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MEETING

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BEFORE THE CALIFORNIA HORSE RACING BOARD

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EMBASSY SUITES, LAX

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LOS ANGELES, CALIFORNIA

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THURSDAY, NOVEMBER 21, 2002

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10:15 A.M.

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24 Reported by: CATHERINE SCOTT, C.S.R. No. 3375

25 Job No.: 02-24320

1 LOS ANGELES, CALIFORNIA; THURSDAY, NOVEMBER 21, 2002

2 10:15 A.M.

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4 MR. WOOD: Good morning, ladies and
5 gentlemen, and welcome to our regularly scheduled
6 meeting of the California Horse Racing Board. This
7 meeting is being conducted on Thursday, November, the
8 21st, 2002. We're at the Embassy Suites Hotel by Los
9 Angeles International Airport South in
10 El Segundo, California.

11 At today's meeting, are Chairman Alan
12 Landsburg, Vice Chairman Roger Licht, Commissioner
13 Cheryl Granzella, Commissioner John Harris,
14 Commissioner Marie Moretti, and Commissioner John
15 Sperry.

16 Before we go forward with the business of
17 this morning's meeting, I would, respectfully, request
18 if you give testimony in front of the board, you,
19 please, state your name and your association before you
20 begin your testimony. If you have a business card to
21 provide our court reporter, it would be very much
22 appreciated.

23 With that, I'll turn the meeting over to
24 our chairman, Mr. Alan Landsburg.

25 CHAIRMAN LANDSBURG: Good morning. We're

1 going to have one brief change -- I just wanted to
2 alert you -- in the agenda. Mr. Avioli of the NTRA is
3 delayed on his airplane. He should be here by close to
4 11:00. So we're going to move Item 2 down.

5 He is making one of the major
6 presentations, and we should, in fact, wait for him.
7 We will, therefore, move Item 2 down, I believe, to
8 below at Item 3 in the agenda.

9 Before we go into the formal agenda for
10 today, I'd like to take note on behalf of the board to
11 congratulate -- this is an opportunity to congratulate
12 Russell Baze, Russell Russell, as we know him, on
13 riding his eight-thousandandth winner on October 26 at
14 Bay Meadows.

15 Russell began riding in 1974 and has risen
16 to the top of his profession along with Laffit Pincay,
17 Jr., Bill Shoemaker, and Pincay as the only jockeys
18 ever to ride 8,000 winners.

19 I should note that two of those riders,
20 Russell and Pincay, are based in California, and the
21 third, Shoemaker, rode, principally, in California
22 until his retirement.

23 I think that says a lot for California
24 racing. Russell is one of the most consistent riders
25 anywhere. Each year he rides more than 400 winners,

1 increasing his total and attaining even higher
2 plateaus. We are fortunate to have a jockey of
3 Russell's caliber in this state, and by that, we mean
4 not only his riding ability but, also, his strength and
5 his character, and we want him to know how much we
6 respect and admire him. California Horse Racing Board
7 salutes Russell Baze on his 8,000 wins.

8 Moving onto our agenda, the approval of the
9 minutes of the regular meeting of September 25th, 2002,
10 and October 17th, 2002. I think it is important to
11 note, before we open the discussion for changes, a
12 couple of things. I'd like to remind this audience,
13 and for those of you who weren't here, that
14 Vice-Chairman Licht in the meeting on October 17th said
15 two of the ADW providers would be up for renewal soon,
16 and he thought that our committee gave them ample
17 warning at what they would be looking at as to
18 compliance of the letter and the spirit of the law.

19 I'm reading from proceedings of the regular
20 board on October 17th, 2002, as a reminder as we go
21 into this discussion. I'll, also, remind John
22 Van De Kamp that Thoroughbred Owners of California
23 anticipated the horsemen's agreement would be completed
24 within 30 days or less and did not anticipate that
25 there would be any problems in negotiation. Just

1 another note from what we had in our past minutes.

2 Finally, a correction to the minutes. On
3 page 4 of the proceedings of October 17th, 2002,
4 Commissioner Harris read into the record a report he
5 prepared regarding the process of Racing Dates
6 Committee followed in the issues it considered when
7 allocating the 2003 race dates. However, there's no
8 such record or reading here, to my knowledge. So I
9 would ask that we amend the minutes so that
10 Commissioner Harris's report could be included in them.

11 MR. WOOD: We can, certainly, do that,
12 Mr. Chairman.

13 CHAIRMAN LANDSBURG: Now, are there any
14 other comments, notes, or corrections to the minutes of
15 the TVG (inaudible) from October 17th and September
16 25th?

17 In that case, I'll entertain a motion to
18 approve the minutes of both those meetings.

19 MR. SPERRY: So moved.

20 MS. MORETTI: Seconded.

21 CHAIRMAN LANDSBURG: Moved and seconded.

22 All in favor?

23 ALL: Eye.

24 CHAIRMAN LANDSBURG: Opposed?

25 The minutes of the regular meeting of

1 September 25th, 2002, and October 17th, 2002, are
2 approved.

3 In respect to my first announcement, I will
4 now move to Item 3 of the agenda, as opposed to Item 2,
5 and ask for the staff update on the advance deposit
6 wagering --

7 MR. REAGAN: Good morning, Commissioners.
8 John Reagan, CHRB staff. As we have been doing here
9 for some time with the monthly update on the ADW
10 handle, we find that the handle now is well over 143
11 million and, as of today, probably, well over 145, and
12 we're looking for 150 million for this year, and right
13 now we're just now moving over 7 percent of the --
14 total California handle combined on-track/off-track at
15 ADW.

16 Seven percent of that total, of course, is
17 now ADW handle. One interesting point -- one of the
18 few patterns we are starting to see now -- we did see a
19 good spike on Breeder's Cup Day. So we do see those
20 spikes on the special days in the GBG and YouBet
21 handle. Other than that, if you have any questions,
22 I'll try to answer them.

23 MR. HARRIS: When we're talking about the 7
24 percent, does that include handle out of state on
25 California races?

1 MR. REAGAN: That's just a California
2 handle.

3 MR. HARRIS: Some of the ADW, I know, are
4 out of state on California --

5 MR. REAGAN: That's true. What we're
6 trying to compare, as best we can now, is look for the
7 cannibalization, which we certainly don't see at this
8 point, or any serious cannibalization.

9 MR. LANDSBURG: If you remember, we had
10 asked for, from the ADW providers, a breakdown of ZIP
11 codes which we believe would be available in order to
12 estimate how much of the local area fans are using the
13 systems. We don't have it at the moment.

14 MR. REAGAN: No. But it's certainly being
15 prepared for us, and we'll have it shortly.

16 MR. LANDSBURG: Any further discussion or
17 comments on the handle of ADW?

18 If there are no comments, we will move onto
19 the discussion and action by the board on the request
20 by Hollywood Park to waive CHRB Rule 1967, "Closing of
21 Wagering in a Race."

22 MR. REAGAN: Commissioners, just a brief
23 update here. Just as indicated in the staff analysis,
24 the current rule requires that the pool be closed or
25 locked coincident with the start of a race.

1 Obviously, by the letter attached in the
2 package, Hollywood Park and the Churchill folks are
3 talking about another method, and they are here today
4 as well as other people who, certainly, want to address
5 that issue.

6 CHAIRMAN LANDSBURG: Do we have a Hollywood
7 Park representative? Mr. Baedeker?

8 MR. BAEDEKER: Rick Baedeker, Hollywood
9 Park.

10 Good morning, Commissioners. Hollywood
11 Park has petitioned the board to waive Rule 1967, which
12 calls for the judges to lock pari-mutuel pools,
13 coincident with the start of a race.

14 This waiver would allow the company to
15 implement the policy of locking the Tote at zero
16 minutes to post time. There are several reasons for
17 our request. We need to restore customer confidence in
18 the sport. We need to make a strong statement to our
19 customers that their wagering dollars are safe, that we
20 are grateful for their business and do not take it for
21 granted, that until such time as the Tote companies can
22 guarantee that their systems cannot be compromised, we
23 will put our own safeguards in place to protect the
24 players.

25 In anticipation of this hearing, we

1 conducted a poll of 300 of our fans over the course of
2 last weekend. We did not use a professional research
3 team. We simply used our own in-house resources, and
4 I'll refer to the results from that survey throughout
5 my remarks.

6 Currently, final odds are not displayed in
7 field Tote boards, until about 45 seconds, sometimes
8 more than that, after the horses have left the gate.
9 In a six-furlong race, the odds generally change for
10 the final time as the horses are turning for home.

11 During the past week at Hollywood Park, the
12 delays in posting the final odds ranged from 29 seconds
13 to 86 seconds after the start of the race. Let me add
14 at this point that there's absolutely no evidence at
15 this time of any wrongdoing, but the odds changing
16 during the race have caused customers to believe that
17 past posting may be occurring.

18 Our research shows that 40 percent of our
19 fans are concerned that bets are still being accepted
20 after the race has begun, and 68 percent believe that
21 it's likely that fraudulent bets could be made after
22 the start of the race. Sixty-nine percent express a
23 lack of confidence in the Tote systems.

24 This is the primary reason for our request.
25 As leaders of the industry, California Hollywood Park,

1 CHRB, and the other members of associations of horsemen
2 in the room cannot stand idle while 68 percent of our
3 fans believe that fraudulent bets may be occurring on
4 every race every day.

5 Churchill Downs has already acted.
6 Beginning last week, a Churchill caller in Hoosier
7 Park -- betting has been stopped at a zero minutes
8 post. In addition, the horses are generally loaded
9 after a one-minute delay, following the close of
10 betting to allow for the final cycling of pools and
11 posting of final odds.

12 The delay required before loading the
13 horses into the gate is variable. Obviously, it takes
14 almost a minute to load a field of 12, in which case
15 the required delay would be reduced to 30 seconds or
16 so.

17 Some betters will argue against this policy
18 and some people in this room, I expect. Because of the
19 player's inability to change a ticket if his or her
20 horse is scratched in the gate -- there is no question
21 that this will happen. It happens on a regular basis
22 today. At any given time during the day, we have
23 ongoing pick N wagers in which a player selection is
24 scratched, and the player cannot make a change.

25 He or she may have indicated an alternate

1 where that's available. Otherwise we cannot make a
2 change, unless it's the first leg of the bet. This
3 happens in the Pick Three, Pick Four, and Pick Six on a
4 fairly regular basis.

5 Concern has, also, been expressed about the
6 scenario, where the favorite half of an entry is
7 scratched at the gate, and the player is left holding a
8 ticket of an unwanted long shot. We acknowledge that
9 this can happen a few times a year, but even today
10 holders of multiple-race wagers are subjected to that
11 same frustration.

12 There's no question that customers will at
13 times be inconvenienced or frustrated by late
14 scratches. I expect many of us in the room will feel
15 that same frustration, but those instances are sporadic
16 and may be infrequent compared to the fact that because
17 of the odds changing midway in our races, 68 percent of
18 our fans currently believe that fraud is possible in
19 every race every day.

20 There has also been a suggestion that the
21 board adopt a middle ground policy closing the bet at
22 zero minutes to post for off-track customers, while
23 allowing customers in California to bet, until the
24 break, and I'm not sure, but I think this is what NYRA,
25 New York, is proposing.

1 We oppose this policy for two reasons:

2 First, it will create confusion. How do we
3 warn off-track customers that betting for them will end
4 in one minute without confusing the California
5 customers that are watching the same television
6 screens?

7 Second, and far more important, the core
8 value of our sport is when the players bet against each
9 other. It is the fundamental nature of the pari-mutuel
10 wager. This suggestion would change that and allow one
11 group of players to wager after the vast majority of
12 players have been shut out.

13 The CHRB in my opinion would be endorsing a
14 policy of unfair advantage. Yet another suggestion is
15 that we wait and see what effect the zero policy will
16 have on purses in states like Kentucky and Florida
17 before we take such decisive action.

18 We are well-aware that the safeguard we are
19 suggesting may result in some reduction in revenues.
20 In the first week, since the zero policy was
21 implemented, there was no dramatic difference in handle
22 and Churchill or Caulder. Churchill is down a little
23 bit, had severe cold weather last week. Caulder is up,
24 but they had a promo that they didn't have the year
25 before. So it's very difficult to interpret.

1 In our opinion, this is not a
2 dollars-and-cents issue. I know everybody in the room
3 agrees with that. Sixty-eight percent of our patrons
4 believe that there may be fraudulent manipulation of
5 the Tote after the race begins.

