

MEETING

STATE OF CALIFORNIA

HORSE RACING BOARD

In the Matter of:)
)
Special Meeting)
)

SANTA ANITA RACE TRACK

BALDWIN TERRACE ROOM

285 WEST HUNTINGTON DRIVE

ARCADIA, CALIFORNIA

FRIDAY, MARCH 6, 2009

10:41 A.M.

Reported by:
Troy A. Ray

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

APPEARANCES

COMMISSIONERS

John C. Harris, Chairperson

Jesse H. Choper

Bo Derek

David Israel

Jerry Moss

STAFF

Kirk Breed, Executive Director

Robert Miller, Staff Counsel

Brian Wesley, Deputy Attorney General

Richard Bon Smith, Assistant Executive Director

Mike Marten

ALSO PRESENT

Ron Charles

Greg Scoggins

Rod Blonien

Jerry Jamgotchian

Dick Powell

Chris Korby

Jim Correll

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INDEX

PAGE

Action Items:

1. Discussion and action by the Board regarding the race meet licenses and the Advance Deposit Wagering license granted to Los Angeles Turf Club, Inc., operating at Santa Anita Park and Pacific Racing Association, operating at Golden Gate Fields and XpressBet Inc., respectively, in light of the imminent filing for bankruptcy protection by licensees' parent company, Magna Entertainment Corporation. 4
2. Discussion and action by the Board regarding assurances from licensees Los Angeles Turf Club, Inc., Pacific Racing Association and XpressBet Inc. that the wagering public and horse racing industry participants are financially protected in the event the licensees parent company, Magna Entertainment Corporation, files for protection under federal bankruptcy laws.
3. Discussion and action by the Board regarding contingency plans in the event Magna Entertainment Corporation is unable to secure "Debtor in Possession Financing", including substitute race meet operators, should licensees Los Angeles Turf Club, Inc., and Pacific Racing Association cease operations and Advance Deposit Wagering operations of XpressBet Inc. be suspended.
4. Public comment 23
- Adjournment 54
- Certificate of Reporter 55

1
2
3
4
5
6
7
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12
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PROCEEDINGS

EXECUTIVE DIRECTOR BREED: Ladies and gentlemen,
this meeting of the California Horse Racing Board will come
to order. Please take your seats.

This is a Special Noticed Meeting of the
California Horse Racing Board on Friday, March 6th, 2009, in
the Baldwin Terrace Room, Santa Anita Park, 285 West
Huntington Drive, Arcadia, California.

Present at today's meeting are Chairman John
Harris, Vice Chairman David Israel, Jerry Moss, Bo Derek,
and Jesse Choper.

Before we go onto the business of the Special
Meeting, I need to make a few comments.

One, the Board invites public comment on the
matters appearing on the Special Meeting agenda. The Board
also invites comments, from those present today, on matters
not appearing on the agenda during a public comment period,
if the matter concerns horseracing in California.

In order to ensure all individuals have an
opportunity to speak and the meeting proceeds in a timely
fashion, I will strictly enforce the three-minute time limit
rule for each speaker.

The three-minute time limit rule will be enforced
during discussion of all matters stated on the agenda, as
well as during the public comment period.

1 There is a public comment sign-in sheet for each
2 agenda matter on which the Board invites comments.

3 I think those sign-in cards are up there on the
4 podium.

5 Also, there is a sign-in sheet for those wishing
6 to speak during the public comment period, for matters not
7 on the Board's agenda, if it concerns horseracing in
8 California.

9 Please print your name legibly on the public
10 comment sign-in sheet. When a matter is open for public
11 comment, your name will be called.

12 Please come to the podium and introduce yourself
13 by stating your name and organization clearly.

14 This is necessary for the court reporter to have a
15 clear record of all who speak.

16 When your three minutes are up, the Chairman will
17 ask you to return to your seat so others can be heard.

18 When all the names have been called, the Chairman
19 will ask if there is anyone else who would like to speak on
20 the matter before the Board.

21 Also, the Board may ask questions of individuals
22 who speak.

23 If a speaker repeats himself, or herself, the
24 Chairman will ask if the speaker has any new comments to
25 make. If there are none, the speaker will be asked to let

1 others make comments to the Board.

2 And thank you very much. Mr. Chairman.

3 COMMISSION CHAIRMAN HARRIS: Thank you, Kirk.
4 Appreciate putting this meeting together on rather short
5 notice. And I think we all need to realize that it's an
6 informational meeting and the real purpose is to maximize
7 transparency as far as what is going on and, hopeful,
8 reassure people that the San Gabriel Mountains are still
9 there, and Jay's still going to call the post tomorrow, and
10 there's not any immediate things to worry about.

11 I mean, in the whole financial world today, or
12 everyone's life, there's always a lot of uncertainty, and
13 that is just a fact of life which has probably gotten
14 significantly worse for everybody in the last year or so.

15 And a reorganization, such as has occurred, adds
16 to that. But I think when we really assess the immediacy,
17 that what I would like to see come out of it, based on what
18 hopefully will transpire, is there's no reason to, you know,
19 overreact.

20 Bob Miller, could you introduce the counsel we
21 have from the Attorney General's Office and just kind of
22 explain his role?

23 STAFF COUNSEL MILLER: Thank you, Commissioner.
24 Seated to my right is Brian Wesley. He is from -- he's a
25 Deputy Attorney General from the Business and Tax section of

1 the Civil Division, of the Los Angeles Office of the
2 Attorney General.

3 He is here to advise the Board on matters
4 involving bankruptcy. He's a bankruptcy expert.

5 COMMISSION CHAIRMAN HARRIS: Thank you.

6 DEPUTY ATTORNEY GENERAL WESLEY: So any questions
7 you have about bankruptcy, I'm here to answer them. That's
8 my total role, just to help out people, to explain issues
9 that are confusing, or may not understand about the way the
10 bankruptcy operates.

11 COMMISSION CHAIRMAN HARRIS: Well, I'm not sure
12 how we best start out here.

13 Would Ron Charles like to make a kind of opening
14 statement, just sort of telling us where you feel we are
15 today?

16 MR. CHARLES: Sure. Ron Charles, Magna
17 Entertainment Corp.

18 Fortunately,, or unfortunately, I've learned more
19 about bankruptcy in the last four days than I knew in my
20 life.

21 What I've -- I think the best way to proceed would
22 be to introduce Greg Scoggins, who is the National Director
23 of Regulatory Affairs for MEC, and he's actually been
24 involved in the preliminary and the filings of this case,
25 and I think he can walk you through the bankruptcy, the

1 issues at hand, and answer questions, at least specific
2 questions regarding the bankruptcy, much better than I can.
3 I think kind of give you an overview.

4 I believe each member of the Board has received a
5 printout.

6 MR. SCOGGINS: Not yet.

7 MR. CHARLES: They have not. Okay.

8 So why don't I do this, why don't I turn it over
9 to Greg can begin, and then should we have any questions, be
10 glad to come back.

11 COMMISSION CHAIRMAN HARRIS: Sounds good.

12 MR. SCOGGINS: Thank you, Ron. Good morning,
13 Chairman Harris and members of the Commission.

14 As you know, my name is Greg Scoggins, I'm the
15 national Director of Regulatory Affairs for MEC. I assist
16 MEC and the various subsidiaries with regulatory matters.
17 As you know, you've seen me here in the past on behalf of
18 XpressBet.

19 My purpose today, as Ron mentioned, is provide you
20 with an overview of where we stand, what we know, what we
21 don't know.

22 I must say though, at the beginning, with a little
23 bit of a disclaimer, I am not a bankruptcy lawyer. I am a
24 lawyer, but not a bankruptcy lawyer.

25 I have an understanding of what's been filed, I

1 have understanding of bankruptcy aspects. And I have
2 prepared a presentation for all of you, to bring you up to
3 speed on a number of issues related to bankruptcy in
4 general, as well as to the specific bankruptcy that we're
5 here to talk about today.

6 We have bankruptcy counsel. We have engaged the
7 law firm of Wyle Gotcha, out of New York. They handled the
8 bankruptcy on behalf of NYRA, so they have a great deal of
9 experience in this area.

