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BEFORE THE CALIFORNIA HORSE RACING BOARD

OF THE STATE OF CALIFORNIA

ALAN W. LANDSBURG, CHAIRMAN

In the Matter of: )  
The Regular Board Meeting of )  
the California Horse Racing Board )  
\_\_\_\_\_ )

TRANSCRIPT OF PROCEEDINGS

Cypress, California

Thursday, February 21, 2002

Reported by:  
Frances Eggleston, RPR  
CSR No. 11662  
Job No.:  
CHBJ875

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BEFORE THE CALIFORNIA HORSE RACING BOARD  
OF THE STATE OF CALIFORNIA  
ALAN W. LANDSBURG, CHAIRMAN

In the Matter of: )  
The Regular Board Meeting of )  
the California Horse Racing Board )  
\_\_\_\_\_ )

TRANSCRIPT OF PROCEEDINGS, taken  
at 5272 Orange Avenue, Cypress,  
California, commencing at 10:05 a.m., on  
Thursday, February 21, 2002, heard before  
ALAN W. LANDSBURG, CHAIRMAN, reported  
by FRANCES EGGLESTON, RPR, CSR No. 11662, a  
Certified Shorthand Reporter in and for  
the State of California.

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01 APPEARANCES:

01

02 Chairman: Alan W. Landsburg

02

03 Vice-Chairman: Roger H. Licht

03

04 Member: William A. Bianco

04

05 Member: Sheryl L. Granzella

05

06 Member: John C. Harris

06

07 Member: Marie G. Moretti

07

08 Member: John C. Sperry

08

09 Executive Director: Roy C. Wood, Jr.

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10 Assistant Executive Director: Roy Minami

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11 Deputy Attorney General: Tom Blake

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I N D E X

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01 Cypress, California, Thursday, February 21, 2002  
02 10:05 a.m.

03

04

05 MR. WOOD: Good morning, and welcome to the regularly  
06 scheduled meeting of the California Horse Racing Board.  
07 It is being conducted on Thursday, February the 21st,  
08 2002, at the Cypress City Hall, 5272 Orange Avenue in  
09 Cypress, California.

10 Present at today's meeting are Chairman Alan  
11 Landsburg, Vice-Chairman Roger Licht, Commissioner William  
12 Bianco, Commissioner Sheryl Granzella, Commissioner John  
13 Harris, Commissioner Marie Moretti, and Commissioner John  
14 Sperry.

15 Before we begin with the business of today's  
16 meeting, I would respectfully request that if you have  
17 testimony to present in front of this Board, that you  
18 please clearly state your name and organization before you  
19 begin to testify. If you have a business card for our  
20 court reporter, it would be appreciated if you would give  
21 it to her before you testify, also.

22 With that, I would like to turn the meeting over  
23 to our chairman Mr. Alan Landsburg.

24 MR. LANDSBURG: Thank you, Mr. Wood.

25 Because of the short time between our last  
26 meeting and this, our minutes of the last meeting are not  
27 available for perusal or for checking, so we will move on  
28 now to our first agenda item: "Discussion and Action by

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01 the Board on the Application for License to Conduct a  
02 Horse Racing Meeting of the Bay Meadows Operating Company,  
03 L.L.C., at Bay Meadows, commencing April 3 through  
04 June 16th, 2002."

05 Jackie.

06 MS. WAGNER: Jackie Wagner, CHRB staff.

07 The application before you is from the Bay  
08 Meadows Operating Company --

09 MR. LANDSBURG: Is your microphone on, Jackie? Excuse  
10 me. I am having trouble hearing.

11 MS. WAGNER: The application before you is from the  
12 Bay Meadows Operating Company. They're proposing to race  
13 from April 3rd through June 16, which is 55 days, which is  
14 one day less than they raced in the year 2001. They are  
15 requesting the option to increase the number of races if  
16 sufficient horses are available.

17 They will be racing five days per week, Wednesday  
18 through Sunday; with eight races on Wednesdays, Thursdays,  
19 and Fridays; nine or ten races on Saturdays, Sundays, and  
20 holidays. First post time is 12:45 p.m.

21 We have received the horsemen's agreement, and  
22 staff would recommend that the Board adopt the  
23 application.

24 MR. LANDSBURG: Do we have any discussion of this  
25 license from the Board or from the audience?

26 MR. HARRIS: I am not clear on the Cal-wagering aspect  
27 of it. Will people nationally be able to access this?

28 MS. WAGNER: Is there a representative from the  
0007  
01 Bay Meadows Company that can answer that question?  
02 MR. LIEBAU: Jack Liebau, L-i-e-b-a-u, president of  
03 Bay Meadows Operating Company.  
04 We will have advance deposit wagering through  
05 Xpressbet.  
06 MR. WOOD: I think your microphone is not very close  
07 to you. Is it on?  
08 MR. LIEBAU: I will try to speak louder.  
09 We will have advance deposit wagering that will  
10 be offered through Xpressbet.  
11 MR. HARRIS: I am not clear. Xpressbet obviously has  
12 an agreement with the TOC; but on some of these other  
13 outlets, the Philadelphia outlets, would they be offering  
14 Cal-wagering through their facilities or Xpressbet?  
15 MR. LIEBAU: Xpressbet does not insist upon  
16 exclusivity, and therefore our signal would be made  
17 available to some other people who are offering advance  
18 deposit wagering. But in California it would be only for  
19 those who are licensed by the Board.  
20 MR. HARRIS: Could a person in California make a bet  
21 on -- having an account with someone in Pennsylvania and  
22 make a bet?  
23 MR. LIEBAU: My understanding would be that a  
24 California resident would only be able to make a bet  
25 through an entity that's licensed in California; I believe  
26 that's the law. So if, for instance, the Bay Meadows'  
27 signal went to New York OTB, which conducts OTB -- besides  
28 their OTB activities, does have account wagering, they  
0008  
01 would be able to offer that service to anyplace that was  
02 legal as far as they were concerned; but they would not be  
03 able to offer it to a California resident if they weren't  
04 licensed in California.  
05 MR. HARRIS: Setting aside the California races, what  
06 I am concerned about is, say, a New York OTB or  
07 Pennsylvania offers it, say, to somebody that is in some  
08 other state, like Kentucky, that's betting. Basically the  
09 money that would float back to California track  
10 commissions and purses is going to be quite a bit less  
11 than if they did bet through Xpressbet.  
12 MR. LIEBAU: That's correct.  
13 MR. HARRIS: Because your selling the signal to  
14 New York OTB for like three percent or so.  
15 MR. LIEBAU: Not enough.  
16 MR. HARRIS: Not enough.  
17 The problem is it really looks like you're  
18 competing with yourself to do that, but I guess it  
19 balances it out.  
20 MR. LIEBAU: I think I can go so far as to say that if  
21 Xpressbet had a monopoly in the United States, there would  
22 be more money flowing in purses and track commissions in  
23 California.  
24 MR. HARRIS: That's true.  
25 MR. LIEBAU: But we don't have a monopoly.  
26 MR. LICHT: Jack, what's being done with off-shore

27 betting, these rebate shops and so forth that are  
28 subleasing signals from other places?

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01 MR. LIEBAU: At this point in time, an effort is being  
02 made to increase the amount that's paid by people that are  
03 perceived to be rebaters.

04 MR. LICHT: What about sending strong letters saying  
05 that we will pull your signal if we learn you are  
06 subleasing our signal without our permission?

07 MR. LIEBAU: At this point in time, I don't know  
08 whether the tracks are in a position to do that or not.  
09 As far as identifying for sure who they are, I think once  
10 you perceive one person as a rebater, and if you cut them  
11 off, those people go someplace else.

12 It's a problem, and I think that the industry as  
13 a whole will continue to strive to get control of their  
14 mutuel pools. And I think that's an attempt that's being  
15 made now through licensing in California, you know.  
16 That's a big step in the right direction as far as that's  
17 concerned.

18 MR. LICHT: I think it is a major, major issue myself.  
19 I think much more money flows through those rebate places  
20 than we have any idea.

21 I've spoken to Hollywood Park, and I think we are  
22 going to put together a group to try to monitor that and  
23 really try to work for the industry, to make sure that  
24 those rebate shops are cut off.

25 MR. LIEBAU: Jim McAlpine, who is the president of  
26 Magna, spoke to that issue and was quoted quite a lot as  
27 far as the problem with the rebate issue. We are certainly  
28 aware of that and are trying to develop a plan to counter

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01 it.

02 MR. LANDSBURG: It should be recognized, Mr. Liebau,  
03 that the Board itself has taken some steps toward  
04 notifying people who are advertising. And I don't know  
05 whether that's common knowledge for those who have read  
06 our press releases. But we have notified a number of  
07 outlets, radio and television and newspaper, reminding  
08 them that they are licensed to carry on legal activities  
09 and that advertising for illegal activities may fall into  
10 a problem for their licenses and for their continuing  
11 operation.

12 We find that getting support from the racetracks  
13 who are afraid to cut off any means of betting is a little  
14 more difficult. And I would hope that in the operation of  
15 your license and within this fear that influences you, you  
16 will help the Board in its effort to cut off illegal  
17 betting.

18 It is a problem. It does bring in -- we  
19 recognize it brings revenue to you in some form. We try  
20 not to cut off revenue sources; however, illegal sources  
21 must be stopped. And the Board is in the process of  
22 taking as many steps as it can, and I hope the tracks will  
23 support it.

24 MR. LIEBAU: We will support your effort, and we  
25 applaud you for making it. I think none of us are

26 condoning the rebate issue. But I think that we have to  
27 recognize that in some jurisdictions rebating is more  
28 prevalent and is in fact legal and is being carried on by

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01 some of the major tracks in the United States at this very  
02 moment.

03 MR. LANDSBURG: It is regrettable that we can't gather  
04 a national consensus on it.

05 MR. LIEBAU: I might add that I do not think that any  
06 California tracks are participating in cash rebates.

07 Thank you.

08 MR. HARRIS: The other issue is two-way bets. There  
09 are always quite a few ads in the Racing Form encouraging  
10 people to set up accounts with websites, facilities, that  
11 offer wagering. It would be prudent for the tracks to  
12 take a look at who is doing this and the viability of  
13 letting these type ads be distributed under a licensed  
14 facility. That's clearly in violation of California Law.

15 I hope the tracks would take a proactive approach  
16 to whoever is advertising in that way.

17 MR. LIEBAU: I think that we will continue our  
18 discussions with the Racing Form on that issue. And as  
19 you know, Mr. Harris, that issue dates back to about 1992  
20 and 1993, when we did have those discussions with them;  
21 and we will continue to have those discussions with them.

22 And of course, where the lines of free speech  
23 cross -- and this I don't know because I didn't get a good  
24 grade in constitutional law -- but we will continue to  
25 persevere in that area.

26 MR. HARRIS: I think free speech is there, but I don't  
27 think the lines are there. It seems to me that you  
28 cannot -- the right of free speech would not include the

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01 right to advertise something that was clearly illegal in  
02 the state you are advertising in.

03 MR. LIEBAU: I think that we have to -- the issue is  
04 whether the paper is being distributed in interstate  
05 commerce -- not just in California, but in interstate  
06 commerce; I think they have an argument.

07 I think that we will continue to have a dialogue  
08 with the Racing Form and try to persuade them to not  
09 partake of that advertising revenue.

10 MR. HARRIS: I think they would obviously have the  
11 right to do it, but you have the right over who sells,  
12 period. You could disallow them to sell the Racing Form  
13 in Santa Anita. That may make these ads an issue to them.

14 MR. LIEBAU: I don't know who would blink first,  
15 because I don't know how much the handle would go down if  
16 we didn't have past performances available.

17 MR. LANDSBURG: One other question: In your  
18 horsemen's agreement -- I don't know whether this is to be  
19 directed to you at Bay Meadows or to the TOC -- but you do  
20 have a horsemen's agreement -- is it parallel or the same  
21 as the agreement that you have with the horsemen with TOC  
22 for Santa Anita?

23 MR. LIEBAU: It is -- referring to the agreement, as  
24 far as it relates to Xpressbet, it is the same.

25 MR. LANDSBURG: Thank you.

26 MR. BIANCO: I have one question. How many jobs in  
27 marketing and administrative positions have you put up at  
28 Bay Meadows to handle Xpressbet?

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01 MR. LIEBAU: At the present time we have a kiosk at  
02 Bay Meadows and a kiosk at Golden Gate Fields. I would  
03 say that right now the one at Golden Gate Fields is  
04 probably manned by five or six people. There are actually  
05 two kiosks at Golden Gate Fields because it is a live  
06 track; and at Bay Meadows we only have one kiosk, because  
07 it is now acting as a satellite.

08 MR. LANDSBURG: Thank you.

09 If I may, we have a long agenda Item 5, which  
10 will go into Xpressbet at length. I think we will hold  
11 any further questions until then.

12 Is there any further discussion on Bay Meadows?  
13 I see none from the Board.

14 Can I entertain a motion to accept the  
15 application and approve the application?

16 MS. MORETTI: So moved.

17 MR. BIANCO: Seconded.

18 MR. LANDSBURG: So moved by Commissioner Moretti,  
19 seconded by Mr. Bianco. All in favor?

20 (Motion was unanimously carried)

21 MR. LANDSBURG: The Board approves the license for  
22 Bay Meadows to conduct a horse racing meeting from  
23 April 3rd through June 16.

24 Our second item: "Discussion and action by the  
25 Board for Application for License to Conduct a Horse  
26 Racing Meeting of the Churchill Downs California Company  
27 at Hollywood Park, commencing April 24th through July 21,  
28 2002, inclusive."

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01 Jackie.

02 MS. WAGNER: Jackie Wagner, CHRB staff.

03 Churchill Downs has filed this application for  
04 license to conduct a thoroughbred horse racing meeting at  
05 Hollywood Park. They're proposing to race from April 24th  
06 through July the 21st, 65 days, which is one day less than  
07 they raced in 2001. They're proposing to race a total of  
08 559 races or 8.6 races per day.

09 They will be racing five days per week, Wednesday  
10 through Sunday, with eight races per day on Wednesdays,  
11 Thursdays and Fridays; nine or ten races will be run on  
12 selected Saturdays and ten races on Sundays. Their first  
13 post time is 1:20 p.m. daily, and they will have a  
14 7:05 p.m. post on Friday.

15 We have received the horsemen's agreement. We  
16 still have not received a fire clearance, and their  
17 current workers' compensation insurance is current through  
18 March 2002, after which we would need to receive a renewal  
19 on that.

20 Staff recommends the Board approve the  
21 application contingent upon us receiving the missing  
22 information.

23 MR. LANDSBURG: Do you have any questions or

24 discussions?

25 MR. LICHT: Why not the Friday opening this year?

26 MR. BAEDEKER: Rick Baedeker with Hollywood Park.

27 As part of the dates process the Board approved  
28 was allowing us to open on Wednesday, given Santa Anita's  
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01 Sunday close versus Monday close. And we've given up  
02 three interior days during the meet, days after holidays,  
03 plus a -- what I refer to as the meaningless Monday that  
04 we used to run. So as a result, the Board agreed that we  
05 could open on a Wednesday, as was traditional for some of  
06 the years.

07 MR. LICHT: And I know you and I had some discussion  
08 about the rebates. Would you like to give your response  
09 to the question about rebates?

10 MR. BAEDEKER: Yes. Thank you, Commissioner.

11 The Churchill language is specific on that in the  
12 simulcast agreement. I will read it to you.

13 "Guest shall not accept less than the  
14 face amount of wagers from patrons and shall not  
15 refund or rebate any consideration based on the  
16 face amount of any wagers to patrons."

17 And so that's the policy.

18 As we did discuss -- the problem becomes  
19 difficult in policing. We do have staff at  
20 Churchill Downs dedicated to this.

21 And there have been instances in the past where  
22 Churchill has threatened to disconnect the signal. And as  
23 a matter of fact, that would solve the problem; usually  
24 it's a temporary solution. We did, as a matter of fact,  
25 two summers ago, cut off one of the recipients in Idaho,  
26 the Coeur d'Alene Casino, because we had become aware that  
27 they were in fact giving rebates.

28 I will admit that this process has not been a  
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01 full-time job and sometimes sporadic. So we look forward  
02 to discussion with the other tracks in California to do a  
03 better job with this.

04 Also, the context has changed completely this  
05 year versus last. We've always been aware of the problem  
06 with rebates, but there's a bigger problem now of a  
07 Churchill, slash, Hollywood Park partner that may be  
08 conducting account wagering in the state without being  
09 licensed. So we have the same situation there, where we  
10 have to notify them that they have to stop or we have to  
11 cut them off.

12 MR. HARRIS: I noticed that the post times you listed  
13 were 1:20 and 1:10. I always thought it was important to  
14 synchronize the California post times. The Bay Meadows  
15 post time is 12:45. There's a big discussion with the  
16 north to try to get the post times at a 15-minute  
17 interval.

18 MR. BAEDEKER: There has as recently as yesterday, and  
19 we will do our best to get them synchronized so we don't  
20 step on each other. We may have it come back to the Board  
21 and request that we move our post times slightly, if  
22 necessary. We think we will be able to work that out.

23 MR. HARRIS: My concern is that possibly those post  
24 times were raced because they coincide better with  
25 Churchill post times. That is really costing California  
26 money because we bought and paid for that signal. The  
27 signal to the north is basically free. It would seem that  
28 Churchill Downs might come out better the way it is; the  
0017 overall state would come out with a better signal.

02 MR. BAEDEKER: As a matter of fact, I wanted to move  
03 later, from a customer standpoint. And also, the 1:20  
04 post time is contemplated in the context of the major  
05 signals around the country. It is not entirely self  
06 serving on the part of Churchill. It takes into account  
07 Florida during the time we race, of course.

08 It is a tough thing. And although you might  
09 start at the time that is synchronized with the rest of  
10 the country through DQ's, you might end up stepping on  
11 each other regardless. But I would certainly agree with  
12 you, Commissioner, that we can control California, what we  
13 do here; and that should be the top priority.