6 Perceived integrity of the sport is at
7 stake here. The worst scandal in the sports history
8 occurred on Breeders' Cup Day a little more than three
9 weeks ago. We need to act now, and we need to act
10 decisively to restore the confidence of the customer,
11 and so I ask the board to waive its current policy and
12 allow Hollywood Park to adopt the company policy of
13 stopping betting at zero minutes to post.

14 I don't pretend to speak for other
15 interests represented in the room here today, nor am I
16 suggesting that Magna tracks or the night tracks be
17 required to follow suit. We are simply asking for a
18 waiver of the rule through the balance of our season.

19 When we ask the fans what they thought
20 about the zero policy, 53 percent said they agree with
21 the policy, while 40 percent disagree. The fans
22 clearly want the odds on the Tote board when the race
23 starts. They want to know that their money is safe,
24 and there is no possibility of past posting. I trust
25 everybody in the room wants the same thing. Thank you.

1 MR. LANDSBURG: Do we have comments or
2 discussion now further to this request?

3 MR. LICCARDO: Ron Liccardo, pari-mutuel
4 Employees. This rule here -- I would like to see the
5 rule change like Mr. Baedeker would want, but I want it
6 for every association, also, throughout the state.

7 What I also would like to caveat -- there's
8 the letter I sent to everybody on the California Horse
9 Racing Board. Hopefully, you all received the fax I
10 sent to you.

11 I feel that the canceling vote -- we've
12 been trying to do this for years -- should be left open
13 for a period of time to cancel some of the tickets that
14 we've had from this, what we feel, inept Tote company
15 to operate correctly. We've had many times -- where
16 we've had mystery tickets come out -- you call them
17 mystery vouchers to the customers. We give mystery
18 tickets to the clerks.

19 These tickets pop up by themselves without
20 making a bet at the last second when the pools close,
21 and they tell us we got three seconds to cancel. You
22 didn't cancel. You got eight seconds to cancel. This
23 is not right, if the canceling mode is left open -- and
24 the way it could be done is with a maximum amount of
25 money to be cashed at the clerk's window and a major

1 amount of money to be cashed through the mutuel
2 manager's office.

3 It could be done, where -- if a person is
4 stuck at the stakes -- he's not just trying to fool
5 around with the pools -- he could notify his SDO. They
6 could log down that that ticket was canceled and why,
7 and then, he'd have to answer to somebody else later on
8 why he canceled that ticket. So nothing else could
9 happen to play around with pools or make bets on your
10 own, but we need protection from, what we feel, this
11 Tote company.

12 Now, you find a problem that you have with
13 the Pick Six? It's a very bad problem that happened
14 back there in Arlington Park. We feel what we're
15 having happen here to us quite a few times a year is
16 just a problem with the Tote. Not a problem with
17 somebody in the Tote, but a problem with the Tote.

18 And leaving the cancellation mode open is
19 something we tried to get done for years, and it can't
20 be done. So I think it could be done for a period of
21 time from the time they close the pools to the
22 customers. Into the running of the race, the canceling
23 mode could be open. Thank you.

24 MR. VALADENE: Mr. Chairman, my name is
25 Greg Valadene, and I'm a member of the Southern

1 California Fans Committee, although today I'm speaking
2 today as an individual.

3 This whole issue of odds changing after a
4 race is nothing new. When I used to frequent Los
5 Alamitos and Hollywood Park, when they ran quarter
6 horses in the 1980s, that happened all the time. It is
7 nothing new. It's been going on for, at least, 15
8 years that I'm personally aware of.

9 In light of the issue of closing wagers
10 early, I would hope that Hollywood Park, Churchill
11 Downs, and others would support regulatory changes to
12 protect the players, such as if half of an entry is
13 scratched following the close of wagering that that
14 entire entry would be scratched from pari-mutuel
15 purposes. The horse could run for purses but would be
16 scratched for pari-mutuel purposes.

17 What about when a horse breaks through the
18 gates prematurely? Acts up in the gate after wagering
19 is closed? Again, the players have no protection,
20 whether on track, off track, or ADW, if that happens
21 between the time they get to the gate and the gates
22 open.

23 Again, we would like that -- if that
24 happens, scratch the horse for pari-mutuel purposes.
25 If the horse is well enough to run, run for purses.

1 And what about ADW clients? I am right
2 now -- for those of us who do use that program, we have
3 no ability to cancel. It should be available before
4 the close of wagering, first of all, now the same way
5 that it is on track. This is a big problem with the
6 Tote companies. There is no reason why the players
7 should be penalized for the sense of the Tote company.

8 That's what's being asked for today. I
9 applaud Hollywood Park and Churchill Downs for their
10 attempt to do this, but who's being hurt in the
11 process? It's the players who are being shut off with
12 no place to turn in that last minute when something
13 unforeseen happens, as was stated before. Thank you.

14 MR. VAN DE KAMP: Mr. Chairman, John Van De
15 Kamp, TOC. First, I applaud Mr. Baedeker's eloquence
16 on this issue, and I think Churchill Downs, obviously,
17 is trying to respond in a very moral way to some of the
18 issues that confront us, but I think it needs to be
19 said clearly and decisively today that this issue is
20 separate in a way from the predicament that we found
21 with respect to the Breeders' Cup. That is a totally
22 different kind of a situation.

23 This is one that we have experienced over a
24 period of time, and it's not new, but at the same time,
25 you know, previous investigations have not revealed

1 that wrongdoing has occurred, that betting/wagering has
2 stopped. If you recall the incident last June at
3 Hollywood, where the odds made a material change right
4 after the race began, there was major consternation.

5 Investigation ensued, and it was found that
6 the bet did come in in proper time. Mr. Avioli will be
7 here today, I gather, to talk about what the NTRA is
8 doing with respect to the Pick Six, the controversy, as
9 well as other -- and there is a lot that is being done
10 today.

11 Our board got together the other day on the
12 telephone to talk about this particular request and
13 this particular issue, and you know, at the end of the
14 discussion, which was full, our board came to the
15 conclusion that -- it was unanimous that it was really
16 premature to approve the Churchill Downs proposal here.

17 The comment was made that if we go in this
18 particular direction, we should have a consistent
19 policy throughout the country with respect to the
20 closure of wagering, and second, with what is going on
21 elsewhere in the country, with respect to the Churchill
22 Downs policy there, Caulder, Hoosier, the NYRA policy
23 in New York -- that those experimental programs could
24 be evaluated to determine whether or not they really
25 will have the material impact on handle that is

1 suggested by one that -- there had been a decrease in
2 handle, but as Mr. Baedeker has said, there are other
3 reasons, other things, that could have been impactful
4 on the particular week in question after they started
5 this particular policy.

6 The suggestion, really, is that we look at
7 impact on handle. We look at the kinds of concerns
8 that were just raised by my predecessor here at the
9 microphone about the issues that are confronting the
10 betters, and I think he laid them out very nicely.

11 Because, you know, when you push down in
12 one area, as Churchill is proposing here, you raise
13 other issues that have to be dealt with at the same
14 time.

15 So our board is recommending that we hold
16 this in abeyance, perhaps, look at it at the next board
17 meeting in January with a full analysis of what has
18 happened elsewhere in the country with respect to the
19 imposition of these policies there. Thank you.

20 COMMISSIONER LICHT: Is anybody from
21 AutoTote here? Would you mind answering a few
22 questions?

23 MR. PIERCE: Brooks Pierce, AutoTote.
24 Actually, we have our director, Louie Skelton as well
25 from AutoTote.

1 COMMISSIONER LICHT: Do you, AutoTote,
2 believe that this proposal is necessary to protect the
3 California industry?

4 MR. PIERCE: I'm not sure that that's for
5 us to say, quite frankly. Really, from a technical
6 standpoint, we can do it any of the ways that have been
7 asked, and I was asked as to do it where we close the
8 imports coming in first and, then, close on-track
9 later.

10 Certainly, we could do it the way that
11 Hollywood Park is suggesting, or we can do it the way
12 it is currently done. As I'm sure all the
13 commissioners know, this is an issue that's really come
14 from Simulcasting. The fact that getting pools in and
15 getting them in before the horses leave the gate with
16 it, as spread out and diverse as all the wagering is
17 these days, is a very difficult equation.

18 So, certainly, from the technical
19 standpoint, we can do it any way we like. I, also,
20 wanted to comment on one thing about canceling.
21 Canceling is a parameter that we can change for any
22 time period that you want. It could be five seconds.
23 It could be 15 seconds. That's a parameter in the
24 system that we can, certainly, change.

25 COMMISSIONER LICHT: I know it's our

1 decision. It's not your decision, but you're the one
2 who can give us the input. Do you have any evidence
3 whatsoever in California or anywhere else that anybody
4 is able to bet through the AutoTote System after a race
5 has commenced?

6 MR. PIERCE: No, sir.

7 COMMISSIONER LICHT: Nothing?

8 MR. PIERCE: No.

9 MR. HARRIS: I think the key is -- is there
10 any wrongdoing you can see in the past, where people
11 have, actually, past posting?

12 MR. PIERCE: No. The only thing that would
13 have happened is, certainly, on occasion with actually
14 any Tote company, if an operator has not stopped
15 betting -- and that has had happened on occasion, but
16 other than that no, there's no systemic issues that I
17 see, certainly, with our company, and I think it's fair
18 to say with alternate companies.

19 COMMISSIONER LICHT: So you don't believe
20 it's possible for anybody to bet after the commencement
21 of the race through the AutoTote System?

22 MR. PIERCE: To tell you the truth, after
23 what I've been through for the last three weeks, I
24 wouldn't comment on whether anything is possible.

25 What I know right now, I would say no, it

1 is not possible, but again, I, certainly, didn't expect
2 what happened in the Breeders' Cup, which, obviously,
3 we'll be talking about a bit later as well.

4 COMMISSIONER LICHT: What safeguards are in
5 place that weren't in place prior to this incident
6 through the AutoTote System?

7 MR. PIERCE: Well, actually, I've provided
8 some information. When we get through the Pick Six, I
9 can, certainly, walk through, virtually, anything that
10 we need done subsequent to the Pick Six issue. These
11 are two completely nonrelated issues.

12 So as it comes to stop betting and getting
13 pools in on a timely basis, we feel very secure. Other
14 than the lag time it takes for this data to get
15 communicated, we feel very confident that all the bets
16 are getting in, and the stop betting has occurred.

17 MR. HARRIS: There's really two issues:
18 One, when the betting stops, and one, when all the pool
19 information gets here. It seems like it would be --
20 regardless of when you stopped the betting at that
21 instant, the pool of information is not going to be
22 here anyway.

23 So I would wager -- I'm still not going to
24 know the final odds when the final second comes for me
25 to make a bet. So I don't know if that was as big of

1 an issue as -- or, really, a solvable issue.

2 MR. PIERCE: That is correct. And I'm sure
3 you're aware of the phenomena of hubbing.
4 Occasionally, you're getting pools in that will be
5 coming from a remote site to a hub and, then,
6 ultimately, to our hub, what they call a double hop,
7 which, again, takes some time to be able to get all the
8 data into the host computer system.

9 MR. SPERRY: Is there a way to expedite
10 that?

11 MR. PIERCE: We have a proposal that we're
12 going to submit. Now, again, this is something that
13 needs to be done cooperatively between the Tote
14 companies, and I think it, really, does need to be
15 analyzed, but one of the things that we're talking
16 about is, actually, having all bets come in on a
17 real-time basis.

18 It's, probably, not the forum to talk about
19 because it really hasn't been talked about in the
20 industry, but it would have the ancillary benefit of
21 dealing with this odds issue as opposed to now, as you
22 understand, everybody comes in and has pool totals,
23 total dollars, cycle, depending on the system, every 45
24 to 60 seconds. We're studying whether it's possible to
25 actually send it on a bet-by-bet basis as opposed to

1 total dollars, but that's something that's going to
2 take some time and some analysis.

3 COMMISSIONER LICHT: Rick, you and I
4 talked, and I agree with you that -- like the bet on
5 the first race on opening day -- it think it was,
6 actually, April, wasn't it, on the first race? I mean,
7 it's very suspicious, obviously. It's a strange set of
8 facts that would cause a 100,000-plus bet to come in on
9 the last flash or whatever.

10 But does Hollywood Park have any evidence
11 of anybody betting after or only strong suspicions,
12 like the incident I just mentioned? We do not have any
13 evidence -- we do have evidence that 40 percent of our
14 fans believe that you can still make a bet after the
15 betting closes.