10 Brian Rosen is one of the lead attorneys for the
11 firm, and he is in Delaware today, arguing motions that have
12 been filed in connection with this bankruptcy.

13 As a result of the fact that we do have litigation
14 or hearings taking place as we sit here, there are some
15 answers to questions that I'm not able to provide because I
16 simply don't know the answer.

17 We hope that over the course of today, the
18 meeting, hopefully before we adjourn today, we will have
19 answers to those questions, but right now we won't. And
20 we'll go into that, obviously, as we proceed.

21 I am happy to have this be a rolling discussion,
22 if you will. I do, as I mentioned, have a presentation.

23 If you have questions during the course of the
24 presentation, please don't feel -- or feel to ask and we'll
25 deal with it. I've got an FAQ, if you will, at the end to

1 kind of address some of the pressing issues that people
2 here, and elsewhere, may have with respect MEC, as well as
3 Santa Anita, and Golden Gate Fields, and XpressBet.

4 I will say that to the extent that there are more
5 specific needs that members of the Commission have, Mr.
6 Rosen has indicated that he would be very happy to come out
7 and be able to address those issues in a more specific
8 manner, and once we have the answers to some of these
9 questions available to us.

10 He would be available as early as Monday or
11 Tuesday of next week, or at such later time the following
12 week, as the Board feels necessary to ask him. He's very
13 cooperative and very eager to come out and answer any
14 questions that I'm not able to answer today, or that we
15 don't have answers to.

16 So what I'd like to do is I'll go ahead and
17 proceed, if you don't mind. We've got a presentation in the
18 back. So, unfortunately, I'll be talking to your backs but,
19 hopefully, you won't be offended by that.

20 I do have copies of the presentation, which I'll
21 hand out after the presentation, in order for you to kind of
22 watch things flow, and then we have the hardcopy that will
23 provide you the backup for what I'm going to speak about.

24 The first question, obviously, that some people
25 want to ask is what is Chapter 11?

1 And it is essentially a proceeding, under Federal
2 Code, that allows debtors to have a way to restructure their
3 debt, while also allowing them to continue their operations.

4 If you contrast that with something called a
5 Chapter 7 bankruptcy, that's a situation where basically the
6 company shuts, closes its doors, liquidates all its assets
7 to the highest bidder and, ultimately, goes out of business.

8 We are not talking about a Chapter 7 in this case,
9 we are talking about a Chapter 11 reorganization.

10 Chapter 11 usually involves the debtor continuing
11 to operate its own business during the process. And in this
12 case the debtor is called a debtor in possession, or DIP.

13 The impact of filing for a Chapter 11 is that it
14 imposes a stay on any creditor's claims or ability to pursue
15 their claims against the debtor in possession. So no one
16 would be able to -- now that the bankruptcy has been filed,
17 no one would be able to pursue independent proceedings
18 against any other debtors, whether it be Santa Anita, Golden
19 Gate Fields, or MEC directly, to impose either whatever
20 creditor's rights they have in respect of any loans that are
21 out there, or debts that are owed to them.

22 The Chapter 11 process requires the debtor in
23 possession, together with its creditors, there's a
24 creditor's committee that's formed, that represents all
25 creditors of the debtor. These two parties have to come

1 together and develop a court-approved plan.

2 At the end of the day the parties come together,
3 they develop a plan, and they present it to the court, and
4 then the court has the right to approve, reject, or suggest
5 amendments.

6 In order for a debtor in possession to continue
7 operating, obviously, it needs the ability to meet its daily
8 operational financial needs.

9 And what is done there to meet those needs is they
10 enter into a D-I-P financing, DIP financing. It's basically
11 a loan that meets the day-to-day needs of the debtor in
12 possession, so that they can continue their operations
13 during the Chapter 11 process.

14 In any Chapter 11, there are a series of motions
15 that are filed almost simultaneously with the request for a
16 Chapter 11 relief. And those usually are designed to
17 address key aspects of that debtor in possession's business.

18 And some of those examples would include things to
19 ensure that payroll obligations continue to be met, whether
20 they be wages, benefits, 401K contributions, et cetera.

21 Customer related items. Which in the case of
22 racing would include uncashed tickets, vouchers, reward
23 programs, and contests.

24 Horsemen's purses, the ability to keep those
25 accounts open and to make payments in respect to those

1 purses.

2 The ability to continue maintaining -- or the
3 ability to continue paying sales and use taxes, or any
4 governmental assessments or license fees that they're
5 obliged to make during the period.

6 Any insurance coverage payments that they would
7 have to make, or claims that they would have to pay on.

8 And then essential services, such as utilities,
9 and the things that are necessary to keep your doors open.

10 And then, finally, they would ask for, you know,
11 approval to be able to -- for the cash management purposes,
12 so that they can make sure that cash can freely move among
13 the various subsidiaries, to make sure that everyone gets
14 paid in a timely manner during the process.

15 So let's now move to MEC's particular filing in
16 this case.

17 As everybody knows, we filed yesterday, on March
18 5th, about midday eastern time. And we included certain
19 subsidiaries and excluded certain other subsidiaries.

20 I've only listed, for purposes of included
21 subsidiaries, those that relate to gaming. There are a
22 number of other subsidiaries that were included, but they're
23 not really relevant for purposes of today's presentation.

24 They include AmTote International, which is the
25 tote company that we own, and only its U.S. business, not

1 the Canadian and Australian business that they have.

2 It includes Gulfstream Park, down in Hallandale
3 Beach, Florida, Golden Gate Fields, Maryland Jockey Club
4 Tracks, Remington Park, in Oklahoma City, Santa Anita, of
5 course, and Thistle Down in Cleveland.

6 It does not include XpressBet, or Lone Star Park,
7 Portland Meadows, up in Portland, Oregon.

8 We have a management contract to operate the
9 racing and pari-mutuel wagering at the Meadows Racetrack,
10 which is outside of Pittsburgh. It's a harness track. It
11 does not include that entity. Nor does it include MEC's 50
12 percent interest in HRTV or Tracknet Media.

13 On our first-day motions, consistent with what I
14 described earlier, we have sought to preserve and honor the
15 payroll obligations with respect to our employees for each,
16 not only of MEC, but each of these subsidiaries that have
17 been included in the filing.

18 We've sought to preserve and honor customer
19 related items, such as the uncashed tickets, vouchers, and
20 reward programs and contests.

21 We've sought to preserve and honor horsemen's
22 purse accounts and purse payments.

23 We've sought to preserve and honor payments for
24 taxes, governmental assessments, and license fees.

25 We've sought to preserve and honor our insurance

1 related obligations for worker's comp, et cetera.

2 And we've sought to preserve our payments for our
3 essential services, such as utilities.

4 And these are included in separate filings, or one
5 filing that includes motions in respect of each of these
6 items.

7 And then, finally, we've sought to preserve our
8 key cash management procedures that we have in place.

9 Now, there are related transactions that many of
10 you are aware of, from reading the press release.

11 In connection with MEC's bid, MID, which is the
12 controlling shareholder of MEC, they have about 95 percent
13 of MEC's voting interests, and they hold a vast majority of
14 the \$500 million in secured debt that MEC and its
15 subsidiaries either are borrowing, or have guaranteed, they
16 are -- they have made a bid, called a "stalking horse bid",
17 in bankruptcy parlance, to purchase certain assets of MEC as
18 a part of the bankruptcy filing.

19 That bid is for \$195 million, and it is in
20 exchange of -- that bid is comprised of cash, an assumption
21 of a capital lease, and a portion of MEC's credit stake.

22 In other words, they're going to convert a portion
23 of their credit into an ownership interest in these various
24 entities, which I'll describe in a minute.

25 The subsidiaries that are included in the stalking

1 horse bid include AmTote International, Golden Gate Fields,
2 Gulfstream Park, Lone Star Park. The Meadows hold-back
3 note, that's related to a transaction involving the sale of
4 the Meadows a few years ago. The Palm Meadows Training
5 Center, outside of West Palm Beach, Florida. XpressBet.

