability -- ability to
20 know.

21 Also, I -- the gentleman from HANA talked about
22 betting on horses to lose. And I would just leave you with one
23 thought. Let's say that you -- you owned, trained or rode a 4-
24 to-5 shot in the last leg of a Pick 6 on a day with a \$400,000
25 carryover. You don't think that there's some incentive to pull

1 the horse if -- if you knew he wasn't going to win and profit
2 in a way that you can not profit off exchange wagering because
3 the maximum odds are 299-to-1 on a system that's being
4 proposed. The -- the odds in a scenario like that could be
5 300,000- to 400,000-to-1 on a bet like that.

6 A few of the legal issues that were raised, first of
7 all, whether this is pari-mutuel, we believe strongly that it
8 is. The definition of pari-mutuel on the federal level and in
9 California is people betting against each other and not against
10 the betting operator. We believe that this clearly qualifies.

11 Whether this is bookmaking or facilitating
12 bookmaking, we believe it's not. This has been litigated
13 multiple times, four or five times, in the United Kingdom and
14 doesn't fit the definition of bookmaking for -- for the
15 customer -- by the customers, which would include controlling
16 all the prices in a market, settling the bets, etcetera. Not
17 present here.

18 There was an issue raised about the patents.
19 We've -- we've made assurances all along the way that our
20 patents are a shield and not a sword, and that we would not
21 look to use the patents to monopolize the business. We stand
22 by those pledges.

23 There's been a lot said about business trends
24 elsewhere in the world where Betfair has been introduced. And
25 I noticed all the people who were making those claims were tote

1 operators, people operating tote businesses. And I think that
2 what they should do is actually go out and look at the tote
3 businesses in the country, such as the United Kingdom and
4 Australia, where the betting exchange has been introduced. In
5 every instance it's been actually very cooperative and it has
6 actually helped the tote business grow in those areas, and it's
7 been very successful.

8 As -- as for the jockeys, I -- we understand what
9 their concerns are. I do think that there are some
10 misunderstandings. We had asked to speak with them on several
11 different occasions. We will continue to do so and we can come
12 to a solution there.

13 CHAIR ISRAEL: That's -- that's three minutes, but
14 I'll give you another minute to finish up.

15 MR. HINDMAN: Okay. A couple of other comments,
16 several people said that this is rushed, it's interesting to
17 note that the statute was passed in 2010 and we're now in 2012.

18 As to the comment that Betfair did or didn't do
19 something at Sandown in 1999, Betfair didn't exist in 1999.

20 And also as to the concerns that were raised that
21 Betfair could shut off accounts at any time for integrity
22 reasons, that is already the case with the rules regarding ADW
23 in California today. So that's just consistent with those
24 rules.

25 I appreciate your time. Thank you.

1 CHAIR ISRAEL: Thanks, John. All right.

2 Tom Larow [sic].

3 MR. LARGE: Large.

4 CHAIR ISRAEL: Huh? Did I pronounce that properly?

5 Your handwriting --

6 MR. LARGE: Yeah. Excuse -- excuse me. My
7 handwriting is horrible. My name is Tom Large. I'm the U.S.
8 Director for Commercial Activates for -- for Betfair. And I
9 had eight or nine points written down here. They've been
10 covered quite succinctly by the representative from HANA and
11 by -- by John. So I just have one point that I want to pick up
12 on.

13 And there -- there's a lot that was made today around
14 the economic model of exchange wagering, and a couple of people
15 went as far as to say that -- that it doesn't work for -- for
16 California. I certainly don't believe that to be true. And
17 the thing that I would encourage everyone to do or not to do is
18 to compare takeout rates and \$10.00 wagered through a tote pool
19 versus \$10.00 wagered through an exchange pool. We're
20 comparing chalk and cheese. It's not an appropriate way to
21 compare the financial differences between the two models.

22 And a couple of points that I would -- I would like
23 to bring to your attention. The rates of churn of funds
24 through an exchange, the business model is based around a
25 relatively low takeout and a high amount of churn. Our

1 customers in the U.K. generate twice as much revenue as
2 customers that bet with traditional forms of racing in -- in
3 the U.K. and in Europe, indeed. And that's the thing that I
4 would really encourage everyone to look at. We -- we have
5 players through increased satisfaction by charging them a
6 smaller amount on any -- any individual pool basis that go on
7 to generate twice as much revenue in the long term. And that's
8 a very, very compelling point that I would urge people to focus
9 on. Thanks very much.