16 We do have evidence that 68 percent think
17 that it's likely that fraudulent bets can take place.
18 To me, that's as real as the evidence or lack of it.
19 That's what we're dealing with, and I would ask the
20 question of the commission and everybody in the room:

21 How many of those people are going to make
22 other choices in the near future, as new stories
23 continue to come out? I was told right before this
24 meeting in New York over the weekend -- I think it was
25 Sunday -- one horse at the quarter pole dropped from

1 seven to two to two.

2 Another horse dropped from 21 to 13. Both
3 went wire to wire. That's anecdotal. So don't hold me
4 to it, but the public isn't stupid. The public says I
5 see the bets changing, as the horses are turning for
6 home, and they will tell you that -- guess what? It
7 doesn't change on the horses that don't win. It always
8 changes on the horses that win.

9 Now, I know that's not exactly true, but
10 that's the perception. We have a horrible perception
11 problem in this state. We need to do something about
12 it. We can't sit and study all the data and, six
13 months from now, make a decision. We need to do
14 something now. This is designed to restore the
15 confidence of the customer.

16 Forgive the analogy because there's nothing
17 about that that relates to 9/11 about this, and I
18 mentioned this to a couple of people, but I think it's
19 widely understood that the National Guard was put at
20 the airports not to prevent violence but to increase
21 the confidence of the people that were flying on those
22 airplanes.

23 We have to act. We have to get out there,
24 and I understand, Commissioner Harris, that, as a
25 matter of fact, if you're betting in the last cycle,

1 you don't know what the final odds are going to be,
2 until they all come in, but you do know if you're
3 looking at the odds board before the horses spring from
4 the gate and your horse is seven and two, you know
5 that's what he's going to be under our proposal.

6 You know that's what he's going to be when
7 he crosses the finish line. He's not going to come
8 across there at two to one. This is the only thing
9 that we can control right now, and I expect if you'd
10 ask Brooks Pierce -- and I tell you what.

11 Those of us that have worked with AutoTote
12 over the years have a lot of respect for Brooks and the
13 people that work with him, and there will always be
14 crooks in business, but if you asked him similar
15 questions before the Breeders' Cup, I'm sure he would
16 have given you every assurance that what happened, in
17 fact, could not happen.

18 So, as a matter of fact, until we know,
19 because these pools are still out -- they haven't hit
20 the host prior to the start of a race, and it's a
21 similar scenario to the Pick Six.

22 This information was still out there. It
23 hadn't been gathered until a later time. It's similar
24 in that instance. Until we know that the system cannot
25 be compromised in such a situation, we think we need to

1 act right now before people decide to go do other
2 things.

3 CHAIRMAN LANDSBURG: In effect, you're
4 saying the perception but not the actuality. That is,
5 you're worried about Hollywood Park's and all of
6 racing -- I am too -- about the perception that we are
7 rigged. We've had more scandals rumored than have
8 actually happened, but it's perception and not
9 necessarily the truth.

10 In looking at statistics, I wish we had
11 looked deeply enough into the statistic. Our on-track
12 audience is one third to one quarter of the audience
13 that is sitting out there in the other areas of
14 betting. What we want is to give as many advantages to
15 the people who are willing to come to our racetracks
16 than to the people who are not willing to come to our
17 racetracks.

18 We've talked about every possible way to
19 lure people to the track. It seems to me that the
20 so-called level playing field is mythological in its
21 own right. Most of your money that comes in late comes
22 from the outlying sources; am I correct?

23 MR. *****: That's correct.

24 CHAIRMAN LANDSBURG: Therefore, the penalty
25 now for people who are willing to come to the racetrack

1 is that they can see, witness, and feel the need to
2 rush and change a ticket and won't be able to that, and
3 44 or 53 -- 44 percent of your people don't want to see
4 themselves shut out and unable to correct a bet in the
5 event of a mishap at the racetrack.

6 I don't know whether you're right, but I'm
7 a fan. I go to the races. I'm there once or twice a
8 week. I know what the perception of the people -- the
9 number of people who complain about odds changing after
10 the -- will change radically if you eliminate two
11 thirds of the incoming money at zero, but allow the
12 person who is at the track an advantage for having come
13 to the racetrack. I see nothing wrong with that. I
14 don't see it as an unlevel playing field.

15 MR. HARRIS: Obviously, based on my
16 remarks, we disagree, and I couldn't disagree more as a
17 player, but the edge that we have over other forms of
18 gambling is that we are pari-mutuel. You may be
19 smarter than me, but I may be luckier than you, but
20 it's a level playing field.

21 If we shut out three quarters of the
22 players and allow one quarter of the players to
23 continue to wager for another minute and a half, you've
24 now made the playing field uneven. We have manipulated
25 the foundation of pari-mutuel betting. Guess what? It

1 ain't the same for everybody. So, clearly, we have a
2 disagreement.

3 CHAIRMAN LANDSBURG: Obviously, NYRA
4 disagrees with you.

5 MR. HENSON: My name is Rick Henson,
6 representing the Los Alamitos Race Course. First, we'd
7 like to thank Mr. Baedeker for his leadership in
8 bringing forward this concept.

9 We disagree with it, however, and we feel
10 this is a remedy in search of an ailment which has
11 nothing to do with the Breeders' Cup. We are very
12 concerned about the fan at the track who has a horse
13 that's getting scratched at the gate and unable to make
14 a change in terms of his or her wager.

15 We think that the anger and the
16 disappointment by those fans will be greatly outweighed
17 by any advantage in terms of closing the windows at an
18 earlier period, and we would ask you to set this aside.

19 COMMISSIONER LICHT: Rick, has Hollywood
20 Park seen any change or drop in attendance or wagering
21 that you can attribute to The Breeders' Cup scandal?

22 MR. BAEDEKER: Commissioner, it's just
23 impossible to evaluate because we started off -- the
24 first couple of days for our fall meet, we started off
25 about (inaudible) local attendance and the handle. The

1 two inches of rain we got over the next three days just
2 kind of decimated our numbers. So I can't answer that
3 question. I wondered myself. I believe that the
4 answer is no.

5 COMMISSIONER LICHT: How about, just even
6 on an individual basis, if large players or Turf Club
7 members are saying take back my membership or --

8 MR. BAEDEKER: No, we have not had Turf
9 Club members throw back memberships to us. We have had
10 anecdotal incidents of players saying I may play but
11 not to the level I played before, and as a matter of
12 fact, one of the questions that we asked here was as a
13 result of the Pick Six event.

14 Let me get it. Regarding your betting on
15 the Pick Six now versus before the controversy, you say
16 you, A, wager more than before? 1 percent. Wager
17 about the same as before? 70 percent. Wager less than
18 before? 21 percent. So 21 percent say because of what
19 happened on Breeders' Cup Day, I wager less than I did
20 before.

21 MR. HARRIS: Is that just on the Pick Six?

22 MR. BAEDEKER: Just on the Pick Six.

23 Here's another one: Would you say that as
24 a result of the Pick Six controversy, your confidence
25 in the Tote system used for betting in horse racing is

1 stronger than before? 6 percent. About the same? 55
2 percent. Weaker than before? 35 percent.

3 I don't think anybody in the room -- I'd be
4 very surprised if anybody thinks that we haven't
5 suffered some serious damage as a result of the Pick
6 Six controversy. I'm using "controversy." That's kind
7 of a pleasant term, and I'm not sure too many of us in
8 the room don't have the same suspicions when a horse
9 drops from seven to two to two to one quarter pole.

10 If we have those suspicions, imagine what
11 the general public believes? You don't have to
12 imagine. I have some evidence right here. This isn't
13 real scientific. We did it in-house, if you want.

14 MR. SPERRY: It would be interesting a week
15 before you close, if you take the same poll again, see
16 if it has the same attitude.

17 MR. BAEDEKER: It absolutely would be, and
18 I would like the opportunity to take the poll after we
19 get your blessing to implement the new policy, and I
20 understand that the night industry, that the quarter
21 horse industry, suffers many more late scratches than
22 we do, and it could be an undue hardship for them.

23 I understand that there will be differing
24 opinions as to what the best thing to do might be,
25 other than associations might have different opinions.

1 We respect that. We're coming forward to you saying we
2 have a problem. We have a proposal to mitigate the
3 problem. Please, allow us to do it.

4 MS. MORETTI: Are you asking -- is this
5 forever?

6 MR. BAEDEKER: At this point, we're simply
7 asking for this meet. I don't know, prior to our
8 spring/summer meet, what might have transpired with
9 Tote companies between now and then or what might have
10 transpired with the investigations and so forth. So it
11 would be limited to this meet.

12 MR. WOOD: Your current meet ends December
13 22nd; is that correct?

14 MR. BAEDEKER: Correct.

15 MR. BAUER: I'm Richard Bauer, California
16 resident horseplayer. It's been my view that this rush
17 to close betting with zero minutes to post at some
18 point before the off time is nothing more than
19 addressing perception.

20 I feel, if the racetracks really want to
21 address that perception, they can start by stop showing
22 the odds on the TV monitors there for everybody to see
23 as the horses are running. So that the person who sees
24 that his horse is getting beat will have something else
25 to blame besides the jockey and the trainer for his

1 poor handicapping.

2 I, also, agree with the idea that, if you
3 only put the player at a disadvantage by scratching the
4 preferred part of an injury and not scratching the
5 other part of the entry, that just leaves another case
6 where the industry is balancing their books on a
7 horseplayer's back.

8 We put a poll on the Horseplayer Daily with
9 the thought that maybe leaving the race open to
10 cancellation until off time and closing it at zero
11 minutes to post for betting purposes might sway some
12 people to perceive the early closure of betting in a
13 more positive light.

14 Indeed, it did. Sixty percent of about 180
15 respondents indicated that it would be more acceptable
16 to close betting early, if they had a chance up until
17 off time or post time to cancel that bet. That would
18 cover the situation -- where the preferred has the
19 entry as scratched, it would cover the situation, where
20 the horse breaks through and gets reloaded, a horse
21 comes to the gate, looking washy and so on.

22 So that's another poll. Again, not
23 scientific. It's been up for about 10 days on the
24 Internet.

25 MR. BAEDEKER: I suggest that we will, as

1 usual in our industry, work at closing the barn door
2 now after we've lost the horses. So I expect that
3 these problems will be addressed. I think that we --
4 in the appropriate forum, we will be able to discuss
5 scratching both parts of entries.

6 That subject is not before you today, and
7 I'm not sure exactly what my opinion would be regarding
8 that policy, but I think it should be studied. We
9 expect to have Tote companies in the future. I don't
10 know how near, how near that future will be, that can
11 get us the information in real time and so that we have
12 all the information on the board. So we're not going
13 to rest until that is done, but in the meantime, we
14 have a problem that we'd like to try to fix, at least,
15 mitigate it.

16 CHAIRMAN LANDSBURG: Once again, the
17 problem doesn't crop up, apparently, as many times
18 as -- on the board, as many times as we are led to
19 believe here. That is, it's a major pain to half the
20 horseplayers. We have signal events happening once in
21 a while, but is it worth the perception to
22 inconvenience those few people we still hold onto in
23 the track?

24 I put that up as a question to you. And
25 are you willing in any way to modify so that you can

1 make something available to them instead of simply
2 taking away one of the things that most horseplayers at
3 a racetrack, I believe, or half of them by your survey
4 believe is important?

5 MR. BAEDEKER: Mr. Commissioner, I don't
6 need to reiterate our opinion of splitting this thing
7 and stopping the betting for people outside of
8 California. They couldn't, under any stretch of the
9 imagination, be on-track players. We cannot support
10 that proposal, and as a matter of fact, if that's what
11 the board is inclined to do, then, we would withdraw
12 our request.

13 CHAIRMAN LANDSBURG: So it is an
14 all-or-nothing basis?

15 MR. BAEDEKER: Yes, sir. Short of some
16 other suggestion, but if we're looking at one or the
17 other --

18 CHAIRMAN LANDSBURG: Until we get past the
19 antiquated -- forgive me, Tote people -- but the
20 antiquated Tote system, what you're doing is putting
21 kind of a penalty to horseplayers and to people who
22 wait as long as they possibly feel they can before they
23 can make their wager so they've had a chance to study
24 it. These are penalties to the horse rider.

25 MR. BAEDEKER: We acknowledge that penalty.

1 It is a penalty that all the players betting on our
2 races may experience.

3 CHAIRMAN LANDSBURG: It's like painting the
4 house and forgetting to put down new carpet.

5 MR. REEBOK: Jack Reebok, president of
6 Magnum California Operations. Before asking the staff
7 for a clarification, I'd just like to share a pleasant
8 experience that Mr. Liebau had last Thursday night, I
9 think, in Meadowlands. We had a horse break on top at
10 ten to one, and it paid \$33.