6 And I apologize, I've doubled up the Meadows hold-
7 back note, there's only one.

8 And then MEC's real estate joint venture with
9 Forest City Enterprises.

10 You'll note that Santa Anita is not among those
11 subsidiaries that are listed in the bid, nor are there other
12 entities that are both in or outside of the bankruptcy
13 proceeding.

14 The decision about who's in the bid and who's out
15 of the bid was solely that of MID, so that's a matter for
16 them to -- they've made their judgment as to who they wanted
17 to make a bid for.

18 And then the rest of the subsidiaries will be
19 subject to sale, or marketing for purposes of potential
20 sale, and that will be handled by Miller Buckfire, which is
21 an agency that we've hired for purposes of doing -- taking
22 care of the non-bidder properties.

23 A couple of things to reference in respect of that
24 is that just because a particular subsidiary is included in
25 the MID stalking horse bid does not mean a third party

1 cannot purchase that subsidiary. It just provides that MID
2 has put down the first price.

3 A third party can come in and say I want to pay a
4 higher price. And then MID would have the opportunity to
5 decide whether they want to match the price or let the
6 particular asset be sold.

7 MID also has the opportunity to make a bid for a
8 particular asset outside of the stalking horse bid. This is
9 just an initial bid, and groups of assets within that bid,
10 and then MID has the right to release assets from that bid
11 and/or add additional assets, should it choose to do so.

12 As I mentioned, the sale of subsidiaries outside
13 the MID bid would be handled by Miller Buckfire.

14 So what I'd like to do now is kind of anticipate
15 certain question. Obviously, not with the intention of
16 precluding you from asking your own questions, but thought
17 it would be something that we all have certain questions in
18 our mind and we'd go ahead and deal with those proactively.

19 The first question is, obviously, is MEC going out
20 of business?

21 And as I mentioned early on, the purpose of
22 Chapter 11 is to allow an entity to go continue operating
23 while it sorts out its debt obligations.

24 So the answer is, no, MEC is not going out of
25 business, it's merely going under a reorganization. Very

1 much the same way that NYRA underwent its reorganization
2 process, United Airlines, and several other companies have
3 chosen to pursue managing their debt obligations.

4 The same question, obviously in California and
5 elsewhere is, is Santa Anita or Golden Gate Fields going out
6 of business?

7 And the answer there, again, is no, this is not a
8 purpose for closing these entities, they carry debt or
9 guarantee debt that requires them to be in the process, and
10 in an effort to manage the debt that MEC has overall, they
11 need to be included and they will continue to operate in the
12 ordinary course throughout the proceeding.

13 And then finally, the question that's relevant,
14 obviously to this body, is XpressBet going out of business.

15 And as I mentioned, XpressBet is not among the
16 parties that have filed for bankruptcy, so they're not
17 affected at all by this bankruptcy filing.

18 They're independent, their accounts are separate
19 and apart, and so they're going to conduct business as they
20 always have, and I expect as they will for the foreseeable
21 future.

22 They are a part of the stalking horse bid, which
23 is separate and apart from the bankruptcy filing, but
24 they're not a part of the bankruptcy filing.

25 So being in or out of the stalking horse bid is

1 irrelevant to the issues of the Chapter 11 filing.

2 The question of will Santa Anita and Golden Gate
3 Field employees continue to receive their pay and benefits?

4 Certainly. That is one of the filings that we
5 have made today, in order to preserve that. These are
6 customary motions. We have no reason to believe that those
7 motions won't be granted.

8 And as I mentioned earlier, those motions are
9 being heard right now. We expect to have an answer and
10 would hope to be in a position to give that answer to you
11 before we leave today.

12 But, unfortunately, I can't say what the answer to
13 those motions have been.

14 A similar question as it relates to customers'
15 ability to receive winning tickets, vouchers, and get
16 payment on outstanding tickets?

17 The anticipation is that the answer there is yes.
18 It's among the motions that have been filed. We hope to
19 have an answer in the near term, within the next few hours,
20 if no before, that will give us the ability to say,
21 definitively, that the answer to this question is yes.

22 And then the same question as it relates to
23 customers' ability to continue participating in reward
24 programs.

25 We have specifically asked, among our motions, to

1 be allowed for all MEC entities to continue to offer these
2 programs. And assuming that is answered in the affirmative,
3 then we'll be able to -- and once we know that, we'll let
4 you know.

5 Then, obviously, the horsemen in the room, and
6 elsewhere in the State, are obviously interested in making
7 sure that they receive the money and the checks that are
8 paid to them out of the horsemen's paymaster account, before
9 its filing.

10 As many of you know, there was a -- through the
11 great efforts of everybody at MEC, and at Santa Anita, and
12 at the TOC, we were able to move a substantial portion of
13 the horsemen's paymaster account into a trust account,
14 that's being managed by the TOC. And those funds are safe
15 and secure because they're not a part of Santa Anita's
16 funds, and they should not be subject to any claims.

17 There were some checks that were written to
18 horsemen, I think before those funds were transferred, and
19 we anticipate that those funds will be honored and payments
20 will be made in accordance with the answers from the
21 bankruptcy court's rulings today.

22 And then the question of will they continue to
23 earn purses?

24 And the answer there is absolutely yes. We're
25 obligated to generate purse money, we will pay those purses

1 out as they go. That money will be transferred to the TOC
2 account, it will be outside of Santa Anita's and Golden Gate
3 Fields' accounts, and so that money should not be encumbered
4 at all by anything going on in the Chapter 11 process.

5 Then with respect to XpressBet, obviously the
6 question that many players have is what's the status of my
7 accounts?

8 Well, first, XpressBet is not under -- in
9 bankruptcy, so there is no issue, or should be no issue as
10 it relates to the customer accounts.

11 But more importantly, even if it were in
12 bankruptcy, we are obligated, we, being XpressBet, to have
13 an account by -- we're obligated by the Oregon Racing
14 Commission to have an account that is restricted and is a
15 custodial account for the sole benefit of our customers.

16 It is the monies that are in there reflect the
17 monies that are due and owing, or deposited by our
18 customers. We are regularly analyzing that account, making
19 sure that it squares up between the activity of the account
20 holders, so that we have a true and accurate reflection of
21 what our account holders hold. And so those customers'
22 accounts are safe.

23 At this point in time I'd be happy to open it up
24 for questions that anyone at the Board may have.

25 COMMISSION CHAIRMAN HARRIS: Jesse, go ahead.

1 COMMISSIONER CHOPER: Yeah, well first off, I want
2 to thank you for a very clear and effective presentation.

3 MR. SCOGGINS: Thank you.

4 COMMISSIONER CHOPER: I would think that most
5 anyone who wanted to learn about it, learned about it with
6 that.

7 I just have a couple of detailed questions,
8 really. And that is did they start at nine o'clock this
9 morning, eastern time?

10 MR. SCOGGINS: I am not sure exactly.

11 COMMISSIONER CHOPER: Or tell me, do you know if
12 it was this morning?

13 MR. SCOGGINS: Yes.

14 COMMISSIONER CHOPER: So they're already at two
15 o'clock in the afternoon.

16 MR. SCOGGINS: They're in the middle of it, yeah.

17 COMMISSIONER CHOPER: So we ought to get something
18 pretty soon, huh?

19 MR. SCOGGINS: Yes, sir.

20 COMMISSIONER CHOPER: And the other question I
21 have is could you, if it's permitted, indicate in some way
22 the natural persons that are involved with MID?

23 MR. SCOGGINS: Well, MID's controlling shareholder
24 is very similar to the one who's the controlling shareholder
25 of MEC, and that's Frank Stronach.

1 COMMISSIONER CHOPER: Uh-hum.

2 MR. SCOGGINS: He owns the controlling voting
3 interest of MID.

4 So as you can see, we have a fairly -- we have a
5 common person, with common interests in both entities. So
6 that was a point that I had failed to make. But that not
7 only is it our controlling shareholder --

8 COMMISSIONER CHOPER: I just assumed that, but I
9 didn't --

10 MR. SCOGGINS: No, that's a good question and I
11 appreciate you asking that.

12 COMMISSIONER CHOPER: I don't have anymore.

13 COMMISSION CHAIRPERSON HARRIS: I think I agree,
14 it was a very, very good presentation and cleared up a lot
15 of issues that are helpful for us to better understand.