10 CHAIR ISRAEL: Thank you.

11 COMMISSIONER ROSENBERG: Can I ask him a question?

12 CHAIR ISRAEL: Uh-huh.

13 COMMISSIONER ROSENBERG: Excuse me. The -- the point
14 you made about the -- the other jurisdictions that have
15 exchange wagering, and did you say that they -- that statistics
16 show that they -- you called it the -- did the pari-mutuel
17 pools increase since exchange wagering was introduced?

18 MR. LARGE: Yeah, that's right, sir. I mean, there
19 was a taxation change in the U.K. in 2000 which -- which
20 makes -- muddies -- it grays the water slightly. But what --
21 what we've always said all along is if you look at the amount
22 of tote wagering in the U.K. in 2000 and you look at the amount
23 of tote wagering in the U.K. in 2008 before the financial
24 crisis, the amount that was being wagered through the pari-
25 mutuel pools was around 60 percent higher in 2008 than in 2000

1 when Betfair was introduced.

2 Similarly, if you look at the -- the transition of
3 pari-mutuel wagering in -- in Australia, since Betfair was
4 licensed in Tasmania in 2006, it's now in a much healthier
5 position. There's been some deregulation around fixed odds
6 betting. Fixed odds betting, pari-mutuel, and exchange
7 wagering have all grown healthily since Betfair was introduced.
8 We believe very much that it's a complimentary product.

9 We actually offer tote wagering and exchange wagering
10 alongside each other and to our U.K. customers. And on any
11 given -- on some given days Betfair customers account for 40
12 percent of the total amount that's wagered by the U.K. tote
13 pools.

14 COMMISSIONER ROSENBERG: It would be very helpful to
15 explain -- to provide us with those -- that information in
16 detail and understandable information so we're not comparing
17 apples and oranges.

18 MR. LARGE: Absolutely. So I mean, on that point,
19 I'd refer you to a submission that we made to -- to the Board
20 on October the 6th last year. There's -- there's a very
21 comprehensive explanation of -- of concerns around
22 cannibalization, integrity, the business model, and how -- and
23 how exchange wagering has prospered alongside other forms of
24 wagering in the other jurisdictions that we've entered into.

25

1 CHAIR ISRAEL: Okay. So maybe you can answer the
2 question I asked Stephen before when you weren't there.
3 What -- the average age of an exchange wagering in England is
4 18 years younger than the average age of the TVG customer in
5 the United States.

6 MR. LARGE: That's right.

7 CHAIR ISRAEL: What's the average age of the exchange
8 wagerer as compares to the tote wagerer on Betfair in England?

9 MR. LARGE: So -- and just to reiterate Stephen's
10 point then, it's not possible to categorize somebody as being
11 purely a tote wagerer as a Betfair customer because they have
12 access to both products. What we would need there is the
13 average age of a player who bets exclusively with a tote, and
14 we don't have that figure. We know that's it's going to be
15 significantly higher than 36 --

16 CHAIR ISRAEL: Well, if you're able to say that the
17 average age of the exchange wagering better is something, you
18 can also say that's -- this is completely --

19 MR. LARGE: Now what we -- what --

20 CHAIR ISRAEL: -- disingenuous. Because you have an
21 average age of the exchange wagering better.

22 MR. LARGE: Right. So --

23 CHAIR ISRAEL: So then you have to have an average
24 age of -- of the tote wagering better, or you just never did
25 the statistics.

1 MR. LARGE: Just to explain, what we're -- what we're
2 saying is that the average age of a Betfair customer that
3 wagers on horse racing is 36 years old. So that -- that is
4 predominantly exchange wagering, but we do offer them tote
5 wagering services, as well.

6 CHAIR ISRAEL: Well, so that's not what we were told.

7 MR. LARGE: So maybe it was a misquote. And
8 apologies if you feel that you were misled. It's like 36 --

9 CHAIR ISRAEL: I do.

10 MR. LARGE: -- years old is the -- is the average age
11 of a Betfair horse-playing customer versus a TVG horseplayer
12 who is 55 years old. But we don't have the equivalent stat for
13 the -- the average exclusive pari-mutuel wagerer in the U.K.

14 COMMISSIONER ROSENBERG: So which way does that cut
15 in -- but you're including, though, the Betfair wagerer who
16 bets on everything there --

17 MR. LARGE: Right. Yes.

18 COMMISSIONER ROSENBERG: -- right?

19 MR. LARGE: That's right. Yeah.

20 CHAIR ISRAEL: Yeah. So my point is they're younger
21 altogether, which is actually what he's telling us now.

22 COMMISSIONER ROSENBERG: Why do you make that
23 conclusion?

24 CHAIR ISRAEL: Because they'd have to be about 12
25 playing the exchange wagering to bring the number down that low

1 as opposed to the tote customer.