14 MR. HARRIS: There has to be cooperation. I think  
15 this came out when we thought that they did have to be  
16 synchronized.

17 MR. BAEDEKER: I think we've done a good job in the  
18 past working with the North to be 15 minutes apart.

19 MR. LANDSBURG: Our only goal in this Board is to be  
20 sure that California Racing is properly served. If this  
21 starting time does not properly serve California Racing,  
22 we would have to ask you to change it. So we would ask  
23 now if you are going to change this time to accommodate  
24 northern California, because that's where our heart and  
25 our money lies.

26 MR. BAEDEKER: Absolutely.

27 MR. LANDSBURG: Any further discussion?

28 MR. HARRIS: I wasn't clear with that issue. I have  
0018 another issue.

02 MR. WOOD: I think we need to clarify, Mr. Chairman,  
03 what is the exact starting time that they are requesting,  
04 because once the starting time is approved by the Board,  
05 the statute is they cannot change that starting time  
06 unless they come back to the Board.

07 Previous to this Board's approval, we have  
08 allowed a 10-minute change in starting times to be done  
09 administratively. If the post time is 1:20 and that's  
10 what they're sticking to and the Board approves that, in  
11 order to change that, they would have to come back before  
12 this Board. That's outside the ten-minute administrative  
13 leeway we have given them. We need to clarify the time.

14 MR. LANDSBURG: Mr. Liebau.

15 MR. LIEBAU: Jack Liebau on behalf of Bay Meadows.

16 The 12:45 post time is a historic post time in  
17 Northern California and has in the past provided for 15  
18 minutes between California races, north and south.

19 Mr. Harris is quite correct that there is a  
20 statutory law that states that the races are to be  
21 staggered, and I think that references a ten-minute

22 staggering.

23 Bay Meadows will try to work with Hollywood Park  
24 to solve this problem for Hollywood Park. I think that  
25 the problem is more how it might coordinate with Calder  
26 (phonetic), and certainly we'll take that into  
27 consideration and do our best to accommodate Hollywood  
28 Park.

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01 All I can say is we will make an effort, but  
02 12:45 is our historic time. We would also note that on  
03 post times for Friday night, here again, we will try to  
04 accommodate Hollywood Park.

05 But there's sort of a history as far as Friday  
06 nights are concerned in that Bay Meadows has previously  
07 started at a 7:00. I might add that Mr. Harris never  
08 approved of that starting time, because he thought it  
09 should be much earlier, but we did start at 7:00 o'clock.

10 Last year, Hollywood Park wanted to go at 7:00,  
11 and we gave way and went at 7:15, and then Hollywood Park  
12 didn't run at Friday nights.

13 We are now at 7:15, and if they don't get that  
14 race off at 7:05, our program will be delayed and will  
15 result in us probably finishing a little later than we  
16 otherwise would, and that's a problem we have with the  
17 horsemen.

18 But here again, Bay Meadows will do everything it  
19 can to try to accommodate Hollywood Park and reach some  
20 arrangement that's in the best interest of Racing here in  
21 California.

22 Thank you.

23 MR. HARRIS: I think the whole thing is cooperation,  
24 but it's gotten more complicated with national  
25 simulcasting. It's further complicated because there's a  
26 lot of common ownership to give someone some motivation to  
27 tie it together. I think, as Commissioner Landsburg  
28 pointed out, California will work in setting all of that

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01 up.

02 MR. BAEDEKER: There is nothing arbitrary on the part  
03 of Churchill. As a matter of fact, these decisions are  
04 made from the perspective of the customer, and so that  
05 will continue to be the case.

06 Jack Liebau has always been very accommodating,  
07 and we'll be the same. As a matter of fact, with the  
08 ten-minute flexibility that we have, if we went to 1:30,  
09 for instance, Northern California would be on the quarter  
10 hour, we would be on the half hour; so there would be a  
11 15-minute gap, if necessary. But if we do have another  
12 meeting of the Board before our season begins, if  
13 necessary, we can come back and clarify the issue and get  
14 it resolved.

15 MR. LANDSBURG: So the license would not be approved  
16 at today's meeting.

17 MR. BAEDEKER: Well, I would ask you to approve the  
18 license application as submitted. I believe I heard --

19 MR. LANDSBURG: Having approved Bay Meadows and its  
20 starting times, I'm afraid that approving yours, we are

21 creating -- the inference would be that we're creating a  
22 hole in what our administrative rules are.

23 MR. HARRIS: Maybe ask Tom Blake. If it involves  
24 cooperation, can we go back and modify the approval we  
25 gave to Bay Meadows to address this, or are we stuck with  
26 that?

27 MR. BLAKE: If Bay Meadows were to request that, and  
28 Mr. Liebau is here, I would assume we could do that, or  
0021 you could increase the administrative tolerance.

02 MR. LICHT: Don't we have 20 minutes? Because if we  
03 have 10 minutes on Bay Meadows and 10 minutes on Santa  
04 Anita, we could certainly move both.

05 MR. WOOD: Mr. Baedeker, would it be acceptable to you  
06 with a 1:15 post time, instead of a 1:20 post time?

07 MR. LIEBAU: That's our second race.

08 MR. WOOD: You would meet at 1:00 and 1:30.

09 MR. BAEDEKER: I would suggest that we would amend our  
10 application to read 1:30. That way the northern  
11 California races at 1:15. We're at 1:30. And we can  
12 finalize this right now.

13 MR. WOOD: What time would you finish?

14 MR. BAEDEKER: 5:00 o'clock during the week and 5:30  
15 on the weekend.

16 MR. LIEBAU: Would it be possible just to increase the  
17 administrative discretion in this and let Hollywood and  
18 Bay Meadows try to work this out so that it makes the most  
19 sense?

20 We are in favor of concurrent racing, and I think  
21 that that's paramount and that's been a policy of the  
22 Board. But if they go to 1:30, then Bay Meadows has run  
23 two races before they've run any. And they don't get the  
24 overlap in the end. We don't get theirs to begin with. I  
25 am not too sure that that's in the best interest of any of  
26 us or our patrons.

27 I'm sorry. We have customers, not patrons.

28 MR. LANDSBURG: I try to find a way to keep races  
0022 going and not stop it. It would seem to me that we have  
02 to find a middle ground for -- or reserve this point until  
03 next meeting. And be sure that --

04 MR. LIEBAU: I think it would be helpful to solve this  
05 problem if we could just talk about it. If you can give  
06 us some administrative discretion, I think that would be  
07 in the best interest of everybody.

08 MR. LANDSBURG: Administrative discretion in terms of  
09 the ten-minute rule or administrative discretion in terms  
10 of --

11 MR. LIEBAU: I think we might need more than ten  
12 minutes.

13 MR. WOOD: How much time do you need?

14 MR. LIEBAU: I think if you add 15 to 20 minutes; cut  
15 it in half, 17 and a half.

16 MR. HARRIS: Can we do something where we basically  
17 approve both, but also approve the concept of having the  
18 chairman be able to change it if it makes sense to do so.

19 MR. WOOD: You can do that. We can approve the

20 starting post time to whatever time you would like and  
21 then agree to have administrative approval within a  
22 15-minute time frame as requested by the associations. We  
23 could do that.

24 MR. HARRIS: The 15 minutes would be 15 minutes by  
25 both.

26 MR. SPERRY: Also, gentlemen, have you discussed with  
27 the third racetrack that runs Friday nights to make sure  
28 that the signal in the races are not running right into  
0023 each other.

02 MR. LIEBAU: Los Alamitos can speak for themselves,  
03 but I think that Los Alamitos would favor us going as late  
04 as possible to keep the crowd there for their post time.  
05 That's the usual thought that they have.

06 MR. SPERRY: Your two schedules don't interfere with  
07 that?

08 MR. LIEBAU: No, they don't.

09 MR. BAEDEKER: We have synchronized very well. It is  
10 easier at night to just have the three signals to worry  
11 about than during the day. We have had no problems in the  
12 past synchronizing these.

13 MR. LANDSBURG: How long do you think it will take you  
14 to reach agreement?

15 MR. LIEBAU: I would suspect less than a week. I do  
16 have to consult with my mutuel manager who more or less  
17 runs my track.

18 MR. LANDSBURG: We have another comment here, please.

19 MR. HENSON: Rick Henson with Los Alamitos.

20 Mr. Sperry, we work with the two thoroughbred  
21 tracks on Friday night. Our historical first post on  
22 Friday night is 7:15, but we slide depending on where they  
23 are to try to miss them by five minutes one way or the  
24 other.

25 There is also harness racing on Friday nights, so  
26 it's a juggle act. But we try to end up running the races  
27 every seven to ten minutes apart from each other.

28 Thank you.

0024  
01 MR. LANDSBURG: Let's entertain a motion now to allow  
02 a 15-minute adjustment as opposed to a 10-minute  
03 adjustment. Will somebody move that?

04 MR. HARRIS: I'll move that as part of this process;  
05 that both Bay Meadows and Hollywood Park be allowed a  
06 15-minute variance in their stated first post time so that  
07 the spirit of corporation could benefit California racing.

08 MR. LANDSBURG: Any discussion of that motion?

09 MR. SPERRY: Seconded the motion.

10 MR. WOOD: You want to make that based on  
11 administrative approval so they can't do it on their own?

12 MR. HARRIS: Subject to administrative approval of the  
13 Chair.

14 MR. LANDSBURG: You seconded it, John?

15 MR. SPERRY: Seconded.

16 MR. LANDSBURG: Motion has been made and seconded.

17 Is there any further discussion?

18 All in favor?

19 (Motion was unanimously carried)

20 MR. LANDSBURG: May I say at the very end of this, now  
21 that we've done that, we would expect within the week to  
22 have a written notification from both, agreeing -- from  
23 Bay Meadows and Hollywood Park, Churchill Downs, we would  
24 expect to have a resolution of this presented and  
25 commented upon by both California Capital Racing and by  
26 Los Alamitos. Is that clear?

27 MR. BAEDEKER: Certainly.

28 MR. JOHNSON: Mr. Chairman, Commissioners, Don  
0025

01 Johnson appearing on behalf of TOC.

02 My comment is not in respect to the approval of  
03 the Hollywood Park purse agreement. But I would just like  
04 to report to the Board that we do not have an advance  
05 deposit wagering agreement with either Hollywood Park or  
06 TVG at this time. And our TOC negotiating committee is  
07 continuing to endeavor to resolve that well in advance of  
08 the Hollywood Park meeting. This is for your information.

09 MR. LANDSBURG: The horsemen's agreement cannot be  
10 called final?

11 MR. JOHNSON: I think it is final. We need a separate  
12 agreement with respect to --

13 MR. LANDSBURG: I'm sorry. I could not hear. Please  
14 move closer to the mike.

15 MR. JOHNSON: I think that calls for a separate  
16 agreement, just as we have with Santa Anita. It is a  
17 separate issue. It is fine that you approve the agreement  
18 today.

19 MR. HARRIS: The license we are approving today does  
20 include, as part of the Simulcast program, TVG and Youbet?

21 MR. JOHNSON: They may be working with TVG and  
22 Youbet, but they do not have an advanced-wagering deposit  
23 contract with TOC, but I don't think that affects your  
24 approval.

25 MR. LANDSBURG: It certainly affects our approval  
26 allowing TVG to carry if you don't have an agreement.

27 MR. JOHNSON: Until such time they have an agreement,  
28 TVG will not be carrying those races.

0026

01 MR. LANDSBURG: Thank you.

02 MR. JOHNSON: Thank you.

03 MR. LANDSBURG: With the understanding of the  
04 administrative agreement will have been made by  
05 Bay Meadows and Churchill Downs of California, we can move  
06 on to -- we will expect that within the next week with  
07 notification to the Board -- we will move on to Item 3.

08 For reasons that I stated before, as Chairman, I  
09 am recusing myself from discussion of this.

10 MR. HARRIS: We need to get some resolution.

11 MR. LANDSBURG: I thought we had.

12 MR. HARRIS: In the motion I had addressed the time,  
13 but it didn't really approve the overall license  
14 application. I think we are assuming --

15 MR. LANDSBURG: Sorry. Let's go back.

16 Under rules of order, we have not had a motion to  
17 approve the application of Horse Racing at

18 Churchill Downs, Hollywood Park. I assumed we had.  
19 Sorry.

20 I will entertain a motion to approve the  
21 application.

22 MR. BIANCO: I so move.

23 MS. GRANZELLA: Second.

24 MR. LANDSBURG: Mr. Bianco makes a motion to approve.  
25 Ms. Granzella seconds the motion.

26 Is there further discussion?

27 MR. HARRIS: It is clear that this is subject to the  
28 pending motion?

0027

01 MR. LANDSBURG: This is subject to the administrative  
02 decision that we arrived at.

03 MR. LICHT: That has been voted.

04 MR. LANDSBURG: That has been voted on and approved.  
05 Now we can vote on this application.

06 All in favor?

07 (Motion was unanimously carried)

08 MR. LANDSBURG: It is unanimous. The application is  
09 approved subject to the prior motion on setting starting  
10 times. I am beginning to feel like we split the baby.

11 Moving on to Item 3, Application for License to  
12 Conduct Advance Deposit Wagering by Youbet.com.

13 Vice-Chairman Licht will conduct the questioning  
14 on the approval process. I am recusing myself as I've  
15 said before.

16 MR. LICHT: Jackie, how about a report.

17 MS. WAGNER: Jackie Wagner, CHRB staff.

18 Youbet has filed its application as an  
19 out-of-state wagering hub. The term of the approval  
20 proposed is two years and will start when the  
21 application is approved. They're proposing to operate  
22 seven days a week between the hours of approximately  
23 7:00 a.m. in the morning to 11:00 p.m. Pacific standard  
24 time.

25 Youbet has entered into an agreement with TVG  
26 that gives Youbet a license to utilize TVG's patent. In  
27 addition, the agreement grants Youbet a license to the  
28 rights to accept pari-mutuel wagers on horse racing from

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01 virtually all of TVG's exclusive partner racetracks.

02 Youbet does not have a direct contractual  
03 agreement with Los Alamitos or any other racing  
04 association. They do, however, through an agreement with  
05 TVG, have a sublicense agreement with Los Alamitos and a  
06 consent of the horsemen, and a sublicense agreement with  
07 Del Mar, Hollywood Park, and Oak Tree at Santa Anita.  
08 Youbet also has the consent of the TOC.

09 They are proposing to provide services for  
10 Los Alamitos Racing Association, Churchill Downs and  
11 Hollywood Park, Del Mar, and Oak Tree Racing Association  
12 at Santa Anita.

13 Staff would recommend that the Board hear from  
14 the parties on this approval.

15 MR. LICHT: As far as the bond, is the staff  
16 satisfied -- is the staff satisfied with their financial

17 responsibility?

18 MS. WAGNER: We were notified -- on February 19th we  
19 received a telephone call from Less Financial (phonetic)  
20 to inform us that a \$500,000 bond for Youbet has been  
21 approved and the issuing company will be  
22 International Fidelity Insurance Company. To date, we  
23 have not received the bond but we received this telephone  
24 conversation.

25 In addition, we have received the \$500,000  
26 cashiers' check from Youbet.

27 MR. LICHT: To start off with, as far as me  
28 personally, that satisfies me with the financial  
0029

01 responsibility. Why don't we deal with that first. Does  
02 anybody else here have a problem with the satisfaction of  
03 that requirement? Okay.

04 Then I would like to say that I visited Youbet  
05 myself. I was very impressed with, not only the  
06 technology that they have there, but senior management.

07 I am also confident that California labor is  
08 going to play a big factor in Youbet, hopefully an even  
09 bigger factor if they are very successful.

10 I received a letter -- probably all the other  
11 commissions did -- from Ron Liccardo from the pari-mutuel  
12 union that backs this application. They're very happy  
13 with the fact of the labor situation at Youbet.

14 And before you make a presentation, I want to ask  
15 Tom Blake one question. The sublicense or assignment of  
16 the rights from TVG -- I have read the TVG contract;  
17 there's nothing in there one way or the other about the  
18 ability to assign. I believe that Youbet has met the  
19 threshold or the requirement by not only receiving  
20 assignment from TVG but also receiving the consent from  
21 the various tracks that they will be broadcasting.

22 MR. BLAKE: I concur, Mr. Chairman. The section is  
23 19604 of the Business and Professions Code. And basically  
24 that vests in the track or fair the authority to take  
25 advance deposit wagering bets with the approval of the  
26 Board upon the satisfaction of a set of conditions.

27 In this case, there is nothing in the law that  
28 prohibits the hub or an interstate betting system from  
0030

01 using other agents or the assignment of these contacts. So  
02 in my opinion, this is a valid arrangement, subject to the  
03 Board's approval and subject to meeting all the other  
04 statutory requirements.

05 MR. LICHT: The contractual method in which Youbet  
06 went about the assignment is satisfactory?

07 MR. BLAKE: The law is generally that contracts are  
08 assignable unless there is some provision in the law or  
09 particular contract that prohibits; neither which seems to  
10 be present here.

11 MS. MORETTI: My only question and concern was that we  
12 approved a license for TVG for one year. This is a  
13 request for two years. How does that relate? Youbet  
14 would have two years, but the agreement with TVG is only  
15 for one year.

16 MR. BLAKE: The one-year limitation would effectively  
17 end the arrangement at the end of the year.

18 MR. HARRIS: At this point I am in favor of one year  
19 on the application, until we can see how that is going to  
20 proceed.

21 MR. LICHT: Ron, go ahead with your presentation. Be  
22 sure to address one item that Jackie mentioned. She said  
23 virtually all of the TVG tracks, not all of the TVG  
24 tracks --

25 MR. LUNIEWSKI: Mr. Vice Chairman, we have all of TVG  
26 exclusive tracks.

27 MS. GRANZELLA: Speak up, please.

28 MR. LUNIEWSKI: We have all of the TVG exclusive

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01 tracks.