16 MR. SCOGGINS: Thank you.

17 COMMISSION CHAIRMAN HARRIS: Do some of the
18 Commissioners have any questions that come to mind?

19 COMMISSION VICE CHAIRMAN ISRAEL: None. I just
20 want to thank you, it was very reassuring.

21 MR. SCOGGINS: Thank you.

22 COMMISSION VICE CHAIRMAN ISRAEL: Which is an
23 important part of a public business.

24 MR. SCOGGINS: Absolutely.

25 COMMISSION VICE CHAIRMAN ISRAEL: If you bet a

1 hundred dollars on a four-to-one shot this afternoon, you
2 want to know you can go back to the window and get \$500.

3 MR. SCOGGINS: I agree with you.

4 COMMISSION CHAIRMAN HARRIS: It doesn't work that
5 easily, sometimes.

6 MR. SCOGGINS: Yeah, if you're the winning bettor.

7 COMMISSIONER CHOPER: Is that what you do when you
8 win?

9 COMMISSION VICE CHAIRMAN ISRAEL: Well, you win
10 trifectas so, actually, you do much better.

11 COMMISSION CHAIRMAN HARRIS: So any other
12 Commissioners have anything at this time they'd like to ask?

13 COMMISSIONER MOSS: Does MID have any restrictions
14 on it at all?

15 MR. SCOGGINS: In what respect?

16 COMMISSIONER MOSS: Well, it's the same man
17 controlling everything. And just to the lay public what
18 does this mean, really?

19 MR. SCOGGINS: Well, because MID and MEC are both
20 publicly traded corporations, they have obligations to their
21 public shareholders to make sure that every arrangement
22 between them is at an arm's length.

23 And each corporation has independent directors, on
24 their board of directors, whose responsibility it is to
25 assess various types of opportunities as between these two

1 entities.

2 And so the discussion over the DIP financing, for
3 example, or the original loans, that was processed through
4 an audit committee and board decision that was, you know,
5 the majority of which -- I'll be honest, I'm not entirely
6 sure how the makeup is in terms of whether it's a majority.

7 But I believe a majority of the people making the
8 decision have to be independent directors.

9 COMMISSIONER MOSS: Thank you.

10 MR. SCOGGINS: Sure.

11 COMMISSION CHAIRMAN HARRIS: Anything from the
12 rest of the Board?

13 Otherwise, I'll open it up to the audience, if
14 they'd like to make any comments or --

15 EXECUTIVE DIRECTOR BREED: Mr. Chairman, before we
16 go further, I just wanted to say that I had two of our
17 auditors, one auditor go to Santa Anita, one auditor go to
18 Golden Gate Fields, and they verified that the accounts are
19 all in order. That everybody's been paid and they are all
20 in order as of today.

21 And I want to thank you guys for welcoming us in
22 and letting us do that. Which is our responsibility, but I
23 think it was well done. Thank you.

24 MR. SCOGGINS: Thank you.

25 COMMISSION CHAIRMAN HARRIS: Mr. Blonien?

1 MR. BLONIEN: Good morning, Mr. Chairman, and
2 members. Rod Blonien, on behalf of Hollywood Park, Alameda
3 County Fair, and Los Alamitos Racecourse.

4 All three of those facilities carry the Santa
5 Anita signal and are involved in satellite wagering.

6 And I'm wondering if Greg could comment on the
7 extent to which monies that might be owed these satellites
8 by Santa Anita, the extent to which they would be protected?

9 And is the company looking at these funds as being
10 restricted, controlled funds?

11 MR. SCOGGINS: Unfortunately, I don't know the
12 answer to that question at this time. My hope is that as a
13 part of the motions that are going to be considered, we'll
14 be able to get a more definitive answer.

15 COMMISSION CHAIRPERSON HARRIS: Brian Wesley,
16 would you have any thoughts on that category of funds as far
17 as their priorities?

18 DEPUTY ATTORNEY GENERAL WESLEY: I think that
19 going forward they should be fine, the satellite facilities.

20 I mean, with bankruptcies, you're looking, really,
21 at pre-petitioned liabilities. And going forward, the
22 debtor has to comply with all the post-petition
23 requirements.

24 So it's as if on that date, when a bankruptcy's
25 filed, everything going forward, they have to maintain their

1 business in the same manner.

2 So if there's a legal requirement, they still have
3 to fulfill that legal requirement.

4 COMMISSION VICE CHAIRMAN ISRAEL: So in layman's
5 terms --

6 DEPUTY ATTORNEY GENERAL WESLEY: In layman's --

7 COMMISSION VICE CHAIRMAN ISRAEL: -- what you're
8 saying is the debts under consideration are those that
9 existed before March 5th?

10 DEPUTY ATTORNEY GENERAL WESLEY: Well --

11 COMMISSION CHAIRPERSON HARRIS: I think in this
12 case, though, perhaps Mr. Blonien would like to comment that
13 the thought would be that these are really held in trust.
14 These aren't just a liability, they never really belonged to
15 the bankrupt estate?

16 DEPUTY ATTORNEY GENERAL WESLEY: The thing is --
17 well, I'll answer this as far as from a fee/tax perspective,
18 and I won't get too complicated about this.

19 But if you're concerned about future payments to
20 the satellite, if you look at the first-day motions and
21 there are requirements under statute that require the
22 licensees to make certain payments, they will fulfill those
23 requirements.

24 And it's in their plan. From what I understand,
25 from reading the first-day motions, they want to go forward,

1 they, being MEC, as a going concern, and they want to
2 maintain the relationships with their customers. So
3 payments will still be made.

4 The main issue is the unsecured creditors, and the
5 satellites are not major unsecured creditors.

6 So, I mean, I can't speak for the corporation, but
7 I looked through the plan last night and it looks like they
8 want to go forward -- well, it's clear that they want to go
9 forward as a going concern.

10 MR. BLONIEN: I understand that going forward they
11 would be protected. But what about funds that perhaps
12 should have been paid, or that had accrued in the past, but
13 not yet been paid?

14 DEPUTY ATTORNEY GENERAL WESLEY: That -- those are
15 called unsecured claims and those will be negotiated at this
16 point. There's a period after the initial petition is filed
17 that allows for different parties to negotiate what
18 unsecured creditors receive.

19 I don't know what their plan is. I mean, they
20 could --

21 COMMISSION CHAIRMAN HARRIS: Yeah, I would assume
22 that the creditors, that category of creditors wouldn't want
23 to stipulate that they were unsecured.

24 DEPUTY ATTORNEY GENERAL WESLEY: Well, you can't
25 -- it's not really a matter of stipulation, it's a matter of

1 law. So there's a lot of cases that talk about what's
2 unsecured and what's secured. And I don't want to get into
3 the definition, the difference between secured and
4 unsecured.

5 But it's pretty clear from the law, usually, what
6 a secured claim is.

7 And I don't know what your claim is, obviously,
8 particular claim. But I'm just telling you secured claims
9 are usually paid in full to the extent they're secured.

10 And then unsecured claims, there's priorities
11 amongst, there's different types of unsecured claims.

12 MR. BLONIEN: yeah, I don't want to belabor the
13 point.

14 DEPUTY ATTORNEY GENERAL WESLEY: Okay.

15 MR. BLONIEN: But California horse racing law
16 provides that a two percent commission is paid to a
17 satellite that accepts the fee on wagers that are made at
18 that satellite. And, certainly, we're not secured in the
19 traditional sense that nothing is filed with the county
20 recorder, or anyone else.

21 But I think general practice in the industry is
22 that those funds are viewed as belonging to the satellite.
23 And I just was wondering if there was anything in the
24 petition that would give us, you know, some hope that we'd
25 be protected in terms of the proceedings as they go forward?