2 COMMISSIONER ROSENBERG: What percentage of the --
3 was it --

4 CHAIR ISRAEL: Forty percent.

5 COMMISSIONER ROSENBERG: No, it's not 12. Well,
6 anyway, we should have -- get the information in writing for
7 us --

8 MR. LARGE: Yes. Absolutely.

9 COMMISSIONER ROSENBERG: -- that can show us this
10 comparison?

11 CHAIR ISRAEL: Yeah.

12 MR. LARGE: Sure.

13 COMMISSIONER ROSENBERG: Thanks.

14 MR. LARGE: Thank you.

15 CHAIR ISRAEL: All right. Now we can go back to
16 presentations from now staff. I -- or do you want to do the
17 second -- you know, let's do -- let's do the securities and
18 stuff.

19 COMMISSIONER ROSENBERG: Okay.

20 CHAIR ISRAEL: Let's do security. And then we -- we
21 can deal with the -- the exchange wagering rules and
22 regulations at some other time, because we've now absorbed all
23 this information. We understand what a lot of these issues
24 are. I know that Richard and I have questions. And we -- we
25 can raise them with staff. Because these aren't going to be --

1 they'll be presented to the public, you know, in a full Board
2 meeting long before anything is final.

3 Does that make sense?

4 EXECUTIVE DIRECTOR BREED: Yeah.

5 CHAIR ISRAEL: Okay. So if we can have presentation
6 from staff on security and integrity.

7 EXECUTIVE DIRECTOR BREED: Well, Kirk Breed with the
8 California Horse Racing Board. While Francisco and Bill
9 Westermann and Rad Coulter are coming forward, there's a couple
10 points I'd like to clarify.

11 One is, is that a question has come up about where
12 did the \$1.4 million figure come from. That was developed
13 about two years ago between Paul Scotney of the British
14 Horseracing Authority and myself. We compared their startup
15 cost at the amount that was wagered in -- in the -- in the --
16 in England as compared to what we would estimate as the startup
17 cost in California. That figure, we just kind of carried it
18 forward. It is an estimate. That's why we put in the rule or
19 whatever the Board determines is a proper number. So that
20 number could go up or down or could be spread over a two-year
21 period with various installments. It just depends on how the
22 Board wishes to structure in the application.

23 I can tell you, and Mr. Westermann will emphasize
24 this further, that one of the things that Paul Scotney did
25 maintain and has maintained since then is that their case

1 numbers in terms of percentages went up substantially, and --
2 and Bill can go into those more clearly, when exchange wagering
3 was introduced.

4 So with that, our model that we are going to use in
5 California or that we recommend using in California is based
6 exclusive on the British Horseracing Authority model. The
7 prices that you see or the costs that you see, the number of
8 people involved in the systems, are all based upon the British
9 Horseracing Authority.

10 So with that I want to turn it over to Francisco.

11 MR. GONZALEZ: My name is Francisco Gonzalez, CHRB
12 staff. Commissioners, you should have some copies of the
13 presentation there with you if -- for you to follow up. We're
14 having some technical difficulties making it on the screen.

15 About a week ago we had an opportunity to visit the
16 British Horseracing Authority, Bill Westermann -- Bill
17 Westermann and myself, to go over the integrity program. We
18 were interested in learning how is it that they put this
19 integrity program together, and what are the parts and the nuts
20 and bolts that are involved to make this work for the British
21 Horseracing Authority.

22 One of the things that we learned, though, is that
23 the BHA team is composed of a group of different -- different
24 teams that work very well together, very cohesive. All of them
25 are interlinked in an effort to monitor the integrity of the

1 sport. They include intelligence staff, investigators, case --
2 case analysts, bet monitoring, more people that work there,
3 licensing, compliance, legal. And they also have a race
4 reader. In this case what we would have here would be more
5 like a handicapper to give them ideas as far as the -- the
6 direction of -- a particular race might take.

7 In addition to the people that work at the office
8 there with the British Horseracing Authority, they have people
9 that work in the field. Mainly these people that work in the
10 field, these people working at the tracks as the stable
11 security officers and the stable inspection officers, some of
12 the work that our investigators are correctly doing more or
13 less reflect the type of work that these people in the field
14 are doing currently.

15 There's approximately about 26 people working as
16 security officers, and about 5 inspection officers.

17 COMMISSIONER ROSENBERG: Francisco, excuse me for
18 interrupting.

19 MR. GONZALEZ: Sure.

20 COMMISSIONER ROSENBERG: But you're speaking about
21 the -- in other words, they're not just working on exchange
22 wagering issues, they're doing the general investigation;
23 correct?