02 I'm Ron Luniewski of Youbet.com.

03 First off, we would like to thank you guys for  
04 the opportunity to speak today. With me today is  
05 Phil Herman, co-CEO of Youbet.com; Joe Hasson, who is our  
06 vice-president of business development;  
07 Jeff Franklin, who is our director of product;  
08 Chris McClarin, who is our corporate spokesperson and also  
09 has a lot of influence into the product development;  
10 Larry Lucas, who is a member of the Board of directors;  
11 and Brent Bradley of Christianson & Miller, who is general  
12 counsel.

13 As already noted, we believe that we have met all  
14 of the statutory and regulatory requirements. We would  
15 like approval today on our advance deposit wagering  
16 application.

17 What I would like to do is just share with the  
18 commission a brief overview of who Youbet.com is and then  
19 give you a product demonstration.

20 First off, we've been a publicly traded company  
21 since 1995. We're a national, Nasdaq listed company.  
22 Since we've taken our first wager, which is roughly  
23 June 1998, we've processed in excess of \$250 million in  
24 handles flawlessly. Today we have over 17,000 customers.

25 We have invested about \$70 million to date in the  
26 horse racing business; roughly half of that going into  
27 technology, the operational side of our business. As  
28 Mr. Licht noted, we have an impressive operation down

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01 there, and I encourage any of the members to come down and  
02 see it.

03 We've spent approximately \$35 million on  
04 marketing to attain new racing fans, including some pretty  
05 significant marketing research in the Maryland marketplace  
06 that we will share with you folks in a few minutes.

07 Today, Youbet is the fifth largest streamer of  
08 audio/video on the Internet. We believe that bodes well  
09 for horse racing by helping expose the horse racing signal  
10 to the generations that it missed, the X generation. With  
11 the risk of sounding a little bit arrogant, we believe we  
12 have the dominant product in the Internet distribution  
13 channel.

14 We want to note that Youbet is not anti-TV by any

15 stretch of the imagination. We believe that one of the  
16 key successes to horse racing is the further expansion on  
17 television. We also strongly believe that the Internet  
18 bodes well for helping expand horse racing.

19           Quickly I want to talk about the Internet. This  
20 is how we view the Internet. The Internet is really a  
21 media that enables you to dialogue one on one with  
22 millions of customers simultaneously through a mixture of  
23 graphics, text, and now audio/video with a broadband,  
24 which is a bigger pipe into your household.

25           If you look at folks who are using the Internet,  
26 they are really the bottom-end baby boomers and  
27 Generation X. These are the fans that we missed.

28           The Internet is becoming transparent to these  
0033

01 folks. A great example of that is -- I have four  
02 children. My daughter, who is five years old, by the time  
03 she's in middle school, the Internet is going to be as  
04 transparent as the telephone is to us. To that generation  
05 of folks, the Internet is becoming a transparent  
06 technology.

07           If you look at that, we believe we can target  
08 these folks to help promote horse racing to the  
09 generations we missed. For example, there are over  
10 30 million Fantasy Sport players on the Internet today.  
11 As you look at them -- they think they are smarter than  
12 everybody else. A lot of analysis can be drawn through a  
13 handicap that sees a horse as a good ten to one bet that  
14 no one else sees. We believe by exposing horse racing to  
15 these folks, we can get them in.

16           Also, day trading is also going on on the  
17 Internet today. There's a lot of similarities that can be  
18 drawn to people that have the propensity to -- you know,  
19 they've been to the track once or twice. But if you  
20 expose racing to them, they will come and place bets.

21           The last thing about racing on the Internet,  
22 racing requires a lot of two-way dialogue. You have to  
23 see, you know, post odds, late changes, so on and so  
24 forth. On the Internet, it's easier to dialogue. You  
25 begin to understand that this media is comfortable, and we  
26 believe the Internet is right for this sport.

27           On this slide, broadband is simply a bigger pipe  
28 into the household. We need to talk about the build out  
0034

01 of broadband. We think that's key for horse racing,  
02 because what broadband enables us to do is take that  
03 mixture of graphics, text, and audio/video and make it  
04 better, faster, quicker. We will show you an example of  
05 broadband audio/video that we are doing today on the  
06 Internet.

07           Some quick facts about the Internet: The  
08 Internet in the first five years attained 50 million  
09 users. To put that into perspective, it took radio  
10 38 years to do the same; television, 13 years; and cable  
11 TV, ten years.

12           While we experienced the whole dot-com bust from  
13 a financial market perspective, the Internet is still

14 growing and is the fastest growing telecommunications  
15 medium in history. In the year 2001, it grew at a rate of  
16 20 percent. There are 143 million users of the Internet  
17 in the United States. California has about 17 million  
18 users on the Internet, representing about 41 percent of  
19 the population in California.

20 This slide simply shows the build out of  
21 broadband, which we think is enabling -- if you look here  
22 (indicating), you have the Youbet curve, which is our  
23 users adopting broadband technology. We have about  
24 26 percent of our users currently using broadband. We  
25 continue to see that go up, up, and up. And we see that  
26 as a very positive friend for horse racing.

27 We just did a very intensive market research  
28 study in the Maryland marketplace, including

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01 Washington D.C. We have several binders of market  
02 research, and we would be happy to share that with the  
03 proper constituents in California.

04 We did 7,000 mailers in that area. We did  
05 on-track interviews and interviews with existing Youbet  
06 subscribers. Over 20 percent of Youbet customers have  
07 been to the track or OTB less than twice a year. We are  
08 getting into that new-fan core.

09 The other interesting note is that 30 percent of  
10 the core fans increased their wagering by 22 percent due  
11 to convenience in the Maryland marketplace. Personally, I  
12 think that will be more in California, because as an  
13 example, I work in Woodland Hills. If it's a Thursday and  
14 I want to place a bet, because I do like to place bets, I  
15 have to drive to Ventura county OTB or Hollywood Park;  
16 with traffic, that's a two-hour trip. I will not go and  
17 place the bet.

18 Just a little more detail on some market research  
19 of the Internet in California: There are over  
20 6.6 million households that have access to the Internet  
21 and 1.3 million of those households currently have  
22 broadband, representing 20 percent of the Internet  
23 households.

24 Once again, you have almost 17 million Internet  
25 users in California. It is extremely interesting that  
26 97 percent of the population who live in the area have  
27 broadband capabilities. And that comes from a study done  
28 by the U.S. Department of Commerce that was put out a few

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01 weeks ago.

02 Youbet is focused on its marketing. Hopefully,  
03 most people who are familiar with this target market are  
04 familiar with these low-frequency fans. We are focused on  
05 the low-frequency fans. We think that those bottom-end  
06 baby boomers and generation X are the people that we've  
07 missed. Of course, we do pick up the core fans.

08 What I will give you is two quick examples of  
09 marketing that we're doing. These are small examples. We  
10 reach into the financial communities or the sports  
11 communities with banner advertisements and promotions of  
12 heroes within the sport. This is just one example of some

13 of the ads that we are running.

14           You can see the banner up there in the right-hand  
15 corner promoting racetracks. You can click through. In a  
16 minute I'll show you the product demo.

17           This is another example that we have on  
18 CBS Sports Line. CBS Sports Line is the largest sports  
19 site on the Internet today.

20           This is a neat marketing campaign. What we try  
21 to do -- it is very successful -- Steve and Chris are the  
22 heroes in the sport; we promote them as, "Hey, you want to  
23 come in here? Try to win Steve and Chris in a handicap  
24 context." This, in fact, is doing very well. And that's  
25 just an example of some of the things that we do on the  
26 Internet.

27           I just want to talk briefly about Youbet and the  
28 TVG relationship. At Youbet the power of this

0037

01 relationship comes in the cost promotion of different  
02 distribution channels. What we mean by that, at a very  
03 high level, is we promote the TVG channel on the Youbet  
04 network. We promote it to existing subscribers, we  
05 promote it to new customers.

06           We contribute revenue to TVG in order to better  
07 support the TVG build out. And this is how we get at  
08 those products and work together.

09           We are very optimistic that in the future we will  
10 be able to have marketing campaigns that will really  
11 synergize.

12           I will give you a quick product demo. This is a  
13 Youbet site. You log onto the site. Upon logging on, you  
14 receive what we call Youbet central. You can see all the  
15 tracks that are running today. You can look at the tracks  
16 that are running tomorrow. We have relationships with  
17 over 81 racetracks in the United States.

18           We built what we call the disc jockey. You can  
19 see his head here. This guy interacts with the fans. He  
20 is this kind of handicapper guy who gives people advice on  
21 how to handicap. You can read the disc jockey's feed bag.  
22 He is explaining the game to people.

23           This is the meat of our product. What you have  
24 here is a program. You can see all the race tracks that  
25 are running. 20 minutes to post. This looks like like  
26 it's ready to go off in 79 minutes. This changes all in  
27 real time. You have scores streaming in from the  
28 racetrack.

0038

01           You can click on here (indicating). You can do  
02 an exacta with a four horse on top; you can see who will  
03 get the odds. It is my choice. I just want to see the  
04 exact-o with the four and get the number there. It's my  
05 choice.

06           I can click on here (indicating) and get late  
07 changes. We're streaming in late changes. When I want to  
08 see the scratches, the horses that are on medication, I  
09 just click in here. (indicating)

10           I'll give you some examples of help. I go into  
11 help, click on contents; I can do handicapping, I can

12 click on "using a track program", and it's going to  
13 explain to me how to read a track program. I am sitting  
14 at my own convenience, not intimidated, and I am learning  
15 how to read a track program.

16 You can go in and we sell a lot of information  
17 products on our system. You go in and choose information  
18 products. We are selling 15 to 20 information products  
19 per racetrack per race day; anything from the basics, past  
20 performance, to the high-end sheets; very convenient for  
21 the user to understand.

22 It goes through a shopping cart metaphor. You  
23 pick the product you want; it tells you how much. You  
24 click and checkout the products. It takes anywhere from  
25 30 seconds to a minute to download, depending on how much  
26 information you ordered.

27 This is a basic P.P. We've made it very  
28 user-friendly, easy to understand. We're going to have

0039 rollover text so that's it's easy to understand.

02 And now let me give you a feel for a bet. You  
03 want to place a bet. Let's say you want to do a  
04 one-dollar trifecta. I'll do a one, two; with a one,  
05 three; one, two, three; and then I will do "all." "Okay."  
06 That looks good. This makes a \$20 bet. I will submit it.  
07 "Sure you want to do this?" You can see it brings a nice,  
08 clean bet ticket. Click on "okay." In a matter of couple  
09 seconds the bet is placed.

10 Last thing I will show you now is an example of  
11 audio/video. This particular audio/video is what a user  
12 that has a broadband connection, which is a cable modem,  
13 or DSL would receive through their screen today. And I  
14 ask you to consider that we are going through a projector,  
15 and it will be much clearer on your monitor.

16 (Whereupon the demonstration was played)

17 MR. LUNIEWSKI: The product I did was a demo on this  
18 laptop because of the connectivity, but that is what  
19 somebody would get through a broadband connection. That  
20 is where we got it. If you noticed when you watched it,  
21 there was a couple pauses and skips. That's the worst  
22 it's ever going to get. It will only get better from this  
23 point on as broadband goes on.

24 Thank you.

25 MR. LICHT: John, did you have a question?

26 MR. HARRIS: So basically the computer feed, you get  
27 that from the track through your system?

28 MR. LUNIEWSKI: We are like any other brick-and-mortar  
0040

01 spinal tap. We have satellite dishes on the roof to pull  
02 the signal in, digitize it, and then run it through our  
03 proprietary software that helps with the compression and  
04 and distribution of it on the Internet.

05 MR. HARRIS: On wagering, is it exclusively through  
06 computers or is there any calling type of system?

07 MR. LUNIEWSKI: I apologize. I forgot to mention  
08 that. We offer a suite of products, Internet-based  
09 products, an I.V.R. phone wagering system, a voice  
10 recognition phone wagering system, and we are now getting

11 into the live-operator business in conjunction with the  
12 local labor union here.

13 MR. HARRIS: Ultimately you will be employing some  
14 people to actually receive the bets?

15 MR. LUNIEWSKI: Yes, sir. We are getting into the  
16 live operator business.

17 MR. LICHT: John, they already have live operators. I  
18 saw customer service people in the Woodland Hills office  
19 here in California for their customer service.

20 MR. COUTO: Drew Couto on behalf of Thoroughbred  
21 Owners of California. On behalf of the TOC, I would like  
22 to express that we are enthusiastic supporters of Youbet's  
23 technology.

24 We have reached an agreement with Youbet, the  
25 horsemen's agreement, with respect to non-TVG racetrack  
26 signals; but we have yet to reach an agreement with regard  
27 to any of the California TVG signals for out of state. So  
28 that's just for clarification. We do, as an organization,  
0041 on behalf of horsemen, support their application.

02 Thank you.

03 MR. LICHT: Any other comments? Richard.

04 MR. CASTRO: My name is Richard Castro. I'm speaking  
05 on behalf of the Pari-Mutuel employees Guild Local 280  
06 membership. We also are ecstatic about Youbet operating  
07 an off-track -- operating an account wagering facility  
08 here in California.

09 Negotiations with Youbet have been very fruitful.  
10 More than negotiations, we have spent hours discussing  
11 ways to increase bettor interest, different ways to  
12 promote more interest in the horse racing, and best of  
13 all, how Youbet desires to use our members to answer  
14 account wagering phones in California.

15 So our members can be better prepared, the four  
16 officers from Local 280 recently took tours of betting  
17 facilities in Pennsylvania, New Jersey, New York, and to  
18 the Casinos in Atlantic City. And from this trip, we can  
19 state that:

20 One, Internet wagering has a place and will be of  
21 interest to old and new racing fans;

22 Two, there are a small minority of wagering  
23 patrons that desire fully automated wagering services;  
24 most of these, we were told, were established regular  
25 racetrack patrons;

26 Three, overwhelming, racing patrons desire live  
27 operators. This was very apparent at the New York  
28 off-track wagering facility. We saw over 120 phone  
0042

01 operators taking bets with a maximum wait time between  
02 32 and 45 seconds. That's four times the phone operators  
03 that I have working at Golden Gate Fields on a weekday;  
04 three times the number of clerks that I have working at  
05 Golden Gate on a Sunday.

06 Only Youbet, in my opinion, has shown a sincere  
07 desire to hire our members to work the advance account  
08 wagering phone in California. Their presentation to us  
09 has shown that they do have a product that we feel will

10 enhance the opportunities to bring new betting fans into  
11 our sport.

12 We have a signed letter of intent to use our  
13 members at the Youbet facility located in Woodland Hills,  
14 California. We continue to negotiate wages, hours,  
15 working conditions, and have every reason to believe  
16 Youbet is bargaining in good faith.

17 We feel especially at this time Youbet will be  
18 very good for the California horse racing industry. For  
19 all of the above reasons, the P.M.E.G. asks for a  
20 favorable vote to grant Youbet a license to legally  
21 operate one or more account wagering facilities in  
22 California.

23 Thank you for giving me the time to speak.

24 MR. LICHT: Any other comments?

25 MR. LANDSBURG: Marie has a question.

26 MS. MORETTI: I wanted to commend Youbet and all the  
27 people I know. Doing this is not the easiest thing, but I  
28 think that this is absolutely important. The whole

0043

01 concept of ADW is to benefit California. If I had it my  
02 way, I would have only California hubs and California  
03 would get everything.

04 I would like to commend you on the efforts. I  
05 think that took a lot of work. And I hope that as we move  
06 along, that all of the other applicants that we may  
07 approve -- the ones that have been approved, I would hope  
08 that they too would take a lesson from this.

09 As far as I'm concerned, the more Applicants we  
10 have that are successful, the more successful horse racing  
11 will be. I just wanted to make that comment.

12 Thank you.

13 MR. HARRIS: I concur with Marie's point. The one  
14 question I had: When a person makes a deposit using a  
15 credit card, what is the fee or charge for that?

16 MR. LUNIEWSKI: We do not charge anything for that.

17 MR. HARRIS: Good.

18 MR. LICHT: Any further questions of Youbet or  
19 comments?

20 Entertain a motion to approve Youbet's  
21 application?

22 MR. SPERRY: So moved.

23 MR. HARRIS: Second.

24 MR. LANDSBURG: Moved by Commissioner Sperry and  
25 seconded by Commissioner Harris. Any comment before we  
26 vote?

27 MR. TUCKER: My name is Tom Tucker. I'm the executive  
28 director of California Council on Problem Gambling.

0044

01 We're here to introduce ourselves and to talk about  
02 problem gambling, not only with respect to ADW, but just  
03 with respect to regular wagering in California,  
04 responsible wagering.

05 We understand that -- maybe Mr. Blake can correct  
06 me on what civil code of Business and Professions Code is,  
07 asking for responsible wagering to be addressed with ADW  
08 -- we're here to do that. We've been doing that for 15

09 years.

10 ADW in my former lifetime meant assault with a  
11 deadly weapon, but I'm sure it has a lot different meaning  
12 now. And we want to be able to let you know that  
13 California -- the California public, the public safety,  
14 the social and economic cost, in human terms -- I deal  
15 with this everyday, and I can tell you that certain  
16 people, not many, but certain people have serious problems  
17 as a result of compulsive gambling.

18 We stand ready as a California-based company to  
19 help California citizens in dealing with responsible  
20 wagering, and that's why we're here asking the Board to  
21 ensure that California-based companies helps the  
22 California residents as we have been for the past 15 years  
23 and suggests that possibly the various racetracks can  
24 contact the California Council on problem gambling to get  
25 these programs set in motion.

26 MR. LICHT: I think that would be a great idea. And I  
27 know that when we passed our regulations with respect to  
28 ADW, we were ensuring that problem gambling would be dealt

0045

01 with. Thank you.