1 DEPUTY ATTORNEY GENERAL WESLEY: I haven't seen
2 their plan, so I can't answer that question.

3 MR. BLONIEN: Thank you.

4 DEPUTY ATTORNEY GENERAL WESLEY: Okay.

5 COMMISSION VICE CHAIRMAN ISRAEL: Can I -- Ron, is
6 it not possible that the observe side of the coin applies,
7 where Hollywood, Los Alamitos, or Pleasanton would owe Santa
8 Anita some funds from a similar circumstance, and that would
9 provide you with -- that doesn't provide you with any legal
10 standing, but I would imagine it gives you a fair amount of
11 leverage.

12 MR. BLONIEN: Yes, it does. And I think all three
13 facilities are probably holding funds that were due Santa
14 Anita before the filing. And I presume that all three of
15 them would claim set-off, and there would be a showdown at
16 some point.

17 COMMISSION VICE CHAIRMAN ISRAEL: Yeah.

18 COMMISSION CHAIRMAN HARRIS: Commissioner Choper?

19 COMMISSIONER CHOPER: Yeah, I just want to say
20 this. First, I want to make a disclaimer, and that is I
21 don't know anything about bankruptcy laws.

22 (Laughter.)

23 COMMISSIONER CHOPER: I had a course 50 years ago
24 and the law has changed.

25 So I'd like --

1 COMMISSION VICE CHAIRMAN ISRAEL: But I'd like to
2 just point out that he was dean for a very long time of
3 California's most important law school.

4 COMMISSIONER CHOPER: We never went bankrupt.

5 COMMISSION VICE CHAIRMAN ISRAEL: Well, it was
6 close last weekend.

7 COMMISSIONER CHOPER: Yeah. But having made that
8 disclaimer, I think it's important, Rod, for people like
9 you, and for bettors, for horsemen, for anyone whose
10 participation is really needed for the ongoing success, even
11 in the interim, of the operation.

12 The bankruptcy judge, who generally has
13 authority -- you'll correct me if I'm wrong?

14 DEPUTY ATTORNEY GENERAL WESLEY: Oh, yeah.

15 COMMISSIONER CHOPER: -- over all of these things,
16 including State law, that goes by the boards, and so forth,
17 and can do pretty much anything he or she wants to do.

18 Nonetheless, the interest -- look, we're all
19 familiar with the airlines going bankrupt, you know, they
20 continued to operate as well or as badly as they did in the
21 past, and they came out of bankruptcy.

22 But they're going to be very sympathetic to the
23 claims of people who have to be paid in order to continue
24 their participation in the enterprise. That's just the
25 common sense of the matter.

1 And again, without saying this is I know what
2 they're going to do, because I don't, or what the judge is
3 going to do.

4 Nonetheless, I think it's important for people to
5 understand that the goal is that there be no change in the
6 regular core operations of either Santa Anita or Golden Gate
7 Fields.

8 And obviously, you know, there may be little
9 glitches here or there, but if they start not paying off
10 bettors then, you know, no one will -- very few people come
11 out to see the horses run around.

12 And if they don't pay the horsemen, the horses
13 aren't going to be there to run around.

14 So they got to take care of those things.

15 MR. SCOGGINS: Mr. Chairman, I --

16 COMMISSION CHAIRPERSON HARRIS: That was well
17 stated. I think the key is that it's going to be an ongoing
18 operation. And I think a lot of details are still unknown
19 until we get the filing, and there's always going to be a
20 lot of debates in bankruptcies over priorities, and all
21 kinds of things.

22 But for the average fan or horsemen, I think,
23 there's not great uncertainty at all.

24 MR. SCOGGINS: Mr. Chairman, if I might address
25 the subject we've been discussing?

1 First off, as it relates to the niceties of the
2 issue of who's in, and who's out, and whether it's unsecured
3 or secured, I'm not going to profess any knowledge about
4 that. I'm going to defer that question to Mr. Rosen. He
5 can give a more definitive answer about what are the
6 conditions and what are the considerations that would be
7 made with respect to that.

8 What I can say is that we understand that there's
9 some very critical, important partners in our business. The
10 fans, the horsemen, our employees, the regulators, and our
11 partners in the simulcasting distribution.

12 We understand the importance, that we have to make
13 sure, to the best of our ability, that everybody in those
14 circles gets what they're do.

15 Otherwise, as Mr. Choper so eloquently stated,
16 people are just going to be coming around to watch horses
17 run around in circles.

18 So there is an appreciation for every role that
19 these people play, and we will do everything in our power,
20 within the confines of what bankruptcy law allows us to do,
21 to make sure that everybody's accommodated.

22 COMMISSION CHAIRPERSON HARRIS: Thank you.

23 We'll move along, Mr. Jamgotchian.

24 MR. JAMGOTCHIAN: Yes, Mr. Harris, members of the
25 Board, Jerry Jamgotchian.

1 I've got some questions that I would like to
2 direct to Mr. Wesley, with regards to the bankruptcy.

3 Mr. Wesley, does it concern you that Magna filed
4 for bankruptcy not only in Delaware, but in Canada? Does a
5 venue fight concern you?

6 DEPUTY ATTORNEY GENERAL WESLEY: No, because Magna
7 Corporation is based in Ontario, so it would be appropriate
8 for them to file in Canada.

9 I don't have any problem, to my mind, filing in
10 Delaware and in Canada. I don't see an issue there at all.

11 MR. JAMGOTCHIAN: What court would hold the
12 ultimate jurisdiction?

13 DEPUTY ATTORNEY GENERAL WESLEY: Over the
14 bankruptcy in America, in the United States, Delaware would
15 be the place where the bankruptcy would occur.

16 MR. JAMGOTCHIAN: And if the money came from
17 Canada, that doesn't affect your position at all?

18 DEPUTY ATTORNEY GENERAL WESLEY: No, it would not.

19 MR. JAMGOTCHIAN: Okay.

20 COMMISSION CHAIRMAN HARRIS: Would the bankruptcy
21 hearings and so forth be conducted in Delaware, or is there
22 a process for a change of venue where the creditors are, or
23 does it make a difference.

24 DEPUTY ATTORNEY GENERAL WESLEY: Well, in
25 bankruptcy, usually the bankruptcy court goes with the venue

1 that's selected by the debtor. So most likely it would
2 remain in Delaware.

3 And also, in Delaware, they have the best
4 bankruptcy judges in Delaware, because they deal with a lot
5 of these major bankruptcies.

6 So most likely it would be maintained in Delaware.

7 MR. JAMGOTCHIAN: Are you saying that Magna
8 selected Delaware as the ultimate jurisdiction for the
9 bankruptcy?

10 DEPUTY ATTORNEY GENERAL WESLEY: You probably
11 should ask MEC about that.

12 MR. JAMGOTCHIAN: Okay, I'll ask Mr. Scoggins
13 then.

14 DEPUTY ATTORNEY GENERAL WESLEY: Yeah.

15 MR. SCOGGINS: Well, we chose the venue, and for
16 the reasons that Mr. Wesley suggested, it is an appropriate
17 venue in which to file for bankruptcy.

18 I will also note that Magna Entertainment is a
19 Delaware corporation. It has offices and headquarters in
20 Canada, to be sure, but it is a U.S. incorporated entity.

21 MR. JAMGOTCHIAN: So there won't be any venue
22 challenge with regards to having the bankruptcy
23 administrated in Canada, correct?

24 MR. SCOGGINS: I'm not aware of any intention for
25 that to happen.

1 MR. JAMGOTCHIAN: Okay, thank you.

2 My second question relates -- unfortunately, I'm
3 pretty versed in bankruptcy law because I've got a major
4 tenant currently bankruptcy, and I happen to be in the New
5 York courts right now.

6 So I will say, Mr. Choper, that the courts do not
7 look with sympathy to unsecured creditors any longer, their
8 real goal is to protect the debtors.

9 So I think that maybe you'll see in the future
10 that the rulings will be more in favor of the debtor than
11 the creditors. At least that's been my experience in the
12 New York court.

13 Secondly, I'd like to ask, does a stalking horse
14 bid, it was \$195 million. And one of your slides said that
15 the entities in the bid could be broken apart, separately.

16 Are there individual prices on each one of those
17 entities?

18 MR. SCOGGINS: I'm not aware one or the other if
19 there are.

20 MR. JAMGOTCHIAN: But they're able to be purchased
21 in piecemeal, but there's no pricing on those entities; is
22 that correct?