11 He was lucky to hang on by a nose, but I
12 don't doubt that it does happen, but horses win, and
13 their odds have gone down, but there's also situations
14 where the money went in on the horses and did not win.

15 With respect to my question directed to the
16 staff, as far as a clarification of what we are doing
17 here today, if this rule is waived, what is the rule?
18 What would the rule be in California with respect to
19 other tracks, or are you mandating a rule that would be
20 in effect -- and can you do that? -- that would be the
21 Hollywood Park proposal?

22 MR. WOOD: The only request in front of the
23 board today is a request by Hollywood Park to waive the
24 regulation as relates to the closing of the mutual
25 pools.

1 If Hollywood Park's request is voted up or
2 down, it would relate to their request only. You or no
3 other racing association has made a similar request to
4 the board. So the request would be for them to approve
5 to close when it's post time, as they asked for that to
6 be done.

7 From that, every track in California would
8 maintain the current procedure that they're doing right
9 now, which is having the windows closed when the
10 stewards press the close button at the time of the off
11 time.

12 MR. BAEDEKER: So you're waiving a rule
13 with respect to only one -- you're considering waiving
14 the rule as to one meet so there would not be any
15 consistency necessarily in California.

16 MR. WOOD: One of the concerns that we
17 voiced -- and I talked about it -- is lack of
18 consistency, if you make a waiver to the rule at one
19 association.

20 MR. SLAGLE: I'm Stuart Slagle, CTO of
21 Horseplayer Magazine. I'm speaking today for myself
22 and not for the magazine.

23 I would like to point out that this
24 proposal addresses two issues. One is security, and
25 one is perception. This does nothing to address

1 security in actuality. The Tote companies are
2 responsible for that. So it fails on the first half;
3 and the second half, on perception.

4 Mr. Baedeker pointed out that during his
5 sampling their races are -- in which the odds change 86
6 seconds after zero minutes to post. If they were able
7 to load the horses in less than a minute, as zero
8 minutes to post would suggest, the odds would still
9 change as horses hit the first call.

10 If you do not address the perception, the
11 players will just feel like -- the conspiracy theorists
12 will feel the cheats are just faster. There will still
13 be odds changing as money comes in from the hubs.

14 It would be my recommendation, if the board
15 wants to improve the perception issue, to demand
16 upgrading the technology so that the odds are
17 transmitted in a more swift fashion. This doesn't
18 address either the perception or the security. So I
19 urge you to vote now.

20 CHAIRMAN LANDSBURG: By way of
21 clarification, there will be a one-minute delay. That
22 all depends on the size of the field, but after the
23 betting closes at zero minutes to post, there will be a
24 one-minute delay on average before the horses are
25 loaded.

1 Then, by the time the horses are loaded, we
2 add those number of seconds to the one-minute delay,
3 and there will be rare incidents where, because of some
4 technical problem, pools take longer than even 86
5 seconds to reach us. That will be the rare exception
6 to rule. In almost every case, the odds will be on the
7 board when the horses break.

8 MR. WOOD: Mr. Baedeker, is it fair to say
9 that your request will not eliminate the fact that odds
10 will change from the time of post time till off time or
11 anytime thereafter? There will be occasions where you
12 close at post, but odds will change while the race is
13 in progress?

14 MR. BAEDEKER: It's possible, yes. I mean,
15 we can come before you and request that we simply wait
16 until all of the pools are in the hands of the host,
17 but we think that's extreme.

18 MR. WOOD: That is the discussion, I think,
19 we've had in front of the Pari-Mutuel Committee several
20 times this year, as Brooks Pierce brought out about the
21 multi-jurisdictional wagering hub mergings that come
22 through. I think the Pari-Mutuel Committee has looked
23 at that and talked about further research as to whether
24 or not there ought to be some addressing those issues,
25 and I think that we set that on the agenda.

1 MR. HARRIS: I'm not clear if -- instead of
2 transmission is the key. Is there a move going on or
3 some new protocol or something that will require much
4 more instantaneous transmission from all the different
5 hubs, or is this just something that's kind of on the
6 back burner?

7 MR. BAEDEKER: The representative from Tote
8 can answer that better. I do know that there are four
9 states right now that are holding up the process --
10 Florida, Illinois, Colorado, and one other that I can't
11 recall -- that require all of the betting information,
12 basically, to be cycled within the state from all of
13 the locations within the state before it's sent to the
14 host, and there is an effort to go to those states and
15 get those regulations changed. So that's one issue
16 where we have a delay because of regulations. I don't
17 know about the technical issues. Tote can address
18 that.

19 CHAIRMAN LANDSBURG: Mr. Chillingworth.

20 MR. CHILLINGWORTH: Sherwood Chillingworth.

21 I think our position is that, if Hollywood
22 wants to have this rule waived for their meet, we
23 can't, certainly, object to it. I would want to waive
24 it for our meet. I think, if you close the out-of-zone
25 data coming into the system, when the first horse goes

1 from the gate and left the player at the track to have
2 additional 30 seconds or so to make his wager to see
3 the horses, you're encouraging people to go to the
4 track which, I think, is what we have to do.

5 I agree with you, Mr. Landsburg. We need
6 to get people back to the track, and this is one method
7 of doing that. So far -- and I think you'll hear later
8 on today -- because of conversations I've had with Tote
9 companies and with NTRA and the Breeders' Cup that
10 security measures are going into effect here in the
11 next few months, that will certainly reassure them
12 better if there is lack of assurance now.

13 I must say that for Oak Tree, I was very
14 concerned because we had a million-dollar guaranteed
15 Pick Six on California Cup Day, and going into that --
16 this debacle happened just before our weekend, but the
17 fact of the matter was -- on Wednesday, we had a larger
18 handle that Wednesday on the Pick Six than we did the
19 prior year on Wednesday.

20 Thursday, exactly the same. On Friday, we
21 had \$500,000, in addition, bet into it. Although we
22 had a carryover on Saturday, we had a million three
23 added to that, which indicates to me that there is not
24 the lack of confidence in the fan base that everybody
25 is concerned with.

1 So just to address the current issue, we
2 have no objection to Hollywood doing whatever it wants
3 to do, but we, certainly, won't get upset.

4 MR. BAEDEKER: If I may, we, also, wondered
5 about the confidence of the player. Was it just our
6 imagination, or in fact, was there not a problem?

7 And 300, you know, respondents is a pretty
8 reliable number, and we clearly have a problem.
9 There's no doubt about it, and I think everybody in the
10 room, probably, knows that.

11 The other thing is -- let's just be honest.
12 There isn't anybody that's going to come to Hollywood
13 Park that's sitting in Kentucky or Florida or New York
14 or Illinois. They can't get there. As a matter of
15 fact, it may be beyond Los Alamitos and Santa Anita.
16 You could argue that Southern Californians can't get
17 there either.

18 MS. MORETTI: If the board were to approve
19 your request, what plans do you have to inform your
20 fans that, all of a sudden, you're changing the rules?

21 MR. BAEDEKER: Commissioner, we actually
22 kind of jumped the gun. We started getting the word
23 out immediately. We asked the board to be able to do
24 this a week ago today. We were off last week on
25 Tuesday and Wednesday after the holiday, and we hoped

1 to implement this on Thursday.

2 So beginning the weekend before last, we
3 started putting out notices through all of our
4 vehicles, printed materials, even an ad in the racing
5 form, on all of the closed circuit televisions that,
6 pending -- the approval, betting would close at zero
7 minutes to post. So, you know, given a reasonable
8 period, if the board were to approve this request
9 today, we would, probably, implement it beginning next
10 Wednesday.

11 MS. MORETTI: What kind of feedback have
12 you gotten from just the last week of mentioning it
13 to --

14 MR. BAEDEKER: Well, feedback here, we
15 asked specifically -- I'll read the question to you.

16 "Hollywood Park is considering closing
17 betting at zero minutes to post so that the final odds
18 are on the Tote board at the start of the race. Do you
19 strongly agree with this policy? Somewhat disagree
20 with this policy? Or strongly disagree with this
21 policy?

22 Fifty-three percent either somewhat or
23 strongly agree. Forty percent either strongly or
24 somewhat disagreed. So the majority agreed.

25 That is consistent -- I talked with both

1 Ken Dunn, who is president of Caulder Racehorse, and
2 Jim Gates, who is acting president of Churchill Downs
3 Racehorse this morning. At Caulder, they've had,
4 virtually, no complaints and some positive comments.
5 At Churchill, it's been mixed. They've had a lot of
6 feedback from the players, he says, more positive than
7 negative but a lot of both.

8 MR. WOOD: Can I ask you -- would you,
9 please, read that question again? You said that the
10 final odds would be shown --

11 MR. BAEDEKER: "Hollywood Park is
12 considering closing betting at zero minutes to post so
13 that the final odds are on the Tote board at the start
14 of the race."

15 MR. SPERRY: I thought you said that can't
16 be done.

17 MR. BAEDEKER: There will be some incidents
18 where that will not happen, but those incidents will be
19 rare. We wouldn't have had any of those incidents over
20 the last week.

21 MR. SPERRY: My concern is if we were to
22 waive Rule 1967 and you have two venues running at the
23 same time, the confusion amongst the betters -- which
24 racetrack is the minute before? Which one does it two
25 minutes before? You're going to alienate the betters

1 more by having it where it's not uniform, at least, in
2 my view and opinion and -- if it's uniform throughout
3 the state.

4 MR. BAEDEKER: I appreciate that point. I
5 think there's no denying that that will be frustrating
6 to a degree for the players. We're going to have that
7 anyhow. Players both in the north and the south,
8 currently, have a different scenario with Caulder and
9 Churchill Downs coming into those locations as it is.
10 So there will be a different policy. So far customers
11 seem to be adapting.

12 CHAIRMAN LANDSBURG: Is there any further
13 discussion? We kept you on the seat for a long time.
14 I believe it's time to entertain the request to waive
15 the rule. I guess that's the best way to put it -- the
16 request by Hollywood Park to waive the CHRB Rule 1967,
17 closing of wagering races.

18 Do we have a motion available? It will
19 come to a board approval or nonapproval.

20 MS. MORETTI: I'll make a motion to waive
21 CHRB Rule 1967.

22 MR. SPERRY: Your motion is what?

23 CHAIRMAN LANDSBURG: Commissioner Moretti
24 has moved to waive CHRB Rule 1967, closing of wagering
25 the race. Is it seconded? There is no second to that

1 motion that's on the board.

2 MR. SPERRY: I would move, Mr. Chairman,
3 that we not waive Rule 1967 at Hollywood Park's
4 request.

5 MR. HARRIS: Seconded.

6 CHAIRMAN LANDSBURG: Motion has been made
7 and seconded. All in favor of not approving closing
8 the wagering in the race as asked for, a waiver by
9 Hollywood Park?

10 ALL: Aye.

11 CHAIRMAN LANDSBURG: All opposed?

12 Therefore, the request by Hollywood Park to
13 waive CHRB Rule 1967 has not been approved.

14 We will come back at exactly 20 after 11:00
15 and pick up with Item 2. Is Mr. Avioli here?

16 MR. AVIOLI: Yes, sir, I am.

17 CHAIRMAN LANDSBURG: Thank you. Good to
18 see you. We will pick up with your testimony.

19 (Short recess)

20 CHAIRMAN LANDSBURG: Ladies and gentlemen,
21 the meeting is back in order. We are at Item 2 on the
22 agenda. Please, take your seats. Let us give the
23 witness a chance to speak.

24 We welcome Mr. Avioli from NTRA.

25 Please, start, sir.

1 MR. AVIOLI: Thank you. Thank you all for
2 asking us to be here today.

3 CHAIRMAN LANDSBURG: Identify yourself,
4 please.

5 MR. AVIOLI: I'm Greg Avioli, deputy
6 commissioner and chief operating officer of the NTRA.
7 I left you a card there.

8 With me is Ken Kirkner, who is senior vice
9 president in charge of -- development for NTRA's
10 Breeders' Cup. We are here today, obviously, to talk
11 about what happened with the Breeders' Cup Pick Six
12 wager and subsequent developments that have kept us all
13 very busy over the last three weeks.

14 As anyone, I hope, knows, we had an
15 extraordinary day wagering in this year's Breeders' Cup
16 World Thoroughbred championships with, I believe, 117
17 million total wagering, but we quickly realized the
18 following day we had a problem with the actual winning
19 ticket for the Breeders' Cup Pick Six.