02 Sheryl.

03 MS. GRANZELLA: How does a problem gambling person get  
04 ahold of your association?

05 MR. TUCKER: We have a number of toll-free hot lines.  
06 The one that is most popular is 1-800-GAMBLER. We have  
07 someone who is certified in compulsive gambling answering  
08 the telephone 24 hours a day, 7 days a week.

09 We also have -- we're answering the phone for the  
10 California state lottery. Their number is plugged into  
11 our help line, and we deal with them. And we have a  
12 member of the California state lottery on our Board of  
13 directors.

14 And we're working with respect to trying to get  
15 what we call a fair share contributions committee, where  
16 we're very interested in the gaming community in  
17 California. We work together in supporting the California  
18 Council in the work that has to be done.

19 MR. LICHT: Thank you.

20 We have a motion and a second. It's time for a  
21 vote. All in favor of Youbet's one-year license. All in  
22 favor? All opposed?

23 MR. LANDSBURG: I'm abstaining.

24 MR. LICHT: Unanimous, with one exemption, Chairman  
25 Landsburg.

26 MR. LANDSBURG: Thank you, Commissioner Licht, for  
27 your guidance.

28 We are now at Item 4, which has been removed

0046

01 from the agenda; is that correct?

02 MR. WOOD: Yes.

03 MR. LANDSBURG: Item 4 is removed from the agenda.

04 We are now moving on to item 5, which is a report  
05 from the advance deposit wagering hubs on the first  
06 three-and-a-half weeks, I would guess, of operation. The  
07 report from Xpressbet will proceed as soon as we can clear

08 the podium.

09 MR. WOOD: Mr. Chairman, I think Mr. Reagan from the  
10 staff would like to give --

11 MR. LANDSBURG: I just wanted to get everybody settled  
12 down.

13 Mr. Reagan, would you proceed.

14 MR. REAGAN: Commissioners, John Reagan, R-e-a-g-a-n,  
15 CHRB staff --

16 MR. LANDSBURG: Hold it down, please. We are having a  
17 report.

18 MR. REAGAN: Commissioners, in your package we had  
19 included account wagering data through the first 17 days.  
20 We talked about 2.4 million that we handled at that  
21 point.

22 Since the package went out, we have updated those  
23 numbers through February 18th, the last racing date in  
24 California at this point; and at that point the account  
25 wagering handle totaled 5.1 million. So eight days later,  
26 it had more than doubled.

27 We are certainly in the growth phase here. It's  
28 ramping up as we continue along and we'll continue to

0047

01 monitor those numbers. But as of the 18th, we had  
02 5.1 million in account wagering handle.

03 MS. MORETTI: John, do we know if the total handle has  
04 increased?

05 MR. REAGAN: Good question. At this point the  
06 California on-track and off-track handles comparing before  
07 and after account wagering seem to be about a push;  
08 there's a slight down on the on track, slight increase on  
09 the off track; insignificant changes. And at this point  
10 the total account wagering handle is less than 2 percent  
11 of the total California handle. So as being 2 percent of  
12 the total, it doesn't have a lot of impact at this point.

13 MR. SPERRY: John, how about the number of patrons  
14 going through the turn stop?

15 MR. REAGAN: The attendance likewise is unaffected, it  
16 appears, at this point from account wagering.

17 MR. LANDSBURG: Any further questions from the Board  
18 or discussion of what Mr. Reagan has said?

19 MR. HARRIS: It might be helpful if in the future we  
20 would include how much this wage has generated, how that  
21 is distributed.

22 MR. REAGAN: In fact, over the weekend, the official  
23 database, the CHRIMS database, was working very hard; in  
24 fact, even this morning when I checked in with them they  
25 were working as best as they could to get those  
26 distributions done, and more importantly, verified.

27 We are receiving some of the first moneys now of  
28 the market access fees; and as we balance those moneys to

0048

01 the CHRIMS numbers, we will be able to verify that we have  
02 those numbers precisely. I would hope within another week  
03 to ten days we will actually be able to access that on a  
04 daily basis through the CHRIMS system and provide that  
05 data, as we do with any data now, once we have completely  
06 verified the system.

07 MR. LANDSBURG: On a more personal note, have we  
08 received any complaints about the ADW that is current?

09 MR. REAGAN: In my office, I have received numerous  
10 complaints regarding the level of customer service,  
11 specifically the Xpressbet system had a rough time getting  
12 started and getting up. And then in the last week to ten  
13 days we've had complaints regarding level of customer  
14 service, resolving problems and whatnot. Just in the last  
15 few days that has subsided somewhat. We spoke to  
16 Xpressbet middle of last week about the problems, and they  
17 have been working hard to address them.

18 MR. LANDSBURG: Presentation, I believe, from  
19 Xpressbet. Please identify yourself.

20 MR. HANNAH: Ed Hannah, vice president and general  
21 counsel for Magna Entertainment corporation, and I also  
22 hold the same position with Xpressbet, which is the actual  
23 licensee. With me today and operating the Powerpoint are  
24 Andrew Gaughan, who is vice president of new initiatives,  
25 for both Magna as well as Xpressbet, Inc.

26 Also with us today, who may address some  
27 questions and concerns, is Brook Pierce. Brook is with  
28 Autotote and also with track play, which is 80 percent  
0049

01 owned by Autotote, which is the company from which we  
02 license the technology for our online wagering.

03 We do have a presentation today. We are in our  
04 27th day of operation as a California licensed  
05 California Hub, ADW operation. We are going to repeat  
06 some of the things that Mr. Reagan mentioned.

07 What we plan to do in our presentation is first  
08 of all, update you on where ADW is in California right  
09 now. Then we will go through the various types of  
10 customer complaints that have come in; what we as an  
11 organization have done to address them. We will start off  
12 now -- Andrew -- with the first slide.

13 First slide summarizes as of February 18th  
14 account wagering that has been done in California. This  
15 slide represents it on a daily basis. The number at the  
16 top is at almost 4.5 million; that is the aggregate  
17 account wagering handle to date since account wagering was  
18 licensed on January 24th. You can see the trend upward.

19 This slide represents the two current licensed  
20 systems of the aggregate of what has come in to each  
21 system.

22 This slide here is on a daily basis, effectively  
23 provides --

24 MR. LANDSBURG: I'm sorry. I didn't get -- perhaps  
25 I'm thicker than most. Would you go back one slide and  
26 explain that.

27 MR. HANNAH: What that shows -- remember, take the  
28 aggregate number of almost 4.5 million, that's the number  
0050

01 at the top. Then there are two bars in the slide. The  
02 first bar is the percentage of that, which is coming  
03 through the TVG system. The second slide is the  
04 percentage of that which is coming through the Xpressbet  
05 systems.

06 This slide here is basically a replication of the  
07 same thing, but it shows it on a daily basis. So it's the  
08 handle on each day coming through each system as reported  
09 by CHRIMS

10 This slide here shows the total number of  
11 accounts that Xpressbet has opened to date. It's 5,115.  
12 It also shows the number of accounts opened each day  
13 through the continuance since licensing until  
14 February 18th.

15 This slide here, I think, is addressing a  
16 question that was raised earlier. It's showing, of the  
17 accounts that have been opened, the state of residence of  
18 the account holder. So 92 percent of the accounts that  
19 have been opened in our system have been opened by  
20 California residents; eight percent have been opened by  
21 residents of other states.

22 This shows the accounts that have been opened.  
23 As was mentioned earlier by Jack Liebau in his  
24 presentation, we have kiosks located at the three  
25 California tracks that we own; and the greatest number of  
26 representatives being at Santa Anita; the next greatest  
27 number being at Golden Gate Fields, because they were  
28 running live at the time; and the fewest being at Bay  
0051 Meadows.

02 Of the accounts that have been opened by our  
03 service, 16 percent have been opened through the kiosks  
04 and the service representatives at Santa Anita, five  
05 percent through Golden Gate, four percent through  
06 Bay Meadows; the largest proportion, 75 percent, have come  
07 in through our call center, either on line or through  
08 telephone.

09 This shows you the amount of wagering that's  
10 being done by California residents through our system as  
11 opposed to residents of other states. As was shown  
12 earlier, 92 percent of our customers are California  
13 residents. Those 92 percent are doing 95 percent of the  
14 wagering.

15 This shows what is being wagered on California  
16 races through our system. 72 percent of the wagering is  
17 on races at California tracks; 28 percent is on tracks  
18 located in other states.

19 This shows you the handle that's been coming in  
20 through our system on a daily basis since launch. Each  
21 bar is broken down as to what has come in through  
22 telephone and what has come in by Internet. In the bottom  
23 right-hand corner, you can see that on average 20 percent  
24 of the wagering has been through our telephone system;  
25 80 percent has been on line.

26 The next chart -- and this is to put things in  
27 context, because I am now about to go into complaints that  
28 we've received and what we've done to address the problems  
0052 that have been occurred by our customers -- this shows  
01 that it is a good news story that has caused some of the  
02 problems for us. We have been overwhelmed by the success  
03 of our account wagering operation.  
04

05 This shows what our business plan contemplated  
06 it would take us to take to the 5,115 accounts that we  
07 have right now, and it was just over 20 weeks. And then  
08 the next bar shows how quickly we actually got there.

09 Similarly, this slide here, we have processed  
10 2.9 million in handle. The top bar shows that we  
11 anticipated it would take us about 14 weeks to get to that  
12 amount of handle. The bottom bar shows us how quickly we  
13 did get there.

14 First of all, we are now going to go through some  
15 of the problems we've experienced and what we've done to  
16 address that. One of issues that came up was the time to  
17 open accounts. We did not have any accounts open until we  
18 were licensed, so we did not start opening accounts until  
19 the day after licensing, which was January 25th.

20 The first weekend people had to wait up to  
21 72 hours for their accounts to be actually opened. One of  
22 the major causes was the third-party verifications that  
23 are necessary to open the account to ensure you are in  
24 compliance with the law.

25 The second weekend we had that reduced to --  
26 accounts were opened in no more than 24 hours. At the  
27 current time, all accounts are being processed on the same  
28 business day. Our goal is to get them to 15 minutes or

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01 less.

02 The next slide addresses Call Center wait times.  
03 Once again, because of the overwhelming interest and  
04 demand, people had to wait up to 65 minutes; second  
05 weekend people had to wait up to 35 minutes; third weekend  
06 the average was people waiting four minutes, and people  
07 did experience delays of up to 15 minutes. Our goal is to  
08 ensure that every call gets answered in under two minutes.

09 The next slide shows what we did at our call  
10 center in order to achieve the benefit that the two slides  
11 indicated earlier, reducing the time to open accounts and  
12 also in reducing the time to answer the telephone to  
13 customers.

14 What we did first was we doubled our customer  
15 service stations. By customer service stations we mean  
16 the commuters that are available, the credit card  
17 terminals that are available to process credit cards and  
18 printers and the tote account interfaces.

19 Also in that short period we hired and trained --  
20 and "trained" is a very important word, because you just  
21 can't put an untrained person on the telephone -- so we  
22 hired and trained 31 additional customer service staff.

23 With respect to the online platform, we have  
24 increased our system hardware by six times the original  
25 capacity. We have also, through Autotote, our service  
26 provider, we have made multiple software changes to  
27 increase the site speed. And since January 24th,  
28 Autotote is logged over 2,618 man hours implementing these

0054

01 changes.

02 I should pause now for Brook Pierce to make a few  
03 comments from Autotote as to the efforts that they've been

04 making to address the online problems.

05 MR. PIERCE: Thank you.

06 Brook Pierce with Autotote.

07 I think Eddie explained it pretty accurately. In  
08 any technology initiative, start-out phase is generally  
09 the mostly difficult. I think it is fair to say that  
10 Xpressbet and Autotote were overwhelmed by the initial  
11 success. It is also fair to say that both sides feel we  
12 have it very well at hand.

13 We've done some significant software changes.  
14 We've added some hardware. And we expect that the issues  
15 that were present in the first three weeks will certainly  
16 diminish greatly and perhaps evaporate.

17 MR. HANNAH: Thank you, Brook.

18 The next slide, video streaming, particularly on  
19 the first weekend where complaints about the feed of the  
20 video streaming -- the problem on the first weekend was it  
21 didn't matter what the speed of your connection was  
22 through the Internet. Even if you had a high-speed  
23 connection, the software only allowed the video streaming  
24 occur at 56 K speed.

25 After the first weekend and by the second  
26 weekend, we had implemented a button that can be accessed  
27 on the Internet site where you choose your speed,  
28 56 K which is the usual dial-up speed; 100 K, which is a

0055 slower, high speed connection and 300 K, which is the  
01 speed that is chosen by those with a high speed, broadband  
02 connection. The introduction of the speech ways has  
03 significantly improved the video streaming for those who  
04 have the broadband system to access at the higher speeds.

05 The other issue where we have received some  
06 complaints is on credit card charges. Traditionally on  
07 our Callbet business there had been a six percent charge  
08 for this. That's for both credit cards as well as for  
09 debit card deposits. We have reduced that as of Tuesday  
10 of this week to 3.1 percent, which is purely a  
11 pass-through rate; that's what we have to pay to our  
12 third-party provider. And those are the only fees that we  
13 are charging. We are not charging any transaction or  
14 monthly fees to account holders.

15 This slide here addresses some complaints that  
16 have come in where people have said that they would like  
17 to speak to a live operator. On our California hub, we do  
18 not offer a live-operator choice; however, we are  
19 introducing a natural language speech recognition  
20 technology.

21 It was mentioned in our last presentation. We  
22 have the demo here again, but I don't intend to play it.  
23 It was the example of the Australian calling in and the  
24 automated voice coming back very quickly, recognizing all  
25 the bets, relaying all the bets, and accepting all the  
26 bets.

27 I think, as was mentioned at the last  
0056

01 presentation, Sheryl McCall (phonetic), who is our call  
02 service operator, said that a live operator would have

03 been lost after the second bet that the person was trying  
04 to place. We believe that the system, once implemented,  
05 which has had tremendous success in Australia, will  
06 actually be better than speaking to a live operator.

07         Next I would like to address live horse racing  
08 television. Some of this is repetitive of what we did at  
09 the last session, but I would like to go through it again  
10 to make sure there are no misunderstandings as to what we  
11 have done to date and what we fully intend to do on a  
12 go-forward basis.

13         Horse Racing TV, which is a generic name we are  
14 using right now for our channels, will broadcast  
15 continuous live horse racing on three channels. Two of  
16 them will show the races. One of them will be a channel  
17 displaying odds information. Of the two channels showing  
18 live horse racing, one of them will showcase California  
19 live horse racing on a year-round basis.

20         This TV product will be produced by Santa Anita's  
21 award winning TV department. Right now they produce the  
22 Santa Anita Live show that is shown on Fox Sports West 2.  
23 These channels will be available as produced channels  
24 sometime during the second quarter of 2002.

25         The programming that will be offered on these  
26 channels -- and these are Pacific Standard Time -- live  
27 racing will be offered from 9:30 in the morning until  
28 11:00 at night. So from the post times in the east until

0057  
01 the last race is run in the west.

02         We will also have news and previewing from 8:00  
03 a.m. to 9:30 a.m. During the production, there will be  
04 updates, including payoffs, throughout the day that will  
05 keep the viewer in the thick of the racing action. During  
06 the evening, when there is no live racing available to be  
07 shown, we will be giving taped replays of the previous  
08 day's programming.

09         We intend that on our pay channel to have minimal  
10 advertising. We do not want to disrupt the flow of the  
11 programming through advertising. We believe right now  
12 with the tracks that we have signed up for our channels,  
13 that we offer the best winter/spring thoroughbred racing  
14 that's available, primarily through our two tracks,  
15 Santa Anita and Golden Gate.

16         We also have deals to offer good quality  
17 year-round product. We own three of the six California  
18 tracks; that's what allows us to have the  
19 California-focused channel.

20         In addition, we have made a proposal to the  
21 California Association of Racing Fairs, where we would  
22 like to show their live racing on our California-focused  
23 channels. We've had discussions with Chris -- I believe  
24 Chris is here -- and those discussions are ongoing.

25         Basically through our contracts and product that  
26 we own ourselves, we have access to 70 percent of the  
27 horse racing that's being run in America through the  
28 showing of our TV channels.

0058  
01         Since our last meeting, racetrack television

02 network has been launched. What RTN is is a  
03 direct-to-home private satellite service that requires a  
04 person to have a unique, small dish in order to receive  
05 it. It is sold through monthly annual subscriptions.  
06 It's a joint venture in which we have a one-third interest,  
07 between ourselves, Robert Communications Networking, and  
08 Greenwood Racing, Inc.

09 RTN provides eight channels of horse racing.  
10 Three of the channels on RTN will be the produced channels  
11 that we'll be launching in the second quarter.

12 The target market for RTN: I think some people  
13 have been confused, thinking that RTN is our entire TV  
14 strategy. No. It is just our first strike in our TV  
15 strategy.

16 Basically what RTN was created for is -- the  
17 target market is the breeders, the trainers, the owners,  
18 and the active handicapper; the person who tended to be  
19 the subscribers to the old T.R.N. product that was offered  
20 and the ones that complained the most vehemently when  
21 T.R.N. went out of business. We wanted to work with our  
22 two partners and get a product up and running as quickly  
23 as possible.

24 It's price is \$99 per month. There have been  
25 some complaints about the pricing. The pricing has been  
26 struck on a break-even basis. There is no intention on  
27 our part to make a profit out of this; however, unlike the  
28 old T.R.N., we also do not want it to suddenly cease

0059

01 operations.

02 If we are successful in increasing subscription,  
03 we can bring the price down. That would be nirvana for  
04 all of us.

05 RTN is managed and administered by  
06 Robert Communication Networking. That is basically what  
07 they bring to the table as one-third owner. MEC and  
08 Greenwood are the two partners that are basically  
09 producing and providing the channels that have the  
10 content on RTN.

11 What we have also just announced is an  
12 Xpressbet RTN. For those Xpressbet customers who meet  
13 certain thresholds wagering, we will provide a  
14 contribution toward or pay the entire subscription amount.  
15 And if you are a large-enough wagerer, we will also pay  
16 for the hardware and the installation costs.