23 MR. SCOGGINS: If your question is could a third
24 party come in and say I would like to purchase XpressBet,
25 and I'm willing to pay this, and MID says I don't need to

1 match it, then the answer to your question is yes.

2 MR. JAMGOTCHIAN: Okay, thank you.

3 Secondly -- or thirdly, rather, is the mid-DIP
4 financing, is that money already in, a hundred percent in,
5 or is it going to be provided on an as-needed bases?

6 MR. SCOGGINS: There are tranches or levels of
7 funding. First of all, the DIP financing has to be approved
8 by the court. Once it's approved, based on my reading of
9 the filings, MID would provide the funding on an -- they
10 would provide initial funding and then they would provide
11 continued funding, either on an as-needed basis, or as
12 rulings are made.

13 MR. JAMGOTCHIAN: Are there letters of credits or
14 other security to ensure the DIP financing amount is paid?

15 MR. SCOGGINS: I'm not familiar enough with the
16 transaction to know exactly how the parties have negotiated
17 those parts of the deal.

18 MR. JAMGOTCHIAN: And, Mr. Wesley, are you aware
19 of that?

20 DEPUTY ATTORNEY GENERAL WESLEY: Yeah, there are
21 letters of credit. And actually, there is some information,
22 if you go to Pacer, which is the system --

23 MR. JAMGOTCHIAN: Okay, it's on Pacer.

24 DEPUTY ATTORNEY GENERAL WESLEY: You know Pacer?

25 MR. JAMGOTCHIAN: Yeah, I do.

1 DEPUTY ATTORNEY GENERAL WESLEY: And if you go
2 into Pacer, you will see a lot of information in regards to
3 debtor in possession financing. And the debtor has broken
4 down exactly the tranches, the amount of the tranche, the
5 credit facility, and then exactly what the guarantee or
6 assets that secure the debt, what they are.

7 So it's very clear. So if you go into Pacer and
8 look at that debtor in possession financing information,
9 you'll find it there.

10 MR. JAMGOTCHIAN: So the money hasn't been
11 advanced, but there are letters of credit to guarantee the
12 obligations?

13 DEPUTY ATTORNEY GENERAL WESLEY: Yes. From what I
14 saw. And, of course, I'm not the debtor.

15 MR. JAMGOTCHIAN: Right. Okay. One of the issues
16 that I want to raise, too, is that -- and, Mr. Wesley,
17 correct me if I'm wrong, at some point in time the debtor
18 makes the decision or an election to reject leases; correct?

19 DEPUTY ATTORNEY GENERAL WESLEY: Yeah, they can
20 accept or reject leases.

21 MR. JAMGOTCHIAN: Okay. So if there's a lease
22 that Magna maintains, that is below market value, or reduces
23 the debtor's opportunity to make money, the ultimate
24 likelihood is they would probably reject that lease; would
25 you agree?

1 DEPUTY ATTORNEY GENERAL WESLEY: No, I would not
2 agree with that.

3 First of all, I don't know the underlying facts as
4 far as whether or not MEC would reject a lease. I think
5 it's most likely that they would not. But I don't have the
6 basis for knowledge of whether or not they would do that.

7 MR. JAMGOTCHIAN: Okay, that's my question then.

8 DEPUTY ATTORNEY GENERAL WESLEY: Okay.

9 MR. JAMGOTCHIAN: If in fact MEC elects to reject
10 the Oak Tree Racing Association lease, then what happens to
11 that lease if, in fact, they reject it?

12 DEPUTY ATTORNEY GENERAL WESLEY: If in fact they
13 reject the lease?

14 MR. JAMGOTCHIAN: Yes.

15 DEPUTY ATTORNEY GENERAL WESLEY: If they decide to
16 reject the lease, then you could file an opposition to it,
17 and say that we should remain at the facility for whatever
18 basis that you find adequate. But as far as the lease,
19 you'd have to renegotiate that through the bankruptcy.

20 MR. JAMGOTCHIAN: Right, it would be retained in
21 jurisdiction by the bankruptcy court; correct?

22 DEPUTY ATTORNEY GENERAL WESLEY: Yeah, exactly,
23 the bankruptcy court would determine what the new payments
24 would be.

25 MR. JAMGOTCHIAN: So that lease would then be

1 frozen or rejected until the court's ruling; is that
2 correct?

3 DEPUTY ATTORNEY GENERAL WESLEY: What do you mean
4 by frozen?

5 MR. JAMGOTCHIAN: Well, it wouldn't be able to be
6 enforced; is that correct?

7 DEPUTY ATTORNEY GENERAL WESLEY: The lease --
8 well, the court would --

9 MR. JAMGOTCHIAN: If they reject the lease, the
10 court then maintains a hearing schedule, and nothing happens
11 with that lease until the judge makes a ruling; correct?

12 DEPUTY ATTORNEY GENERAL WESLEY: That's correct.

13 MR. JAMGOTCHIAN: Okay.

14 DEPUTY ATTORNEY GENERAL WESLEY: And the judge
15 would decide exactly what the payments would be, and whether
16 or not the lessor would be able to remain at the property.
17 But that would be based on the determination of the judge.

18 MR. JAMGOTCHIAN: Okay. My last question is --

19 EXECUTIVE DIRECTOR BREED: Mr. Jamgotchian, you're
20 running out of time.

21 MR. JAMGOTCHIAN: Well, wait, this is not a three-
22 minute requirement, this is an open hearing. And I do
23 have --

24 EXECUTIVE DIRECTOR BREED: It is a three-minute
25 time limit, I read it right at the beginning of the meeting.

1 MR. JAMGOTCHIAN: Well, three minutes on oral
2 communications, it's not three minutes on -- but this is my
3 last --

4 EXECUTIVE DIRECTOR BREED: Well, you're making a
5 presentation or --

6 MR. JAMGOTCHIAN: This is my last question.

7 EXECUTIVE DIRECTOR BREED: Oh, okay.

8 COMMISSION CHAIRPERSON HARRIS: One more question.

9 EXECUTIVE DIRECTOR BREED: All right.

10 MR. JAMGOTCHIAN: Okay. Has all of the remaining
11 purse money, that was supposed to be advanced for the
12 remainder of the Santa Anita meet, to TOC, been advanced?

13 I guess Mr. Wesley, we'll ask that question.

14 DEPUTY ATTORNEY GENERAL WESLEY: No, that's a
15 question for MEC.

16 MR. JAMGOTCHIAN: Okay, Mr. Scoggins. Has all the
17 money been advanced to the TOC for the remaining meet?

18 MR. SCOGGINS: If your question is -- well, let me
19 just tell you what -- let me just repeat what I said
20 earlier, which is that on the 4th, Santa Anita and Golden
21 Gate Fields transferred a portion of the purse account that
22 reflected those purse amounts that had not already been paid
23 over to horsemen by those two entities.

24 So the TOC received, in a trust account, subject
25 to a trust agreement that they are in the process or have

1 put in place, they've put the funds in there, and all of
2 those funds were transferred.

3 There were checks written to horsemen for their
4 purse accounts prior to that transfer.

5 And so I'm not sure to what extent that relates to
6 your question.

7 Any future purse accounts that are earned from
8 racing at Santa Anita, and at Golden Gate Fields, and for
9 any other reason, will be transferred over to the TOC
10 account.

11 MR. JAMGOTCHIAN: So they haven't been transferred
12 yet; is that correct?

13 MR. SCOGGINS: They have. As they're earned,
14 they're transferred.

15 MR. JAMGOTCHIAN: A hundred percent of the funds
16 have been transferred; correct?

17 MR. SCOGGINS: I'm not sure why I'm being grilled
18 here, but I don't understand quite -- I'm not sure I
19 understand why your position --

20 COMMISSION CHAIRMAN HARRIS: I guess you had
21 outstanding checks, so you couldn't transfer that portion.

22 MR. SCOGGINS: Right, you can't transfer what
23 you've written checks for.

24 COMMISSION CHAIRPERSON HARRIS: No.

25 MR. JAMGOTCHIAN: My question was, all the

1 remaining purse funds, for all the remaining races, for the
2 remaining Santa Anita meet, have all those purse funds been
3 transferred?