20 Without recapping all the steps, it was
21 quickly determined that the winning ticket was in the
22 form of "111" with "All All," and that was highly
23 unusual. There were some more unusual circumstances.

24 So the Breeders' Cup requested Churchill
25 Downs and/or Arlington Park to stop payment on that

1 ticket. We, also, requested Monday morning a full
2 investigation from both the New York Wagering Board and
3 the Illinois Racing Board.

4 At the same time, understanding the
5 potential damage to public confidence, if, in fact,
6 there were problems with the integrity of the
7 pari-mutuel wagering system, the -- convened a
8 technology wagering working group, and the number of
9 subtask force -- and there were a number of people in
10 this room, including Commissioner Litu Gandi, a legal
11 task force.

12 And the idea behind the working group of
13 that was to bring as many elements of the industry
14 together as possible to address and come to some
15 recommendations and conclusions on how the industry
16 should react to this particular incident and to
17 possible broader ramifications.

18 I think I can summarize the general goal of
19 the NTRA in this process as assessing and, hopefully,
20 confirming the electronic wagering security and the
21 security of the Tote system as a whole.

22 The first concrete step that we did in this
23 regard was to bring in each of the three major Tote
24 companies, United Tote, AutoTote, and AmTote, and
25 working with them and -- frankly, first with the three

1 major track ownership groups.

2 We were able to have the Tote companies
3 agree to three initial concrete steps to address what
4 happened on Breeders' Cup Day, and I know Brooks Pierce
5 from AutoTote is here, and he can talk more about the
6 specific steps, but first thing that he still agreed
7 was to work together. They've literally been working
8 on weekends and into the night to write new software to
9 allow scanning of all information for the Pick Six
10 wagers -- for live tickets to occur after the first
11 leg.

12 In this particular case, it did not occur
13 and, normally, did not occur until after the fourth or
14 fifth leg. That is underway, and we are told that that
15 software will be completed and implementation will
16 begin within the next 14 days. So that addresses the
17 specific issue of how, I guess, the defendants, we'll
18 still call them, got pulled off their scam on Breeders'
19 Cup Day.

20 A second issue -- and this involved the
21 particular wagering outlet in New York. That wager did
22 not record all inner electronic telephone bets. The
23 ability to afford those is there in the marketplace.
24 It's a matter of cost. The equipment is available to
25 every -- off-track betting provider, every -- provider.

1 People record those bets.

2 Express Bet, TVG records those bets. Most
3 major off-track betting associates record those. This
4 did not happen, and that's why it shouldn't come as a
5 shock to anyone that this bet was made where it was
6 made. These folks knew which one did not record the
7 bets, and that was their target.

8 Each of the Tote companies has agreed to
9 work with each of their clients and install, as soon as
10 possible, recording equipment. We don't have a
11 specific date like we do on the first item, but that
12 equipment will be required, ultimately, by the
13 racetracks. The racetracks and, possibly, at some
14 point, the regulatory board are, actually, the ones
15 that, actually, require this.

16 The third -- this is more generic, but each
17 of them, the three major racetracks, again, speaking of
18 New York Race Association, Magna, and Churchill, have
19 agreed that there's going to be a special review within
20 their pari-mutuel departments, along with the Tote
21 companies of all winning Pick Six and Pick Four
22 tickets.

23 They are developing procedures. While we
24 wait for the technology to become a place to address
25 this long term, just do a manual review. For example,

1 a manual review of the particular Breeders' Cup ticket
2 is what led us to find that there was something wrong
3 in the system.

4 The second thing that we did -- these
5 recommendations were announced and agreed to within
6 seven days, actually, before the end of the first
7 business week after this. I want to laud the industry
8 for its coming together like I've never seen it come
9 together before in my six years and working together to
10 address this problem.

11 And I think it is -- and I listened with
12 interest to the previous matter. I think right now we
13 don't know the degree of this problem. We all hope --
14 I think everyone in this room hopes that this was
15 limited to the three frat brothers in Pennsylvania, but
16 I think it would not be prudent to stop our assessment
17 there.

18 Keeping with that, we retained the firm of
19 Ernst & Young, which -- although they spun off their
20 basic business consulting in the post-ENRON
21 environment, they kept a business that just does
22 security analysis, mostly security systems analysis.

23 They currently represent 78 of the Fortune
24 200 companies. I think, as I say, they are the number
25 one company in America that does what we've asked them

1 to do.

2 What we've asked them to do is to do a
3 detailed security review of the Tote system. They have
4 begun that process. Each of the major Totes has agreed
5 to participate. One Tote, we need some help -- Las
6 Vegas Dissemination Company has not been as easy to get
7 ahold of. For example, the other Totes are sharing the
8 cost of this, but three major Totes have agreed to let
9 Ernst & Young have full access to their systems for an
10 intensive four- to six-week -- probably, it will be a
11 six-week study.

12 That's going to be completed before
13 Christmas. That's going to be delivered to the NTRA
14 and made public, and we're going to share with the
15 industry and with the betting public this is the
16 current state of the system.

17 We do not know at this time what that's
18 going to tell us, but we can assume, as in any case,
19 there's going to be significant enhancements to our
20 system we have.

21 One thing the Ernst & Young folks have
22 taught us is that no system is totally secure.
23 Remarkably, of their clients, they note that -- I
24 should back up. They have a special group in Houston
25 made up of former military folks, actually, in the

1 Information and Warfare Department, which I wasn't even
2 aware existed, as well as other high-level hackers, and
3 all they do all daylong is hack into their customer
4 system to show them how you do it.

5 So it's not a matter of preventing
6 people -- but people, once they have their eye on you,
7 can get into your system. They can get into the
8 Pentagon system, as we know. The improvements will
9 likely come, making it more difficult to get into the
10 system and, then, having notification once they are in,
11 having alarm systems once they are in, so people know
12 the security has been breached. I think that's what
13 you're going to see the focus of this --

14 The last thing we have done or the most
15 recent thing -- the NTRA Board had assessed more
16 than -- in New York City two days ago. During that
17 board meeting, the board authorized \$1 million to come
18 from the NTRA's reserves towards funding of additional
19 industry resources to address this problem, wherever it
20 might lead.

21 The board, also, authorized TVG to seek
22 additional funding from within the industry. We have
23 commitments to date, and I can't give the exact amounts
24 but from all the major tracks. TVG is spending a
25 quarter of a million dollars.

1 We think, at the end of the day, we'll be
2 able to raise in excess of \$3 million to assist in the
3 Ernst & Young fees to assist in some preliminary
4 technology advances, and again, I want to thank the
5 folks in this room for assisting in that.

6 The first thing we did related to that the
7 board approved, and we announced yesterday that the
8 NTRA has engaged Giuliani Partners, chaired by former
9 city mayor, Rudy Giuliani, to assist in the overall
10 investigation that we are going to conduct,
11 specifically, past Pick Six and Pick Four wagers.

12 In the work with Equabase, we have
13 identified, since January 1st of this year, 342 Pick
14 Six wagering events that paid over \$10,000. At 132
15 Pick Four wagering events, they paid over \$10,000.

16 It's a difficult process, but we are going
17 to, actually, get ahold of each one of those tickets,
18 or we're going to try. You, basically, have to go
19 through multiple hubs, and many times you might have to
20 go offshore, but we're going to do a review of each of
21 those tickets over 10,000 and a further review of all
22 tickets, but that further review will not involve
23 looking at all tickets. It will involve assisting a
24 reliable subset because what we've learned is there's a
25 way, a potential way, to make lots of money in the

1 system, if you just made \$2500 at a time, but you did
2 it often enough.

3 So working with Ernst & Young, working with
4 Giuliani Partners, over the next six to eight months,
5 we're going to do a systematic assessment of particular
6 Pick Six and Pick Four wagers to determine if there's
7 any other misconduct.

8 Again, I reiterate our overall goal is to
9 enhance consumer confidence, to show that we do have
10 integrity in our electronic wagering, and we do have
11 integrity in the security of the Tote system, and with
12 that, I'll answer any questions.

13 CHAIRMAN LANDSBURG: NTRA is a major
14 national output for information. I would hope that, as
15 what part of NTRA is doing, beyond finding new security
16 measures, we have a greater problem in terms of
17 perception than we do in actual miscreant work.

18 I would hope that they would now begin to
19 expand their public relations funds and public
20 relations pressure. Not telling us how good our
21 security will be six months from now, but the integrity
22 of racing as it now stands, there was one breach. We
23 should be talking about that. It's the need -- and I
24 hope that NTRA, which has a national voice -- we only
25 have a California voice, and we'll be using that voice,

1 but that USNTRA will be undertaking a major public
2 relations campaign. I'd rather see advertising about
3 how good, safe, and strong racing is than what is the
4 next race coming.

5 Other comments, please? Are there any
6 questions?

7 COMMISSIONER LICHT: I think I have one
8 comment. NTRA, through my limited involvement -- and
9 just from observing and reading all the press, they
10 have done an outstanding job in curbing public outrage
11 in dealing with this from a PR and in an actual
12 substantive manner.

13 MR. AVIOLI: Thank you.

14 MR. KIRKNER: Mr. Chairman, I'd like to
15 thank John Reagan, as part of our task force, that will
16 be reviewing the ticket. I've met with him. I'll be
17 meeting with George Haney tomorrow to start the process
18 here in California, working with NYRA to review their
19 Pick Six tickets, but I'd like to thank the board for
20 their assistance and cooperation in the efforts that
21 we've undertaken.

22 CHAIRMAN LANDSBURG: We all have the same
23 goal.

24 MR. BADOVINAC: My name is Greg Badovinac.

25 CHAIRMAN LANDSBURG: Say your name a little

1 slower so that --

2 MR. BADOVINAC: Greg Badovinac.

3 All of this sounds really good, and we
4 acknowledge that this incident with Breeders' Cup was
5 an inside job. However, there has been no public
6 assurance or public plan by any of the Tote companies
7 to ensure their internal audit controls.

8 This was an inside job. Where were the
9 Tote companies' internal controls noticing that
10 somebody went into a secure area and made changes?

11 I used to work in a financial institution.
12 If I did anything to an employee account or to any of
13 our customers' accounts, it showed up on a report that
14 our internal auditing department had access to. I
15 mean, everybody is trying to explain to me that the
16 alleged people inside the company did this, and nobody
17 in the company knew that somebody had gone into the
18 top-secret files, where the bets were made.

19 As a player, I have a problem with that.
20 That's the security problem -- is how do I know that
21 all of this information that they're giving has not
22 been changed? I'm not worried about the late postings
23 and the money that's legitimate. I'm worried about the
24 inside job, and I have not seen anything come out that
25 says we're reviewing our internal audit policies and

1 going after the security --

2 CHAIRMAN LANDSBURG: With all due respect,
3 I think you just heard about the internal auditing that
4 is going on.

5 MR. BADOVINAC: But nothing from the
6 companies themselves. We're talking about outside
7 entities, but the Tote company is saying our
8 personal -- our company's reputation is on the line,
9 and we're going to beef up our internal audit security
10 so that this never happens again in our company.

11 CHAIRMAN LANDSBURG: I will say to you we
12 just received an AutoTote -- security and issues. So
13 we're headed in the right direction.

14 MR. KIRKNER: I would like to say that the
15 task forces have been working with the Tote companies.
16 We know, specifically, that procedures have been
17 implemented at each of the Tote companies, in
18 particular, AutoTote, which Brooks can address
19 specifically, but we have been working to make sure
20 that those actions have been taken to assure the
21 systems are as complete as can be at this point in
22 time.

23 CHAIRMAN LANDSBURG: We're glad to hear
24 that there's some attention being paid to the systems.

25 Not long ago, at one of our board meetings,

1 in discussing Tote company operations, Commissioner
2 Harris made the very perceptive comment that the whole
3 system is creepy and that we can't even add one bet to
4 a system without millions of dollars and hours and
5 hours. Do you remember that comment that he made?
6 Right? It was quite appropriate to this whole
7 conversation.

8 MR. HARRIS: My concern here -- I think
9 that what you are doing is good, but I think we need to
10 have a goal of getting this whole Tote system up to the
11 21st Century standards. I think it's lagged, and
12 hopefully, there haven't been any or, at least, not
13 very many irregularities since this happened at the
14 Pick Six at the Breeders' Cup.

15 I think somehow we just need to set the
16 standards high enough because we're not only
17 responsible as a racing board, but I think California
18 is, basically, working, but it's all these other areas
19 that are betting on California, and California betters
20 are betting on them, and we need to be assured that
21 whatever technology needs to be in place is in place
22 and set some kind of deadline on that.