17 Basically, the thresholds are, if you wager more  
18 than \$5,000 dollars in a month, we will provide you with a  
19 \$50 credit towards the subscription cost. If you wager  
20 \$10,000 or more in a month, we will effectively provide  
21 the subscription cost -- or pay the subscription cost on  
22 your behalf. And if you wager \$20,000 per month or more  
23 for three consecutive months, we will basically provide  
24 you with the hardware and arrange for its installation on  
25 your behalf.

26 Now we go into the more exciting part of our TV  
27 distribution policy, and it's actually what I think we all  
28 need in the horse racing industry, and that's broader TV

0060

01 distribution.

02 As I mentioned earlier, RTN is just our first  
03 step. It was something that we wanted to get out very,  
04 very quickly to serve a very small niche market that was  
05 asking for a replacement of the former service that had  
06 been taken away.

07 Right now we are actively negotiating long-term  
08 distribution deals for carriage of our horse racing  
09 product on both direct broadcast satellite systems as well  
10 as on various cable, multiple-system operators across the  
11 U.S. I think at the last session someone asked what an  
12 M.S.L. was; we've actually put it in words to make it  
13 easier to understand.

14 Our cable negotiations right now are currently  
15 focused primarily within California and certain other  
16 strategic markets outside of California. The horse racing  
17 TV product that we intend to offer will be packaged with  
18 other digital sports programming and sold to D.B.S.  
19 subscribers and digital cable subscribers as part of the  
20 operators' digital sports programming package.

21 We feel that the greatest opportunity for  
22 creating new fans in horse racing is appealing to those  
23 fans who tend to have some type of a sports focus or some  
24 type of a sports fan focus. By offering our product this  
25 way, this wider sports audience will be exposed, I  
26 believe, to the thrill of horse racing; and this will  
27 enhance both production value, quality of production, as  
28 well as returns in the horse racing industry.

0061

01 As we mentioned at the last session, we have  
02 hired a dedicated individual to assist us in our TV  
03 strategy. It is a fellow who is actually here. His name  
04 is Bill Bridgen. He is our Senior V.P. of business  
05 operations and affiliate sales. Bill's background is that  
06 he was the former V.P. of affiliate relations for  
07 Fox Sports Net and Fox Cable Network, and he negotiated  
08 long-term Sports Net and Fox Cable network area agreements  
09 with leading new affiliates.

10 Phil is very connected to the industry. He knows  
11 all the players in the industry. The television industry  
12 on the carriage side, I have a background in the Canadian  
13 industry, is very much a relationship industry. And Bill  
14 has been tremendous in helping us to date.

15 One thing I do caution -- so that we don't create  
16 false expectations -- and I know this from my Canadian  
17 experience as well -- is negotiating these carriage  
18 contracts take time. The usual gestation period in the  
19 best situation is four to five months, and they usually  
20 run between six and 12 months. We feel that we can  
21 accelerate that process because we've been giving it a  
22 full court press since Bill came on board at the beginning  
23 of the year.

24 The programming, as mentioned earlier, will be  
25 led by our Santa Anita production team.

26 Our last slide here deals with marketing. To be  
27 honest, our marketing efforts to date haven't been as  
28 extensive as we would like them to be. A lot of it has

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01 been explained by the earlier slides when we dealt with  
02 the problems that have arisen with the launch of our  
03 service and the resources that we have been focusing to  
04 address those problems.

05 Three things that we do intend to do is we are  
06 going to do a direct mail message to lapsed fans.  
07 Basically what we are going to do is -- the  
08 Thoroughbred Club database that we have through  
09 Santa Anita has 23,000 inactive members. We are going to  
10 do a direct mail message to them.

11 One thing that we mentioned last time is that we  
12 fully intend to promote to the account wagering customers  
13 the thrill and excitement of live racing. What we intend  
14 to do to the Xpressbet California customers is to  
15 encourage them, through a promotion, to attend the  
16 Santa Anita Derby Day. We don't think there's a much  
17 better day in California to show someone the true  
18 excitement of live racing. And also, we will soon be  
19 airing on Fox Sports West 2 Santa Anita live program, an  
20 Xpressbet television commercial.

21 Part of the problem in marketing is we're trying  
22 to avoid shotgun marketing. We are trying to do target  
23 marketing. The dot-com companies have shown us that you  
24 can spend a lot of marketing dollars that don't achieve a  
25 lot of benefits. We want to be sure that those dollars  
26 are spent intelligently.

27 We do have some market research ongoing by a  
28 company called Acquired Research out of Washington D.C.

0063

01 They are a leading research firm.

02 We are very committed to marketing. We are very  
03 committed to not only attracting the lapsed fans, but also  
04 to attracting new fans.

05 That ends our formal presentation. I would like  
06 to turn the floor to the Chairman. I am sure there will  
07 be some questions.

08 MR. LANDSBURG: Open for comment on all of this  
09 presentation. Are there people with questions among the  
10 Board or in the audience that wish to be heard?

11 MS. GRANZELLA: At the very beginning you mentioned  
12 hiring 31 additional call center customer service reps.  
13 Are they located in California? Are they California jobs?

14 MR. HANNAH: No. Our call center is located just  
15 outside Pittsburgh, Pennsylvania. Those individuals have  
16 been hired in the Pittsburgh area.

17 MR. SPERRY: Where are you with your labor agreement  
18 that you were discussing last time with the union?

19 MR. HANNAH: I'll let Jack Liebau address that  
20 question.

21 MR. LIEBAU: We have met two weeks ago with the  
22 representatives of Local 280. As a result of that  
23 meeting, we have presented to them a written proposal. And  
24 to the best of my knowledge, they haven't gotten back to  
25 us yet. I am very optimistic that an agreement will be  
26 reached that will be mutually satisfactory to Xpressbet  
27 and Local 280.

28 MR. LANDSBURG: Is there a Local 280 comment about  
0064 that?

01  
02 MR. CASTRO: My name is Richard Castro, and I am a  
03 representative of Pari-Mutuel Employees Guild Local 280.

04 Jack is correct. We have been in collective  
05 bargaining sessions; however, at the last session Jack  
06 wasn't there when they presented the offer to us. And I  
07 think it was made pretty clear across the table that the  
08 offer was rejected.

09 MR. LANDSBURG: What is the next step in this process?

10 MR. CASTRO: I haven't been told the exact date, but I  
11 understand there's going to be a meeting next week when  
12 we're going to present our side of various issues that we  
13 wish to get settled in an effort to come to an agreement.

14 MR. LIEBAU: I have to admit that I wasn't aware that  
15 there had been any further negotiations, and my  
16 understanding was that we had submitted the written offer  
17 and were waiting for a response; and I take it that there  
18 has been a response. And we look forward to further  
19 negotiations.

20 MR. CASTRO: There's been a lot of miscommunications,  
21 so I want to make sure that the air is clear, especially  
22 between Jack and myself, who I do have a lot of respect  
23 for. What they did was they presented an offer. And in  
24 that meeting was Richard Hugh and George Haynes for their  
25 side of the table.

26 When we saw the offer, Ron Liccardo said we will  
27 write down that we will have another meeting to reject.  
28 And that is what I was relaying to you, that there wasn't

0065  
01 enough in there for us to be comfortable to agree to what  
02 they put on the table.

03 MR. LANDSBURG: I want to remind you that at the last  
04 meeting one of my comments to 280, whom I have the  
05 greatest respect, was to present to this Board a wish list  
06 of what you think you would want, so that we would have  
07 some idea and be able to use what powers we have on behalf  
08 of both labor and management to try to find a settlement.  
09 It is now months later and we have not received that wish  
10 list.

11 I feel somewhat outside the boundary, because I  
12 had requested it from you. What is it you want? So that  
13 we can have some idea of what's going on within the  
14 negotiation and be able to serve as the kind of mediators  
15 that we believe we are charged with being.

16 MR. CASTRO: I can't really address what's happened  
17 for the last month, but I can tell you this: I will  
18 accept the responsibility to make sure that you will know  
19 what our irritations are with the current agreement. I  
20 don't care to make them in a public meeting. I will put  
21 it into writing, and I will tell you what we want; and I  
22 will do this within a week.

23 MR. LANDSBURG: Thank you.

24 MR. SPERRY: Ron, maybe you ought to share with us --

25 MR. CASTRO: I am not Ron. My name is Richard Castro.  
26 I'm called Prince Charming.

27 MR. SPERRY: I apologize.  
28 Maybe you ought to share with all of us and only  
0066

01 with the company your tentative agreement that you will  
02 reach with Youbet that may serve to give some indication  
03 as to what you're looking to get as well as what your  
04 members are looking for.

05 MR. CASTRO: I understand you are a labor leader, and  
06 I think it works best if we don't put things out in  
07 public. It makes it harder to negotiate an agreement.

08 However, with the offer that has been given to us  
09 from M.E.C., we would like higher wages; we need to  
10 discuss more benefits; we need to know how these people  
11 are going to be taken into the union; how they plan to  
12 train our members and implement our members into these  
13 jobs. It's those kinds of issues that -- there's a  
14 difference of opinion right now at the bargaining table.

15 And before we go farther, Jack, would you say  
16 that's correct? I don't want any more misunderstandings  
17 between your group and our group.

18 MR. LIEBAU: My understanding is that the negotiations  
19 that we have entered into with local 280 relate solely to  
20 the people that are working in our kiosk at Santa Anita,  
21 Bay Meadows, and Golden Gate. And I stood before this  
22 meeting last time and I said that we were willing to go to  
23 binding arbitration. I have so advised the Horse Racing  
24 Board in writing that we were willing to go to binding  
25 arbitration on this matter under our existing collective  
26 bargaining agreement. I reiterate that undertaking. We  
27 are willing to do that on 24-hour notice. We entered into  
28 a good faith bargaining with these people. We had a

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01 meeting in which they had six representatives, and I guess  
02 we had an equal number in the room.

03 We were supposed to undertake, and within a week,  
04 to deliver a written proposal, and I have, in fact,  
05 complied with that; and I think that it was time that I  
06 found out that our written proposal had been rejected  
07 because I had assumed that there would be another meeting  
08 scheduled. That hasn't happened.

09 I will now undertake to call Mr. Liccardo and set  
10 up another negotiating session and meet again. If there  
11 are any other questions or if anyone on the Board thinks  
12 that I can do any more than I am now doing, I am open to  
13 suggestions.

14 MR. LANDSBURG: Gentlemen, I hope you can reach some  
15 kind of agreement and get rid of this impasse because part  
16 and parcel of an agreement on ADW under the law is that  
17 labor not be left behind. I have some questions for you,  
18 if you don't mind. Any questions from the Board, I will  
19 entertain as we go.

20 At one point you said that there are three  
21 channels available; is that RTN channels? In your  
22 presentation before you reached RTN, you noted three  
23 channels that would be available. When?

24 MR. HANNAH: We will be producing three channels. Two  
25 will be the live racing. One will be the odds channel.

26 All three channels will be available in RTN.

27 MR. LANDSBURG: I'm sorry, will be where?

28 MR. HANNAH: Available on RTN Racetrack Television

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01 Network, small dish network service. But it is also those  
02 channels which are part of the package which we are now  
03 marketing through the DBS and through the cable operators;  
04 and maybe on one of the three channels and maybe the three  
05 together. But that is what we are basically pounding the  
06 pavement with right now trying to arrange for cable and  
07 broader satellite distribution.

08 MR. LANDSBURG: As of this moment and perhaps for the  
09 next six months, as you've indicated, you will have only  
10 an Internet presence; is that correct?

11 MR. HANNAH: We will have an Internet presence, but we  
12 will also have the RTN presence. As far as a  
13 broadly-based availability, it will be video streaming  
14 through the Internet. We are hoping to do it a lot more  
15 quickly than six months. I am giving what is a normal  
16 time frame within the industry.

17 MR. HARRIS: One of the positive things about the RTN,  
18 unlike the racing network; the racing network was part of  
19 the dish network, which was also TVG, where at least you  
20 have the same type of dish to get TVG and what would be in  
21 this case getting the dish network to RTN?

22 MR. HANNAH: We will be approaching there.  
23 There are two dominant broad DBS providers in the  
24 United States: Dish and direct TV. Once again, it is  
25 difficult to give details, specific details in a public  
26 forum because we have a competitor who is next on the  
27 agenda; but we have approached or will be approaching  
28 those entities. You can probably tell because there is

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01 only two of them, and I use past tense and present tense  
02 on the situation. That is on the DBS side.

03 We have also been, as I mentioned, on the cable  
04 side. We are mostly California focused right now, and we  
05 have been in discussions with California cable systems and  
06 we are very hopeful at least in respect to three systems.

07 MR. LANDSBURG: You have live racing at least four to  
08 five times during your racing season at Santa Anita. Is  
09 that contributed -- do you have any sense on the  
10 contribution to ADW?

11 MR. GAUGHAN: We haven't tracked that yet,  
12 Mr. Landsburg; but I would believe based on my formal  
13 experiences in Irvine when we did televised broad horse  
14 racing on television, it would be contributable in lifting  
15 the wagering.

16 MR. LANDSBURG: You are on Fox now, aren't you?

17 MR. GAUGHAN: Yes. We just need to run some reports.

18 MR. LANDSBURG: I'm sorry?

19 MR. GAUGHAN: Yes we are on Fox Sports West every day  
20 from 4:00 to 5:00. We need to run some reports to verify  
21 that there is a bump or correlation between being on TV  
22 and the wagering through Xpress Bet. I believe it would  
23 be there.

24 MR. HARRIS: One problem I would see, I use your

25 Internet-based system. It has problems. The phone-based  
26 one is really complicated. I would think that it's pretty  
27 cumbersome for somebody to be watching TV and punch all  
28 the right numbers to get on the phone without the live

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01 operator. I don't see the operator until we get the voice  
02 recognition; but the way it is now for anyone to try, it  
03 takes someone smarter than me to figure it out.

04 MR. HANNAH: Commissioner Harris, you are precisely  
05 right. We are hoping that the speech-recognition system  
06 when it is available will make the telephone side of  
07 betting much simpler and much easier for the customer.

08 MR. HARRIS: In the interim, if your system is as  
09 complex as the Australian system, at least the way it is  
10 now, you have to punch all these things in the touch-tone  
11 phone. It's pretty cumbersome.

12 MR. LANDSBURG: Is there a possibility -- once again,  
13 you keep harping on the idea that California hubs are more  
14 important to California than the Pittsburgh hub. Is there  
15 a possibility that you will consider moving the hub to  
16 California where you have closer contact with the audience  
17 that we're concerned with?

18 MR. HANNAH: This is probably more of a technology  
19 question. Mr. Chairman, just so people aren't confused,  
20 Xpress Bet is actually a California hub, which means all  
21 of the wagers are coming through a California tote system.  
22 It is our call center that is located in Pittsburgh. It  
23 is something that we are prepared to consider, but it is  
24 difficult for us to commit to it right now.

25 When you look at -- just addressing telephone  
26 wagering, other than what Youbet announced today, there  
27 are now three licenses in California. Other than Youbet  
28 announcing that they intend to launch a live-operator

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01 system, and none of the current licensees operate other  
02 than on a telephone system. As far as employees located  
03 in California, we have the kiosk employees that are not  
04 subject to the labor negotiations. Even Youbet itself,  
05 they are technically hubbed in Oregon. It is the live  
06 operators set up here in California. They have their  
07 customer call center located in Oregon. I hate to answer  
08 the question defensively, but that is what I have just  
09 done.

10 I think we've shown our commitment to California  
11 as a jurisdiction through the bricks and mortar that we  
12 have made in the three tracks. We are totally committed  
13 to benefiting the State of California in any way we can.  
14 Unfortunately, we have to operate as a business. We have  
15 an existing call center set up with Pittsburgh head of  
16 operations for launching, in cooperation, right now. It  
17 is most convenient and easier for us to use the  
18 experienced people that we do have.

19 MR. LANDSBURG: I appreciate the problems of business,  
20 having run a business for a long time. Our role has  
21 nothing to do with your business. Our role has to do with  
22 California; and if you cannot begin the process of  
23 accumulating more activity within California for your

24 system, then you become an outbound system. I would hate  
25 to see that happen, and also your license is within -- I  
26 would like you to take more seriously the idea of  
27 implanting here in California a base of operations in  
28 which California labor, specifically California racing,

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01 can utilize. Are there any other comments?

02 Oh, An important one: You are now offering to a  
03 specialized audience what comes down to be a rebate.  
04 Rebates are not legal. You made a comment about how you  
05 can afford the make a rebate to a group of bettors when we  
06 have all said that rebate is not the press by which we  
07 want to see this industry grow.

08 MR. GAUGHAN: I understand, Mr. Landsburg. My  
09 understanding is that rewards network does offer noncash  
10 rewards relating to wagering levels. So we're working on  
11 it.

12 MR. LANDSBURG: You are intent on looking on that  
13 again because it does become a rebate? CMC will be back  
14 before us to discuss the way in which that rebate if it  
15 does exist as a rebate is handled.

16 MR. LICHT: There is a cash rebate as well. They also  
17 provide a cash rebate.

18 MR. HANNAH: We are prepared obviously to abide by  
19 whatever the CHRB determines. The purpose of the program  
20 that we allowed vis-a-vis the RPN subscription is to  
21 encourage greater TV distribution, not to encourage  
22 greater wagering on our system. If the wisdom of CHRB is  
23 that we cannot offer that to California residences, we  
24 will step down immediately.

25 MR. LANDSBURG: We have to present that to the AG, and  
26 have the AG make a ruling. I am not the ruling authority.  
27 I just know at this point it smacks of rebate in that you  
28 are giving back to the people a certain amount of money on

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01 a monthly basis. I don't know how else to characterize  
02 it. Any other comment -- or hold it over to our next  
03 meeting. I don't care to spend any more time on this  
04 right now.