24 MR. GONZALEZ: That is correct.

25 COMMISSIONER ROSENBERG: Okay. One of the main --

1 one of the main resources that -- that these people provide to
2 the horse -- to the British Horseracing Authority is that they
3 provide the intelligence to the BHA to populate a database that
4 they have, an intelligence database. Their integrity program
5 basically focuses on monitoring the bets and enforcing the
6 rules.

7 Currently in the -- in the U.K. there are two
8 exchange companies providing exchange wagering. Betfair, which
9 is by far the largest company of -- of the two with -- with the
10 most liquidity and the most preferred by most -- by most
11 punters. BETDAQ is -- they're the company that do business in
12 the U.K. It is a small company, not as technologically
13 advanced as Betfair, and they make up a small percentage of the
14 market.

15 The British Horseracing Authority receives from the
16 exchange wagering access to something called BetMon. This
17 access is provided via secure line by Betfair which allows the
18 regulators to see all of the transactions in real time. In
19 addition to that, this BetMon is equipped with filters. These
20 filters allow to set parameters for the regulators so they can
21 zoom on the potential -- the potential for suspicious betting
22 activity.

23 Once the suspicious betting activity is being
24 identified the regulators make a request to the exchange
25 provider with -- with the different suspicious betting

1 activities identified. The difference between the information
2 that is available on the screen on real time versus the
3 information that it requested -- is requested from Betfair is
4 that the information from Betfair will contain additional
5 information that not necessarily is pertinent at the time of
6 monitoring the bets, but it will be necessary in case -- if an
7 investigation will be required. Such additional information
8 might include the, for example, the IP address or the cookie's
9 ID of the particular transaction.

10 Additionally, imports of account holder -- account
11 holder information is available for -- for the regulators.
12 This account holder information would have to be signed off by
13 whoever is directing the Horse Racing Authority to request this
14 information, just to make sure that the regulator is not just
15 fishing for information. So there has to be a way in which the
16 need for information is valid, and it's just not for any other
17 reason.

18 These reports that are requested from Betfair
19 typically are available the next -- the next -- the next day
20 via email. After these reports are received the -- the British
21 Horseracing Authority then dumped all of this information into
22 a bet monitoring database that the BHA developed in-house.
23 This database -- these databases is used to evaluate and -- and
24 make analysis of -- of any potential suspicious bets that were
25 identified the prior -- the prior day.

1 Once the -- this analysis takes place, for example,
2 the analysis would include, you know, any large bets, any non-
3 account -- account holder information, any accounts that are
4 already known as being suspicious. But more specifically,
5 though, it focuses on the -- on the better partners. In other
6 words -- in other words, what they do, they take a look at the
7 norm. Is this a particular better that typically bets \$5.00 to
8 \$10.00 on the average, and then all of a sudden it shows up a
9 \$20,000 or \$50,000 bet? These are the type of bets that weigh
10 on -- on segregating.

11 And one of the things that the -- that the race
12 reader is very -- is very good in this - in this part of the
13 process, though, is that it allows the people that is doing the
14 monitoring to identify when a favorite horse is there and
15 there's a large -- a large amount of monies being bet for --
16 for this horse to lose.

17 EXECUTIVE DIRECTOR BREED: Let me -- let me just
18 interrupt there, Francisco. And this was the Jockeys' Guild's
19 concern is that -- is that based upon tips or informants we
20 would go out and -- and start busting some of the jockeys, and
21 that's simply not the case. These -- these investigations
22 are -- start with betting patterns that -- which is what
23 suspicious bets or suspicious reactions or markets that are
24 developed. And -- and not until this has been verified would
25 we start the process of the investigation.

1 CHAIR ISRAEL: Well, I mean, yeah, what the Jockeys'
2 Guild will want and what's reasonable because it's what's
3 done --

4 EXECUTIVE DIRECTOR BREED: Yeah.

5 CHAIR ISRAEL: -- all law enforcement is a protocol
6 for probably cause.

7 EXECUTIVE DIRECTOR BREED: And we can do that.

8 CHAIR ISRAEL: And that needs to be established. And
9 it -- and it can be -- look, probably cause can be a tip. You
10 know, god knows I know firsthand from something I'm involved
11 with that a whistleblower can come to you with a hell of a
12 story and it's true, and there winds up being a serious
13 investigation.

14 So you know, you can't just say there's only form of
15 probable cause, but we do have to establish what the protocol
16 is.

17 EXECUTIVE DIRECTOR BREED: Correct.

18 MR. GONZALEZ: Okay. The majority of the cases in
19 the -- in the U.K. involve the laying horses to lose by an
20 account holder that breaks his or her betting partner --
21 pattern. And that is basically one of the tools that the
22 British Horseracing Authority focuses on, is that what is the
23 better's' pattern, and then whether or not that pattern has been
24 broken.