23 MR. AVIOLI: I might address that one
24 point, California, in specific. One of the things
25 Giuliani is doing is taking a closer look at the CHRIM

1 System, which seems to be the most technologically
2 advanced system in the country right now, in terms of
3 assessing where all the money is going through the
4 system at any given time, and one thing that's going to
5 be considered is -- how could you take the CHRIM System
6 and nationalize it?

7 MR. HARRIS: It's, really, bothersome, but
8 some of these thoughts -- apparently, have to collect
9 all the data and give us advance deposit wagering --
10 transcripts and some of the protocols like that. I
11 think at some point California is going to have to tell
12 them that, look, that dog won't run. We got to try to
13 do it our way, or you won't be betting on California
14 racing.

15 MR. AVIOLI: Ken, how many outlets are
16 there?

17 MR. KIRKNER: There's, approximately, 700
18 betting outlets in the U.S., but the specific problem
19 related to the odds changes and things like that that
20 you were discussing earlier come from the double-hop
21 sites, and that's four specific states plus some
22 offshore entities, and that is an issue that the task
23 force is now starting to address and look at that, both
24 from a band width technology issue but, also, the
25 security of the pools.

1 MR. AVIOLI: I bring up the 700 outlets
2 because it's quite a unique system for a business. If
3 you view it as a business, the entire security system
4 would be only as far as the weakest link of those 700
5 outlets. I think it's going to be a long-term process,
6 but you can make improvements near term.

7 CHAIRMAN LANDSBURG: I just would like --
8 is there any more comment from the public or from the
9 board?

10 MS. MORETTI: I'm just glad that there is a
11 national entity at NTRA to have jumped on this as fast
12 as you have, and I appreciate it. Our point of view.

13 CHAIRMAN LANDSBURG: If there is no further
14 comment, I think we will ask AutoTote to come back at
15 some point before our next meeting to address, at
16 least, the Pari-Mutuel Committee so that we know what
17 steps are in place that will be protective.

18 I just received this booklet. So I have no
19 idea what's in it, but I think people of California
20 deserve a full report, and I'd like to give it to them.

21 You know, racing's need for more and more
22 wagering in order to survive left the back door open to
23 the henhouse, and that's really what happened. It's
24 been that way since the beginning of Simulcasting.

25 The more ways we have gone to make

1 nationwide racing a reality, the more vulnerable we've
2 become and will continue to become. The Pick Six
3 debacle -- of course, THE NEW YORK TIMES, actually, put
4 racing on the front page to our disgrace, and away went
5 thousands of hours and millions of dollars in public
6 relations through the world market.

7 Frantic efforts are going on at NTRA to
8 close the portholes that lure cheaters into our
9 henhouse. I hope they'll be specific. I think this
10 board, as conscientious regulators, of -- will a few
11 steps make any inroads? Are the people in the
12 announced plans good enough? It's a question I have.

13 Will any of the plans work? Finally, do we
14 have to take -- measures as regulators that would
15 include closing down exotic wagers that are cheaters'
16 favorites. It's all part of what this board must
17 consider, and we must find solutions, and we will be
18 doing that. This is our first meeting since the Pick
19 Six event, and it's not the end of the questioning.
20 It's not the end of our survey, by any means.

21 MR. AVIOLI: I think our job is to give you
22 the information about which you can make those
23 decisions.

24 CHAIRMAN LANDSBURG: That's why we're here.
25 Thank you.

1 Let's move onto the discussion and action
2 by the board on the application for approval to conduct
3 advance deposit wagering by ODS Technologies, doing
4 business as TVG. Jackie?

5 MS. WAGNER: Jackie Wagner, CHRB staff.
6 TVG has filed its application to be an out-of-state --
7 for advanced cup wagering. Their dates of operation
8 that they are proposing is a full year, 365.

9 CHAIRMAN LANDSBURG: I'm having trouble
10 hearing you, and it may be my deafness.

11 MS. WAGNER: Their dates of operation will
12 be 365 days a year from four hours a day. They are
13 proposing to provide service for the same associations
14 that they provided service for their last application,
15 and those would include Los Alamitos Racing
16 Association, Churchill Downs, Incorporated, and
17 Hollywood Park, Del Mar, Los Angeles County Fairplex,
18 Oak Tree Racing Association at Santa Anita, and CARF,
19 California Authority of Racing Fairs.

20 Since the analysis was prepared, we have
21 received the horsemen's agreement from the Quarter
22 Horse Association, and I have been informed that TVG
23 has a contract with CARF, but that staff -- of the
24 application as presented, and TVG is here to answer any
25 questions that you may have.

1 CHAIRMAN LANDSBURG: Are there comments or
2 further questions or further illuminations?

3 COMMISSIONER LICHT: A couple of questions.
4 Lonestar -- that's a point of controversy
5 on your list. Is it a TVG track, or isn't it? There's
6 litigation, I know, going on.

7 MR. ALLEVATO: Tony Allevato, Vice
8 President of TVG. We have a contract with Lonestar,
9 exclusive contract, and that's a matter that's going to
10 be settled in a court of law in Texas.

11 COMMISSIONER LICHT: It's my understanding
12 from talking to you guys -- I think it would be good to
13 discuss it here a little bit -- about some of the
14 measures that TVG has taken to go beyond what's out
15 there or what's generally out there to protect the
16 security of the system.

17 And without giving away any trade secrets
18 or anything, maybe you can discuss, generally, what
19 that is.

20 MR. ALLEVATO: Well, I have a prepared
21 statement that I'll refer to here, but basically, we
22 have the security systems in place that the -- interior
23 are proposing. They've been in place before this
24 happened, and we can talk off line with any of you.

25 We, also, have a letter from AmTote that

1 reflects the security as it is in place. Let me just
2 show you the statement, and I'll answer any questions
3 that you may have about TVG's application for renewal
4 and approval to conduct advance deposit wagering as an
5 out-of-state multi-jurisdictional wagering hub for a
6 two-year term.

7 "TVG's application is complete and meets
8 each of the requirements for approval contained in
9 California Business and Professions Code 19604, as well
10 as the CHRB Regulations, implementing that statute.

11 "We want to congratulate the board and its
12 leadership, force leadership, in getting ADW up and
13 running and off to a promising start in California.

14 "Since January, ADW has generated well over
15 \$100 million in total handle. TVG alone has signed up
16 nearly 19,000 California wagering subscribers and
17 processed over \$74 million in California wagers.

18 "In other jurisdictions, account wagering
19 has never produced these results in such a brief period
20 of time. The ADW statute was designed to ensure that
21 California racetracks and horsemen received an
22 equitable return from account wagering in the form of
23 Market Access Fees. The system is working.

24 "Through October 29th, 2002, TVG had
25 accrued and paid out nearly \$8.2 million to California

1 racing," and here is a quick rundown on how much each
2 racetrack and its horsemen have received from TVG.
3 I'll go through it quickly:
4 "Hollywood Park, 2.5 million
5 "Del Mar, \$1.8 million
6 "Oak Tree, approximately, 1.2 million
7 "Los Al, 680,000
8 "Fairplex, 474
9 "CARF, 415,000.
10 "In addition to the tracks shown on TVG,
11 the following tracks have benefited from TVG without
12 ever having one of their races televised on our
13 network.
14 "Santa Anita, 360,000
15 "Bay Meadows, 451,000
16 "Capitol Racing, 425,000
17 "Golden Gate, 118,000
18 "The market access fee distributions from
19 ADW, primarily, go toward location fees, track
20 commissions, and horsemen's purses. These
21 distributions have helped the industry prosper in the
22 difficult economic conditions we face today.
23 "According to the information that we've
24 received from CHRIMs, purses and commissions at
25 California racetracks have both increased in the

1 neighborhood about 2.5 percent.

2 "When we appeared before the board for
3 licensure in January of this year, we articulated the
4 belief that quality television production and broad
5 cable and satellite distribution are the keys to
6 maximizing the growth potential of ADW in California,
7 and I think that the board shares that opinion.

8 "Since that time, we've expanded our
9 relationship with Fox Sports Net. Because of TVG, you
10 can now watch racing in California 14 hours a day,
11 seven days a week. In addition to that, racing on Fox
12 has increased to two hours a day, and for the first
13 time ever, Del Mar, Los Alamitos, CARF, and Friday
14 night racing from Hollywood Park have been featured
15 live on Fox."

16 This was never there before TVG. Our shows
17 on Fox are often the highest-rated program in their
18 time slot, which is very encouraging. Also, in the
19 past year, TVG has expanded coverage from Los Alamitos
20 and created new programs such as "The Quarters" and
21 "The Finish Line."

22 "These shows enhance their business and
23 interest in racing for track partners and their
24 horsemen. We feel that the quality of our programming
25 speaks for itself, and we will continue to aggressively

1 pursue television distribution in the state and
2 throughout the country."

3 Addressing what you talked about, Roger,
4 "TVG shares the industry's concern surrounding the
5 Breeders' Cup Pick Six this year. In the immediate
6 aftermath of the event, we conducted a thorough review
7 of TVG's systems and received information from AmTote,
8 our Tote provider, regarding their security procedures.

9 I can provide that to you, and I, also,
10 have a letter from John Corckran, Jr., AmTote's
11 President, dated November 14th, stating:

12 "We fully support and will cooperate with
13 the NTRA and other industry leaders in an effort to
14 improve the security of the pari-mutuel wagering system
15 and have supported the recently announced engagements
16 of Ernst & Young and Giuliani Partners as independent
17 outside consultants. Let me simply say, from the
18 beginning, TVG has developed and implemented multiple
19 redundancies into our subscriber management and
20 transaction management systems.

21 "We record, both online and off, IVR
22 telephone wagering information in a variety of places.
23 These systems, combined with AmTote's system, provide
24 dual company redundancies, protocols, and processes.

25 "If desired, we will provide to the board

1 any additional information about our security
2 procedures and systems in a confidential environment.

3 "Having met each of the requirements for
4 approval to conduct advance deposit wagering under
5 state law, TVG, respectfully, urges the board to renew
6 its approval for application for a full two-year term.

7 "We sincerely look forward to working with
8 our racetrack and horsemen partners to continue to grow
9 and build on the basis that we have established in the
10 years to come." Thank you.

11 CHAIRMAN LANDSBURG: Questions and comments
12 from the board or from the audience?

13 COMMISSIONER LICHT: You are requesting a
14 two-year term?

15 MR. ALLEVATO: Yes.

16 MR. HARRIS: I think two years was the norm
17 of what the regulation said that you would get. I
18 think at the time it was all new, and we gave TVG a
19 one-year term, but that was just so we could take a
20 look at it, but at this point, I wouldn't have a
21 problem.

22 MS. MORETTI: Can I get a copy of your
23 statement when you get a chance?

24 MR. VAN DE KAMP: John Van De Kamp, TOC,
25 chairman of the board with --

1 We support the request for new licensure,
2 and we sent in a memo, dated November 11th, to the
3 board to that effect. Since that time, I think we have
4 cleared up a couple of issues with TVG.

5 Mr. Wilson has agreed that we will have a
6 horsemen's agreement with respect to the time period,
7 really, with their license under the Los Alamitos
8 agreement.

9 Our problem and our concern there is the
10 fact that California has been in and out of state
11 thoroughbred races. The money that comes back to
12 Market Access Fees does not go to Los Alamitos except
13 with respect to the quarter horse racing, but with
14 respect to thoroughbred racing, it goes to Santa Anita
15 and the Northern California tracks that are running at
16 that time, depending on the hub of the particular
17 better.

18 The important thing is we expect to have an
19 agreement, and I think we'll have that very shortly.
20 It will be the kind of agreement we have with the other
21 major tracks here in California with respect to their
22 thoroughbred racing. So I think that the underbrush
23 has been cleared out in that area, and I think that's a
24 major step forward.

25 MR. HARRIS: Just a point of clarification.

1 On the TVG TOC or horsemen's agreement, is there a term
2 on it, or is it meeting by meeting or year by year, or
3 what?

4 MR. VAN DE KAMP: They, usually, have an
5 agreement with each particular meeting but which states
6 at the end of it that we expect that this format will
7 be utilized for the coming year.

8 In other words, unless unusual
9 circumstances develop, we expect that the same kind of
10 format will be used at further meetings. For example,
11 last year we started at Hollywood Park, and
12 essentially, the same agreement continued till the end
13 of the year, with one exception, and that is that TVG
14 was able to negotiate with the state of Oregon to get a
15 waiver on the tax in Oregon.