05 MR. HANNAH: We have looked at that issue in the past  
06 and will look at it again.

07 MR. LANDSBURG: Do you have any sense in your  
08 gathering of accounts, your 5,000 accounts, how many of  
09 them are consistent race goers and how many of them are  
10 newly refurbished, if you will, race goers?

11 MR. HANNAH: I think it is too early for us right now.  
12 The only way we can substantiate that is -- we have the  
13 pie chart that we put on the screen which shows us where  
14 the accounts had been opened. I think one would presume  
15 that the percentage of accounts opened at kiosks probably  
16 represent persons who attends the track at least on a  
17 frequent basis, but it is too early. And it's part of the  
18 data lining that we intend to do as we launch our system,  
19 and then drill down into the system. Because that is also  
20 going to assist our marketing that will give us  
21 demographics and information about the customers we do  
22 have, which then assists us in acquiring new customers.

23 MR. LANDSBURG: Then your only outreach at the  
24 moment -- I understand about the other negotiations, but I  
25 understand your only outreach at the moment through  
26 Internet and any advertising you can do through your  
27 televised program that would in fact be Magna as an opener  
28 of the race track provide, what, four races or three,

0074  
01 three live races?

02 MR. HANNAH: I think it is two on the Santa Anita live  
03 program. It is, I think it is two.

04 MR. LANDSBURG: Is there a reason why it can't be  
05 four?

06 MR. HANNAH: I think in the one-hour window there is  
07 only two Santa Anita races that go off.

08 MR. LANDSBURG: In the one-hour window there are four.

09 MR. HARRIS: North and south.

10 MR. HANNAH: There is. I was thinking only of  
11 Santa Anita.

12 MR. LANDSBURG: There are six. There is a possibility  
13 of having six races. It would seem to me you would want  
14 to have them.

15 MR. HANNAH: We are trying to get a better sense of it.  
16 Our two San Francisco area tracks do not run concurrently.  
17 They run at separate times. We would be able to do two.

18 MR. LANDSBURG: You can have a race at 4:02 and a race  
19 at 4:58. That gives you four races from Santa Anita with  
20 a possibility of at least three races, possibly four.

21 MR. HANNAH: It's a helpful suggestion. Definitely  
22 something we will check.

23 MR. LANDSBURG: More than can be seen on commercial  
24 television. I will say for the 7th and 27th time is the  
25 way we are going to reach audiences that don't normally  
26 come to the racetrack. I salute MEC for having at least  
27 one hour of live racing. We want more.

28 MR. LICHT: I have one question and two comments. The  
0075  
01 one questions, what is the status of the formal agreement  
02 with the TOC?

03 MR. HANNAH: The status of formal agreement with the  
04 TOC is we hope to be able to present it to them by the end  
05 of this week. I have introduced myself. I am general  
06 counsel. I have prepared a draft for review by  
07 Jack Liebau. Jack hopefully will be able to review it  
08 today or tomorrow. I will reflect those comments and I  
09 will provide it to Mr. Van de Kamp.

10 MR. LICHT: I'd rather not see it. Perhaps you will  
11 have it to us by the next meeting for us to see.

12 MR. HANNAH: We agree with that. I am the primary  
13 draft person and I didn't produce the draft for Jack until  
14 yesterday.

15 MR. LICHT: There was a letter agreement between the  
16 TOC that we saw, but it is subject to formalization of a  
17 more elaborate document.

18 MR. HANNAH: I will remind the commissioners, we had a  
19 two-page letter agreement that had most of the key details  
20 outlined. There were two further issues that Mr. Van de  
21 Kamp had spoken to us about the morning of the last

22 hearing, which we agreed need to be reflected in it as  
23 well as I think in a business context the term sheet and  
24 the full-pledged agreement. We have now graduated from  
25 term sheet to the full-pledged agreement. I don't  
26 anticipate that there is anything because I am the author  
27 of it and the draft review, which hasn't been presented to  
28 the TOC, that will be controversial, but the pudding will  
0076 be in the tasting.

02 MR. HARRIS: That could be an item that we look at for  
03 the next hearing, would be the intent of the law that we  
04 do have these agreements in place.

05 MR. LANDSBURG: I think that as we move forward with  
06 ADW that this will be a consistent piece of our next two  
07 or three meetings so we can track the progress and track  
08 the information forthcoming.

09 MR. HANNAH: The one thing I will mention that as was  
10 alluded to earlier by Mr. Liebau in his presentation,  
11 since the last meeting we have put out an industry paper  
12 that basically announces our principle on ADW. One of  
13 those principles is what we call the principle clause  
14 which is making the availability to wager on our tracks  
15 available to other systems. We have had a number of  
16 discussions with our systems since then and in discussing  
17 with those systems, we have mentioned to them that they  
18 have to abide by the terms of the TOC agreement which  
19 practically provides for the maximum hub fee that those  
20 systems can take out and improvise for a supplement the  
21 post fee as well for the California race tracks.

22 We have an agreement in place. It is just we  
23 don't have the detailed agreement in place, and we have  
24 been fully abiding by the terms of the agreement that is  
25 in place and by the general tenor of the discussions in  
26 agreement with the TOC.

27 MR. LICHT: As far as the comments, I think the  
28 5,000 accounts that you have signed up is phenomenal, and  
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01 I think it shows what kind of a market is really out  
02 there; and if we can promote it, promote this ADW more, I  
03 think the market is huge. And I think that in light of  
04 the fact that it is a startup business where you really  
05 started without any running start at all, that the product  
06 is really terrific.

07 I have used Xpress Bet. I have found it to be  
08 user-friendly, very good in every manner of video  
09 streaming. I don't think I have any problem with it at  
10 all. The first weekend that I signed up the account, that  
11 was a problem. Since then I haven't incurred any  
12 problems at all. I think you've done a very good job with  
13 that.

14 As far as the \$100 a month situation, I've talked  
15 to you extensively about that. It is obvious to me that  
16 you don't look to that as a profit center. That is a  
17 minimal step. If you just wanted to sell your product for  
18 \$100 a month, it would be obvious to me, you wouldn't have  
19 applied for a license. You would have been in the  
20 business of selling satellite dishes and selling monthly

21 rights to people for \$100.

22 I agree with Chairman Landsburg. It is  
23 imperative that we get added distribution. But as much as  
24 we agree with that or want that, I am sure nobody wants  
25 that more than you. You love to throw away all those  
26 \$100 a month systems and have it on television. I am  
27 certain of that. That's what makes me think that it is  
28 just an interim step.

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01 As far as on the negative side, the only thing I  
02 can see is we need more dissemination. We need more  
03 opportunities for people to see the product on TV. Other  
04 than that, I think you guys have done a great job of  
05 starting up the system.

06 MR. HANNAH: Thank you, Commissioner Licht. Thank you  
07 all, commissioners. First of all, thank you for the  
08 license at the last meeting and also for your helpful  
09 comments in the last meeting, and for your comments at  
10 this meeting. And we expect that a report like this will  
11 probably become a fairly regular item on the agenda at  
12 these hearings, and we intend to come and continue to  
13 report fully and forthright to you and to hear what you  
14 say and to work towards accomplishing what you want us to  
15 accomplish.

16 MR. LANDSBURG: Any further comments on the Xpressbet  
17 presentation? If not, we thank you for appearing.

18 I would ask now for a ten-minute recess before we  
19 begin with TVG.

20 (Recess)

21 MR. LANDSBURG: Before we begin this discussion on  
22 TVG and report from TVG, we have a brief message that we  
23 have agreed to hear from the gentlemen who I have -- I'm  
24 sorry, your name please. Identify yourself.

25 MR. TUCKER: Thank you, Chairman. My name is  
26 Tom Tucker. I'm with the California Council on Problem  
27 Gambling. Commissioners, I just wanted to say that we  
28 wish Instabet and TVG and everyone involved in the horse

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01 racing industry the very best of success and luck in their  
02 procedures. I would say with regards to the rebate, if  
03 you can afford \$20,000 a month for three months, I don't  
04 think you need a rebate.

05 But the truth is that we know that -- I am also  
06 vice-president of the National Council on Problem  
07 Gambling. As such, I am aware of what is being done  
08 around the country with respect to responsible wagering.  
09 Whether the companies are from Pennsylvania or Oregon, we  
10 are respectful of what they do in those states, but they  
11 are not the same as we have here in California. We do  
12 have local help line services available that can be  
13 started today. We've been in business for 15 years, and  
14 we would like to ask those companies get in touch with us  
15 so we can start partnering together to really deal with  
16 this problem. And that's basically our comments and we  
17 thank you for your attention.

18 MR. WOOD: Thank you.

19 MR. LANDSBURG: Representatives of TVG be prepared to

20 make -- or representative as it turns out, John prepare to  
21 make your report.

22 MR. HINDMAN: Good morning, John Hindman,  
23 H-i-n-d-m-a-n, Vice-President of Communications and  
24 General Counsel for TVG.

25 MR. LANDSBURG: I suggest for your comfort that you  
26 lift the microphone.

27 MR. HINDMAN: I will move over here. I have no AV  
28 scheduled today, but I am going to read a report about our  
0080 first 28 days.

02 MR. LANDSBURG: Okay.

03 MR. HINDMAN: Thank you, Mr. Chairman, members of the  
04 Board. At the request of the Board, I am here on behalf  
05 of TVG to provide our report about our advanced deposit  
06 wagering activity with California residences to date.  
07 Before starting, we believe ADW is still in its infancy.  
08 And our philosophy is that this is a marathon and not the  
09 100-meter dash. With that in mind, all of our plans are  
10 for the long-term, and we feel very confident in the  
11 ultimate success.

12 While it is our pleasure to appear before you  
13 today, we respectfully submit that we are 28 days into  
14 this process. Meaningful conclusions about impact of ADW  
15 on California racing will have to be developed over a  
16 considerably longer period of time such as a year or  
17 even two years.

18 TVG began accepting wagers by California  
19 residences on Friday, January 25th. Presently we have  
20 well over 2,000 California residences that have  
21 established a TVG wagering account. All of our account  
22 sign-ups have occurred outside of racetracks through our  
23 call center or through our on-line site. However, we are  
24 working with our track partners to establish information  
25 kiosks to signup accounts deposit with draw capabilities  
26 at the racetracks in the near future.

27 For a breakdown of our current subscriber base,  
28 approximately 27 and a half of our new California

0081 customers are sports fans.  
01

02 MR. LANDSBURG: 27 and a half?

03 MR. HINDMAN: 27 and a half percent, yes.  
04 53.6 percent are light or casual fans. 14.6 perhaps are  
05 lapsed fans, and 14.3 are new fans who have never attended  
06 a race track. Our sign-up procedure is in compliance with  
07 the statute in the CHRB rules. Normally it takes less  
08 than ten minutes to establish a TVG wagering account.  
09 This is sufficient time to acquire all of our required  
10 customer information online or over the telephone, process  
11 that information, perform identity, age, and residency  
12 verifications checks on each customer, and process the  
13 account. If the information cannot be verified, the  
14 account holder must provide proof of age and residency  
15 through a form of I.D. issued by a government agency.  
16 This seldom happens, less than 10 percent of the time.

17 The handle report from TVG is included in the  
18 Board packet, and we already heard it as part of MEC's

19 presentation. TVG did not process wagers from any  
20 California residences prior to January 25th. I must add  
21 that earlier results from Los Alamitos are encouraging,  
22 especially in light of the fact that marketing and  
23 promotional initiatives are in early developmental stages.

24 With continued cooperative marketing promotional  
25 networks among TVG, TV Guide -- our parent company -- our  
26 cable and satellite television distributors, and our  
27 partner racing association in California, we feel that our  
28 model for growth is sound and will yield positive

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01 long-term results. Mr. Henson of Los Alamitos will be  
02 pleased to answer any additional questions you may have in  
03 terms of the Los Alamitos experience with TVG to date.

04 We remain on schedule for TVG's launch on  
05 Adelphia Digital Cable systems in April. Communities  
06 where TVG will be available on Channel 170 include  
07 Van Nuys, Beverly Hills, West Hollywood, Diamond Bar,  
08 Glendora, Monrovia, Hermosa Beach, La Habra, Santa Monica,  
09 Redondo Beach, San Dimas, Ontario, Santa Ana, Buena Park,  
10 Fullerton, Newport Beach, Placentia, Seal Beach, and Villa  
11 Park.

12 Digital is the new cable programming format.  
13 Eventually nearly all cable households will go to this  
14 format. California has among the highest digital  
15 penetration rates in the country. Depending on the  
16 specific cable system, anywhere from 25 percent to  
17 40 percent of total cable households already have digital  
18 service. And in most areas, those who did not have  
19 digital service can simply call their cable operator and  
20 request it. For a slightly higher rate, 10 to \$15 a month  
21 more, any cable household can receive the expanded digital  
22 package of service which includes a higher speed of  
23 channels and in the case of Adelphia includes TVG.

24 Additionally TVG prefers to be on the digital  
25 cable platform because the cable return path is the way  
26 that we ultimately implement interactive television  
27 wagering which allows you to place a wager through your  
28 remote control. Discussions with other cable operators

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01 beyond Adelphia are continuing. We are not able to  
02 divulge the details of those discussions at this time.

03 At the last Board meeting, we presented an  
04 overview of our California marketing plan. Much of that  
05 plan centered on the use of jump-start TV Guide  
06 International marketing platform. These platforms give  
07 us the unique ability to market the sport efficiently to  
08 new nontraditional, non-sport audiences. We told you that  
09 TVG would have two-full page black-and-white ads in all  
10 California districts of TV Guide Magazine, which is  
11 available in 12,500 retail points of sale outlets and has  
12 nearly one million paid California subscriptions. I have  
13 with me right here a recent issue of TV guide magazine for  
14 February 16th through the 22nd, and you can see that there  
15 are the two-full page TV Guide ads for TVG advertisements  
16 appearing in the magazine.

17 We are also running TVG television advertisements

18 a minimum 10 to 15 times a day on TV Guide Channels, which  
19 is in 5 million California households. Additional  
20 television advertising will coincide with the pending  
21 launch of TVG on cable in the Los Angeles area and also on  
22 dish network where we have already launched and will also  
23 be instituting television networks as well.

24 Current advertising in mainstream magazines such  
25 as Sports Illustrated and local newspapers such as the  
26 Los Angeles Times or the Orange County Register are on  
27 plan to coincide with the cable launches and major racing  
28 events. We also plan to advertise on local radio stations  
0084

01 such as KNX, CBS radio and Fox Sports radio. And we have  
02 just recently started both direct mail, e-direct campaigns  
03 on a limited basis, which will ramp up as the year  
04 progresses.

05 On another note, we launched a new wagering  
06 website on Monday which is much faster, quicker and  
07 convenient for customers. We are pleased with the earlier  
08 response of the website. We also will be transitioning to  
09 a new on-air graphics look at the end of March or early  
10 April which will have considerably more information for  
11 the viewers to watch, and we're very excited about that as  
12 well.

13 In summary, TVG is pursuing the initiative to  
14 grow the sport and business as we previously discussed  
15 with you, and we are increasingly optimistic ADW will  
16 positively impact California racing. Thanks.

17 MR. LANDSBURG: Any questions of TVG? I have a  
18 couple. In the digital cable world, how many homes within  
19 reach of Adelphia have digital cable at this moment?

20 MR. HINDMAN: It depends on the actual head-ins. I  
21 did the research last --

22 MR. LANDSBURG: Head-ins?

23 MR. HINDMAN: Yes. On Adelphia specifically, you have  
24 the head-ins which serves different households. For all  
25 of the Los Angeles households launching TVG, they will be  
26 doing it from three different processing centers, and  
27 around here to get to all the households. That's where  
28 the equipment is stored that gets all the stuff  
0085

01 transmitted. And the digital penetration rate, which is  
02 the number of households, goes anywhere from 25 percent to  
03 38 percent.

04 MR. LANDSBURG: It's representing the number of  
05 households that --

06 MR. HINDMAN: It represents all of the analog  
07 households in L.A., which is basic cable, anywhere from 25  
08 percent --

09 MR. LANDSBURG: You are talking about digital cable?  
10 Are we getting apples and oranges mixed up?

11 MR. HINDMAN: No. We are not at all, sir. The basic  
12 analog is the total number of households served by a cable  
13 operator.

14 MR. LANDSBURG: I'd like to know how we can receive  
15 the TVG signal.

16 MR. HINDMAN: When we launch on digital basis,

17 depending on the cable head-in which is the one that  
18 serves -- for instance if you are in Santa Ana, you are  
19 served by a different head-in than if you are in  
20 Beverly Hills. Anywhere from 25 percent to 38 percent of  
21 all households will get TVG initially. As I stated in my  
22 report, anybody that has analog basic can call their cable  
23 operator and within a day switch to digital, which most of  
24 them will at some point in the future, as digital  
25 companies have very strong incentive to sell this digital  
26 services to upgrade for an extra 10 or \$15 a month and  
27 receive several more channels including TVG.

28 MR. MARTIN: Mike Martin, California Horse Racing  
0086

01 Board Staff. I spoke with the regional manager of  
02 Adelphia and he gave me a number of 50,000 currently.

03 MR. LANDSBURG: 50,000 currently.

04 MR. HINDMAN: As far as for digital?

05 MR. MARTIN: Yes.

06 MR. HINDMAN: I don't have the exact number of digital  
07 households.

08 MR. MARTIN: He said by the end of next year over a  
09 million. Over a million, but the number right now you  
10 said is 50,000.

11 MR. HINDMAN: For the Los Angeles area.

12 MR. HARRIS: Would have digital or would not have the  
13 option?

14 MR. HINDMAN: I believe that digital services are  
15 available to almost all analog households in  
16 Los Angeles.

17 MR. LANDSBURG: Not on certain areas from reports I  
18 have -- but I can't give you specifics, therefore I won't;  
19 but 50,000 is a small percent in this 30 million market.