25 Once the set of suspicious bets and account holder

1 information has been identified, received and downloaded, it
2 gets downloaded into an intelligence system which Bill is going
3 to go -- will elaborate more on -- on the enforcement of the
4 rules and how this intelligence system works.

5 MR. WESTERMANN: Good afternoon. Bill Westermann,
6 California Horse Racing Board. I will try to give you a
7 thumbnail sketch of what we picked up spending out time over
8 with the British Horseracing Authority last week. And like our
9 director says, we are looking at that and probably will mirror
10 that if this goes through and it gets passed. But right now
11 we're -- we're looking at it and we'll see where it goes from
12 there.

13 The British Horseracing Authority relies on an
14 intelligence database which is a custom database used to manage
15 cases and to keep track of information that comes to their --
16 to their attention. And all the groups that are within the --
17 the British Horseracing Authority have access to this database
18 with -- with different access levels. And that would -- the
19 breakdown on that could be anywhere from licensing on up to the
20 director. Some people, there's a need-to-know limited access,
21 just like we have in California right now. And that database,
22 it will be set up with the security measures to where certain
23 people can get certain information.

24 And -- and going back to what Francisco was relating
25 on -- on the jockeys, before we even get into an investigation

1 there will be protocol set in place that will go to the
2 director or his designee before we start doing any
3 investigations that would involve other people like that. And
4 you know, they have to sign off on everything that we go
5 through as far as that investigation goes when we start asking
6 for additional information, especially from the exchange
7 facility, whoever that may be.

8 COMMISSIONER ROSENBERG: Excuse me. But couldn't the
9 stewards start an investigation just from the way the race was
10 held?

11 MR. WESTERMANN: Oh, sure.

12 COMMISSIONER ROSENBERG: Yeah.

13 MR. WESTERMANN: They could do that --

14 COMMISSIONER ROSENBERG: So that's --

15 MR. WESTERMANN: -- any time.

16 COMMISSIONER ROSENBERG: Yeah.

17 MR. WESTERMANN: They -- they could start --

18 COMMISSIONER ROSENBERG: But I meant in terms of this
19 increased opportunity --

20 MR. WESTERMANN: Yeah.

21 COMMISSIONER ROSENBERG: -- increased opportunity to
22 bet a different way, they could -- they could start it any time
23 they wanted.

24 MR. WESTERMANN: Oh, sure. But as far as us asking
25 for additional, mainly, paperwork, you know, database

1 information on accounts of licensees involved, you know, there
2 would be more protocol put into place to protect the -- the
3 players that are involved.

4 And in talking to the BHA, they put out approximately
5 \$265,000 in U.S. type money -- I mean, it was pounds, but I
6 forget what the difference is on that -- just to develop their
7 database system. And they -- they have had that in place now
8 for about four years, so they've been able to populate that
9 and, you know, get more information as they go to go into that
10 database. And they designed that under a police model which
11 allows for the determination of strategic decisions and
12 resource allocations. Basically, that would include levels of
13 information needed, and resource allocations would refer to how
14 to proceed with individual investigations. And just depending
15 on the information that goes in there, we're only as good as
16 the information that we receive.

17 The database that is stored in that becomes
18 intelligence information and it gets shared among other
19 regulatory organizations, depending on their classifications
20 and security levels. And as mentioned, the goal to populate
21 the database with quality data that can be used to determine
22 relationships and reveal conspiracies.

23 The main benefit of the databases is the ability to
24 search. And we were given an example of that while we were
25 over there. And they can pull up on spreadsheets different

1 comparisons and certain things will just make themselves
2 available to you as you start looking at the comparing phone
3 numbers, and it just goes on and on and on.

4 CHAIR ISRAEL: Can I ask a question?

5 MR. WESTERMANN: Yes, sir.

6 CHAIR ISRAEL: And it goes back to something
7 Francisco said. How many more people are you going to need to
8 do this?

9 MR. WESTERMANN: Well, in a perfect world we would
10 like to add at least as far as -- I would say at least three to
11 start off.

12 CHAIR ISRAEL: Including somebody who has expertise
13 in the computer aspect of it?

14 MR. WESTERMANN: Most definitely.

15 CHAIR ISRAEL: So only three? You only have to have
16 three people?

17 MR. WESTERMANN: For right now. I don't know how it
18 will go. It depends on how it grows. And Kirk can add in on
19 that as far as he might --

20 CHAIR ISRAEL: Well, have you done --

21 MR. WESTERMANN: -- envision.

22 CHAIR ISRAEL: Have you done any budget projections,
23 what it's going to do, how much it's going to cost?

24 EXECUTIVE DIRECTOR BREED: Yes, we have, and -- and
25 those are preliminary. We can do most of this on a contract

1 basis. Our -- what our intent is to -- is to come before the
2 Board with a budget as to what it would cost to gear up for the
3 Del Mar meet.