16 So the amount that was taken -- TVG was
17 reduced from 6.25 to 6 percent. It's my understanding
18 that that waiver will continue for this coming year.
19 Part of our support is, certainly, based on that fact.

20 So that's the way we do it, and we,
21 basically, have an agreement with the track. TVG, I
22 think, has signed, basically, a separate statement to
23 agree with that approval, and in that approval, we
24 indicate that -- this approval is the kind of thing
25 that will be carried over to the next meeting, unless

1 there are unusual circumstances that develop. So it is
2 on a meet-to-meet basis, but with the understanding
3 that those exigent circumstances would have to be
4 developed --

5 CHAIRMAN LANDSBURG: That sounds like
6 catch-22, John.

7 MR. VAN DE KAMP: No, it's not catch-22 at
8 all. I don't know how you can say that because that's
9 totally inaccurate. There's no catch-22. It's a
10 matter of good faith understanding between the parties
11 as to what we will do, and we did this last year, and
12 there's no variance, and there's no catch-22.

13 CHAIRMAN LANDSBURG: With all due respect,
14 your board changes from year to year, and the voices on
15 it may change from year to year, and what you're saying
16 is -- this agreement was written in concrete. At
17 least, that's what I was hearing.

18 MR. VAN DE KAMP: No, it's not written in
19 concrete because there may be certain circumstances,
20 but the notion is that unless you have those major
21 circumstances, this is the kind of agreement we'll have
22 for the forthcoming year. This is what happened last
23 year. I don't think that's a catch-22.

24 MR. HARRIS: I think what my point was --
25 that if we license TVG for two years, if there were

1 still some extraordinary circumstance that came along,
2 there is a safeguard that the horsemen's agreement
3 could be revisited. So it's not like the horsemen's
4 agreement is necessarily a two-year agreement.

5 MR. VAN DE KAMP: That's, absolutely,
6 correct.

7 CHAIRMAN LANDSBURG: On the other hand, it
8 seems to me that we will be reaching an off year for
9 each of the providers because of the two-year -- I
10 would prefer, personally, prefer, that we have a
11 one-year agreement, and then, they put all of the ADW
12 providers on the same timetable. So that all of those
13 negotiations go on at the same time, and all of the
14 changes can be brought to the board's attention in
15 proper order.

16 So I would not favor a two-year extension
17 at this point but simply allow the one year to go
18 forward. It's not going to change the way TVG
19 operates. It's not going to change the way TOC
20 operates, and it will bring all ADW providers into the
21 same contract.

22 MR. SPERRY: It makes uniformity.

23 CHAIRMAN LANDSBURG: I'm sorry. I
24 didn't --

25 MR. SPERRY: It makes uniformity.

1 CHAIRMAN LANDSBURG: It makes uniformity of
2 the agreements.

3 MS. MORETTI: The other two --

4 CHAIRMAN LANDSBURG: This will bring --

5 MS. MORETTI: I understood what you said.

6 CHAIRMAN LANDSBURG: This will bring TVG
7 into line with the other agreements. That's all.

8 MR. WOOD: The YouBet's agreement will have
9 to be heard before the two-year time frame is up,
10 Mr. Chairman. They are on different time frame than
11 the --

12 MR. HARRIS: I'm not really clear why they
13 all would have to be on the same time period. The
14 negotiations with the horsemen and the tracks and
15 TVG -- is kind of ongoing all the time. We're just
16 licensing the rider.

17 CHAIRMAN LANDSBURG: I'm just trying not to
18 create a time advantage for anybody now that we're
19 pretty much confirmed that ADW will be a part of
20 California racing. I wanted to bring them all together
21 as close to uniform as possible. So that if there's a
22 major change in one set of negotiations, there will be
23 a major change that we can recommend for another set.
24 That's all.

25 MR. HARRIS: The negotiations, really -- as

1 I understand it, the main thing that we, as a board,
2 look at is that they are in compliance with the
3 maximum -- that they are under the legislated maximum
4 wager to get and that all the other things are in
5 compliance, but we don't really negotiate for the
6 tracks.

7 The horsemen do that. That's a separate
8 issue, which seems it would be ongoing regardless of
9 how long we license them. They could have a license
10 but be unable to have a track or horsemen's group to
11 work with.

12 CHAIRMAN LANDSBURG: We just have a
13 different opinion of where it is. Yes.

14 MR. WILSON: Mark Wilson.

15 Mr. Chairman, Mark Wilson, chief executive
16 officer of TVG.

17 A couple reasons why we're asking for the
18 two-year term as set out in the statute. One is very
19 important. We've had some good news recently with the
20 parent company in terms of good news from our
21 perspective to the programs --

22 We have the ability now to have a closer
23 relationship with Fox Network and with News Corporation
24 due to them achieving effective control of the parent
25 company.

1 One of the things that's important and one
2 of the reasons why we ask for a two-year term is that
3 the two-year term is subject, as Mr. Van De Kamp said,
4 to continuing negotiation of the Horsemen Partners and
5 Society to the TOC and the Pacific Coast Quarter Horse
6 Association and our track partner, for that matter.

7 It sends a strong message to our funding
8 partners while we are still, unfortunately, losing
9 money per month, though it's getting better, that we
10 have the requisite backing to go out and invest our
11 funds and try to grow TVG, to try to grow the
12 programming, to try to grow advanced deposit wagering
13 in a fashion that benefits California racing, benefits
14 the entire California racing, and the racing industry
15 nationwide.

16 So it is very important to us. I just
17 wanted to make a point from a parent company
18 perspective that we have a mode of confidence about
19 California horse racing for the term that was set out
20 in the statute we could apply for in which other
21 account wagering providers were granted for the first
22 time that we went through this process. So I would
23 appreciate you supporting us for a two-year term.

24 Thank you.

25 MR. CARRELL: My name is Jim Carrell with

1 Pari-Mutuel Employees Guild. I'd like to inform the
2 board --

3 CHAIRMAN LANDSBURG: Mr. Carrell, who do
4 you represent --

5 MR. CARRELL: Local 280, SEIU Local 280,
6 Pari-Mutuel Employees Guild.

7 While we do have people, employees, with
8 our guild working for TVG -- and in fact, they are the
9 only ones at this time working for TVG -- we do now
10 have a signed contract with TVG. So I wanted to bring
11 that to your attention, and we do have signed contracts
12 with YouBet and Express Bet. Thank you.

13 COMMISSIONER LICHT: I just want to comment
14 that I agree with TVG's position of the two-year
15 agreement. I think it's imperative, based upon what
16 they've shown the industry they can do in the last year
17 in California, last several years nationwide, that we
18 grant them two years, and I don't see why having the
19 renewal come up at the same time is significant at all.

20 If anything, it might overburden the board,
21 and now we have more time to consider each application
22 individually, and it is the horsemen's agreement that
23 governs the distribution of the funds and so forth, and
24 that's really what would come up periodically.

25 MS. MORETTI: I would agree with Roger.

1 Also, there's nothing to say that a new applicant
2 wouldn't come along, followed by under the statutory
3 requirements and the application procedures, but they
4 came along and wanted to be competitive here in
5 California and that we might want to, also, license
6 them, and so they would never be running the same race
7 at the same time, if you will. So I would go along
8 with the two year.

9 MR. SPERRY: Are there ongoing negotiations
10 with the union?

11 MR. WILSON: I will start by saying that
12 TVG currently employs over 100 employees in the state
13 of California, which is more than the ADW providers
14 combined. So the answer to your question, I believe,
15 is yes, as far as the labor issue goes. We're not just
16 an ADW account wagering service. We're, also, a TV
17 network, and we have a lot of people who are physically
18 working on a daily basis --

19 CHAIRMAN LANDSBURG: Once again, part of
20 the authorization required is that attention to the
21 problems and needs of labor unions within the industry.
22 That question now is still hanging over.

23 COMMISSIONER LICHT: It's labor, isn't it?
24 Not necessarily labor union that the law applies to?
25 Maybe we need a clarification on that.

1 COMMISSIONER KNIGHT: I'm not sure.

2 COMMISSIONER LICHT: It is labor?

3 COMMISSIONER KNIGHT: Yes.

4 CHAIRMAN LANDSBURG: I think we had
5 discussed this over a long period. This is not a new
6 question. This is not the first time it's come up.

7 The last items that we have in the
8 agreement in our records and in our notes is that you
9 will try to address that. This is not being addressed.

10 It's not proper that it's not being
11 addressed because we have Mr. Wilson's statement, we
12 have your statement you will do everything you possibly
13 can to make it possible, and you're not doing anything.

14 MR. WILSON: Mr. Chairman, Mark Wilson,
15 chief executive officer of TVG.

16 I think Mr. Allevato hit the point. The
17 issue is creation of opportunities for jobs and
18 employment in California, and I think our commitment to
19 the number of jobs and the number of people that
20 produce this programming at our studio and to the
21 number of people that serve as customer service
22 representatives throughout our system speaks for
23 itself.

24 If there are opportunities that the
25 gentleman who represents the labor union wants to

1 explore, we have never turned those down, and we won't
2 beginning tomorrow. Our parent company, obviously,
3 employs a lot of unionized folks, and we, as a
4 condition of granting a license -- I think the
5 operative language is that attention is paid to the
6 creation of California labor, the maintenance of
7 California labor, employment of California labor, and I
8 don't think anyone else has quite as good a record on
9 that point as we do.

10 CHAIRMAN LANDSBURG: Labor has its
11 invocation, which is all this board can ask you to do.
12 Thank you.

13 MR. HARRIS: Also, just as a point of
14 clarification, as I would understand it, TVG would be
15 under the National Labor Relations Act, even though
16 racing itself somehow got exempt from that act, but I
17 would think it would either be considered a television
18 production that would be under that act, and there
19 would be recourse for any aspect of labor that it
20 involved.

21 MR. BAEDEKER: Rick Baedeker, Hollywood
22 Park. We, obviously, support the licensure of TVG,
23 having been a partner for some time.

24 TVG surpassed our projections for this
25 year, and I think it's important to keep in context

1 that this business has existed under your license in
2 the state just since February.

3 So I think the numbers that have been put
4 up have been excellent. I have had conversations with
5 Mark Wilson and the other folks at TVG about the next
6 step, and I think that is upon us, and that is the
7 promise to go out and reach that vast market that the
8 NTRA research has indicated exists, and that is the
9 sports betting market in the market of latent racing
10 fans, the people that used to come to the track that
11 don't come any more, probably, because of convenience
12 issues.

13 So now is the time to reach out to those
14 folks. That's going to take marketing dollars. So
15 we're going to do everything that we can to assist
16 there. We are, particularly, pleased with the
17 distribution on Fox Sports Net, too, because it not
18 only provides the pictures for the players to watch
19 but, also, tells a very good story about Hollywood
20 Park. So we remain supportive, and insofar as it may
21 help them get what they need to market appropriately,
22 we would encourage a two-year license.

23 MR. BADIMINA: Greg Badimina, for the
24 Southern California Fans Committee. We're in support
25 of TVG's two-year license. We'd, also, like to

1 publicly thank TVG and the other two -- for meeting
2 with our community, presenting their product, and
3 accepting our suggestions on how to make it a better
4 product for the fans and the players.

5 And the fact that they've done that
6 recently and the ability to look at the video over the
7 Internet -- for those of us at work who do not have
8 access to the full network, it's a good service
9 enhancement and is a continuation of their dedication
10 to the California clients. Thank you, Greg.

11 MR. AVIOLI: Mr. Greg Avioli, Deputy
12 Commissioner of NTRA. We submitted a letter. I just
13 wanted to follow it up with some more comments.

14 -- insurance supports TVG's application.
15 They've been a sponsor of the NTRA since our formation
16 in 1997. As you know, they paid a sponsorship fee for
17 the NTRA -- for the wagering revenue they received.

18 We, in turn, recycle that money that we
19 received from California back through the TOC in
20 purses, but they've been a good partner for us. As I
21 said earlier, it was \$250,000 contribution to -- and on
22 behalf of the -- we support the application. Thank
23 you.

24 MR. BLONIEN: Mr. Chairman and members, Rod
25 Blonien, representing Los Alamitos, also, in support --

1 and I feel I may be in jeopardy of getting a 15-yard
2 penalty for piling on -- supports the TVG, but we're
3 very happy with the relationship. They've established
4 a studio Los Al. They have "The Quarters" magazine.

5 Every night we run live, we're on Fox Net,
6 and we really couldn't be happier than the relationship
7 we have and the job they've done.

8 We think the two-year license is important
9 because there are other investments that we're talking
10 about them making, and I think they need to have the
11 security, you know, that they have the likelihood of
12 being at Los Al for a longer period of time.