4 MR. SCOGGINS: They haven't been earned yet, they
5 haven't been generated. We pay as we go.

6 MR. JAMGOTCHIAN: Okay, so is there a letter of
7 credit or a guarantee to make sure those funds are going to
8 be paid?

9 COMMISSIONER CHOPER: You know, once again, I
10 don't know if -- Mr. Wesley will correct me if I'm wrong.

11 All of what you're talking about is within the
12 provence of the bankruptcy court.

13 MR. JAMGOTCHIAN: Of the bankruptcy court, I agree
14 with that.

15 COMMISSIONER CHOPER: You can transfer. He or
16 she, the judge can call it back.

17 Indeed, if you transfer immediately, or within a
18 certain, what is it, 90 days before a bankruptcy, they can
19 grab all of that back.

20 MR. JAMGOTCHIAN: Right.

21 COMMISSIONER CHOPER: So you've got to have what I
22 would think is very well-founded confidence that the
23 bankruptcy judge is going to understand that the horsemen
24 are supposed to be paid.

25 And without their confidence in the continued

1 operation of the system, there isn't going to be any
2 operation of the system.

3 So we'll know, I guess before the end of the day,
4 whether these motions were granted. It's included in the
5 motion to keep the steady flow of obligations to employees,
6 and bettors, and horsemen. Maybe there's somebody there
7 that I --

8 MR. SCOGGINS: Utilities, and fees, and things.

9 COMMISSIONER CHOPER: Yeah, and the insurance for
10 worker's comp, and so forth.

11 MR. SCOGGINS: Exactly.

12 COMMISSIONER CHOPER: And I think it's fair to say
13 that everybody here, who knows anything about it, will be
14 very surprised, very surprised, if that weren't granted by
15 the judge. You're counting on that, right?

16 MR. SCOGGINS: Yes, sir.

17 COMMISSIONER CHOPER: So, and you know, regardless
18 of your personal experience with the bankruptcy judge in New
19 York, they do take care of creditors and they're trying -- I
20 mean, that's the whole purpose of the bankruptcy court is to
21 fairly take care of them.

22 MR. JAMGOTCHIAN: Well, I guess we'll see. Thank
23 you.

24 COMMISSION CHAIRMAN HARRIS: Just to clarify, too,
25 that that TOC sort of custodial account is more than just

1 owners, it's all the purse money, which some of that may
2 well go to jockeys, and trainers. And so it's really all
3 the purse money, not just the owners' money.

4 MR. SCOGGINS: And I would be happy to defer to
5 drew on that but, yes, I agree with you.

6 DEPUTY ATTORNEY GENERAL WESLEY: You know, I want
7 to just point out to the last gentleman that spoke, and also
8 the people in here, if you look at the filing by MEC,
9 there's definitive language that they have every intention
10 to maintain the relationships with their customers.

11 And I know there's probably a lot of fear out
12 there that, oh, they're in bankruptcy, we're not going to
13 get paid.

14 But this is really about the unsecured creditors.
15 And I don't know whether or not you're an unsecured
16 creditor, but the number one unsecured creditor is a bank in
17 New York.

18 Okay. The horsemen, if you look at the filing,
19 they're going to get paid. Customers are going to get paid.

20 And I just would refer you, if you have the
21 ability, to look at the bankruptcy filing.

22 Because what I saw last night was that this
23 company plans to pay their customers going forward.

24 MR. SCOGGINS: And if I might just add to that,
25 and just add to or reiterate a point I made earlier, just so

1 it is very clear, we understand how our business operates.
2 We understand who is important to us and what is important
3 to us.

4 And we want to make sure, and having filed motions
5 in according with our desire to make sure that they are
6 taken care of.

7 I will also point to the NYRA bankruptcy and point
8 out to you that during NYRA's bankruptcy there were no
9 issues with respect to horsemen getting paid.

10 In fact, there were a couple of other issues
11 relative to the NYRA bankruptcy, that aren't present in our
12 situation and, yet, the horsemen still were able to get paid
13 and there were no problems there.

14 I certainly can appreciate everybody's anxiety.
15 Everyone is anxious over this. This is not something that
16 anyone would wish upon even their worst enemy.

17 However, the reality is that MEC is committed to
18 continuing their operations, to being a successful operator
19 of racetracks, and coming out of bankruptcy as a viable
20 business.

21 COMMISSION CHAIRPERSON HARRIS: Thank you. The
22 next person.

23 MR. POWELL: Thank you. Good morning, my name is
24 Dick Powell, and I'm with Racing and Gaming Services.

25 Racing and Gaming Services thanks the California

1 Horse Racing Board for scheduling today's Special Meeting
2 and its foresight to protect the wagering pools.

3 Racetracks host wagering pools, where the money in
4 the pools that is bet is supplied by the customers, who are
5 required to pay at the windows or post funds in wagering
6 accounts.

7 These funds are held in trust and the rights and
8 obligations to these funds are created immediately upon the
9 conclusion of each race.

10 Upon the conclusion of each race day, settlement
11 files are generated, which clearly articulate the rights and
12 obligations of each simulcast partner in respect to the
13 money in the pools.

14 Unfortunately, some operators have misappropriated
15 funds they hold in trust.

16 Earlier this year, a small racetrack and account
17 wagering facility filed bankruptcy without warning. The
18 customers and partner racetracks found out the hard way that
19 the money was not being held in trust.

20 The track, incredibly, and probably illegally, had
21 been using the customer and settlement funds that were held
22 in trust for operating expenses, and when it filed for
23 bankruptcy, it listed them as creditors.

24 This and the current situation brings to light
25 that the industry needs regulatory requirements to ensure

1 that the funds in the pool and trust and not inappropriately
2 commingled with operating funds.

3 Money that is held in trust for purses, account
4 wagering customers, and simulcast partners needs to be kept
5 segregated in separate accounts from either that of the host
6 or the simulcast facility's operating funds.

7 We respectfully request that the California Horse
8 Racing Board, as a way of ensuring that the funds in the
9 pools, hosted by California tracks, are handled properly,
10 and to prevent any misappropriation of these funds, take the
11 following steps.

12 Adopt a rule that requires all account wagering
13 companies to place account wagering money in a separate
14 trust account that cannot be used for any other purpose,
15 except to settle wagering balances.

16 Number two, adopt a rule that places purse money
17 in a separate trust that cannot be used for any other
18 purpose.

19 Three, adopt a rule that requires host facilities
20 to place settlement money in a separate trust account,
21 specifically for the purpose of disseminating funds as
22 required by the settlement files, and require that
23 settlement payments be placed in the account, rather than in
24 operating accounts.

25 Four, adopt a rule that all settlements have to

1 occur within 15 days.

2 RGS salutes the California Horse Racing Board for
3 providing a forum to discuss these issues. Taking these
4 steps would help restore confidence in doing business with
5 California racetracks.

6 EXECUTIVE DIRECTOR BREED: Can I say something on
7 that note?

8 We do have a provision in our regulations, it's
9 Section 1470 of the regulations, which does require the
10 operator to maintain these accounts in segregated accounts,
11 and not commingle those accounts with other monies, with
12 operating monies.

13 And that is -- that's the section that I was
14 referring to when I sent auditors to each one of these
15 facilities to review their books, and to make sure that
16 those monies had not been commingled.

17 And also to make sure that those accounts were up
18 to date. And in both cases they were.

19 MR. POWELL: Chairman, it's great that
20 California's doing that, and I wish more states around the
21 country would. And I wish RCI would adopt model rules, and
22 I've had discussions with them on some of these issues, that
23 nationwide racing commissions could have the same rules on
24 these issues.

25 Unfortunately, for us, being an account wagering

1 company, customers make bets, and we pay off bets. And then
2 we wait for the money to come from the tracks that the bets
3 were made on.

4 It should not be subject to any kind of
5 bankruptcy. It's not the track's money, it's not anything
6 that the tracks have. It's just money that passes through
7 in the simulcast business.