4 CHAIR ISRAEL: Hold on a second. Can I ask
5 everybody, if you have conversations can you go outside,
6 please?

7 Okay. Go ahead.

8 EXECUTIVE DIRECTOR BREED: Just to gear up -- is
9 what it would take to gear up for the Del Mar meet as -- in the
10 model that we're using. So I do not have -- I do not have that
11 budget prepared as yet because we just got -- have gotten back
12 from -- we've asked the -- the British Horseracing Authority
13 what it would cost to -- to provide us with a cookie-cut model
14 of their databases and the training that would go into that.
15 So that's -- they're in the process of providing that
16 information. And the -- the manpower and the loading of the
17 manpower is -- we've got some ideas but --

18 CHAIR ISRAEL: But what --

19 EXECUTIVE DIRECTOR BREED: -- I don't have it ready
20 yet.

21 CHAIR ISRAEL: Okay. A lot of this is after the
22 horse is out of the barn, to -- to use a stupid expression.
23 What are we doing to prevent stuff from happening?

24 COMMISSIONER ROSENBERG: Before the bet happens.

25 CHAIR ISRAEL: You know, once we're investigating,

1 given the British experience, you're going to have a ten
2 percent conviction rate, based upon the numbers we were
3 provided earlier. I think there were 131 investigations and 13
4 convictions, so -- or 14 convictions. You know, that's not a
5 good number. What -- so what are we going to do to prevent it?

6 MR. WESTERMANN: Well, in a perfect world we'd like
7 to have a monitor in place as soon as it starts. And with the
8 exchange company, as I said, we do not know -- know who that
9 will be if this goes through. And cooperation, we're going to
10 rely heavily on that as far as passing information on when they
11 see an abnormality in their monitoring, and then go from there.

12 And we will have -- go ahead, Francisco.

13 MR. GONZALEZ: As far as preventive measures,
14 currently, other than alerting people that we are looking into
15 the very activity that is happening, we hope that this will
16 serve as a deterrent, especially if jockeys that are involved,
17 trainers or owners, that they'll be losing the licenses.

18 CHAIR ISRAEL: Well, let me ask you --

19 MR. GONZALEZ: But mainly it's a deterrent.

20 CHAIR ISRAEL: Did you have -- do you have -- do you
21 have a network of CIs?

22 MR. WESTERMANN: Not right now, no.

23 CHAIR ISRAEL: No? You're going to flat out need
24 one. You're going to have to start paying people.

25 EXECUTIVE DIRECTOR BREED: Well, you know, let me ask

1 you -- let me kind of give you an example in, say, what are we
2 doing -- what is the California Horse Racing Board doing to --
3 to stop people from illegally drugging their horses? And --

4 CHAIR ISRAEL: Not enough.

5 EXECUTIVE DIRECTOR BREED: And I mean, that's a good
6 example. We're testing.

7 CHAIR ISRAEL: I think that something like this --
8 because, frankly, one -- if there's one big scandal the -- the
9 business may die. You know, it's -- it's -- it's hanging on by
10 a thread. And if -- and if -- if there's a big number and a
11 big scandal and it's going to make a lot of headlines, we're
12 cooked.

13 COMMISSIONER ROSENBERG: That's -- that's
14 Commissioner Israel's opinion.

15 CHAIR ISRAEL: Yeah.

16 COMMISSIONER ROSENBERG: I mean, that's --

17 CHAIR ISRAEL: Well, I'm not --

18 COMMISSIONER ROSENBERG: That's over the --

19 CHAIR ISRAEL: I'm not expressing anybody else's
20 opinion.

21 COMMISSIONER ROSENBERG: That's over the top.

22 CHAIR ISRAEL: So --

23 COMMISSIONER ROSENBERG: That's over the top, because
24 we've had plenty of big scandals and --

25 CHAIR ISRAEL: Not, not --

1 COMMISSIONER ROSENBERG: -- made --

2 CHAIR ISRAEL: Not with \$1 million of stolen money,
3 so -- from -- money stolen from customers, frankly.

4 So you're -- you're going to have to be preventative.
5 You're going to have to be proactive. You're going to have to
6 have confidential informants.

7 MR. WESTERMANN: We understand that, Commissioner
8 Israel. And we would be setting up a database for that. And
9 you know, all, like I said, all intelligence information will
10 go into that database. We'll have people monitoring that
11 intelligence. Protocols will be set up. But with the staff we
12 have I'm confident that we can handle any investigation that
13 comes up. It may be bad press, but we can do it.