13 Thank you.

14 CHAIRMAN LANDSBURG: Any further comments?

15 MR. HARRIS: I'll move that we grant TVG
16 their two-year license.

17 MS. MORETTI: Second.

18 CHAIRMAN LANDSBURG: Moved and seconded.

19 All in favor?

20 ALL: Aye.

21 CHAIRMAN LANDSBURG: Unanimous.

22 Thank you, TVG. Thank you, Tony.

23 Next item on our agenda, "Discussion and
24 action by the board in the application for license to
25 conduct a horse race meeting at Los Alamitos, Quarter

1 Horse Racing Association, commencing December 26th,
2 2002, through December 21st, 2003, inclusive.

3 Thank you.

4 MS. WAGNER: Jackie Wagner, CHRB staff.

5 Los Alamitos Quarter Horse Association has
6 filed this application to conduct quarter horse racing
7 at Los Alamitos. They are proposing to race from
8 December 26, 2002, through December, the 21st, 2003,
9 for a total of 205 days. They are proposing to race a
10 total of 2,048 races or the 10 races a day.

11 They meet the 10 percent requirement for --
12 stakes, purses paid for Calbred. They will be racing
13 four nights per week, Thursday through Sunday, with
14 eight 15 live races per month and six 12 Simulcast
15 races.

16 They are proposing a first post time of
17 7:15 on Thursday and Friday and 6:30 post on Saturday
18 and Sunday. Their wagering program will be licensed
19 CHRB rules. The analysis indicates that two of the --
20 I want to, please, let you know that the horsemen's
21 agreement has been finalized, and we're expecting a
22 copy of that after it's actually signed, and we have
23 received the workers' compensation. The staff would
24 recommend the board approve the application as
25 presented.

1 CHAIRMAN LANDSBURG: Is there a discussion
2 or questions concerning Los Alamitos' license
3 application?

4 MR. SPERRY: Move approval of the
5 application, Mr. Chairman.

6 CHAIRMAN LANDSBURG: I don't know whether
7 we need you, Rod, unless you feel it's urgent that you
8 speak or --

9 MR. BLONIEN: Just this one point of
10 clarification, Mr. Chairman. The horsemen in their
11 horsemen's agreement are withholding their consent for
12 Los Al to receive a satellite signal from Sacramento.

13 What has happened in the past is we have
14 agreed that we will take their signal. The money will
15 be escrowed, and the board is granted the license under
16 that situation, and I would just like to bring that to
17 the attention to the board, if you want to incorporate
18 that into your motion.

19 MR. SPERRY: With that incorporation, I
20 still make a motion.

21 COMMISSIONER LICHT: Second.

22 CHAIRMAN LANDSBURG: Moved and seconded.

23 All in favor?

24 ALL: Aye.

25 CHAIRMAN LANDSBURG: Opposed?

1 It's a unanimous approval of the request of
2 the application for license at the horse race meeting
3 at the Los Alamitos Quarter Horse Racing Association,
4 as noted.

5 Our next item is discussion and action by
6 the board on the request of the Los Angeles Turf Club
7 to distribute charity racing day proceeds in the amount
8 of 286,700 to 31 beneficiaries.

9 MR. REAGAN: Commissioner, this is John
10 Reagan, CHRB staff. A list of those beneficiaries is
11 attached in the package, and more than 80 percent of
12 that is going to the industry. We recommend approved.

13 CHAIRMAN LANDSBURG: Any discussion of
14 this?

15 MS. MORETTI: Just congratulations, again,
16 to that association for doing so much for horse racing
17 entities.

18 CHAIRMAN LANDSBURG: I second that.
19 Congratulations.

20 All in favor of -- I'm sorry.

21 MR. HARRIS: I'll move to approve the
22 application.

23 CHAIRMAN LANDSBURG: Thank you.

24 MS. MORETTI: Second.

25 CHAIRMAN LANDSBURG: Seconded. All in

1 favor of the motion?

2 ALL: Aye.

3 CHAIRMAN LANDSBURG: The unanimous approval
4 of the -- for the Los Angeles Turf Club to distribute
5 charity racing day proceeds in the amount of 286,700 to
6 31 beneficiaries.

7 Our next item is "Discussion and action by
8 the Board at request of Los Alamitos Quarter Horse
9 Charity Foundation to distribute charity racing day
10 proceeds in the amount of \$37,000 to 11 beneficiaries."

11 MR. REAGAN: Commissioner, we also find
12 this request in order, that 40 percent of the dollars
13 are going to the industry. We find that to be in
14 order, and we recommend approval.

15 COMMISSIONER LICHT: So moved.

16 MS. MORETTI: Second.

17 CHAIRMAN LANDSBURG: Moved and seconded.

18 All in favor?

19 ALL: Aye.

20 CHAIRMAN LANDSBURG: We have approved the
21 request of Los Alamitos Quarter Horse Charity
22 Foundation to distribute charity racing day proceeds in
23 the amount of \$37,000.

24 Our next item is "Discussion and action by
25 the board on the request of the Del Mar Thoroughbred

1 Club to distribute charity racing day proceeds in the
2 amount of 169,500 to 23 beneficiaries.

3 MR. REAGAN: Once again, Commissioner --
4 this is John Reagan -- we find this to be in order.
5 Over 74 percent of this money is going to a
6 charity-associated industry. We recommend approval.

7 MR. FRAVIL: Mr. Chairman, Craig Fravil of
8 the Del Mar Thoroughbred Club. Just one point of
9 clarification. We have the California Thoroughbred
10 Breeders Association listed. I believe that is an
11 incorrect listing here. It's the California
12 Thoroughbred Foundation, which is the charity arm of
13 the breeders. The breeders' association itself is not
14 an eligible charity. So with that understanding, we
15 would can ask for your approval.

16 CHAIRMAN LANDSBURG: Any other discussion
17 or comment?

18 MR. HARRIS: I would move for approval.

19 MS. MORETTI: Second.

20 CHAIRMAN LANDSBURG: Moved and seconded.

21 All in favor?

22 ALL: Aye.

23 CHAIRMAN LANDSBURG: "Discussion and action
24 by the board is approved unanimously at the request of
25 the Del Mar Club to distribute charity of racing day

1 proceeds in the amount of \$169,000."

2 I will now accept nominations for chairman.
3 Term to run from January 1st, 2003, through December
4 31st, 2003.

5 MR. SPERRY: Mr. Chairman, I would nominate
6 Commissioner Alan Landsburg.

7 CHAIRMAN LANDSBURG: Is there a second to
8 the nomination?

9 COMMISSIONER LICHT: Can we take a short
10 break?

11 CHAIRMAN LANDSBURG: Sure. We're going to
12 take a five-minute break, and we'll be right back in
13 session.

14 (Short recess)

15 COMMISSIONER WOOD: We, Mr. Chairman, have
16 a motion on the floor that we need to address whether
17 we're going to second that motion or not.

18 CHAIRMAN LANDSBURG: The motion has not
19 been seconded. We will open the nominations again for
20 chairman of the California Horse Racing Board.

21 MR. HARRIS: I would nominate Roger Licht.

22 CHAIRMAN LANDSBURG: Seconded?

23 MS. MORETTI: I'll second that.

24 CHAIRMAN LANDSBURG: Marie Moretti has
25 seconded the nomination.

1 All in favor?

2 ALL: Aye.

3 MR. WOOD: Can I ask for a call -- a show
4 of hands. Okay. That vote is 5 to 1.

5 CHAIRMAN LANDSBURG: Welcome.

6 COMMISSIONER LICHT: Thanks.

7 CHAIRMAN LANDSBURG: We have general items
8 of business --

9 (Off-the-record discussion)

10 CHAIRMAN LANDSBURG: Oh, nominations for
11 vice-chairman.

12 MS. MORETTI: I'll nominate John Harris as
13 vice-chairman.

14 COMMISSIONER LICHT: Second.

15 CHAIRMAN LANDSBURG: Motion for John Harris
16 to be vice-chairman has been made and seconded.

17 All in favor?

18 ALL: Aye.

19 MR. WOOD: A show of hands, please.
20 Six, for. Zero, against.

21 Congratulations, Mr. Licht and Mr. Harris.

22 CHAIRMAN LANDSBURG: You're in good hands,
23 ladies and gentlemen. Very good hands. Under an item
24 of general business, since this is my last day as
25 chairman --

1 MR. WOOD: The next meeting of the
2 California Horse Racing Board is on January 23rd, 2003,
3 in Arcadia prior to the Sunshine Million at Santa Anita
4 Park.

5 CHAIRMAN LANDSBURG: In the coming months,
6 we should be seeing the arrival, finally, of the long
7 race dates report, which will open up our eyes to the
8 events that are occurring. I believe Mr. Chillingworth
9 is involved. Is he here? That report is due when?

10 MR. CHILLINGWORTH: Unfortunately, we're
11 the financier, partial financier, but we're not
12 involved with the committee at all. So I'm not aware
13 of what their rate of progress is.

14 Roy, do you know?

15 MR. WOOD: Yes, sir, I do. We have elected
16 a Steering Committee from the group of people who
17 originally met about the race day study. The group
18 that met the first time and discussed this had
19 different opinions about who we should select to
20 conduct the study and what areas should the study
21 actually look into.

22 The Steering Committee has met twice. They
23 have an RFP, which, I should say -- RFP, to select the
24 appropriate study group, and the RFP includes a
25 completion of that study by March or April at the

1 latest.

2 I think there's a consensus from the
3 Steering Committee to present to the entire committee,
4 and hopefully, between now and the end of this next
5 month, which is November, we can get that -- approved
6 by the Steering Committee and the -- committee and have
7 this study begin prior to start and before the end of
8 the year.

9 It's taken a lot of time, a lot of
10 discussion, but we have good parameters, and I think
11 you'll have a report from that group sometime in the
12 March and April time frame.

13 MR. CHILLINGWORTH: I would suggest, as far
14 as Mr. Landsburg's comment, they should, probably, be
15 circulating a progress report as to what's going to --

16 MR. WOOD: That's a very good suggestion.

17 MR. CHILLINGWORTH: I was I unaware of --

18 MR. WOOD: We transferred that to the
19 Steering Committee. It's made up of seven individuals,
20 I believe, one representative from each group, and the
21 Steering Committee has met twice, and we promised to
22 give a report back to the original committee that we
23 met at Santa Anita, and we will do that. I think the
24 Steering Committee recommended recommendation. Is that
25 correct, Mr. -- so we look forward to getting this

1 study on the road.

2 CHAIRMAN LANDSBURG: Concurrent with that
3 study, it's always been my hope and belief -- and I now
4 make it as a part of the charter for coming meetings --
5 to discuss an outside-the-industry committee that can
6 look at us a little bit because we get to be very --
7 and we are all involved in racing and involved in
8 making decisions about racing, and therefore, I would
9 like to see the organization, a further committee,
10 whose responsibility would be both knowledgeable and
11 impartial and interested in reporting on the betterment
12 of California racing, but it should not be a racing
13 industry committee.

14 It should be an outside committee that they
15 look at what we're doing, including the Race Dates
16 Committee Report and a Race Dates Report that has been
17 funded by Oak Tree. And let us take a look at the
18 fares and the problems of the fares, the facilities of
19 private and public racetracks, the improvement of the
20 overall product.

21 I think we need someone to come in and take
22 a look at us because we're looking at ourselves in
23 mirrors for far too long. So it would be my hope, as
24 we move into the new year, we'll move in with the
25 beginning of the organization and a committee that can

1 really take a look at us and say this is right, and
2 this is wrong. Thank you.

3 Other items of general business? If
4 there's none, we move onto our executive session.
5 We've got old business to discuss. Thank you.

6 MR. WOOD: I would, respectfully, ask
7 everyone to clear the room as quickly as possible so we
8 may have our executive session in this room.

9 (Proceedings adjourned at 12:34 P.M.)

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1 STATE OF CALIFORNIA)
) ss.
2 COUNTY OF LOS ANGELES)

3

4 I, Catherine Scott, Certified Shorthand
5 Reporter, in and for the County of Los Angeles, State
6 of California, do hereby certify:

7

8 That the foregoing proceedings were reported
9 by me stenographically and later transcribed into
10 typewriting under my direction; that the foregoing is a
11 true record of the proceedings taken at the time and
12 place indicated herein.

13

14 In witness whereof, I have subscribed my name
15 this _____ day of _____, 20____ at
16 Los Angeles, California.

17

18

19 _____
Catherine Scott, CSR No. 3375

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