20 MR. HINDMAN: We view it as the tip of the iceberg, as  
21 the beginning. And we view it as an excellent opportunity  
22 to market our product with the local cable operator. And  
23 as we move along and as digital distribution grows, TVG  
24 grows.

25 MR. LANDSBURG: I'd like for you to report to us on a  
26 statement made because it's confused all of us at our last  
27 meeting. We asked for clarification. What is the  
28 so-called tax rate issue that we were told now holds the

0087  
01 key to whether or not you will operate in California as a  
02 hub in California?

03 MR. HINDMAN: I spoke to Mr. Wood regarding some of  
04 the issues. There are several issues regarding TVG  
05 operating as a hub out of California. One of our current  
06 operations is established in Oregon, and we've been there  
07 two and a half years prior to the establishment of the  
08 account wagering in California where our service center is  
09 located. The second issue is an issue regarding license  
10 fees that we felt was worthy of clarification.

11 MR. LANDSBURG: License fee or tax issue, which is it?

12 MR. HINDMAN: It's basically one and the same, I mean  
13 in California.

14 MR. LANDSBURG: Would you explain that to us because  
15 none of us have been able to define what it is that you

16 are trying to tell us about a tax issue.

17 MR. HINDMAN: I had a conversation with Mr. Wood and I  
18 thought we reached an understanding as to what the issue  
19 that we were looking at was, and I got Mr. Wood's answer  
20 that he did not feel there was a license fee on advanced  
21 deposit wagering.

22 MR. HARRIS: As I understand it, the license fee would  
23 be lower in California than Oregon; is that correct?

24 MR. HINDMAN: If there's no license fee, yes.

25 MR. WOOD: We did have a conversation. We tried to  
26 define what the license fee issue was that you related to  
27 the Board, what our license application would have been.  
28 And our conversation was that it was our opinion that

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01 there is no existing license fee of one or one quarter  
02 percent. I think in the statutes, that would preclude  
03 from being located in California. That's true.

04 MR. HINDMAN: That's exactly what we discussed and  
05 what Mr. Wood relayed to me.

06 MR. WOOD: I think we need to clarify how come or what  
07 TVG current status is as they relate to that license fee.  
08 We know what our position is, but what is yours?

09 MR. HINDMAN: Our position is that currently we are  
10 pleased to get your advice on that issue, and we'll act  
11 accordingly in evaluating our future plans.

12 MR. LANDSBURG: I'd like to go in another step  
13 further. Are we going to have a three-quarter percent tax  
14 currently in Oregon as part of the amount of moneys  
15 traveling downward toward our racing and horsemen?

16 MR. HINDMAN: It is a one quarter of a percent tax for  
17 Oregon.

18 MR. LANDSBURG: What does that represent as far as the  
19 horsemen's share?

20 MR. HINDMAN: I guess, it would be --

21 MR. LANDSBURG: 15, 20 percent?

22 MR. HINDMAN: No, I don't believe it is that high.

23 MR. LANDSBURG: One quarter percent off the top?  
24 Perhaps someone from TOC has mentioned some facts that  
25 would eliminate them, the one quarter percent. Mr. Couto.

26 MR. COUTO: Mr. Chairman, I believe TOC has done an  
27 analysis with regard to the total fee being charged by TVG  
28 which included one quarter percent of Oregon state tax and

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01 a one-half percent assessment from the NTRA. And looking  
02 just at the one-half assessment of NTRA, depending on  
03 where the wager was derived and where it did race, it did  
04 mean a net impact somewhere between 5 percent and just  
05 under 15 percent. So that's exclusive of the quarter  
06 percent which would also have an impact on ultimately  
07 purse revenues and track commissions.

08 MR. HARRIS: As far as the quarter percent, which is  
09 basically a minimal fee is not in California. There is no  
10 advantage of being or disadvantage of being located in  
11 California as far as licenses, as I understand.

12 MR. COUTO: Absolutely not. I can quickly do some  
13 extrapolation. If the half percent that the NTRA impacted  
14 purses between 5 and the early 15 percent would assume

15 that the 15 percent stands alone would impact purses  
16 anywhere from 2 and a half to 7 and a half percent.

17 MR. LANDSBURG: I think that in view of that, let's  
18 put the tax issue aside and discuss at this meeting if you  
19 can or at the next meeting the probability of having a  
20 center in California. I am nagging Magna and Xpressbet to  
21 do so, and I will take it as part of the assignment of the  
22 license that you do, where it's practical, create a hub  
23 here in California that is workable for California labor,  
24 workable for California patrons, and therefore more  
25 workable for California horsemen.

26 MR. HINDMAN: I understand. I will continue to  
27 develop our --

28 MR. LANDSBURG: No more blue skies about taxes.

0090

01 MR. HINDMAN: Excuse me?

02 MR. LANDSBURG: No more blue skies about tax issues.

03 MR. HINDMAN: I understand the Board's position on  
04 that issue.

05 MR. LANDSBURG: Thank you. Part of the remarks made  
06 took me a while to digest. It was all a very quick  
07 presentation last time, and we moved rapidly in giving  
08 leeway to TVG; however, a comment was made, I believe, by  
09 Mark Stevens that TVG will begin to get significant  
10 advertising revenues when their distribution is wide  
11 enough, and at the end of the day their entire business  
12 model will then make sense, almost an exact quote. That  
13 means that we are supporting with what we are getting, a  
14 business model that may or may not ever happen, and we  
15 will continue to be supporting that business model on  
16 behalf of TVG for the foreseeable future. As far as I can  
17 tell, because your distribution is now minimal, your  
18 distribution -- at what point of your distribution would,  
19 with advertising revenue, be sufficient, given the state  
20 of advertising or release from the burden with California  
21 bettors, California racing, California State?

22 MR. HINDMAN: In terms of that, I think Mark Wilson is  
23 who you are referring to, our CEO?

24 MR. LANDSBURG: Yes, Mark Wilson.

25 MR. HINDMAN: I'm trying to understand. We came to  
26 the last meeting to express to you the level of investment  
27 that we've made in this entity. We invested about  
28 150 million.

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01 MR. LANDSBURG: It is not our responsibility. We are  
02 not a business organization. Whatever you invested, you  
03 invested because you willed to invest it, not because we  
04 asked you to invest it.

05 MR. HINDMAN: The fact is that we made a substantial  
06 investment. We believe in our business plan, and we  
07 believe our business plan is going to yield positive  
08 results for our racetrack partners, our horsemen partners,  
09 and for the racing industry as a whole, including the  
10 State of California.

11 MR. LANDSBURG: That remains to be seen, doesn't it?

12 MR. HINDMAN: It remains to be seen for anybody  
13 licensed to conduct this activity, Mr. Chairman.

14 MR. LANDSBURG: We have certain ground rules. We are  
15 waiting for the ground rules to become clear, and that  
16 will not happen during the spring and summer. It will be  
17 interesting to see. We would expect, John, to have a  
18 report at each of the Board meetings so we can see the  
19 progress, understand the progress, and understand how long  
20 we have to maintain the burden.

21 MR. HARRIS: I don't know if I necessarily agree with  
22 the burden that we are assuming. We are assuming with the  
23 other operators. We only have contracts in speculation of  
24 the doorway. The matter, as I understand it, TVG is  
25 experiencing losses, so they're not really making money on  
26 the bills they have now.

27 MR. LANDSBURG: I am not aware of their bookkeeping,  
28 nor do I want to be aware of their bookkeeping. It is not  
0092

01 our job to support or sustain TVG. Our job is to make  
02 sure that California is getting the best possible break  
03 from what it is putting up, what its owners are putting  
04 up, what all of it is putting up, what the race  
05 association are putting up, what TVG has put up, they put  
06 up willingly and in the hope of some success.

07 MR. HINDMAN: I agree and in exchange for doing that  
08 willingly, in the three years we have had a business plan  
09 that returned 70 percent of the revenues to account  
10 wagering. That is more than anything else has offered up.  
11 We made a large investment. Our business plan has  
12 consistently, not just in California, but every state on  
13 every track which we have an agreement with, returned  
14 70 percent of the wagering revenue -- the revenue from  
15 wagering back to the racing industry.

16 From day one when other people were running  
17 around the country taking wagers from every market and  
18 paying merely a host track fee, we didn't believe in that.  
19 And we believed in returning a lot of money to the  
20 industry in addition to our investment and, yes, our  
21 costs are higher than other account wagering deposit  
22 providers because we provide more service. We provide a  
23 full service 24-hour television network, and we distribute  
24 it in 8 million households nationwide. So I do believe  
25 that we are delivering something to the racing industry  
26 and racing, you know, where the benefits are mutual.

27 MR. LANDSBURG: We can always disagree. Any other  
28 comments or questions about the TVG report? Thank you  
0093

01 very much for your report. We'll expect another one next  
02 month, and we'll discuss some of the same problems. Thank  
03 you.

04 MR. HINDMAN: Thank you, Mr. Chairman.

05 MR. LANDSBURG: Next item on the agenda is a report by  
06 the Magna Entertainment Corporation on the progress of the  
07 veterinary hospital at Golden Gate Fields Racetrack. That  
08 was my first day on this commission. There was a major  
09 discussion, and I've been a commissioner for a year and a  
10 half.

11 MR. DE MARCO: Mr. Chairman, Frank De Marco. I'm the  
12 Vice-president of the Magna Corporation, and Peter Tunney

13 is here with me. I came to give you a report on where it  
14 stands today. I have been involved in the process since  
15 August. There was a contractual dispute with the original  
16 contractor over the time and delivery of the plans and the  
17 costs. I made a settlement with him, got rid of the first  
18 one and then issued a new contract to write out new  
19 builders on the 14th of November. They have undertaken  
20 the entire project, and I am in the process of getting a  
21 site plan approved by the City of Albany. As soon as that  
22 is finished and approved, the contractual commitment is to  
23 finish the project within four months of the date of the  
24 issuance of the permit. They met again last week with the  
25 City of Albany, and they will anticipate they have  
26 approved the site plan with the City of Albany by at least  
27 within the next 10 days, and then they will be able to get  
28 the permit and start the project.

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01 What's happened before, I don't know. Maybe  
02 Peter Tunney can tell us more about that.

03 MR. LANDSBURG: Hello, Peter.

04 MR. DE MARCO: You're on. I gave you a great buildup.

05 MR. LANDSBURG: I don't mean by the smile or small  
06 laugh to minimize the seriousness of this matter. It's  
07 been around for a while, and it is a serious problem. It  
08 is more than -- it effects horsemen in the north and in  
09 the south. We've heard about it consistently. We heard  
10 that it was on the way to finally solving it a year and a  
11 half ago. There was some proposal before this Board,  
12 that's why I smiled, Peter. I hope it is not delayed.

13 MR. TUNNEY: Members of the Board, it is affirmation  
14 of Mr. De Marco's statement that a year and a half ago we  
15 actually, as part of the commitment that Magna made before  
16 this Board, there was discussion about having an extension  
17 of six and a half percent. It was also the equine  
18 hospital in that area. That was subsequently rejected by  
19 the City of Berkeley, which should be perceived as normal,  
20 because the City of Berkeley is not an easy entity to do  
21 business with. They did reject that. So we were looking  
22 for a new or different location in the City of Albany.

23 As you know, we share both sides. The site was  
24 actually chosen or suggested by Jim Ghidella, the northern  
25 representative of TOC. We did have some contractual  
26 problems.

27 Thanks to De Marco, we have selected a contractor  
28 for the site plan. The site plan is going to be submitted

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01 to Albany. They promised to move it along in their  
02 preview process. It doesn't look to have any hiccups  
03 along the way.

04 MR. LANDSBURG: Thank you. And I'm glad to hear your  
05 report. Any further comments on the report?

06 MR. HARRIS: I'm just concerned with -- as we get that  
07 completed, the total project is going to have to really be  
08 more than just an ability to take along equipment. It's  
09 going to take a total commitment from several different  
10 segments of racing. I think at some point, we, Golden  
11 Gates Park, as I understand, is bidding. But I think the

12 equipment is going to be from other people.

13 MR. TUNNEY: That's correct, Commissioner Harris. The  
14 building, upon its completion, the completion of its  
15 exterior and interior, will then be turned over to a group  
16 known to California, which Dr. Hunter has been actively  
17 involved with. And the operation and administration of  
18 that facility will be handled by the veterinarians. It  
19 will be a donation to this project, the building and its  
20 interior.

21 MR. LANDSBURG: Do you have a comment, Dr. Hunter?

22 DR. HUNTER: I'm a practicing veterinarian in the  
23 Northern California area. My two concerns were, one, it  
24 seems like we are well on our way; and second is that it  
25 would be a functional hospital.

26 And I talked to Frank De Marco, and he assured me  
27 that it's more than just a shell, a building. But we have  
28 an overhead system for improvement of the animals. We

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01 have an overhead system for the x-ray unit, and we have  
02 cabinet storage and countertops necessary to have a  
03 functional hospital, and I am hopeful that those things  
04 are included in the project.

05 MR. LANDSBURG: I'm going to assume that it is the  
06 same.

07 DR. HUNTER: I am going to assume that it is, since I  
08 talked to Mr. De Marco.

09 MR. LANDSBURG: In the original discussion there is to  
10 be a donation, as I recall -- please forgive me. It's  
11 been a year and some months ago. There was an  
12 organization, a nonprofit organization gathering funds for  
13 the hospital to be equipped. Is that still in place?

14 DR. HUNTER: We've had a nonprofit corporation set up  
15 since the beginning, back in the early 1980's when they  
16 had the original hospital when it was torn down in  
17 Bay Meadows. That is still operating. And to this day,  
18 we are still collecting surgical fees and x-ray  
19 developmental fees, and we have approximately \$70,000 in a  
20 fund for equipment that we dearly need.

21 MR. LANDSBURG: Is that enough?

22 DR. HUNTER: No.

23 MR. LANDSBURG: How are you going to get more?

24 DR. HUNTER: We will have to explore that.

25 MR. LANDSBURG: Let's try to help.

26 DR. HUNTER: We will. Thank you.

27 MR. TUNNEY: Point of clarification, Mr. Chairman,  
28 members of the Board. Dr. Hunter made a statement of the

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01 definition of functional. It is Magna's intent to build  
02 the building with the structural ability that would  
03 transport horses in and out and cordon off, if you will,  
04 or enclose certain areas that would do x-ray; that would  
05 be opposed to surgical area, and recovery areas. That  
06 would basically be the functional part of Magna's  
07 operation.

08 But insofar as equipment and some of those things  
09 that are currently stored and have been stored, then that  
10 will be up to the veterinarians to outfit the building

11 from there.

12 MR. LANDSBURG: I believe that is understood. I  
13 believe it is between all parties.

14 MR. TUNNEY: Dr. Smith, I am not inviting him up here,  
15 but Dr. Smith is here as well from Northern California.

16 MR. HARRIS: I think this Board doesn't necessarily  
17 want to get that involved in the negotiations at this  
18 point. I think it needs to be the veterinarians and  
19 Golden Gate that need to work together to accommodate who  
20 does what and what needs to be done so we don't have it  
21 speed out of control down the road somehow.

22 MR. LANDSBURG: Just a brief note for the assembled on  
23 a slightly tangential point. Thanks to Magna we now have  
24 committed -- although I am not part of it -- a film on the  
25 Matty Lab (phonetic), which would be shown to the  
26 technical experts so that they understand what the  
27 Matty Lab is doing and a second film for the general  
28 public. I want to thank Magna for their magnificence.

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01 And we shall move on to the next item of discussion.

02 The next item is discussion and action by the  
03 Board on the request of the Los Angeles Turf Club to  
04 distribute \$281,250 in charity proceeds to 35  
05 organizations.

06 MR. REAGAN: Commissioners, John Reagan, CHRB staff.  
07 Staff finds this request to be in order. Over 86 percent  
08 of these dollars are going to industry-related  
09 associations and we recommend approval.

10 MR. LANDSBURG: Is there any discussion of the  
11 Los Angeles Turf Club Charity proceeds from the Board?

12 MR. LANDSBURG: Before we do that, I just had --

13 MR. SPERRY: Move for approval.

14 MR. LANDSBURG: Before we do that, I have one  
15 question. It is a small question. Noting that the  
16 largest single donation is to the Ed Gregson Foundation,  
17 and having known Mr. Gregson and having supported his  
18 working efforts, I am not quite sure I've ever learned --  
19 and would appreciate after the meeting at some point to be  
20 informed on what exactly the foundation is geared to do.  
21 I don't think we should take up necessarily Board time for  
22 my information, but I would be curious to know since it's  
23 such a large amount of money that's being given to the  
24 Gregson Foundation.

25 Do you care to comment on that?

26 MR. LIEBAU: Jack Liebau, President of Santa Anita.  
27 Yes, we have requested and received from the  
28 Gregson Foundation a written format as to what their

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01 activities are. Just to give you an overview --

02 MR. LANDSBURG: If you can pick up the mike.

03 MR. LIEBAU: They organize and support a tremendous  
04 amount of activities on our backside, for the people that  
05 work there; and that's the main purpose of the funds that  
06 we are contributing to them.

07 We will be glad -- and I think it will be -- you  
08 know, at the next meeting, we will send you a copy of the  
09 written explanation that we got. But I think that it

10 would be good for the Gregson Foundation itself to make a  
11 presentation as to what its activities are, so everybody  
12 will be aware of what they are doing.

13 MR. LANDSBURG: Fair enough.

14 Any further Board discussion?

15 MR. DOUGHERTY: Ed Dougherty, California Thoroughbred  
16 Trainers. I just wanted to point out, in addition to  
17 that, that Santa Anita has been very generous to the  
18 Gregson Foundation in helping backstretch causes, and that  
19 those funds do all go directly to numerous programs for  
20 backstretch employees; and we'll get you a breakdown on  
21 those activities.