8 I mean, simulcast is 90 percent of our business.
9 We're no longer betting cash at the \$50 window, like the old
10 days, and betting racing. Ninety percent of it's coming
11 from away from the track.

12 And any kind of doubt or lack of confidence that a
13 racetrack is not going to be reimbursed in full in a timely
14 manner, on successful bets made by their customers on
15 racetracks, on racing in California, just creates this
16 crisis.

17 So I'm hoping that, you know, these issues, and
18 Magna, we've had very productive discussions already with
19 them this morning, that's not really why we're here.

20 We're trying to get the industry to understand
21 that there are rules that could be adopted so that the money
22 doesn't build up. That the -- you know, that the negative
23 settlement money could be paid within 15 days. There's no
24 reason, in the 21st century, that it can't be paid
25 overnight.

1 COMMISSION CHAIRMAN HARRIS: What we're talking
2 about here is just settlement money, as well. And,
3 basically, you're customers win versus what they bet.

4 MR. POWELL: That's our dog in the races.

5 COMMISSIONER CHOPER: Well, we're certainly check.
6 Do you -- I guess it's transcribed, your remarks.

7 MR. POWELL: Yes, I --

8 COMMISSIONER CHOPER: But if you wanted to submit
9 a copy of what you said, I think it would be helpful, too.
10 I think we want to look at that and see if we're short in
11 any place with respect to rules like that.

12 I think everybody knows here, but you didn't
13 mention it, that the track that you mentioned isn't a
14 California operation, I take it.

15 MR. POWELL: Correct.

16 COMMISSIONER CHOPER: So, fortunately, for at
17 least the people directly concerned here now, that's not so.

18 And we certainly hope that none of our operations
19 are doing that, either. I mean, it's hard to disagree with
20 you.

21 MR. POWELL: And they're not. And I think that
22 racing commission failed their customers and racetrack
23 partners. And, you know, hopefully we can move forward as
24 an industry and resolve this.

25 COMMISSIONER CHOPER: You know, we got lots of

1 laws, but we still got a lot of criminals.

2 (Laughter.)

3 COMMISSIONER CHOPER: I mean, that's just the
4 reality. And we certainly want to do what you want to do,
5 what we can do.

6 MR. POWELL: All right. Well, thank you for your
7 time.

8 COMMISSION CHAIRPERSON HARRIS: Mr. Korby?

9 MR. KORBY: Christopher Korby, Executive Director,
10 California Authority of Racing Fairs. Thanks for the
11 opportunity to speak today.

12 And we also appreciate the Board's attention to
13 this matter.

14 We're here seeking assurance that the two percent
15 location fees will continue to be paid to satellites. I
16 represent over 20 satellites in California.

17 And we're especially attentive to this matter
18 because we've just gone through a situation in which that
19 money was not paid.

20 And I'm not suggesting that that's the case here,
21 but that was an unfortunate circumstance and we don't want
22 to have a repetition of that.

23 So we would like to work with the Board to assure
24 that those monies continue to be paid. In fact, I've shared
25 with the Board and with -- and with both Golden Gate and

1 Santa Anita, some modest procedural changes that would raise
2 the level of assurance for us that those monies would
3 continue to be distributed.

4 Thank you.

5 COMMISSION CHAIRPERSON HARRIS: That's certainly
6 the intent.

7 Any additional comments on open mike Friday?

8 (Laughter.)

9 MR. CORRELL: Hi, my name's Jim Correll, I
10 represent Local 280, the racetrack union here, in
11 California.

12 I understand, by your presentation, you intend to
13 pay your employees and everything. I just want to make sure
14 there's no changes in any contracts or anything.

15 MR. SCOGGINS: The intention, as is indicated by
16 the filings, is to keep everything status quo.

17 I am not involved in the discussions about
18 strategy going forward. I wish I were in the position to
19 tell you that it's going to be X. Unfortunately, I can't.
20 I can't tell you it's going to be the same, I can't tell you
21 it's going to be different.

22 I'm sure the intent is, as is the case with
23 respect to horsemen's funds, and settlement funds, our goal
24 is to maintain or make sure that all our stakeholders are
25 happy, and continue to want to help us be an ongoing

1 business.

2 So we're not going to do anything such as -- we're
3 not going to intentionally do anything that's going to cut
4 our nose off to spike our face.

5 MR. CORRELL: Okay, thank you.

6 MR. CHARLES: Additional comments? Anybody else
7 want to?

8 I think it's been a productive session and we
9 better understand what we have, than we did before. I mean,
10 I feel reassured.

11 I think we'll know more as we go on, but it's
12 reassuring that the continuity of Santa Anita and Golden
13 Gate should be fairly seamless.

14 I mean, down the road, I'd guess, there's going to
15 be a lot of ripple effects on other things, but I think
16 we're fortunate that we have a plan that we can live with.

17 But we don't really have a plan, as yet, because
18 it hasn't been approved.

19 MR. SCOGGINS: Right. And as soon as that motion
20 comes down, we will be in touch, let you know. And,
21 hopefully, there's a seamless transition.

22 MR. SCOGGINS: Mr. Chairman, if I might, in
23 closing, I have, for your all's reading pleasure, the
24 hardcopy of the presentation that I gave. So don't leave
25 home without it.

1 COMMISSION VICE CHAIRMAN ISRAEL: Does it include
2 your answers?

3 (Laughter.)

4 COMMISSION CHAIRPERSON HARRIS: You mentioned
5 there's a -- is there a website, or something, because I
6 know from my experience that these bankruptcy filings get so
7 complex that you don't want people to mail the stuff. Is
8 there some web-based type thing you can go to, to track
9 this?

10 MR. SCOGGINS: Yes. MEC has, on its own website,
11 a section. You can click on it, it's kind of in the center
12 of our webpage, that talks about the filing, and FAQs, and
13 things of that nature.

14 If you're interested in knowing, or you have a
15 curious obsession, or a problem with not being able to sleep
16 at night, and you want to read detailed pleadings, you can
17 get on Pacer, and probably the various types of internet
18 sites that provide that kind of information. Because these
19 are all public filings and they are eventually made
20 available through the public domain.

21 COMMISSION CHAIRMAN HARRIS: Anything else? Any
22 of the other Commissioners have any final thoughts here?

23 COMMISSION VICE CHAIRMAN ISRAEL: I'd just like to
24 thank you for the presentation. I know this has been a
25 difficult week for you, and for everybody in racing, but I

1 think this went a long way to alleviate concerns about how
2 we'll proceed going forward, and to reassure the public,
3 which I think is essential, our most essential constituent.

4 MR. CHARLES: Okay, thank you.

5 MR. SCOGGINS: And I would like to thank the Board
6 for calling this meeting and giving us the opportunity to
7 provide, you know, the information that is providing the
8 assurance that we hope everybody is obtaining.

9 So thank you, again, for allowing me to come
10 before you and make the presentation.

11 COMMISSION CHAIRMAN HARRIS: I think it's been
12 worthwhile.

13 The Friday throw, the dollar beers are still in
14 effect, that isn't going to get impacted by the --

15 MR. CHARLES: No one's talking about the Santa
16 Anita handicap tomorrow.

17 COMMISSION CHAIRMAN HARRIS: Can you explain about
18 what's going on tomorrow here, at the Great Race Place?
19 You've got a tremendous card and --

20 MR. CHARLES: You know, it doesn't get any better
21 than tomorrow. Two Breeders' Cup winners, and full fields,
22 and a terrific day of racing.

23 COMMISSION CHAIRMAN HARRIS: Thank you. Well,
24 let's run up the score.

25 MR. CHARLES: Got it.

1 COMMISSION CHAIRMAN HARRIS: Anything else?

2 EXECUTIVE DIRECTOR BREED: Shall we adjourn?

3 COMMISSION CHAIRMAN HARRIS: Any other comments?

4 COMMISSION VICE CHAIRMAN ISRAEL: I'll move to
5 adjourn.

6 COMMISSION CHAIRPERSON HARRIS: We'll adjourn.

7 EXECUTIVE DIRECTOR BREED: We're adjourned,
8 thanks.

9 (Thereupon the California Horse Racing
10 Board Special Meeting was adjourned at
11 11:45 a.m.)

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