14 CHAIR ISRAEL: Okay. All right. Bill?

15 MR. WESTERMANN: As mentioned before, a database of
16 licensing intelligence, we will monitor licensing. And a
17 database would be added into that for horse welfare.
18 Medication positives, as the director mentioned, we do monitor
19 that. Licensee convictions, that is a constant that we're
20 always working with on a daily basis. All that information is
21 going to go into that database, which is very good to have,
22 obviously. And as with the BHA, they have three people on
23 staff for intelligence who do nothing but go through the system
24 on a daily basis. This would be -- our investigators would be
25 picking up where they left off over there.

1 And things that will come up, the intelligence group
2 would get involved when owner and trainers in matter disputes
3 have to do with welfare, but usually with integrity matters or
4 large financial related matters.

5 Race readers would be another one that would, you
6 know, that would monitor these races. We would be relying on,
7 like I say, having someone on -- in -- on staff that can read
8 the races, monitor the races, and flag the races. And that's
9 where a phone call to stewards can come in handy, and they can
10 start monitoring the races. They can zoom in on cameras and go
11 from there.

12 Informants and anonymous tips, we do have a hotline
13 in place now. We usually don't get information on preventative
14 tips before a race. We get plenty of calls after the races,
15 people do not win their races, we get a lot of those. But you
16 get a database set up where the informants can come in and give
17 information. And let's see what else we got on here.

18 And it has on there, determine levels of review for
19 existing owners and trainers. Over in Great Britain they --
20 you know, if they're doing a real good job they review these
21 people maybe once every three years as far as their -- how
22 they're doing, just to keep them on track. And that would be
23 all licensees, not just existing owners and trainers. That
24 would be every -- anybody that comes into our jurisdiction.

25 Then it goes down to jockeys' usage of phone. Over

1 in Great Britain they are not allowed to use their phones in
2 the jockeys' room, but they do have one place that they have
3 set up for jockeys over there in a public area inside the
4 jockeys' room. If they want to make a phone call the whole
5 world can sit there and listen to them. And I don't know that
6 that would be a problem, but we would have to have more people
7 go through there. Okay.

8 Investigations began from different sources, such as
9 someone calling in to complain. Sometimes riders have called
10 in complaints. And -- and what I think they're going at there
11 is intimidation. Riders in Great Britain sometimes are
12 intimidated when people but them for information on a horse.
13 And they have protocols set up over there as far as what they
14 can and can't say to keep from getting in trouble.

15 Once suspicious patterns are developed on a credible
16 tip it would make intelligence database. The case is referred
17 to the case analysts. They will take a look at phone records,
18 communications, and they have the ability to draw charts if
19 they're needed. Simultaneously, they will contact
20 investigators, gather additional evidence, and support the
21 cases. And in Great Britain the people that do the analysis
22 also will help with the -- the prosecution of the cases over
23 there.

24 And they do all their cases through administrative
25 hearing. If it looks like it's going to go criminal they turn

1 it over to the local jurisdictions and law enforcement. But
2 most of their cases do not go criminal over there, they just
3 get large sanctions for race fixing and conspiracies.

4 CHAIR ISRAEL: Race fixing doesn't go criminal? Race
5 fixing --

6 MR. WESTERMANN: Sometimes --

7 CHAIR ISRAEL: -- does not go criminal?

8 MR. WESTERMANN: -- it does not go. They do a lot of
9 those with hearings.

10 CHAIR ISRAEL: In the United States it always goes
11 criminal; right?

12 MR. WESTERMANN: I should hope so.

13 CHAIR ISRAEL: Okay.

14 MR. WESTERMANN: And we are -- one thing, we are
15 blessed with being sworn police officers here in the State of
16 California, and that can go either to the district attorney's
17 office or the deputy attorney general. And different case
18 scenarios would depend on what kind of cases we get.

19 CHAIR ISRAEL: Okay.

20 MR. WESTERMANN: Okay. Let me go into conclusions.
21 After spending a week over there, the British Horseracing
22 Authority's system of betting integrity appears to be working
23 very well. They are -- they've had plenty of time to get
24 everything in place, but it didn't happen overnight. And they
25 did have a budget to put that in place. But their system is

1 working and they seem to have good cooperation with the
2 exchange companies over there. They talk on a daily basis, and
3 I've heard that from both sides, from the -- the regulators and
4 the exchange companies, and the communication flow is going
5 real well. And I would expect the same here in California.

6 And we are also looking to duplicate their integrity
7 system, as the director has mentioned, and hopefully be able to
8 get a copy. And we should be up and running by the Del Mar
9 meet if this so happens to come into place.