22 MR. LANDSBURG: I'm very pleased, and I look forward  
23 to hearing about it.

24 Any other comments?

25 MR. WOOD: Mr. Chairman, I would like to point out for  
26 the assembly that \$10,000 of the money from this charity  
27 was contributed to the California Council on Problem  
28 Gambling. \$10,000 of their funding comes from this

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01 contribution.

02 MR. LANDSBURG: Thank you.

03 And if there are no more discussions, I will  
04 entertain a motion to accept.

05 MR. SPERRY: I move to accept the proposal.

06 MR. LANDSBURG: Moved by Mr. Sperry.

07 MS. GRANZELLA: Seconded.

08 MR. LANDSBURG: Seconded by Ms. Granzella.

09 And any further discussion now?

10 May we have a vote, please, accepting the request  
11 of the Los Angeles Turf Club to distribute \$281,250. All  
12 in favor of this proposal?

13 It's unanimous.

14 (Motion was passed unanimously)

15 MR. LANDSBURG: With that, we need a report from the  
16 Benevolent Programs Committee.

17 Ms. Sheryl Granzella, will you give us a report.

18 MS. GRANZELLA: I chaired the meeting of the  
19 Benevolent Committee yesterday. We have two items on the  
20 agenda. We're both concerned with the Thoroughbred  
21 Horsemen's Foundation -- you want to stand up?

22 Cliff has been doing a great, sensational,  
23 wonderful job turning around the CTHF. He has stabilized  
24 the foundation and has been doing all this while he's  
25 continuing to provide for the 6,000 backstretch workers  
26 and their dependents.

27 To help accomplish this goal, Mr. Goodrich wanted  
28 to ask us to amend Rule 2049 to allow for four additional

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01 directors for the CTHF Board, from five to nine, so the  
02 foundation can bring in some new people to serve on with  
03 the current five directors.

04 And because Rule 2049 covers organizations other  
05 than the CTHF that don't necessarily want more than five  
06 directors, we developed some language allowing for a  
07 minimum of five and a maximum of nine directors, which  
08 would give the CTHF what it needs without requiring others

09 to change. So Commissioner Sperry and I recommend that  
10 Board approve the amendment 2049 for public matters.

11 MR. LANDSBURG: Any discussion?

12 Would you direct that particular change for the  
13 45-day notice, and we will move on.

14 MS. GRANZELLA: Second item involved rule 2050, and  
15 again, Mr. Goodrich requested that we -- right now, when  
16 the backstretch workers are laid off, all of the CTHF  
17 health services stop immediately. So like COBRA, what  
18 we're recommending is that the CTHF give them some time to  
19 find some alternative health care. So the proposed  
20 amendment would authorize the CTHF providing health care  
21 services to workers and their dependents for one year  
22 after they leave the industry. And the amendment also  
23 redefines dependent. It's redefining dependent as a  
24 spouse or child of the person who is eligible for CTHF  
25 benefits.

26 Also, rule 2050 currently limits administrative  
27 cost to 10 percent of the budget. And because  
28 Mr. Goodrich and his Board have been so successful in

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01 trimming overall costs, they would like to -- the math no  
02 longer works and they'd like to increase the budget from  
03 10 percent to 15 percent, to change the proposed amendment  
04 allowing for administrative costs for 15 percent. And we  
05 also approve this rule amendment for 2050 for public  
06 notice.

07 MR. LICHT: Sheryl, I have a question about a  
08 stepchild. You want to include that as a person who is  
09 eligible?

10 MS. GRANZELLA: What they are doing is they are going  
11 by income tax returns. So a dependent would be a  
12 dependent.

13 MR. LANDSBURG: We will so recommend for a 45-day  
14 notice and take it up at our next meeting.

15 Thank you, Commissioner Granzella, for your  
16 report and your time and your effort and your energy.

17 They ask a lot of us. And we're paid handsomely.  
18 Let it be on the record that after taxes it is \$99.

19 MS. GRANZELLA: 98.

20 MR. LANDSBURG: 98, sorry.

21 Other business, general business, communications,  
22 reports, requests for future action of the Board?

23 MR. DOUGHERTY: Charlie Dougherty, California  
24 Thoroughbred Trainers.

25 I just felt it was very important to report to  
26 the Board that as of next Friday, horse racing could be  
27 facing a catastrophic situation in regards to workmen's  
28 compensation. We had in the past as many as three

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01 carriers. This past year we've only had three carriers  
02 that have been willing to come into California and provide  
03 workmen's compensation benefits. As of next Friday there  
04 will only be one carrier, State Fund, who is mandated by  
05 law. And at the same time they will also be announcing  
06 that they were increasing their premium benefits by 25  
07 percent.

08           So we have, as I said, a very serious situation.  
09 I believe that it is of the utmost importance that the  
10 racing Board take a very proactive position and attempt to  
11 get an industry wide summit with the Insurance Commission  
12 and maybe State Fund and attempt to try and lower these  
13 rates.

14           MR. LANDSBURG: Any comments?

15           MR. LICHT: There is no carrier whatsoever that is  
16 going to provide any workers' comp coverage for the  
17 backstretch?

18           MR. DOUGHERTY: At the time there are two labor code  
19 sections that mandate jockeys and exercise riders be  
20 covered. And because of that, it has been deemed to be a  
21 high-risk industry. Thus, no other carriers will come in  
22 and provide benefits in California.

23           MR. HARRIS: I don't know how much we can discuss at  
24 this meeting, but this is a high priority. I think the  
25 Board needs to try to help in any way we can because the  
26 Board does require workers' compensation coverage by  
27 trainers; and if they don't get it, it is a big impact.

28           MR. LICHT: They can get it from State Fund.

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01           MR. DOUGHERTY: An example of the situation at hand,  
02 we have a trainer up north who has 30-plus horses who  
03 basically has been paying premiums of approximately  
04 \$32,000. He's been notified that his premium will go up  
05 to \$80,000. So those are the types of increases that  
06 we're looking at.

07           State Fund -- it costs -- if you have not been  
08 with them, without any discounts applying, they are  
09 requiring a person to pay \$93 per start to cover the  
10 jockey in workers' comp. They are requiring 32 per 100 in  
11 their premiums, and the rates are just out of sight. And  
12 I can assure you, trainers north and south are all  
13 considering either getting out of the business or moving  
14 elsewhere. It's that traumatic of a problem.

15           MS. MORETTI: Charlie, do you need us, the CHRB, to  
16 work with the State Commissioners office with you?

17           MR. DOUGHERTY: Basically, so the Board is aware,  
18 Jim Ghidella has spent a lot of hours working with an  
19 insurance agent to try to put together a program. Right  
20 now it doesn't look like that is going to go on.

21           I've been dealing with the chief underwriting  
22 manager of State Fund, asking for some kind of rate  
23 reevaluation. But I believe it is going to take the  
24 California Horse Racing Board, because of the prestige of  
25 the Board, to inform State Fund and/or the Insurance  
26 Commission that we have potentially a catastrophic  
27 situation approaching us. I believe it is going to be up  
28 to the Board to get this done.

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01           MR. LANDSBURG: I hear the problem. I am trying to  
02 see a productive way -- I just don't want another meeting  
03 that spins our wheels because we've been spinning around  
04 with this for three or four months. So may we take it  
05 under advisement? I am trying to determine what committee  
06 it belongs in.

07 MR. WOOD: Mr. Chairman, I think probably I would like  
08 to make a recommendation to see if we can come up with a  
09 solution, a temporary solution. As we all know, a  
10 long-term solution has to be done legislatively, and  
11 that's not the area we have to address in the short run.

12 As Charlie has already just explained to you, I  
13 think it would be acceptable or at least an effort should  
14 be made by the staff in cooperation with ourselves as  
15 commissioners to at least contact some of the insurance  
16 carriers and the insurance commission, and on an emergency  
17 basis, to see if there is some type of relief that can be  
18 offered for these rate increases.

19 Charlie has worked with many people in the  
20 industry. The industry plans that have been discussed  
21 through TOC in changing the policy will not come about. I  
22 think what we have to do now is to try to get the rate  
23 changes at this late date through the government  
24 bureaucracy.

25 I offered Charlie Dougherty and horsemen, their  
26 staff assistants, to meet with anybody, any place, any  
27 time, to find out if there is some direction we could  
28 offer in our report back through you and the commissioners

0106  
01 who want to be involved. We will do that in the next  
02 seven days to help find a solution. One of them might  
03 find some insurance carrier who may change their mind  
04 about writing this workmen's compensation insurance.

05 MR. LANDSBURG: I think it would be helpful, Charlie,  
06 to have a small group, not a large group, not a massive  
07 infusion of people, who can make a presentation to the  
08 State Insurance Commissioner. I don't know if that's been  
09 tried or not.

10 MR. DOUGHERTY: Not to my knowledge.

11 MR. LANDSBURG: I think that we have to go from state  
12 board to state board in order to try and find a solution.  
13 We have no other particular problem in this case except we  
14 are facing an emergency situation in racing. Could we  
15 gather a committee made up of racing association  
16 individuals, trainer representation, owner representation,  
17 and the Board representation, which means four or five  
18 people, to go before the Insurance Commission on an  
19 emergency basis because of where we are? I don't know  
20 anything else we can do.

21 Meanwhile, the staff -- this is instruction to  
22 the staff -- to begin making contact, not Monday, but  
23 tomorrow, with the Insurance Commission, to see if such a  
24 meeting can produce practical results. And meanwhile,  
25 start forming the committee now.

26 MR. DOUGHERTY: You have the assurance that the  
27 California Thoroughbred Trainers will be anywhere, any  
28 time for the meeting.

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01 MR. LICHT: Any other volunteers? You notice there's  
02 a lack of volunteers.

03 MR. LANDSBURG: I volunteer.

04 MR. DOUGHERTY: Jim Ghidella --

05 MR. LANDSBURG: Do I have a TOC representative in the

06 house?

07 MR. DOUGHERTY: Jim Ghidella.

08 MR. LIEBAU: Yes. I just wanted to say as far as a  
09 long-term solution with our dealing with it at this  
10 moment, because of the emergency nature of this, we are  
11 looking at some numbers as to whether there could be some  
12 sort of state-sponsored workmen's comp for the industry  
13 that naturally would take a legislative solution and might  
14 necessitate a slight increase in the takeout on exotics.  
15 That is something that we're looking at. We think that in  
16 the overall market place, we are very competitive as far  
17 as the takeout for exotics in California. We might be  
18 able to develop some money that could do a lot of good for  
19 the industry as far as solving the workers' comp problem.

20 MR. LANDSBURG: That is on a longer range?

21 MR. LIEBAU: Absolutely. On the legislative thing, we  
22 have to do a lot of homework as far as setting up a fund  
23 that would be somewhat similar to what we had in New York.

24 MR. LANDSBURG: As we proceed on this initial  
25 emergency process, can you, Mr. Liebau, or whoever else,  
26 represent a racing association?

27 MR. LIEBAU: Yes.

28 MR. LICHT: That is asking the gambler to underwrite  
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01 the business of a trainer. That is the same thing that we  
02 were talking about with TVG; why should we underwrite  
03 their operation? Why should a gambler underwrite workers'  
04 comp? That seems like a discussion for another day.

05 MR. LIEBAU: It is, and I think the gambler does in  
06 fact to a large extent underwrite every gaming activity,  
07 whether it's Las Vegas or racing or whatever it might be.

08 MR. HARRIS: I think in the overall workers' comp  
09 system, we have to look at the different facets of it.  
10 Some of it has to be safety and following up on claims.  
11 And a lot of things initially seem like we need to get  
12 some competition in the market.

13 MR. WOOD: Can I respectfully request that Mr. Liebau,  
14 Mr. Ghidella and Mr. Dougherty wait a few minutes after  
15 the meeting is concluded so we can schedule some  
16 cooperative efforts to begin to address that issue?

17 MR. LANDSBURG: One of the comments made in today's  
18 meeting was the possibility that CNC is also in the  
19 business of quote, rebate. And I would like the Board to  
20 examine that question.

21 MR. WOOD: I would respectfully refer that for review,  
22 if that's what you want to do. We'll set a meeting with  
23 the pari-mutuel committee.

24 MR. LICHT: That would be good. We would be happy to  
25 do that.

26 MR. BAEDEKER: Rick Baedeker, Hollywood Park. Our  
27 staff will review rebates at Hollywood Park. We will meet  
28 with them at Churchill. As I said, I have a full-time  
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01 person who all they do is try to identify rebate problems,  
02 and I am going to have a discussion with them as well.

03 MR. LANDSBURG: Can we schedule a pari-mutuel  
04 committee meeting prior to the Board meeting on our next

05 meeting?

06 MR. LICHT: Yes.

07 MR. LANDSBURG: In Arcadia?

08 MR. WOOD: We will do that.

09 MR. LANDSBURG: Yes, sir.

10 MR. LIEBAU: Jack Liebau. I happen to be chairman of  
11 the California Marketing Committee. I think in  
12 preparation for that meeting, it might be well that there  
13 might be some examination of the underlying law regarding  
14 rebates, because I think that the only regulation has to  
15 do with simulcasting to places out of state.

16 I have looked at the law myself and don't intend  
17 to be an expert. I don't think there is any law against  
18 rebating by a racetrack or by any other entity. Whether  
19 that's fortunate or unfortunate, I don't know; but I think  
20 that we should not assume that rebating in general is,  
21 per se, against the law. I don't think there is any law  
22 on that.

23 MR. LANDSBURG: We will be glad to investigate it as  
24 part of that meeting. Thank you.

25 Any other requests for Board action?

26 MR. HAIRE: I would like to be on the committee with  
27 the owners and try to find a solution to the workers' comp  
28 problem that's been coming on for a while, and I would  
0110 like to be a part of that also.

01 MR. LANDSBURG: Can you stay after this meeting to  
02 discuss it?

03 MR. HAIRE: Yes.

04 MR. HINDMAN: Just wanted to clarify one point for the  
05 record. I was able to get more information for the Board,  
06 Mr. Chairman.

07 TVG, the launch on Adelphia covers 500,000 analog  
08 homes in Los Angeles, of which 500,000 currently have  
09 digital service. When it comes on, there will be 105,000  
10 that get the TVG service. All of the rest of the 500,000  
11 will have the opportunity to upgrade. I wanted to provide  
12 that as a point of clarification.

13 Thank you.

14 MR. LANDSBURG: Any further discussion or  
15 communication?

16 MS. ROSIER: Laura Rosier, and I have some more  
17 numbers for you.

18 MR. LANDSBURG: Get to a microphone.

19 MS. ROSIER: I can't reach over there.

20 I am just here to say hello again, so you don't  
21 forget us. I wanted to update you on a few of our horses  
22 that are running out of San Luis Rey Downs. One of our  
23 pride and joy is Lady George the Underdog.

24 Since I was with you all last time and reported  
25 that she won the Cal Cup Juvenile on the 20th of December,  
26 she also won the Cal Breeder championship; and on  
27 January 21st she finished third in the Santa Inez; and  
0111 this last weekend she won the Boo La Boo. And I guess she  
02 won also the California Philly Award. I guess that's what  
03 they call it.

04           Anyway, she's doing really good, and she's making  
05 us proud here in California and San Luis Rey.

06           Another horse that we have up and coming from  
07 San Luis Rey is Anne Marie, and she won three races in a  
08 row since I was there last, and she finished last week --  
09 she finished second in the La Canada.

10           So we just wanted to let you know that our horses  
11 are doing well, and also that these people ship their  
12 horses out of San Luis Rey usually the day of the race and  
13 bring them back in the evening, especially Lady George;  
14 she likes to eat at home, and her owner, Mr. Gordon, said  
15 to let you know that.

16           The reason I'm bringing the 2001 numbers to you  
17 today is because I asked Mr. Van de Camp if there was any  
18 more information that we could bring and the only thing he  
19 thought might be interesting would be to see the 2001  
20 numbers. That's what you have today. And I hope I put it  
21 in a format that was easy to read and understand.

22           The top block is --

23           MR. LANDSBURG: You are getting so good at chart  
24 keeping that even I can read them.

25           MS. ROSIER: Thank you.

26           The top block is for 2001. And we are going by  
27 the Scott racing. That runs from 10/1 to 9/30 of each  
28 year. And the bottom block shows from that time till now,  
0112 just what's going on so far this year.

02           The exciting thing that I see from the numbers  
03 from the 2000 year is that Fairplex and San Luis Rey have  
04 both increased their races run by almost 200 races each.  
05 So it shows that we're both running more horses and adding  
06 more to California Horse Racing.

07           Another interesting thing that I found when I was  
08 going through the numbers is that on our 2001 total  
09 starts, which was 958, that came from 250 runners, which  
10 to me, seems to be pretty interesting. That means that  
11 from those 250 runners, we were running them like four  
12 times in the year, which I think is very good.

13           MR. LANDSBURG: It's impressive.

14           MS. ROSIER: That is out of 250 runners.

15           We have to remember, too, that we had in 2001  
16 usually between 300 and 380 horses on the ground. So you  
17 are looking at a small number of horses running. I think  
18 that is a pretty decent amount of races.

19           Also, an important point to make here is that out  
20 of those 958 races, 765 of those races were at tracks that  
21 participated in the SCOTWINC program. I think that's  
22 important to note that number.

23           And I guess that's about all that I have for  
24 today. We haven't heard any official offers yet for our  
25 preservation of San Luis Rey Downs.

26           MR. LANDSBURG: We are waiting for the Scott Wink  
27 committee, which must present its findings to us at some  
28 point; and at some point before it gets too late, we are  
0113 awaiting those recommendations. And when we do, we will  
02 take into account all of your charts over the year. It's

03 been a pleasure seeing you again.

04 MS. ROSIER: Thank you very much.

05 MR. LANDSBURG: Old business?

06 If there is no old business to be discussed or  
07 raised, then this part of the session is over. The Board  
08 will now go into executive session for the purpose of  
09 reviewing pending litigation, reaching decisions on  
10 administrative licensing and disciplinary hearings, and  
11 personnel matters, as authorized by Section 11126.

12 (Hearing adjourned at 1:21 p.m.)

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