10 CHAIR ISRAEL: Okay. Anything else?

11 MR. WESTERMANN: No, sir.

12 CHAIR ISRAEL: Do you have any questions?

13 COMMISSIONER ROSENBERG: No.

14 CHAIR ISRAEL: Thank you. Okay. Before we adjourn
15 I'll ask staff to take into consideration much of what they
16 heard today, as well as letters that have been submitted to us
17 by TVG and some other stakeholders, and revisit rules and
18 regulations before our regularly scheduled February Board
19 meeting. Richard and I would then like to see what changes you
20 make. And I'm sure we'll have some additional thoughts. It
21 would be good if we could have some revisions prepared for the
22 full Board by the February meeting, but I'm dubious as to
23 whether he can get it done. But please try to.

24 COMMISSIONER ROSENBERG: And also as a practical
25 matter, I talk to Betfair now, that from what we heard there's

1 no deal with the --

2 CHAIR ISRAEL: TOC.

3 COMMISSIONER ROSENBERG: -- the owners' group.

4 CHAIR ISRAEL: Yeah.

5 COMMISSIONER ROSENBERG: And if -- if-- and if that
6 changes you need to notify us. Because the urgency here, I
7 presume, would be if there was going to be a test period which,
8 you know, to start earlier. So if that's not reached there's
9 no point in having staff spend 100 percent of their time on
10 this right now.

11 CHAIR ISRAEL: Right.

12 COMMISSIONER ROSENBERG: Okay.

13 CHAIR ISRAEL: And it seems to me, this isn't cooked
14 yet. There are too many moving pieces. There are too many
15 objections from too many important stakeholders. And this
16 can't be done in a half ass way. It's got to be fully
17 realized, fully contemplated, and all the protocols and rules
18 and regulations have to be tied down and in perfect order
19 before we go ahead. So we'll take the time we need before we
20 get it done.

21 EXECUTIVE DIRECTOR BREED: So let me ask you a
22 question, Commissioner. So in -- in terms of continuing with
23 developing the rules, you say there's no sense in continuing to
24 develop the rules, and for the Board to address the --

25 CHAIR ISRAEL: I didn't -- I didn't say there was no

1 sense.

2 EXECUTIVE DIRECTOR BREED: Let me ask the question.

3 CHAIR ISRAEL: Well, you just mischaracterized what I
4 said. I said please continue to develop the rules.

5 EXECUTIVE DIRECTOR BREED: Okay. Continue to develop
6 the rules. But in terms of presenting the rules for the-- to
7 the Board for approval, does it -- are you saying it requires
8 a -- the TOC to come to some sort of agreement with --

9 CHAIR ISRAEL: Well, I think what Richard is saying
10 is we don't need to rush to get it done --

11 COMMISSIONER ROSENBERG: For the February meeting.
12 Right.

13 CHAIR ISRAEL: -- two weeks from -- is it two weeks
14 from today --

15 COMMISSIONER ROSENBERG: Yeah.

16 EXECUTIVE DIRECTOR BREED: Uh-huh.

17 CHAIR ISRAEL: -- which would be --

18 COMMISSIONER ROSENBERG: The agenda is going out --

19 CHAIR ISRAEL: -- slamming it.

20 COMMISSIONER ROSENBERG: Yeah.

21 CHAIR ISRAEL: And especially because the agenda has
22 to go out in a week.

23 COMMISSIONER ROSENBERG: Yeah.

24 CHAIR ISRAEL: -- and -- and it has to be available.

25 MS. WAGNER: The agendas don't go out on Monday.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CHAIR ISRAEL: Yeah.

MS. WAGNER: The agenda will go out mid next week.

CHAIR ISRAEL: Right. So the urgency, you know --

COMMISSIONER ROSENBERG: Yeah.

CHAIR ISRAEL: -- I'd like to be able to at least consider it in the March meeting.

MS. WAGNER: Right. Absolutely.

CHAIR ISRAEL: So I -- I don't want you to stop working.

COMMISSIONER ROSENBERG: No.

CHAIR ISRAEL: I just -- we just need to be realistic about how much time this is going to take. And it's not going to get done by February 22nd.

Anything else?

EXECUTIVE DIRECTOR BREED: No, that's it.

CHAIR ISRAEL: Okay. Thank you. The meeting is adjourned.

(Thereupon the California Horse Racing Board, Exchange Wagering Ad Hoc Committee Meeting, was adjourned at 1:32 p.m.)

-o0o-

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

TRANSCRIBER'S CERTIFICATE

I, Martha L. Nelson, attest that the foregoing proceedings were transcribed to the best of my ability.

I further certify that I am not a relative or employee of any attorney of the parties, nor financially interested in the action.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Dated this 15th day of February, 2012.

 /s/ Martha L. Nelson

Martha L. Nelson, CERT*367